

Rules for Capacity Allocation by Explicit Auctions

About next Versions

Why having a new HAR version?

The forthcoming HAR versions could/should integrate modifications coming from 4 main streams:

- a. Spain-France (ES-FR) project
- b. FTR implementation within CWE region
- c. HAR V1.0 consultation results and NRAs deliberation
- d. ACER wish list (and ACER consultation results)

First meeting have been these last months:

- to **gather all parties** not concerned by the same stream in one place in order to share the same understanding of the situation,
- to **coordinate actions** when possible as soon as possible to avoid unnecessary numerous versions and consultations (limit number of consultation, approbation processes)



a. Spain-France project

- Goal: allocation of Y and M PTRs would be operated by CASC starting from May 2013, using HAR
- Daily and intra-daily PTRs remain allocated by TSOs (Daily by RTE and Intraday by REE)
- The project is subject to the Spanish Ministry and the French and Spanish Regulatory Commissions confirmations via a comfort letter that has been asked in June 2012. Without the comfort letters, the project would be delayed.
- Potential application of FTR options in FR-ES interconnection after Day-Ahead Market Coupling implementation



b. FTRs within CWE

- Objective is to introduce FTR for products of 2014 with a possible change of the firmness deadline
- Before introducing FTR, ACER consultation results are awaited



c. HAR V1.0 consultation results



Firmness of Held capacities

An additional mechanism to manage the firmness of the held capacities would be that TSOs could buy back capacities.

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This proposal can be further studied but cannot be proposed in the Auction Rules version 1.0.

Usage of Bank Guarantee

Due to the increasing number of borders covered by CASC and in order to reduce the cash deposit needed for bidding, six (6) comments asked for using Bank Guarantee (BG) for reducing cash deposit.

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The cash deposit is the existing risk management method. The question to use Bank Guarantees will be considered in future harmonization rounds but cannot be introduced in the Auction Rules Version 1.0.

Fallback modes

Five (5) comments concern the Equal share which is not considered as the right method in terms of fallback for the Daily and the CWE Shadow Auctions. They would prefer a market based mechanism, pro rata or bidding by fax.

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Equal share as a fallback opportunity will remain in the Auction Rules version 1.0 as it is for the moment the only feasible fallback mechanism allowing for allocating capacities during daily operational procedures. However, TSOs and CASC are available for reassessing together with Participants fallback mechanisms for the future. Due to timing constraints in the fallback procedure bidding by fax is not considered as a suitable fallback for Daily Auctions.

d. The ACER wish list

Auction rules

It must be clearly stated that the harmonized set of rules prevail on any other local rules.

Definitions

Definitions shall be harmonized. In particular definitions of terms such as “Force Majeure” must be harmonized. In the same way, a clear distinction with “Emergency situation” must be made.

Firmness of exchange program

According to FG CACM, the capacity is firm for market participants. It is also stated that after the nomination deadline, the physical firmness is the preferred approach. The harmonized set of rules should define when held capacity, that could be either PTRs or FTRs, becomes fully firm and which firmness applies.

Fallback of MC

Explicit auctions are to be implemented as a fallback solution in case market coupling cannot take place as usual. This feature must be set on all borders where market coupling is in place. Shadow auctions described in HAR constitute an example.

Entitlement

There must be a single process with the same requirements to get entitled to participate in the Auctions and/or in the Secondary Market.

The process must also describe the requirements for market participant only interested in secondary market (transfer) or in fallback mode (explicit auctions in day-ahead)

Secondary trading

The concept of Notice Board within CAO rules (allowing for market parties to express and publish their interest to buy or sell capacity rights) could be extended to other regions as it looks as if it is a good tool for facilitating transfer between market participants.

Suspension and withdrawal of the entitlement

The concept of “good cause” does only exist in CAO auction rules for process that also exist in other rules. Therefore the harmonised set of rules could avoid referring to this concept.

Moreover there must be only one procedure for suspension and for withdrawal. In the same way, consequences of suspension or withdrawal must be harmonized.

Valuation of Reductions in Held Capacities

Cancellation of an Auction after the end of the Contestation Period

The FG CACM state that except in the case of Force Majeure, capacity holders shall be compensated for any curtailment. Compensation shall generally be equal to the price difference between the concerned zones in the relevant time frame. As derogation to the general compensation rule, caps could be introduced. Moreover, until the introduction of market coupling, alternative compensation arrangements apply as a transitional measure.

Moreover, in case of an auction cancellation after the end of the contestation period, a compensation scheme such as the one described in HAR must be implemented.

Issuance of invoice and self-billing

The self-billing principle appears as an improvement for market participants and therefore it should be included in the harmonized set of rules.

Payment deposit

The concept of payment deposits is in place in some regions but the way to compute the credit limit may differ such as taking into account taxes or UIOSI payment. A single way to compute this value must be described.

Recovery of payments

According to market players’ complaints, the current system in place within HAR may be detrimental when buying yearly products, due to the requirements for bank account deposits.

Hence, for buying the yearly product, the harmonised set of rules should either require $1/12^{\text{th}}$ of the total amount or a bank guarantee of the $2/12^{\text{th}}$ total amount.

In parallel to this change, a dedicated bank account becomes a necessity to participate to auctions. Therefore the concept of “promise of PTRs” is no longer needed.

