

# **IPE-FTR – Optional Capacity Rights Market**

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12th IG meeting

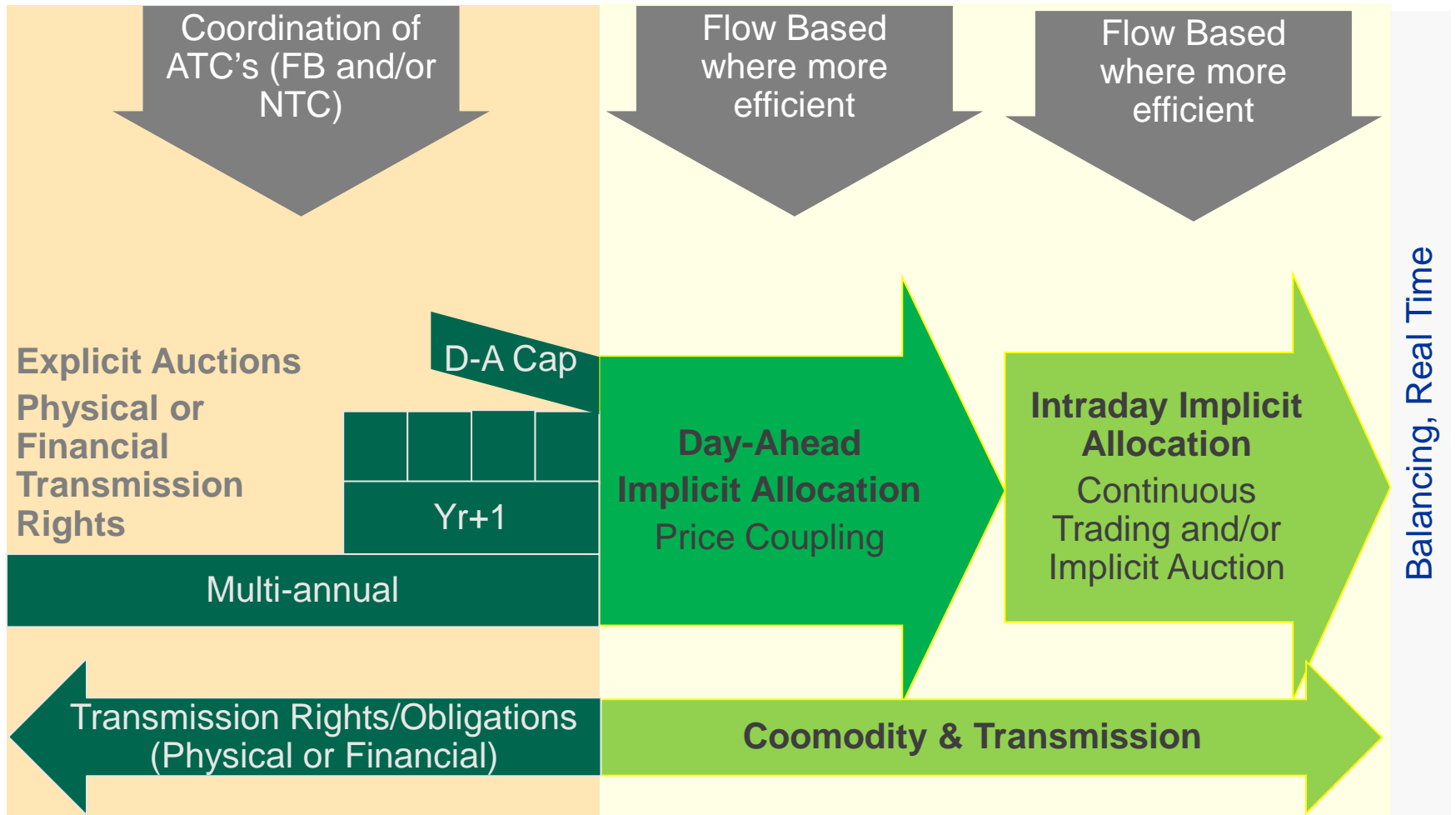
South-West Electricity REM

Madrid, 08.Jul.2013



**Background**

# EU Target Model



# MIBEL Regulators' Council Model

- In May, 2010, the MIBEL Regulators' Council (MIBEL RC) presented a new proposal for a joint methodology which was better adapted to the context of the long-term Spain - Portugal interconnection management:
  - *“According to the degree of integration achieved within the MIBEL, ... a **financial product** (which complements efficiently the market splitting model in place) of the type of an **option**”;*
  - *“Incorporation in an **organized and regulated market platform, supervised within the scope of the MIBEL CR and recognized by market participants**. Therefore, as it is a derivative instrument, the possibility of negotiation in a secondary market additionally to primary emissions, it should obtain the **benefits of a CCP with counterparty risk management**, according to current best practices... “*

# MIBEL Regulators' Council Model

- *“The products included in the IPE Capacity Rights Market (IPE-CRM) are of the type of **Financial Transmission Rights (FTR)**. **FTR are financially settled options**, whose underlying is the difference between the Portuguese area price and the Spanish area price of the MIBEL Spot Market.”*
- *“The primary emission of the IPE-CRM should allow:*
  - ***The maximization of the FTR awarded, in order to achieve 100% of the available capacity**, although the values could be lower than the referred maximum in the starting phase.*
