

Deliberation of the French Energy Regulatory Commission (CRE) dated 30 April 2014 approving the implicit day-ahead allocation method for interconnection capacity within the South-West Europe region.

Present: Philippe de LADOUCETTE, Chairman, Olivier CHALLAN BELVAL, Catherine EDWIGE, Jean-Pierre SOTURA and Michel THIOLLIÈRE, Commissioners.

In application of Article 30 of the standard public electricity transmission network concession specification annexed to Decree No. 2006-1731 of 23 December 2006¹, RTE (Réseau de Transport d'Électricité, the French Transmission System Operator) wrote to the French Energy Regulatory Commission (CRE) on 17 April 2014 to request approval of a proposal of implicit day-ahead allocation mechanism for interconnection capacity for the France-Spain border.

1. Background

In its report on the Use and Management of Interconnections in 2012², published in July 2013, CRE highlighted that the explicit auction mechanisms to allocate day-ahead interconnection capacity cause inefficient use of interconnections, since they do not include information on organised market energy prices.

CRE therefore recommends the implementation of implicit auctions through market coupling. These implicit auctions enable the allocation of day-ahead interconnection capacity to the most efficient cross-border electricity trades, by managing interconnection capacity together with the economic merit order of bids and offers on the coupled markets. Price market coupling is thus the target model for day-ahead cross-border electricity exchanges. It was defined as such in the Framework Guidelines on Capacity Allocation and Congestion Management published by the European Agency for the Cooperation of Energy Regulators (ACER) on 29 July 2011, after consultation with all stakeholders on a European level. Market coupling is a major step forward in the integration of European electricity markets and its implementation enables more efficient cross-border exchanges by ensuring optimal use of day-ahead capacity.

Since 5 February 2014, the Central-West Europe³ region coupling has been extended to the North-West Europe⁴ region. In particular for France, which was already coupled to Belgium and Germany, this represents an extension of

¹ Standard public electricity transmission network concession specification annexed to Decree No. 2006-1731 of 23 December 2006, Article 30, paragraph 3:

"III. – The concessionary establishes and publishes the capacity allocation rules which provide for the provision of all of the available commercial capacity and the maximisation of the effective use of capacity allocated. These rules are approved by the Energy Regulatory Commission."

² "Cross-border electricity exchanges: Use and management of interconnections in 2012"
<http://www.cre.fr/documents/publications/rapports-thematiques/rapport-interconnexions-2012>.

market coupling to the interconnection with Great Britain. This pilot project for the implementation of market coupling throughout Europe enables the fifteen countries of the region to be coupled, representing 75% of electricity consumption in Europe.

At a meeting on 14 May 2012, the regulators, transmission system operators and power exchanges of the South-West Europe⁵ region had voiced their support for the extension of the market coupling to their own region as soon as the North-West Europe region would have been coupled. CRE estimates the gains expected at the France-Spain border thanks to this project at almost €1 M per month. The supply costs on the day-ahead French and Spanish markets would have been reduced on average by €11 M per year for the last five years if market coupling had been in place at this border.

After the successful launch of market coupling of the North-West Europe region, RTE therefore addressed a letter to CRE on 17 April 2014 requesting the approval of a proposal of implicit day-ahead allocation mechanism for interconnection capacity for the France-Spain border. RTE consulted with market players on this new mechanism from 17 to 31 March 2014. The detailed analysis of responses to the consultation was sent by RTE to CRE on 17 April.

Moreover, on 12 March 2014, CRE had approved new rules for access to the France-Spain interconnection (IFE Rules - version 3.1) which had been submitted by RTE on 21 February 2014⁶. This set of rules that applies to physical transmission rights⁷ allocated by explicit auctions between France and Spain at yearly, monthly, daily and intraday timeframes, is compatible with the market coupling project in the South-West Europe region and in particular, with the termination of day-ahead explicit auction as soon as the market coupling goes live as expected for May 2014. In addition, the France-Spain interconnection access rules 3.1 now include provisions related to the resale of non-nominated long-term rights in case of both types of day-ahead allocation: explicit before market coupling, and implicit afterwards. For implicit day-ahead auction, compensation will be equal to the price spread between the two markets if positive (no compensation otherwise), as recommended by the European target model and the Framework Guidelines on Capacity Allocation and Congestion Management published by ACER on 29 July 2011.

2. Main characteristics of the day-ahead implicit capacity allocation method in the South-West Europe region and CRE's observations

The price market coupling solution in the South-West Europe region is structurally identical to the solution set up within the framework of the North-West Europe market coupling project. This solution is based on three successive stages: pre-coupling, coupling and post-coupling.

During the pre-coupling phase, the transmission system operators calculate the available day-ahead interconnection capacity and send this data to the power exchanges. The power exchanges collect bids and offers orders from the different market players and send them, with the data provided by the transmission system operators, to the market

³ Germany, Belgium, France, Luxembourg, the Netherlands.

⁴ Germany, Austria, Belgium, Denmark, Estonia, Finland, France, Great-Britain, Latvia, Lithuania, Luxembourg, Norway, the Netherlands, Poland, Sweden.

⁵ France, Spain, Portugal.

⁶ Deliberation of the French Energy Regulatory Commission dated 12 March 2014 approving amendments to capacity allocation rules for the France - Spain interconnection.