Duration and Amendment of Auction Rules

A single process to amend the harmonized set of rules must be described. However, this process must distinguish between amendments on core issues, i.e. impacting all borders and on extension purpose, i.e. implementation of the rules to new border/region.



d. The ACER wish list

1. Allocation method

In Europe, for each product, there are two long-term capacity auctions organized by border/cable: one for each direction in a sequential manner, i.e. one after the other and independent to each other, i.e. results of the first auction do not impact the second one. Moreover, auctions on other border do not impact each other.

In case of a simultaneous capacity auction (e.g. covering more than one border), the whole available capacity on the different borders would be allocated at once and bids for different borders may impact the overall results.

Questions

Does simultaneous capacity auction represent an improvement for market players? Why?

According to TSOs, how difficult appears such a simultaneous capacity auction? Is it linked to the type of products to handled?

2. A new product

The capacity product with the longest duration offered to the market is the yearly product.

Questions

Do market players need a longer product? What are the reasons? What would be the relevant duration?

3. Secondary market

Since a few years, some market participants and energy associations have been claiming that TSOs should have the possibility to buy back already allocated long-term capacity whenever a problem is foreseen on the grid. This could be seen as a preventive measure and in case a reduction would occur, capacity holders would be either no impacted or in a lesser extent.

Questions

According to you, should this possibility be investigated? Why (pros and cons)? In case you favor this possibility, how this buyback should be organized?



When having the HAR V2.0?

Dead line for each main stream is not well known:

- **ES-FR project** is subject to comfort letters expected end of September 2012 from national government (especially the Spanish one) for a go live scheduled in May 2013 (under the precondition of all the required regulatory changes approved in advance); 4 months may be needed for formal approval in Spain
- **FTR implementation** is under evaluation. The results from the ACER consultation, which are expected after summer (around October?) will be taken into account. CWE TSO are studying the implementation of FTRs for products of 2014.
- the moment for the **implementation of the other issues** would be subject to discussion, decision and IT changes and would be inserted in the coming versions, including ES-FR and/or FTR

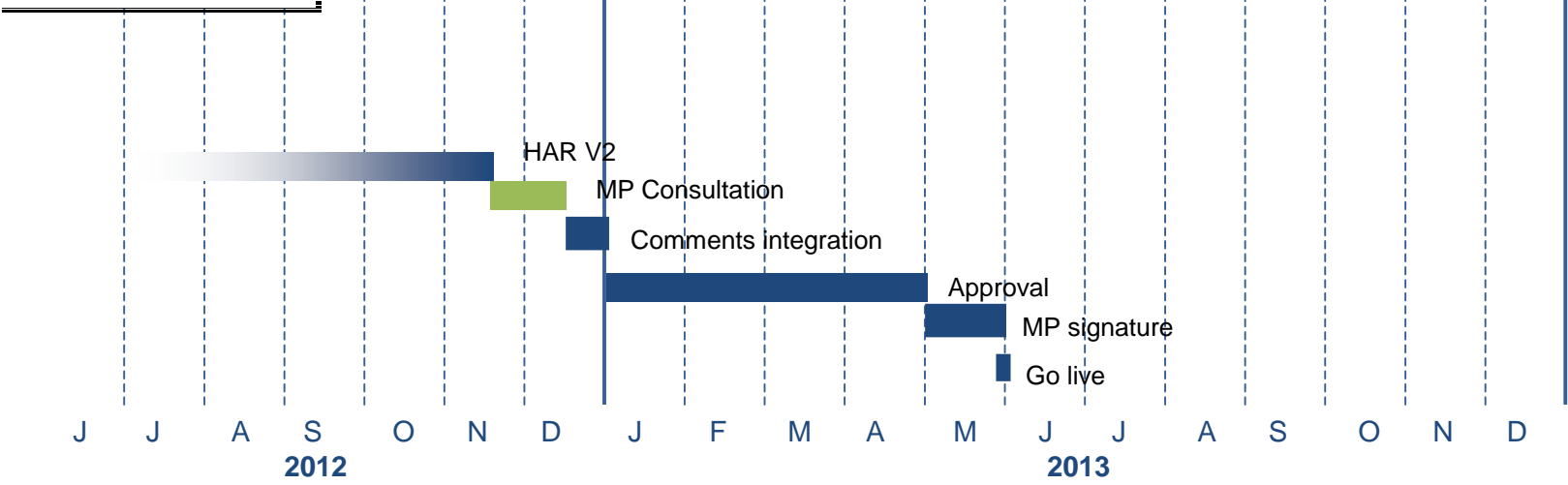
Consequently, next version of HAR is expected **at the soonest for mid 2013.**



Possible macro-planning



V2.0: ES-FR Project



The approval procedure

The Auction Rules are becoming more and more harmonized, but some features and mechanisms still remain different between the regions. Consequently, the improvements proposed for approval could not concern all the TSOs, nor all the borders. However, the new Auction Rules should be in force in all the countries.

Some of the questions the TSOs would like to clarify in a common meeting with NRAs are:

- Do all NRAs need to approve each new version of the HAR no matter whether modifications apply only to certain borders or modifications concern only wording?
- Does national legislation in the concerned countries demand approval of each modification or are there ways of circumventing via a global approval?
- Can ACER play a role in the approval process?

The present IG may be the place to start discussion on this issue but it's important to obtain a shared understanding by all the NRAs about the way of proceeding for future approvals.





Thank you for your attention