  - *A sustainable solution, where the congestion rent balance remains globally positive.*
- *“The IPE-CRM FTR’s are initially traded in a **primary emission auction**, under specific rules and afterwards in a secondary market, in continuous trading, on the MIBEL Derivatives Market platform.”*

# DIRECTIVE 2004/39/EC – MIFID

## Financial Instruments:

- 5) Options, futures, swaps, forward rate agreements and any other derivative contracts relating to commodities that must be settled in cash or may be settled in cash at the option of one of the parties (otherwise than by reason of a default or other termination event);
- 6) Options, futures, swaps, and any other derivative contract relating to commodities that can be physically settled provided that they are traded on a regulated market and/or an MTF;
- 7) Options, futures, swaps, forwards and any other derivative contracts relating to commodities, that can be physically settled not otherwise mentioned in C.6 and not being for commercial purposes, which have the characteristics of other derivative financial instruments, having regard to whether, inter alia, they are cleared and settled through recognised clearing houses or are subject to regular margin calls;



# Solution Design

# Solution Highlights

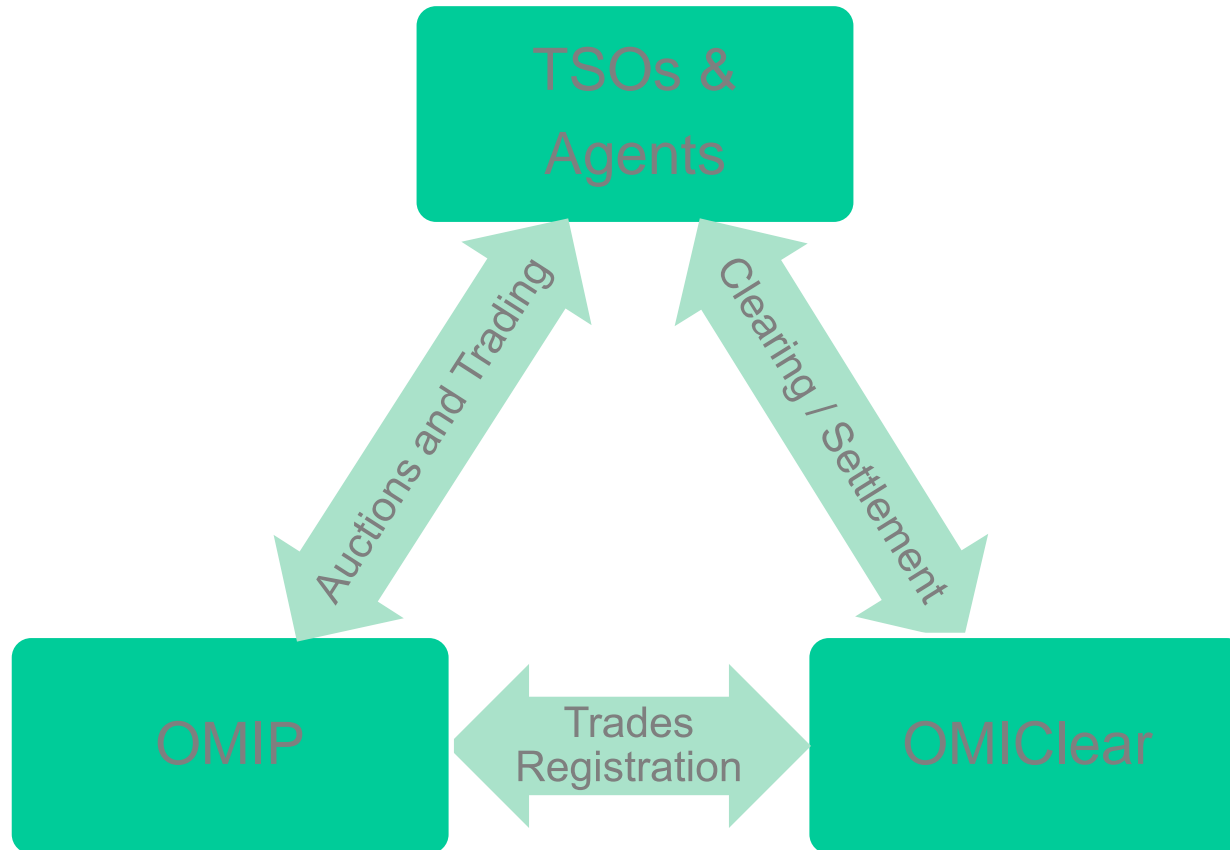
- Implementation of MIBEL Regulators' Council model
- Transitory phase
  - Till integration in European platform
- Interconnection with MIBEL Derivatives Market infrastructure
  - Rules
    - Some adjustments required
  - Supervision
  - Platforms
- Products with delivery in 2014



