

Deliberation of the French Energy Regulatory Commission dated 12 March 2014 approving amendments to capacity allocation rules for the France - Spain interconnection

Present: Olivier CHALLAN BELVAL, Jean-Pierre SOTURA, and Michel THIOILLIERE, Commissioners.

In application of the standard public electricity transmission network concession specification as approved by Decree No. 2006-1731 of 23 December 2006, RTE (Réseau de Transport d'Électricité, the French Transmission System Operator) wrote to the French Energy Regulatory Commission (CRE) on 21 February 2014 to request approval of a proposal to amend France-Spain interconnection access rules (IFE Rules - version 3.1).

1. Context

The proposed capacity allocation rules for the interconnection between France and Spain (IFE Rules - version 3.1) is part of the transfer of the management of the annual and monthly capacity allocation on this interconnection to "CASC" ("Capacity Allocating Service Company") platform in compliance with the European target model. This platform handles capacity allocation by explicit auctions in the Central West region¹, the South Central² region, and Switzerland.

At a meeting on 14 May 2012, French and Spanish transmission system operators and regulators voiced their support for the project to extend CASC platform to their interconnection. However, in 2013 some difficulties were experienced delaying the progress of the project. In particular, the Spanish transmission system operator, Red Electrica de España (REE), did not submit to its regulator (the Spanish National Markets and Competition Commission, CNMC³), the draft rules allowing for the integration of the France-Spain interconnection to CASC platform, while all transmission system operators using the platform had formally submitted these rules to their regulator during the Autumn of 2013. CRE was therefore unable to approve these proposed rules in coordination with the Spanish regulator. CRE's deliberation dated 24 October 2013⁴ had only focused on approving new rules applying to the CASC platform in its current

¹ France, Germany, Belgium, The Netherlands, and Luxembourg.

² France, Germany, Austria, Italy, Slovenia, and Greece.

³ Formerly the "Comision Nacional de Energia".

⁴ Decision of the French Energy Regulatory Commission dated 24 October 2013 approving amendments to the rules for capacity allocation through explicit auctions in the Centre-West region, South Central region, and Switzerland (<http://www.cre.fr/documents/deliberations/approbation/regles-d-allocation-des-capacites>).

geographical scope. In this deliberation, CRE requested RTE to make every effort to cooperate with REE to jointly submit harmonised rules allowing CASC platform to extend to France-Spain border at the earliest opportunity.

In December 2013, REE and RTE put forward an alternative solution to transfer annual and monthly capacity auctions for the France-Spain interconnection to CASC platform, applying specific rules to this interconnection instead of harmonised auction rules as applied to other borders. As the objective remains to have capacity allocation through harmonised rules, the regulators agreed with this proposal as a transitional compromise solution to avoid any further delay, in particular regarding the extension of the North West Europe⁵ day-ahead market coupling project to Spain and Portugal.

It should be emphasised that extending CASC platform to the France-Spain interconnection is a necessary step before implementing day-ahead market coupling in the South-West region⁶. Indeed French and Spanish transmission system operators have planned to allocate long-term explicit auctions at their border through CASC platform in April 2014 and then to launch day-ahead market coupling for the South-West region in May 2014. CASC platform will then be involved in the daily resale of long-term products. The extension of market coupling to the South-West region should be submitted to CRE's approval by May 2014.

2. Main changes to the capacity allocation rules for the France-Spain interconnection proposed by RTE

Current allocation rules (IFE Rules - version 3.0) apply to physical transmission rights⁷ allocated through explicit auctions between France and Spain at annual, monthly, daily, and intraday timeframes.

Rules subject to CRE's approval now specifically distinguish between provisions relating to the explicit allocation of long-term capacity (annual and monthly auctions, resale and transfer of long-term transmission rights at a later stage) and provisions relating to the allocation of short-term capacity (daily and intraday).

