

Conclusions of the 13th IG meeting

ERI South-West Europe

Lisbon, 3rd December 2013

The 13th IG meeting was attended by the TSOs, PXs and NRAs of the SWE region as well as ACER and the Portuguese Government.

The NRAs of the SWE region and ACER opened the meeting with the following joint statement:

- The extension of NWE Day-Ahead market coupling to SWE will represent an important milestone towards the integration of the day-ahead markets in Europe. The SWE NRAs and the Agency encourages all the involved parties to make their best effort to implement full market coupling between NWE and SWE by Q1 2014.
- The SWE NRAs and the Agency regret the repeated postponement of the evolution of the management of the France-Spain border agreed within the Cross-Regional roadmap for long-term products. The SWE NRAs and the Agency consider that it is of utmost importance to achieve this milestone as soon as possible and to that end request further explanations about the current situation.
- Consequently, the SWE NRAs and the Agency urges the involved parties to shed full light on the reasons of this postponement and invites them to set up a plan to overcome the remaining obstacles in the shortest time as possible and in any case before end of 2014.

1. SWE Day-ahead market coupling project

OMIE and REE presented the current project status. The updated plan foresees start up solution (with zero capacity allocated in the implicit auction in the FR-ES border) at the same time as the go live of NWE coupling, which is expected by 4 Feb (to be confirmed on 17 Dec). After that, full coupling should happen by 5 April.

A discussion took place on the two possible fallback solutions for the IFE (shadow auction and capacity allocated in intra-day). RTE is in favor of shadow auctions as it allows market participants to buy cross-border capacity at the day-ahead timeframe (when price reference is established) instead of waiting for intra-day market, in case of market decoupling of the Iberian market. Shadow Auctions can thus help to avoid huge price spikes in the day-ahead markets. Moreover, this solution is cost-efficient, and CASC already provides it for many borders all around Europe. RTE explained that they are ready to implement shadow auctions as soon as the full coupling go-live. REE however considers the other solution as “natural” and claims that it is not worth implementing shadow auctions as they would be used only in very rare situations.

CRE supports RTE's position and advocates for shadow auctions, as long as market participants do not express a strong preference for the alternative solution. CRE insists on the importance to have a robust fallback solution that will be applied after the full coupling goes live (when the risk of decoupling is the highest).

REN expressed their position that it shouldn't participate in the implementation of Fallback Solutions in IFE since that implementation concerns the Spanish and French TSOs only.

As a conclusion, the IG agreed the following: a robust, proportionate and effective solution should be applied; the opinion of market players will be sought during the Stakeholders Group meeting.

The IG agreed that market coupling is the highest priority of the SWE region in the short term and any potential delay should be avoided. In this context, NRAs support intraday allocation as fallback mechanism, only as a transitory solution, in order to avoid any delay in the launch of this project.

At the SG meeting, market participants did not express opposition to implement shadow auctions as fallback solution. Therefore, RCC (NRAs) agreed after both meetings that the implementation of shadow auctions will be pursued and RTE and REE shall make their best effort to implement them as soon as possible.

2. Long term capacity allocation

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

REE informed Spanish authorities (Ministry and CNMC) about the cost issue (increase of the price asked by CASC in order to become a shareholder compared with the estimation provided in the MoU). NRAs confirmed there was no blocking issue at their level.

RTE assessed the impact of the postponement of CASC-IFE project on market coupling. RTE confirmed the information given during the previous IG meeting, that the delay of the CASC-IFE project would impact the SWE coupling, as several interrelationships exist: same IT tools impacted, same resources impacted for common testing and same regulation (notably auction rules) impacted by both projects. REE stressed that both are independent projects and offered all their collaboration to avoid any delay in the SWE Market Coupling project as the highest priority for the region. RTE and REE have studied and proposed alternatives for IFE LT auctions in order to avoid any delay on day-ahead market coupling, which is appreciated by NRAs.

RTE presented three potential options they are ready to implement. Their preference consists in using CASC as a service provider with harmonized allocation rules but they expect NRAs' guidance. CRE was very much supportive to this proposal.

REE also proposed a set of alternative solutions and communicated its commitment to implement any of the three alternatives presented by REE if the Spanish authorities request REE to do so.

The Spanish NRA requested REE to proceed with CASC as a service provider for IFE long term auctions, as it was considered the most pragmatic option and the closest option to the initial scope of the project as agreed in May 2012. In order to avoid risks for further delays in this project, adapted IFE rules should be used for these auctions. Indeed, regulatory changes in Spain would be needed to use Harmonised Auction Rules for IFE. However, NRAs and ACER agreed that applying Harmonised Allocation Rules should remain an objective to be met at the earliest opportunity.

The NRAs stated that their first priority was to choose an option that ensured that the project would be ready to go live as soon as possible.

The NRAs supported the option of CASC acting as a service provider for long term auctions under adapted IFE rules as a pragmatic interim solution, in order to avoid any additional delays. The set of adapted IFE rules should be submitted to relevant authorities late January. This solution should evolve towards the inclusion of IFE in the HAR pursuant to the objectives set forth by the FCA NC (single platform, single set of rules) and by the Cross-Regional Regional Roadmap, as soon as possible.

The NRAs requested RTE and REE to follow the necessary steps to launch long term auctions in CASC as provider as early as possible. A roadmap with the following steps will be provided by RTE and REE to the NRAs as soon as possible.

Furthermore, taking into account the issues raised in this process, CNMC asked ACER to pay attention to a possible regulatory gap as regards CASC and to the future regulation of the single platform.

It was announced that the yearly auctions for PTR with delivery in 2014 will be held by REE.

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

The MIBEL Council of Regulators is making the necessary preparations to launch a coordinated mechanism to issue FTRs option in the first half of 2014. For this purpose, under the MIBEL Council of Regulators context, energy NRAs (CNMC and ERSE) and financial national regulatory authorities (CNMV and CMVM) have worked, from September to November, in the general regulatory framework of the coordinated mechanism drafting “mirror” regulations in Portugal and Spain (CNMC Circular and ERSE Procedimento) and launching a public consultation in Portugal. Due to a delay in the legislative amendment required in Spain for the implementation of the coordinated mechanism (CNMC Circular), first coordinated auction of long-term FTR options has been postponed to the first quarter of 2014. Auction in December will be conducted from the Portuguese side under the coordinated mechanism, and from the Spanish side under the current regulatory framework (Ministerial Order 4112/2005).

The NRAs and ACER request the Spanish Ministry to facilitate the necessary regulatory changes, in particular the amendment of the Ministerial Order 4112/2005 which is critical for the projects related to long term capacity allocation, both in IFE and IPE as well as for the market coupling project.

The Agency welcomed the coming launch of coordinated products on IPE and recalled the objective of integrating this interconnection to CASC and the HAR (when CASC complies with all the requirements to issue FTRs).