

Deliberation of the French Energy Regulatory Commission (CRE) dated 23 October 2014 approving the rules for capacity allocation by explicit auctions in the Central-West Europe region, the Central-South Europe region, between France and Spain and on Swiss borders and the rules for intraday capacity allocation on the France-Spain interconnection

Present:: Philippe de Ladoucette, President, Olivier Challan Belval, Catherine Edwige, Helene Gassin, Jean-Pierre Sotura and Michel Thiollere, Commissioners.

In application of the public electricity transmission network concession type specification as approved by decree No. 2006-1731 of 23 December 2006, the French Transmission System Operator Réseau de transport d'électricité (RTE) wrote to the French Energy Regulatory Commission (CRE) on 9 October 2014 requesting approval of a proposal of:

- the rules for capacity allocation by explicit auctions in the Central-West Europe region, the Central-South Europe region, between France and Spain and on Swiss borders (Harmonised Auction Rules v2.0)
- And the rules for intraday capacity allocation on the France-Spain interconnection (IFE Rules 4.0).

1. Context

The platform "*Capacity Allocation Service Company*" (CASC) has been allocating cross border capacity by explicit auction for the Central-West region¹ since 2008, the Central-South region² and all the Swiss borders since 2010, and the France-Spain interconnection since March 2014. There are therefore five French borders concerned with capacity allocation by this platform, with different timeframes (annual, monthly, daily and intraday depending on the borders).

Two sets of rules are currently applied by this platform:

- The "Harmonised Rules v1.1" rules, approved by CRE³ and its counterparts in October 2013, covering all borders as mentioned above with the exception of the France-Spain one.
- The "IFE Rules 3.1" on the France - Spain interconnection, approved by the CRE and its Spanish counterpart, the National Commission for Markets and Competition (CNMC), in March 2014⁴.

In its deliberation dated 12 March 2014, CRE asked RTE to submit a proposal for harmonised rules applicable to all French borders using the CASC platform, in particular the France-Spain one, by the end of

¹ France, Germany, Belgium, the Netherlands and Luxembourg

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

³ Deliberation of the French Energy Regulatory Commission dated 24 October 2013 approving the changes to the capacity allocation rules by explicit auctions in the Central-West, Central-South regions and on Swiss borders (<http://www.cre.fr/documents/deliberations/approbation/regles-d-allocation-des-capacites>)

⁴ Deliberation of the Energy Regulatory Commission of 12 March 2014 approving the changes to the capacity allocation rules on the France - Spain interconnection

(<http://www.cre.fr/documents/deliberations/approbation/interconnexion-region-sud-ouest>)

2014. The proposal for capacity allocation rules "Harmonised Rules v2.0" submitted to CRE by RTE on 9 October 2014 enables, on the one hand, to respond to this request, and on the other hand, to define provisions required for the upcoming day-ahead market coupling between France and Italy. This project, which is scheduled to go-live in early 2015, requires changes to the daily auction from explicit to implicit, the evolution of the provisions concerning the resale of long-term capacity at the day-ahead stage ("use it or sell it" requirements), as well as the introduction of an explicit auction as a fallback solution (shadow auction).

In addition, RTE proposes changing the rules covering the France - Spain interconnection, which will now cover only the intraday timeframe (IFE 4.0 Rules). Indeed, long-term capacity allocation by explicit auctions is dealt with by the Harmonised Rules v2.0, while daily capacity has been implicitly allocated by the day-ahead market coupling which went-live on 14 May 2014.

These changes help to move toward the implementation of the European target model, as defined by the Framework Guidelines on Capacity Allocation and Congestion Management published by ACER on 29 July 2011⁵: allocation of long-term transmission rights by a single allocation platform and with harmonised auction rules, in particular for the France-Spain border, and allocation of day-ahead capacity by implicit auction (day-ahead market coupling), in particular for the France-Italy border.