The provisions relating to the explicit allocation of long-term capacity entitle CASC platform to be appointed as the long-term auctions' administrator as a service provider for RTE and REE. The section of the rules dealing with long-term allocation, transfer, and resale of long-term transmission rights was adapted for this purpose. The amendments align general provisions (e.g. applicable law, financial

⁵ Germany, Austria, Belgium, Denmark, Estonia, Finland, France, Great-Britain, Latvia, Lithuania, Luxembourg, Norway, The Netherlands, Poland, and Sweden.

⁶ France, Spain, and Portugal.

⁷Physical Transmission Rights give the buyer the right to use a particular interconnection in one direction to transfer a predefined quantity of energy from one market hub to the other. The exercise of PTRs is performed through a nomination process: either the holder uses his right or he receives a financial compensation.

guarantees, notifications of interest in capacity transfers) on their equivalent provisions included in the harmonised auction rules applied by CASC on other borders⁸.

Specific provisions applying to the Spanish border, such as the firmness regime for long-term transmission rights, have changed little compared to the current version of IFE rules. The compensation paid to the rights' holders in case of curtailment is still equal to the positive market spread, capped by two amounts: a cap on the spread and a cap on total amount paid by transmission system operators for a given month. CRE has noticed that in the new rules, the spread cap is not defined in absolute terms; only the methodology is described in the rules (95th percentile of market spread over the past year) and the resulting value is updated and published on the websites of transmission system operators.

Transmission system operators, RTE and REE, remain the administrators of day-ahead (until market coupling) and intra-day explicit auctions for short-term timeframes. Whereas developments related to the intraday explicit allocation are minor, major changes are proposed regarding day-ahead capacity allocation. On the one hand, the rules now require the removal of daily explicit auctions, which is the current mechanism in place for capacity allocation at the day-ahead timeframe. This removal is subject to the actual implementation of day-ahead market coupling in the South-West region, the go-live date will be communicated to participants and posted on the websites of transmission system operators and the platform. On the other hand, the rules handle all the arrangements for the resale of non-nominated long-term rights in the case of the two types of day-ahead allocation: explicit prior to market coupling and implicit following it. In the case of daily explicit auctions, the rules provide for the resale of non-nominated long-term rights at the marginal price of the daily auction, as in the current rules. In the case of implicit daily auctions, compensation will be equal to the positive price spread between the two markets.

RTE and REE organised a public consultation on the proposed France-Spain capacity allocation rules (IFE rules 3.1) between 16 January and 5 February 2014. A detailed analysis of responses to the consultation was sent to CRE by RTE on 21 February.

3. Observations of CRE

CRE made the following observations on the proposed France-Spain capacity allocation rules (IFE rules 3.1). In compliance with the provisions of Directive 2009/72/EC, CRE and CNMC cooperated to analyse the proposed rules in the context of a coordinated decision between the two regulators.⁹

Regarding the extension of CASC platform to the France - Spain border and the arrangements for the allocation of long-term (annual and monthly) capacity

⁸ Rules for capacity allocation by explicit auction, version 1.1 (http://www.casc.eu/media/20131013_Harmonized%20Rules%20V1_1%20-%20V2%20without%20FR-ES_.pdf)

⁹ See Directive 2009/72/EC of the European Parliament and Council of 13 July 2009 on common rules for the internal market in electricity and, in particular, Articles 37.1, 38.1, and 38.2 a) and c).

The initial scope of the project, aiming at providing market participants with a single allocation platform and harmonised auction rules for annual and monthly capacity allocation on five French borders, increases competition between participants while reducing transaction costs for transmission system operators and participants. This project represents a further step towards the implementation of the European target model which requires allocation of long-term capacity through a single European point of contact. The harmonisation of the rules applied by the platform must also significantly facilitate interconnection access for market participants. In addition, as explained above, the extension of CASC platform to the French-Spanish border is a necessary step before implementing market coupling in the South-West region.