⁷ Physical 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.

coupling algorithm. For the algorithm, coupling consists in calculating the day-ahead market prices, the net positions of the different price areas, and the resulting cross-border electricity exchanges. These results are checked by the transmission system operators and the power exchanges. This coupling stage has been implemented for the South-West Europe region since 5 February 2014. In compliance with the guidelines given by regulators of the South-West Europe region, the Iberian power exchange (OMIE) has indeed taken part in running the algorithm since February. At this stage, the algorithm has been operating with zero day-ahead capacity between France and Spain since this capacity is still allocated by an explicit auction. During the post-coupling stage, electricity cross-border trades are cleared and settled by the clearing houses of the power exchanges, and notified to transmission system operators via cross-border nominations. Congestion income is collected then shared between the transmission system operators.

Different operational procedures are associated with each of these stages. The greatest part of the South-West Europe market coupling terms draws on the work carried out within the framework of the North-West Europe region, which had been approved by CRE in its deliberation dated 2 October 2013⁸. During the consultation carried out by RTE, market players called for harmonisation of operational procedures and their timing based on the North-West Europe solution. Some features however had to be specific within the framework of the South-West Europe region coupling, in particular, fall-back procedures and harmonisation of bid caps applied by power exchanges. In this context, CRE's services and Spanish and Portuguese regulators were required to provide specific guidelines to the project team comprising power exchanges and transmission system operators of the South-West Europe region, during regular meetings bringing together these different parties.

If there is a risk of partial decoupling of the France-Spain interconnection or of decoupling of the European market, fall-back procedures may be activated to allocate day-ahead capacity of the France-Spain interconnection. In that regard, the French and Spanish transmission system operators proposed a two-step approach.

In the first phase, in case of decoupling of the France-Spain border, non-allocated day-ahead capacity will be allocated through the intraday explicit auctions which are currently managed by the Spanish transmission system operator Red Electric de España (REE) in collaboration with RTE. This temporary solution allows the market coupling of the South-West Europe region to start from May 2014. The transmission system operators proposed the launch of a permanent solution expected for March 2015: the implementation of day-ahead explicit auctions called "shadow auctions"⁹ operated by CASC (Capacity Allocating Service Company) platform. Similar to the model in place in the Central-West Europe region, CASC will carry out explicit day-ahead auctions when an operational risk related to implicit allocation of France-Spain capacity is identified. The principles adopted for these "shadow auctions" at the France-Spain interconnection are the same as those in force for the Central-West Europe region. Market players supported the implementation of this permanent solution, while accepting during a transitory period the use of intraday explicit auctions in order to enable the quick launch of the South-West Europe market coupling. Players' support for this trade-off solution is in line with CRE's position. The target solution of "shadow auctions" operated by CASC will have to be harmonised with the existing solution at the other French borders and be implemented as early as possible taking into account the imposed technical constraints. In that regard, CRE recalls its request to RTE in the above-mentioned deliberation dated 12 March 2014, to submit by the end of 2014 a proposal for harmonised rules applicable to all French borders using the CASC platform, and in particular, the France-Spain border and including provisions related to the day-ahead explicit auctions applicable for the fall-back solution in case of market decoupling at this border.

⁸ Deliberation of the French Energy Regulatory Commission (CRE) dated 2 October 2013 approving the implicit day-ahead allocation method for interconnection capacity within the North-West Europe region and approving changes to the access rules for the France-England interconnection.

⁹ "Shadow auctions" enable players to submit bids to obtain day-ahead capacity in the event of a risk of decoupling on a given border. These bids may also be submitted ex ante as default bids. If the decoupling is confirmed and the implicit auction is cancelled, the day-ahead capacity is allocated following the published "shadow auction" results. If the incident is resolved, no results are published.

The limits applicable to bids matched by power exchanges and limits set for market results prices had been harmonised throughout the North-West Europe region: floor and cap prices had been established at -€500/MWh and +€3000/MWh respectively. On OMIE, the Iberian power exchange, limits applying to submitted bids are different: they can only be placed between €0 and €180/MWh. OMIE however does not impose any limits on the market prices resulting from the coupling algorithm, prices that may indeed reach the extreme levels applicable in the North-West Europe region. The functioning of South-West Europe coupling is therefore, in terms of harmonisation of the limit to the market results prices, consistent with the North-West Europe coupling: it ensures that trades are not limited due to a lack of harmonisation, even when the interconnection is not congested and there is a price differential. With regard to limits applying to bids offered on EPEX and OMIE, market players supported their harmonisation provided that this does not affect the local functioning of wholesale markets. CRE also considers that these limits must be harmonised pursuant to the provisions of the future CACM network code¹⁰.

3. CRE's decision

CRE approves the development proposed by RTE in its letter of 17 April 2014 of the France-Spain day-ahead capacity allocation mechanism towards an implicit auction, in order to enable the extension of the day-ahead market coupling of the North-West Europe region to the South-West Europe region. This extension, in compliance with the European target model, shall allow for perfectly efficient allocation of day-ahead capacity between these two countries and will represent a major achievement in terms of market integration.

CRE notes however that additional improvements are necessary to make the management of this interconnection more robust in case of decoupling. Therefore, CRE reiterates the importance attached to the coordination between the French and Spanish transmission system operators, in particular in order to implement the target fall-back solution in case of decoupling between France and Spain (the so-called "shadow auctions", day-ahead explicit auctions operated by CASC platform) as early as possible and by March 2015 at the latest.

Paris, 30 April 2014,

For the Energy Regulatory Commission,

The Chairman,

Philippe de LADOUCETTE

¹⁰ Version dated 14 January 2014 available on the European Commission's website:

http://ec.europa.eu/energy/gas_electricity/electricity/cross-border_committee_en.htm