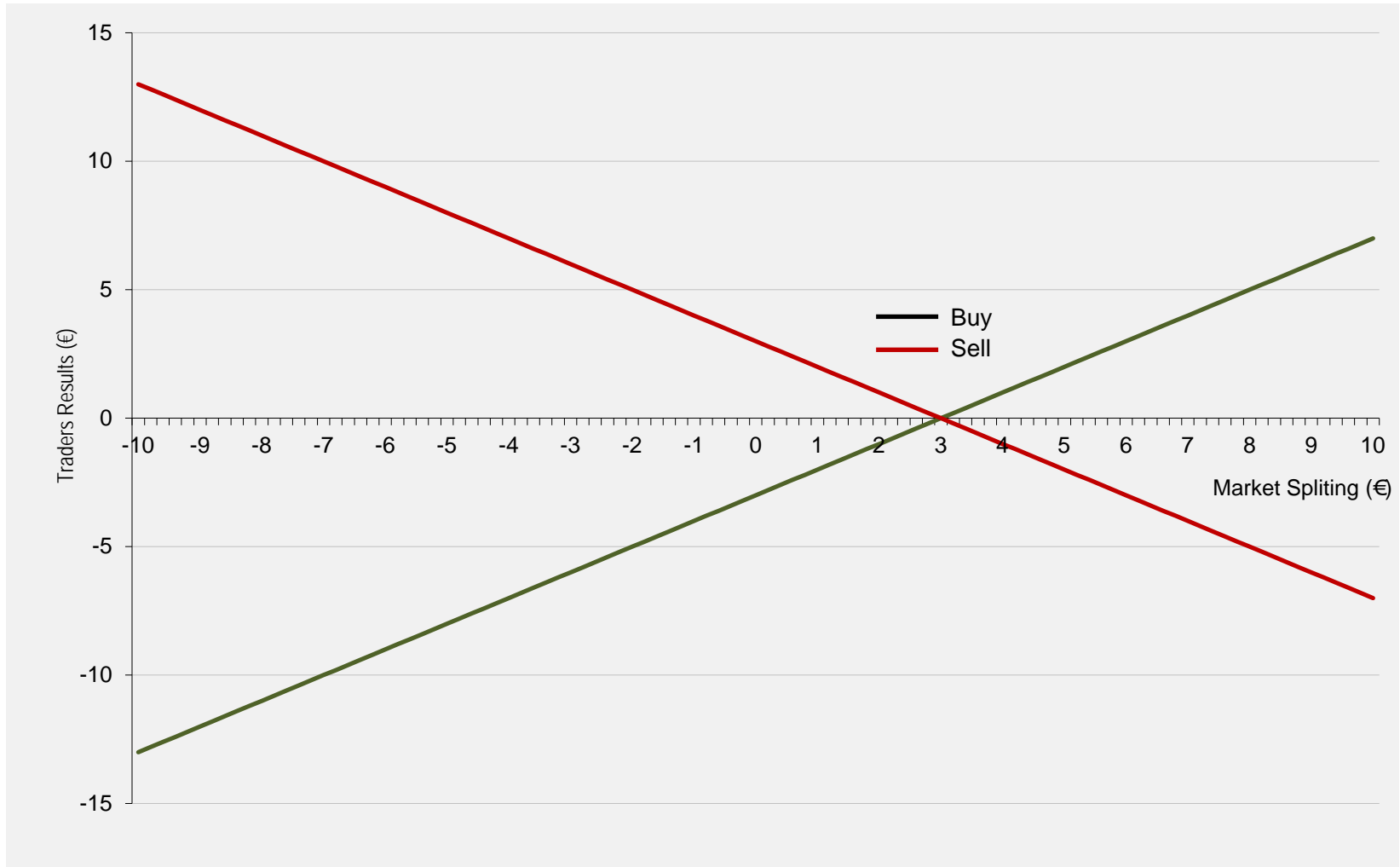
# FTR – Economical Definition

- IPE\_FTR
  - Buyer (seller) of one IPE\_FTR contract (1MW) pays (receives) the trade price, e.g. auction price, for all the relevant hourly periods of the delivery period, and receives (pays) the spot price difference (PT-ES) of the two MIBEL price areas, whenever positive.
  
- IEP\_FTR
  - Buyer (seller) of one IEP\_FTR contract (1MW) pays (receives) the trade price, e.g. auction price, for all the relevant hourly periods of the delivery period, and receives (pays) the spot price difference (ES-PT) of the two MIBEL price areas, whenever positive.

