

Conclusions of the 8th SG meeting¹

ERI South-West Europe

Madrid, 6th October 2014

The 8th SG meeting was attended by the TSOs, PXs, NRAs and a number of market players of the SWE region.

1. Long term capacity allocation

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

REE and RTE presented the main changes in CASC HAR v2, as regards IFE, following the public consultation that took place in summer. Long Term auctions and Secondary Market have been included in the HAR v2. IFE Rules 4.0 will only cover intraday explicit auctions.

Among these changes are: the firmness regime (Assimilation to CWE scheme for reductions in non-nominated capacity and withdrawal of caps on the price differential) and the inclusion of Shadow Auctions in IFE. The comments received during the public consultation were also analysed.

RTE and REE presented their analysis concerning the possibility to implement a single long term transmission right nomination to both TSOs. EFET welcomed the possibility of single nomination of transmission rights. Unesa asked for an explicit nomination in all timeframes directly to the TSO and independent of the purchases/sales in organised/OTC markets. CNMC highlighted that the share of nominated long-term PTRs has been decreasing since the go-live of market coupling. This problematic may therefore be less crucial in the long-run.

¹ Slides available at: <http://www.acer.europa.eu/Events/8th-SWE-SG-Meeting/default.aspx>

CRE and CNMC as well as other concerned NRAs intend to formally approve the HAR v2 of CASC in their own jurisdictions. It is expected that the rules will be approved by mid-November. These rules will be applicable to the 2015 annual auction and subsequent monthly auctions. CRE and CNMC will also approve the IFE Rules 4.0.

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

ERSE informed the SG about the third joint FTR auction for IPE². Contracts in both directions were auctioned for 4th quarter 2014 (300 MW in each direction) and for the year 2015 (100 MW in each direction). Unesa called for an increased share of capacity allocated at the long-term timeframe on this interconnection.

2. Day-ahead market coupling

The TSOs and PXs of the SWE region presented some details related to the functioning of the Multi Regional Coupling (MRC). In particular, the improved market efficiency achieved since the launch of market coupling on 13th May. Furthermore, RTE and REE presented the changes observed in IFE as regards nomination of long term transmission rights, utilization of NTC and the first intraday auction.

Besides, CNMC reminded the SG that the order book of OMIE can be reopened in case of price peaks (reached in the bidding zones managed by EPEXSPOT) or in case of decoupling. This possibility has not been used yet.

Finally, REE updated the SG about the introduction of shadow auctions in IFE explaining that update of O.P. 3.1 and new IT developments to be started in November are necessary to implement shadow auctions in IFE by March 2015. A soon reception of the required comfort from Spanish Ministry is needed to ensure the foreseen go-live date.

Following these updates, UNESA proposed to study the possibility to merge the Spanish and Portuguese bidding zones into a single Iberian bidding zone in the day ahead market. EFET was also in favour of a permanent review of bidding zones to increase the liquidity and improve the functioning of Iberian market. CNMC reminded

² For more information, see the slides uploaded in the meeting's website.

that according to the CACM Guidelines, a merged Iberian bidding zone for the day-ahead market would also apply to other timeframes (long term and intraday). According to UNESA, a simulation run for years 2012 and 2013 shows a negligible amount of redispatching. As a transitory measure until the merging into a single bidding zone, UNESA asks for more FTRs auctioned in the IPE interconnection, up to 2/3 of the total capacity (as in IFE interconnection).

Energia VM expressed its disagreement with the proposal. OMIE criticised the proposal because this could lead to important distortions since it could include in the result impossible movements of energy in a physical spot market. For example, any change in the energy or fiscal policy of one of the two countries would affect the functioning of a merged bidding zone with a single price in a totally uncontrolled manner (the interconnection capacity will not be respected by the result any more). REN agreed with OMIE on this point. It was also mentioned that the technical operation of the two systems involved should be consistent. Moreover, the quantitative analysis provided by Unesa for 2012 and 2013 may lead to different results if performed for 2014, and in any case these analysis have been done assuming that the bids would be the same. This assumption is debatable.

3. Intraday

OMIE updated the IG on the recent developments in the XBID project. It was stressed that Local Implementation Projects (LIPs) have not started yet. In principle, there would be in the future a LIP covering the SWE region. Currently, three options for shipping and nominations are on the table. Finally the key risks were outlined. REE participates in the XBID project as observer until the reception of the comfort from the Spanish Ministry for becoming full member. There will be an ID IG meeting on 16 October. Outcomes of this meeting will be presented at next AESAG meeting on 23 October and further at the first User Group meeting on 25 November.

OMIE provided some clarifications regarding the proposal to combine continuous intraday trade and intraday auctions. In OMIE's proposal, that do not require stopping continuous trading at any moment, the auction would take place before H-1 and after the last moment to negotiate hour H in the continuous trading. 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.

REE stated that in application of regulation in force and according to the European Policies, also reflected in the Network Code on Operational Planning and Scheduling, market actors have to nominate to the TSO the generation schedule of physical generation units. After the intraday market, REE will need enough time to develop security analysis and solve technical constraints in real time. REN supported the position of REE on the need to nominate the XBID trades to the TSO.

EFET, UNESA, EDP, Iberdrola 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. EFET and Unesa support a model with a voluntary Opening Auction. Any further auction when the continuous market is already working, should not interrupt the continuous negotiation, nor allocate interconnection capacity and must be voluntary. As a quick win, EFET and UNESA are in favour of moving the current Iberian ID auctions closer to real time.

Energia VM expressed its support to intraday auctions as proposed by OMIE in order to reduce information asymmetry. ARMIE advocated for mandatory participation in intraday auctions as more efficient than a sole continuous market.

OMIE defended that the last negotiation (in this case, an auction at the end of the continuous negotiation including the physical nomination of the open positions) must be mandatory.

Due to the flight schedule, REN left the meeting and didn't participate on the following discussions.

The SG concluded that as a quick win, the possibility to shift MIBEL intraday auctions closer to real time will be analysed, while taking into account the necessary time for security analysis by TSOs. OMIE affirmed their readiness to implement such quick-wins immediately. REE remarked that the regulatory changes for the suppression of technical constraints in intraday should also be taken into account.

4. Cross-border balancing

- **BALIT**

The TSOs presented a preliminary analysis of the first months of BALIT. Exchanges in the direction ES to PT accounted for the highest share of the BALIT exchanges in the SWE region. The exchanges in IFE could have been higher if cross border capacity in direction FR to SP (which has been often fully used by the day-ahead market) had been available for cross border balancing services.

CNMC asked if there is any room for improvement within the current BALIT mechanism in order to facilitate more cross-border exchanges. RTE answered that BALIT will remain as it is now. All the evolutions as regards cross-border balancing will be addressed in the context of the TERRE project.

- **TERRE**

RTE presented the status of the TERRE project and in particular the draft definition of standard products. With regard to matching, the TSOs involved in the project have concluded that the most efficient solution is an algorithmic optimization based on implicit auctions model.

Endesa asked why an auction system had been chosen instead of continuous allocation (first-come first-served).. The TSOs involved in the project answered that pooling the liquidity in an auction is more efficient than matching bids on a first come first served basis.

CRE informed that following the outcomes of the last Balancing Pilot Projects Stakeholders Advisory Group meeting, the lead-TSO of each PP should get in touch with the corresponding lead-NRA to discuss the monitoring of PP. This could be done through monthly reports (such as those used for BALIT) and detailed project plans.

EFET asked proper stakeholder involvement in the TERRE project. RTE answered that this is being considered and there will be possibilities to be involved in the project as stakeholder.