The auction rules proposal (Harmonised rules v2.0 and IFE 4.0 rules) were consulted on by Transmission System Operators from 7 to 25 July 2014. The detailed analysis of the responses to the consultation was sent to CRE by RTE on 9 October 2014.

The CRE has also been working closely with its European counterparts in order to build a common position of National Regulatory Authorities on the proposal set by Transmission System Operators.

2. CRE's analysis on Transmission System Operators' proposal on the France-Spain border

The provisions dealing with long-term capacity allocation between France and Spain are aligned with those in force on other borders covered by CASC, with the exception of the constraints specific to this border. In addition, CRE, in its deliberation dated 12 March 2014, asked RTE for two significant changes on the France-Spain border:

- An evolution of the firmness regime in accordance with the recommendations issued by ACER and the regulators in the Framework Guidelines mentioned above and in the Reasoned Opinion on the Network Code on Forward Capacity Allocation, published by ACER on 10 December 2013;
- The rules applying to explicit daily auctions run as a fallback solution in case of the decoupling of day-ahead markets.

2.1. Firmness of long-term transmission rights

The firmness regime is aligned with the one applying in the Central-West: the cap on the price differential values (95th percentile in the past year) has been removed and full financial firmness is also ensured for non-nominated long-term transmission rights.

CRE welcomes the proposed amendments, which respond to its earlier request by guaranteeing holders of transmission rights more effective hedging, and by enabling greater harmonisation of firmness regimes based on the ones applying on borders with Belgium and Germany. This proposal received widespread support from market players during the public consultation.

2.2. Fallback solution in case of decoupling of day-ahead markets

In its deliberation of 30 April 2014⁶, CRE approved the daily capacity allocation by implicit auctions (day-ahead market coupling) within the South-West Region. This proposal included a transitional solution in case

⁵ http://www.acer.europa.eu/Electricity/FG_and_network_codes/Pages/Capacity-allocation-and-congestion-management.aspx

⁶ Deliberation of the CRE of 30 April 2014 concerning approval of the implicit daily capacity interconnection allocation method within the south-western region

of decoupling of the French and Spanish daily markets. The capacity not allocated by the daily implicit auction is then allocated via the explicit intraday auctions currently managed by the Spanish Transmission System Operator, Red Electrica de España (REE), in collaboration with RTE. Transmission System Operators had proposed a subsequent launch (after resolving technical constraints) of a target solution based on explicit daily auctions operated by CASC (shadow auctions). In its deliberation previously cited, CRE insisted on the importance of implementing this target solution as quickly as possible.

Thus, the provisions for explicit daily capacity allocation as a fallback solution in case of decoupling of the France-Spain border are described in the Harmonised rules v2.0. They follow the same rules as those currently applying in the Central-West region.

The go-live date specified of this fallback solution will be announced later by the platform, the Transmission System Operators currently plan a go-live in March 2015.

CRE welcomes the allocation rules applying to this target fallback solution, also supported by market participants during the public consultation. The CRE reiterates the importance it attaches to the coordination between the French and Spanish Transmission System Operators operators to implement this target fallbacksolution as soon as possible in case of decoupling between France and Spain.

2.3. Details of the intraday allocation

The IFE 4.0 rules now only cover the intraday capacity allocation trading between France and Spain, for which two explicit auctions are organised per day. The provisions remain the same, with marginal relevant adaptations: participation is no longer correlated to the participation in long-term auctions; the minimum amount of bank guarantees has been revised.

CRE considers that this *status quo* is acceptable at this stage for the intraday capacity allocation, and recalls the objective of an implicit continuous allocation for this timeframe in accordance with the target European model.

3. CRE's analysis on Transmission System Operators' proposal on the France Italy border

3.1. Make coupling possible

The set of rules subject to the approval of CRE prepares the introduction of market coupling as the allocation methodology at day-ahead timeframe on the France-Italy border. For this reason, the rules deal with both before and after coupling situations, the implementation of coupling being only scheduled for February 2015 and being conditional on the technical maturity of the project and the approval by the regulators of the procedures specific to this extension of the pan-European market coupling.