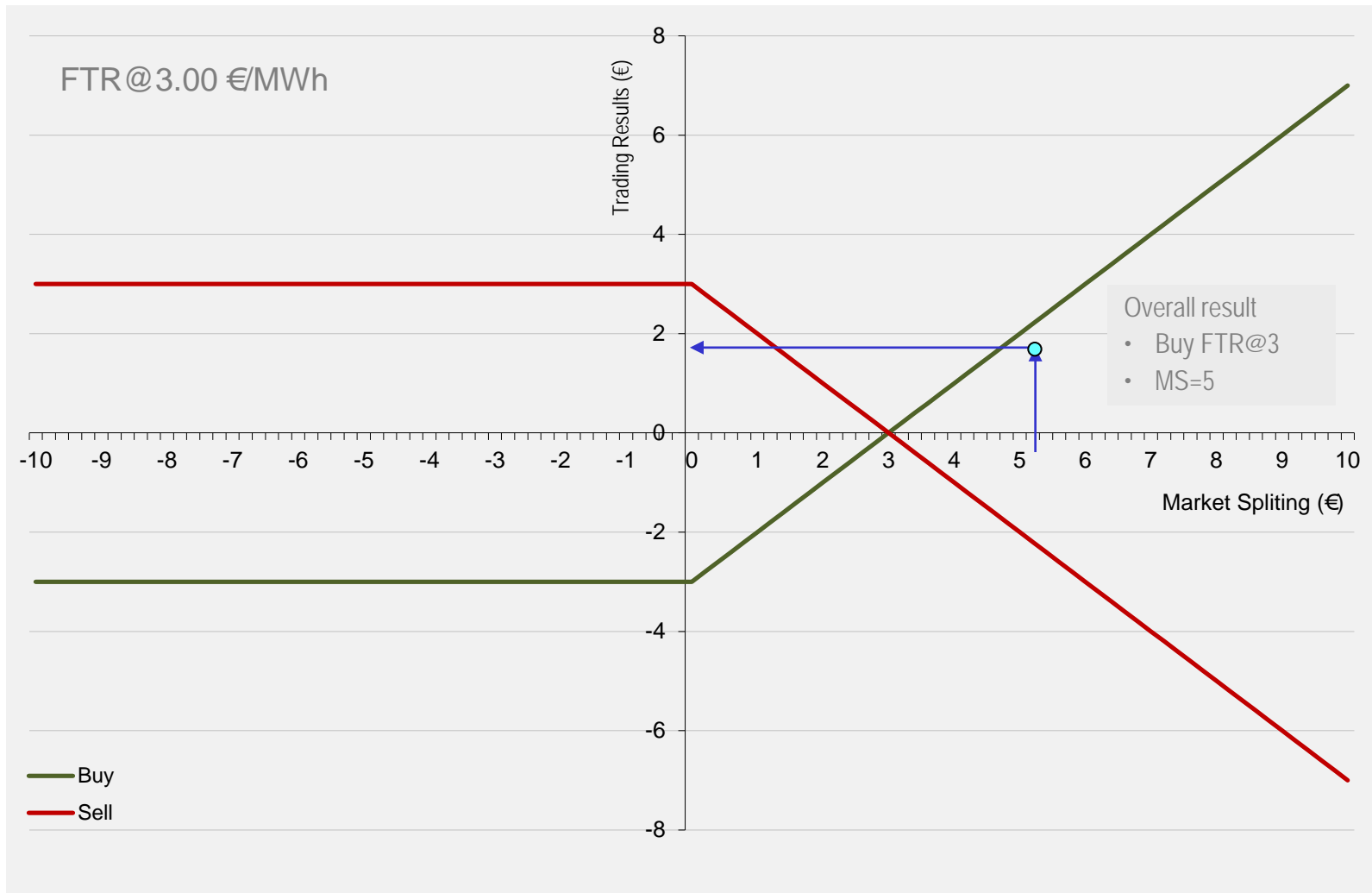
# Participants



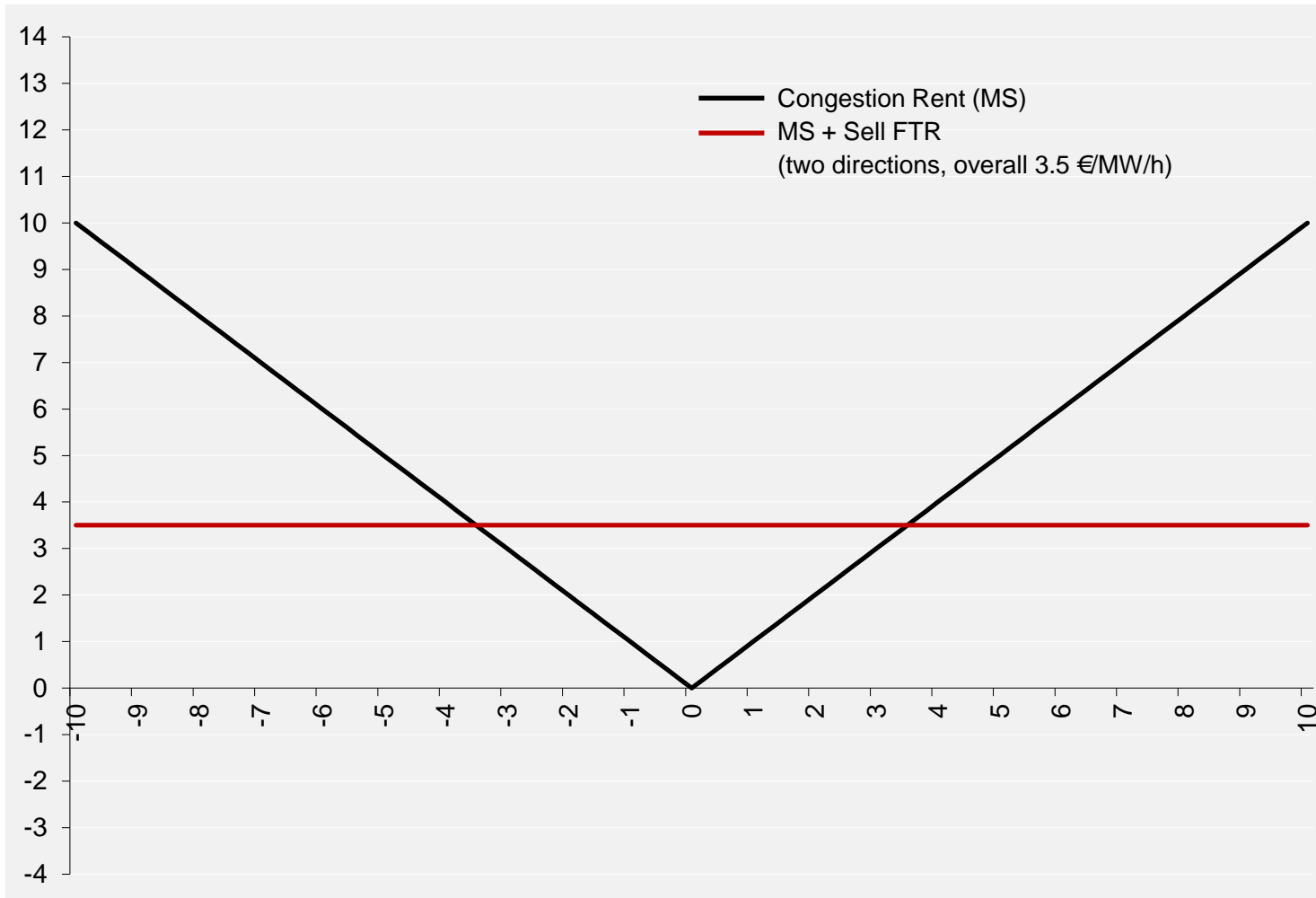
# CfD – P&L Profiles



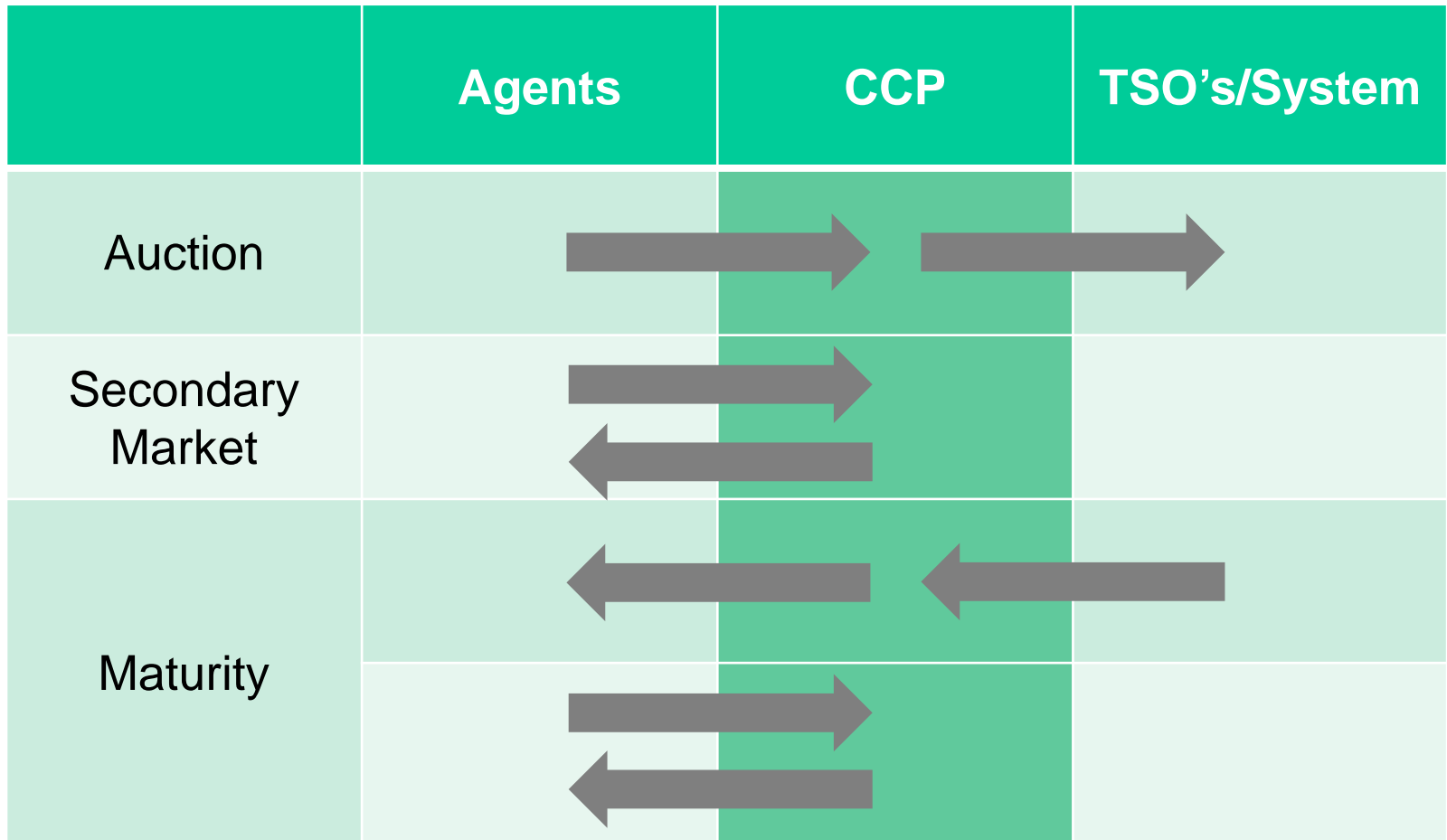
# FTR – P&L Profiles



# TSO Overall Results (FTR)

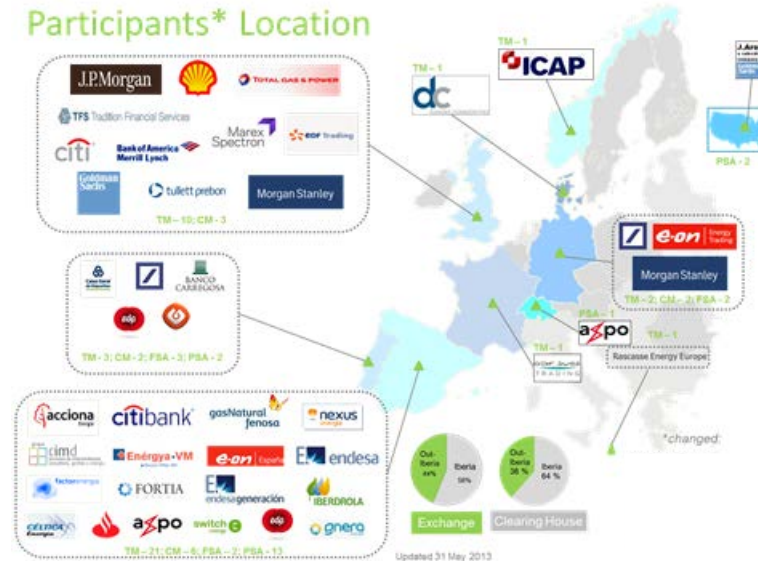


# Financial Flows



# Market Framework

- Integration in OMIP and OMIClear market rules
- Straightforward access for OMIP and OMIClear members
  - Specific conditions for current non-members
- OMIClear is the CCP for all transactions
  - Trades registration, clearing, risk management and settlement
- Real time integration between trading and clearing systems
  - Trayport platform for trading
  - MiClear platform for clearing



# Model Main Benefits

- Model in line with EU Target Model
- Common approach on both sides of the interconnection
- Total capacity released by TSO's
- Utilization of proven and recognized infrastructures
  - Entities
  - Market framework
  - Technology
  - Supervision





**Next Steps**

# Next Steps

- July 12<sup>th</sup>, 2013 – Presentation to agents (Madrid, AM)
- Implementation Phase
  - Product design fine tuning
    - Products launching (maturities)
    - Risk management and settlement
  - Market rules (trading and clearing)
  - Regulatory (PT) and legal (ES) changes
- Definition of auction specs
  - Maturities
  - Quantities
  - Dates
- Testing with participants
- December, 2013 – Auction