

Conclusions of the 7th SG meeting

ERI South-West Europe

Lisbon, 3rd December 2013

The 7th SG meeting was attended by the TSOs, PXs, NRAs and a number of market players of the SWE region as well as ACER and the Portuguese Government.

The NRAs of the SWE region and ACER repeated the joint statement made at the beginning of the IG meeting:

- 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 that 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.

The opinion of market players on the two possible fallback solutions for the IFE was sought, however, there were few interventions. Iberdrola supports a shadow auction as the enduring solution and the intraday auction as interim solution to boost the project. EFET has not reached an official position on this point yet. RTE explained that it 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. Shadow Auctions can thus help to avoid huge price spikes in the day-ahead markets. Moreover RTE considers this solution as cost-efficient, and CASC already provides it for many borders.

OMIE clarified that after the launch of the start up solution, they will participate in the simultaneous run by the systems of 5 PXs using the PMB and the algorithm for implicit auctions.

EFET Iberia expressed concerns because of the number of regulatory changes that must be passed before full market coupling can be launched, namely market rules, IFE rules and Ministerial Order 4112/2005.

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.

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

2. Long term capacity allocation

• IFE (Interconnection France-Spain)

CNMC presented the main conclusions agreed in the morning during the IG meeting.

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. 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 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.

EDF trading supported the future inclusion of the IFE auctions in the HAR and stated that the top priority of the region must be the launch of market coupling.

- **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 e 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).

EFET Iberia asked why the Spanish Order of the year 2010 has not been used to launch the FTR option. One of the reasons is the fact that this Order only involved the Spanish system and now, the Board of Regulators of MIBEL is working on a coordinated product between Spain and Portugal. CNMC will be able to publish a “Circular” establishing the new product when the Ministerial Order 4112/2005 is amended.

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 and BALIT.

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).

3. Intraday capacity allocation

CNMC briefly informed about the XBID project in NWE+. The PXs involved in the project communicated on 29th November to ACER and the relevant NRAs that the blocking issues had been solved and the PCA and ESA would be ready for signature soon.

REE stated that they need additional information on the conditions before participating in the XBID project. REN informed that has signed the necessary NDAs to receive information from the XBID project but only after a commitment from REE to participate on the project can REN assume a more active role on the project.

OMIE explained that in the future IPE capacity would be allocated on a continuous basis during the intraday timeframe and, furthermore, it will be possible to perform separate intraday auctions in the Spanish zone and in the Portuguese zone without cross-border allocation.

The proposal of OMIE to combine continuous intraday market foresees that a market player will be able to close a position for several hours ahead.

EFET Iberia and Endesa claimed that the participation in intraday auctions, where applied, should not be mandatory and that they would prefer to have the opportunity to nominate directly to the TSOs. The concern was raised that one of the mechanisms could capture the liquidity of the whole market.

CRE reminded that the target model at the intraday timeframe is continuous implicit trading. Regional auctions are allowed as a complementary mechanism but their design shall not hamper the functioning of the target model. OMIE stated that the regional intraday market is a regional issue and that it will not affect the continuous trading.

CNMC and ERSE encouraged the respective TSOs to participate in the XBID project in order to facilitate the future local implementation.

4. BALIT

The TSOs presented the state of play of BALIT. Bilateral balancing energy exchanges in IFE and IPE will be possible as from February 2014 subject to previous approval of required regulatory changes.

EDP suggested that harmonization of products at least at regional level should be pursued and that the SWE region should go further than the bilateral TSO-TSO model that is being implemented.

REE agreed that following the correct implementation of bilateral exchanges the evolution towards multi-TSO exchanges should be the next step.

Iberdrola reminded that important differences remain in each country such as the determination of necessary reserves.

5. TERRE

REN briefly presented the TERRE Project whose active members so far are Terna, National Grid, REN and RTE. At this moment, the project is in the design phase. Implementation will follow by mid 2014.

REE is fully interested in participating in the TERRE given that it means the natural evolution of the BALIT project where RTE, REN and REE are currently working.

REE stated that they need, prior to its participation in TERRE project, comfort in order to ensure that the needed regulatory changes will be implemented and the associated costs will be recovered.

EFET Iberia asked to be involved in some way in this project because details such as timing, products, settlement, pricing, etc. should be consulted with stakeholders.

CNMC requested REE to participate in TERRE during the IG meeting of 8th July 2013. CNMC confirmed to REE that this give them enough comfort to enter in the design phase of the project (where no explicit costs are considered).