The provisions, which will be applicable after the implementation of the coupling, include the following developments:

- Cancelling of the explicit daily auction;
- Treatment of the France-Italy border as coupled border at day-ahead timeframe;
- Introduction of shadow auction as a fallback to market coupling;
- Change in the procedures relating to the resale of not nominated long-term rights in the case of an implicit daily allocation (based on the spot price spread).

CRE believes that these changes are appropriate, particularly as regards the introduction of shadow auctions simultaneously with the start of the coupling on this border.

In addition to these allocation rules, RTE shall submit to CRE an approval package describing the procedures for the pan-European coupling extension to the Central-South region in the coming months and in particular to the France-Italy border. In addition, the introduction of market coupling will lead to a change to the closing times of the Italian daily market, which implies at least to adjust the intraday allocation gates

on the France-Italy border. The rules relating thereto must be submitted to CRE's approval in good time so that the new intraday rules can come into force at the same time as the coupling.

In addition, this new version of the harmonised rules does not include the adjustments that would have been necessary to allow the introduction of market coupling at the four Swiss borders, having regard to the context of negotiations between the European Union and Switzerland. CRE recalls here its support for the implementation of the market coupling on the whole daily capacity at the France-Switzerland border so that it is fully efficient. However, most of this capacity is today not available because of the existence of long-term contracts.

3.2. Firmness of long-term transmission rights

In terms of firmness of long-term products, Transmission System Operators have not made a proposal aimed at bringing the France-Italy interconnection provisions closer to the ones of currently coupled borders or those of the target model.

On the contrary, the version submitted for consultation was a proposal for the harmonisation of all the firmness rules of the north-Italian borders. This would have resulted in a downward alignment of the currently differentiated treatment of both directions of the France-Italy interconnection in terms of compensation rate. This rate, applied to the price of the initial auction, is currently 110% in the direction France to Italy and 100% in the opposite direction.

CRE has worked so that the firmness rules subject to its approval consist at least of an alignment on the compensation rate of 110%.

However, CRE regrets that the implementation of the target model is not anticipated, and that the compensation system at price spread has therefore not been included in the rules yet. This change will have to be implemented at the latest when the European texts⁷ on long-term allocation have come into force. However, it would be valuable and recommended this change to take place at an earlier stage.

In addition, CRE shares the opinion expressed by all of the market players and organisations which responded to the public consultation organised in July by the relevant Transmission System Operators, according to which the implementation of firmness based on the spot price spread does not in itself justify reducing capacity auctioning at long-term allocation stages.

4. CRE's decision

CRE approves:

- The rules for capacity allocation by explicit auctions in the Central-West Europe region, the Central-South Europe region, between France and Spain and on Swiss borders (Harmonised Rules v2.0) ;
- The rules for intraday capacity allocation on the France-Spain interconnection (IFE Rules 4.0).

CRE reiterates the importance it attaches to the full implementation of the long-term target model , particularly in terms of firmness of transmission rights. CRE particularly asks RTE to continue its efforts with its transalpine counterpart in order to make evolve the firmness of long-term products on the France-Italy border.

The capacity allocation rules, harmonised at European level, currently being developed by ENTSO-E in anticipation of the implementation of the European texts should be an opportunity to introduce these developments. CRE emphasises the importance of having all French borders following this single set of rules.

⁷ Network codes or guidelines in accordance with Regulation 714/2009 of the European Parliament and of the Council of 13 July 2009 on conditions for cross-border electricity trading network access

Finally, CRE stresses the need for the relevant Transmission System Operators to look into the possibility of making changes to the intraday allocation on the France-Spain and France-Italy borders at the earliest opportunity, in order to improve the access conditions to these interconnections.

Signed in Paris, on 23 October 2014,

For the Energy Regulatory Commission
The Chairman

Philippe de Ladoucette