

Conclusions of the 15th IG meeting

ERI South-West Europe

Paris, 7th April 2014

The 15th IG meeting was attended by the TSOs, PXs and NRAs of the SWE region. ACER and the Spanish Ministry were not represented.

1. Long term capacity allocation

- **IFE (Interconnection France-Spain)**

CRE and CNMC reported on the regulatory approval of the IFE rules on 12th and 13th March respectively. In its decision, CRE requested RTE to submit a proposal for Harmonised Auction Rules applying to CASC and integrating the FR-ES border by the end of 2014, with a firmer regime and rules for shadow auctions. RTE and REE reported on the successful go-live of the transfer to the CASC platform of long-term auctions and secondary market, thanks to the approval of the IFE Rules 3.1 and the signature of the operational contracts among the parties. The first monthly auction of IFE performed by CASC successfully took place on 24th March. RTE and REE presented the next steps towards the integration of IFE in the HAR (Harmonised Auction Rules) applying to CASC. The public consultation on the new version of the HAR (incorporating IFE) will be launched in June and the rules will be submitted to NRAs by the end of July. This new version will consider two specific go-lives: December 2014, for long term products with physical delivery from the 1st January 2015 onwards, and March 2015 for implementation of the shadow auctions as fallback solution for the FR-ES border in case of decoupling of the SWE region allowing the needed time for the IT developments in the Spanish side. A third target date may be considered for the evolution of the UIOSI requirements in the context of the FR-IT day-ahead coupling (which will also require an evolution of HAR). REE announced that an official request for comfort as regards the implementation of shadow auctions will be issued to CNMC and the Spanish Ministry by mid-May. The IG invites the Spanish Ministry to facilitate the development of the HAR by responding to REE's request for comfort in a timely manner.

In terms of reporting, the NRAs will receive monthly reports in the context of the so called “IFE in HAR project”.

One of the relevant changes requested by RCC in the new version of the HAR is the elimination of the cap on the spread (price differential) eligible for compensation in case of curtailment. REE and RTE showed their readiness to take into account this request in the proposal of rules to be submitted to regulators for their approval. CNMC and CRE are in line with the ACER opinion on the NC FCA which supports the elimination of the mentioned cap, especially once full coupling is implemented and therefore formally requested RTE and REE to remove this cap in the next version of HAR to be submitted by the end of this year.

- **IPE (Interconnection Portugal-Spain)**

ERSE reported on the first joint auction of electricity interconnection capacity between Spain and Portugal which took place on 25th March under a mechanism established in the MIBEL Council of Regulators, This is the first European capacity allocation mechanism based in financial transmission rights (FTRs), following the December auction under the same harmonized rules but only for the Portuguese system.

CRE announced that the ENTSO-E principles for the development of a set of pan-European Harmonised Auction Rules currently study PTRs but will further consider FTRs. In the next IG meeting, RTE will report on possible steps towards the implementation of FTRs in CASC.

2. SWE Day-ahead market coupling project

The project parties explained that integration and simulation tests have been successful. Member tests are scheduled to start on 22nd April. The DAOA (Day Ahead Operational Agreement) ToR, which will be applicable for the SWE and NWE Region, were approved by SWE and NWE late March. The DAOA will be finalised by 18 April and the signature process will take place by end of April. The exact target date for the SWE full coupling go-live (expected on the week commencing 12th May) should be approved by the NWE and SWE SCs on 23rd April and immediately communicated to NRAs and to the public through a common NWE-SWE-PCR press release. The

NRAs requested the project parties to inform about this target date, in particular in the report of the SWE parties to AESAG by 28th April.

In terms of regulatory evolutions, CRE intends to approve the day-head capacity allocation through implicit auctions mechanism by the end of April. In a similar way, the Spanish Ministry would approve the Operational Procedures 3.1 and 4.0 by the end of April.

RTE reported on the public consultation held in March and in particular on the views expressed by the respondents that answered to the consultation. In general, market participants agreed with the main principles of the SWE day-ahead market coupling, recognizing it as an important milestone for an efficient European electricity market. They supported harmonised timings across Europe, shadow auctions as harmonized fallback solution, and the convergence of price and bid caps throughout Europe. One of the suggestions referred to allowing the market players of MIBEL to change their bids in case the order books would be reopened (for EPEX, this happens when a certain threshold price is reached or in case of decoupling). In particular, the implementation of shadow auctions as a fallback in case of decoupling would justify the possibility to update the bids and consequently will have to be enabled in the MIBEL market rules applied by OMIE. In other cases (threshold price reached or decoupling with intraday as the fallback solution), OMIE is ready to implement the reopening of order books, should it be requested by NRAs. Therefore, CNMC and ERSE will analyse the introduction of this particular change in the MIBEL market rules and will provide OMIE with feedback by end April. The IG agreed that this issue should not be in the critical path towards the implementation of full market coupling in May. This will be addressed through a parallel process.

