

IBERDROLA'S COMMENTS ON LONG-TERM CAPACITY ALLOCATION RULES

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According to the ACER consultation document:

*"Forward Risk-Hedging Products and Harmonisation of Long-Term Capacity
Allocation Rules" (29th August 2012)*

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IBERDROLA welcomes this public consultation and adheres to EURELECTRIC response in general terms, but considers necessary to highlight certain questions / make certain additions:

As regards the **ACER "wish-list"** proposed ([question 6](#)), we have the following particular comments:

- Valuation of reductions in held capacities. Caps should be gradually removed, if they exist, and its use has to be more explicitly foreseen in the Section IX ACER "wish-list" as a transitional arrangement to be minimized and removed after a precise period of time. An ambitious transition period end must be clearly defined.
- Long-term PTRs or FTRs owner must be awarded with physical flow certificates. Some national public support mechanisms for RES require physical flow of energy to be accredited with certificates. The market coupling mechanism should be compatible with this physical flow requirement. Long-term PTRs or FTRs owner must be able to prove physical flow through TSO certification.
- M:N nomination principle must be harmonized. Maximum flexibility in the nomination process must be provided to PTRs owner. M:N nomination principle reduces transaction costs and increases the number of exchanges.
- Lastly, it should be emphasized the importance of a centralized settlement process to optimize all the back-office processes, as the netting of payments.

As regards **country or regional specific aspects** ([question 8](#)), it is necessary to highlight the need to remove all regulatory restrictions that are hampering an efficient use in existing mechanisms. In particular, the ban established in Spain on imports of energy from any EU country outside the Iberian Electricity Market, to the so-called "dominant operators" should be removed as soon as possible.

As regards capacity calculation and allocation method ([question 11](#)), we think that **simultaneous allocation** is not essential and should pose technical problems (e.g. market participant experiencing technical problems at that time). Moreover, this could have adverse and unattended

effects in liquidity and volatility due to a high volume of transactions in energy markets and secondary trades. These aspects require further analysis.

As regards the **splitting of available interconnection capacity** ([question 14](#)), we support that the long term capacity may be as high as possible though there may be days or longer periods with non-available product (product set to zero) or discontinuous/profiled products to be allocated. The maximization of multiyearly/yearly capacity auctioned will be to the benefit of competition in long term markets. It increases reliability of long-term prices that improves competition between agents from different countries in electricity wholesale and retail markets. Longer term auctions (more than one year) would provide more stability to the agents to participate in European electricity markets. Furthermore, a matter of importance is the promotion of a European platform because it is cost-efficient, facilitates operational arrangements and enhances participation.

Finally, as regards the **potential evolution from PTRs with UIOSI to FTR options**, ([questions 18, 19 and 20](#)), we advocate the use of PTRs as they can constitute the most suitable arrangement in some cases. Therefore, it is important to highlight the aspects that put PTRs+UIOSI ahead of FTRs, namely:

- Some national public support mechanisms for RES require physical flow of energy to be accredited with certificates. This would not be possible with FTRs.
- In exceptional cases when Power Exchanges price limits are reached, PTRs allow perfect hedging as the physical flow must be done, while FTRs do not assure total hedging in such situation.
- FTRs require participation on the spot markets to be able to undo long term positions for the delivery-day and that means additional costs due to Power Exchanges fees, while, with PTRs, if a physical flow is done, there is no need to use spot markets, thus those fees are saved.
- National fiscal regulations (VAT) applicable currently to financial products may lead to lower payment for the use of interconnection if FTRs are used. The use of FTRs is not neutral for VAT settlements.

These positive aspects could compensate potential disadvantages, as the fact of foreseeing and implementing a nomination process and others operational matters.