CRE considers that the proposed IFE 3.1 rules submitted by RTE on 21 February 2014 allow CASC platform to extend to the French-Spanish border and meet the deadline compatible with a go-live of market coupling in the South-West region in May 2014. CRE deems that the proposed rules introduce the changes required to transfer the management of annual and monthly auctions to CASC platform while keeping the other provisions in line with the principles of the current version of the IFE rules.

Although CRE supports such development for the rules in order to allow for a quick go-live of the project compatible with the objective of May 2014 for the market coupling, CRE nevertheless considers that applying specific rules for this border, even if in line with those used by CASC, does not comply with the European target model's harmonisation objective. In this respect, CRE and its Spanish counterpart, CNMC, consider the application of such rules only as a temporary solution. At a meeting with transmission system operators and power exchanges in February 2014, CRE and CNMC asked RTE and REE to submit a proposal for harmonised rules applying to CASC platform and including the French-Spanish border by the end of 2014.

Furthermore, CRE welcomes the proposed amendments to define price caps applying to compensation in case of curtailment. However CRE does point out that the firmness regime applicable to the French-Spanish border still needs to evolve further to comply with the recommendations made by ACER and regulators in the Framework Guidelines on Capacity Allocation and Congestion Management and in the reasoned opinion on the network code on Forward Capacity Allocation respectively published by ACER on 29 July 2011 and 20 December 2013. CRE noted that market participants expressed a wish to see firmer transmission rights during the public consultation organised by transmission system operators. CRE therefore asks RTE to change the provisions relating to firmness and in particular to remove the price cap on market spread and any caps on compensation after the nomination deadline in their proposal for harmonised auction rules applying to CASC platform and including the border between France and Spain.

Regarding short-term capacity allocation arrangements (day-ahead and intra-day capacity allocation)

For short-term timeframes, the European target model requires implicit capacity allocation (market "coupling"), i.e. the allocation of interconnection capacity for the most effective cross-border energy trades consistent with the organised market prices. CRE recommends that this mechanism be implemented for day-ahead allocation at the earliest opportunity. CRE deems that the proposed changes to the rules allow for such future implementation of the market coupling in the South-West region.

When market decoupling is implemented, two fallback solutions can be applied. One consists in explicit auctions ("*shadow auctions*") and the other to not allocate day-ahead capacity and only use intraday mechanisms. CRE believes that the first solution is a better option as it enables the participation in day-head markets and trade electricity when the reference price is cleared on power exchanges. CRE therefore

requests RTE to implement this fallback solution as soon as possible and include provisions for these shadow auctions in the next set of harmonised rules applying to CASC platform and including the French-Spanish border.

CRE also points out that current intraday capacity allocation mechanisms on the France-Spain border do not comply with the European target model which calls for continuous allocation. In view of the pilot project to implement a platform for such exchanges, CRE requests RTE to make every effort to cooperate with REE and power exchanges involved to allow the implementation of the European target model on the Spanish border.

4. CRE decision

CRE approves the France-Spain interconnection access rules submitted by RTE on 21 February 2014, subject to their approval by the Spanish regulator (National Markets and Competition Commission). The proposed changes are in fact a step towards the implementation of mechanisms to achieve a greater degree of optimisation of long-term and day-ahead cross-border exchanges.

However, CRE notes that progress is still needed to align the interconnection's management on European target models. Therefore, CRE requests RTE to submit by the end of 2014 a proposal for harmonised rules applicable to all French borders using CASC platform and, in particular, the border between France and Spain.

CRE requests RTE to take into account the following requests into its proposal for the France-Spain interconnection:

- Developments in the firmness regime in line with the recommendations made by ACER and regulators in the Framework Guidelines on Capacity Allocation and Congestion Management and in the reasoned opinion on the network code on Forward Capacity Allocation respectively published by ACER on 29 July 2011 and 20 December 2013;
- Explicit shadow auction rules for the fallback solution in case of market decoupling at the day-ahead timeframe.

CRE also requests RTE to make every effort to implement day-ahead and intraday European target models as soon as possible.

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For the French Energy Regulatory Commission,

A Commissioner,

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