Other suggestion received during the consultation was to remove the need to nominate to both RTE and REE the use of long term capacity rights. The TSOs committed to analyse the feasibility of such proposal and to report on this at the next IG meeting.

In terms of fallback for market coupling, and given that the implementation of shadow auctions in IFE will take longer than expected, the NRAs asked REE and RTE to do their best to accomplish the March 2015 deadline.

Some respondents to the public consultation called for another round of consultation once full market coupling is launched. IG members agreed to first organise an SG meeting in fall 2014.

3. Intraday

OMIE presented an update on the XBID project. The XBID project has experienced a significant delay in the development of ESA step 1.

It was reminded that REE and REN do not participate yet in this project which is branded as NWE+ meaning that neighbouring countries can join. REN stated that due to its geographical position its participation is subject to REE's involvement in the project. In 2013, REE requested information to the NWE Intraday Project regarding costs and roadmap for implementation in order to ask for the needed regulatory comfort for its involvement in this project but the response received was that it was still too early for NWE to provide this information. The RCC wants to remove any possible barrier for the participation of REE and REN in the XBID project. For that reason, the RCC invited REE to send a formal participation request to the Steering Committee of NWE+ TSOs asking for the necessary information to participate in the project.

OMIE explained that joining the project later would not allow saving any cost because any new entrant would have to pay the corresponding share of incurred costs. Furthermore, an early involvement in the project would allow the Iberian TSOs to influence the model and would facilitate the future local implementation. REE announced that comfort from the Ministry will be needed.

Regarding the shipping & nomination issues, OMIE explained that 8 options are currently on the table. NRAs asked for the next meeting an analysis of these 8 options.

Regarding the hybrid model to combine continuous trade and regional auctions, it was reminded that EFET will hold a workshop on this issue in Madrid on 23 April. OMIE stated that its proposal for the hybrid model has not changed since 2012: it consists in 24 regional auctions performed after the closing of the continuous trade. CRE informed IG members that GME (Italian PX) has proposed a different model to deal with the same issue (regional auctions are in place in Italy too). It was agreed that at the next

meeting, OMIE will reexplain the functioning of their proposed hybrid model to allow NRAs to fully understand the differences with the Italian one.

4. Balancing

The RCC proposed to develop a short case study on BALIT in SWE to be included in the 2014 ACER Market Monitoring Report which could contain some data relevant to indicate the potential benefit of the interim BALIT solution. Given the tight timing and the number of overlapping tasks in the coming months, the TSOs stated that it is not feasible to provide meaningful data for this case study¹. Alternatively, the TSOs could provide data of the real benefits reported by the exchanges carried out under BALIT after its implementation for the 2015 report.

As regards the regulatory approvals, firstly, the update of the Manual of Procedures of the Global System Management of the electricity sector was approved by ERSE on 4th April and published on 7th April. CNMC approved the corresponding procedure in March (within the Circular CNMC 2/2014). Three OPs² must be approved by the Spanish Ministry. The Implementation Group encouraged the Spanish Ministry to approve the pending OPs as early as possible³ in order to launch cross border balancing exchanges under BALIT.

The TSOs gave their arguments to go directly to TERRE implementation instead of pursuing the so called BALIT enduring solution:

- TERRE has been acknowledged by ENTSO-E as a pilot project for the early implementation of NC Balancing.
- TERRE has a wider geographic scope than BALIT if REE joins the project.
- Important costs for limited added value if the enduring features of BALIT were implemented instead of TERRE.
- Planning issue: the implementation of enduring features not possible before end 2015, furthermore, they are being tackled in TERRE project planned to go-live in 2016.

¹ A first draft would be needed by early June.

² Operational Procedures 7.3, 14.4 and 14.6

³ The consultation on these OPs took place in the framework of the Electricity Advisory Council between 19th February and 3rd March.

The NRAs understand these reasons and are open to abandon the BALIT enduring solution as long as: i) REE fully participates in TERRE and ii) a more concrete and quantitative cost benefit analysis is provided.

REE reported they have formally requested to participate in the design phase of the TERRE project (without common costs) and are awaiting confirmation from the TERRE Steering Committee. The end of the design phase of TERRE has been postponed until end 2014 instead of ending June 2014. The detailed planning of the working axes is pending.

The NRAs expressed their interest to be involved in this project through regular updates, especially regarding the outcomes of the design phase and considering the regulatory implications of the model that is being designed. Since National Grid and TERN are involved in TERRE, probably a new NRAs monitoring group should be established (the project does not only affect the RCC of the SWE region).

Next steps

- Report to AESAG members to be prepared by 28th April (first draft on 24th April).
- Next RCC telco by end April
- The next IG meeting will be convened around mid June by telco.
- Next SG meeting in September-October.