

## Deliberation of the French Energy Regulatory Commission (CRE) dated 29 January 2015 approving the implicit allocation methodology for day-ahead capacity on the French-Italian border, the intraday allocation rules for the Central-South Europe region, and the Import-Export rules

In attendance: Philippe de Ladoucette, President, Olivier Challan Belval, Catherine Edwige, H  l  ne Gassin, Jean-Pierre Sotura and Michel Thioll  re, Commissioners.

### 1. Background

In application of article 30 of the specifications appended to the Convention dated 27 November 1958 granting a concession to RTE (R  seau de transport d'  lectricit  ) for the public electricity transmission system, as amended pursuant to French Order No. 2006-1731 dated 23 December 2006 approving the standard concessions with regard to the public electricity transmission system, RTE sent to the French Energy Regulatory Commission (CRE):

- A letter dated 29 December 2014 seeking approval of the extension of day-ahead market coupling to the French-Italian border and of the conditions of this extension,
- A letter dated 2 December 2014 seeking approval of a modification of the "Rules for Intraday Capacity Allocation by Explicit Auctions Version 2.0 on north Italian borders" applicable in particular to the France-Italy border, and of a modification to the "Access Rules for Imports and Exports on the French Public Power Transmission System Version 3.6".

The extension of market coupling for which RTE has requested approval results from the work conducted by the transmission system operators and power exchanges of the "Central-South Europe" region<sup>1</sup> as part of the IBPPC (*Italian Border Pre and Post Coupling Project*). The extension of coupling is set to come into effect at the end of February and at this time will only concern the France-Italy, Italy-Austria and Italy-Slovenia borders.

CRE prepared the extension of coupling to the Central-South region by 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 (Harmonised Auction Rules v2.0)" in a deliberation dated 23 October 2014.

These rules already provided for new conditions applicable following the launch of coupling to ensure their compatibility, in particular:

- the cancelling of the explicit day-ahead auction at the France-Italy border,
- the introduction of a shadow auction as a fallback to market coupling,
- changes to the procedures relating to the resale of not nominated long-term rights in the case of coupling (based on the spot price spread).

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<sup>1</sup> The Central-South Europe region covers the France-Italy, Italy-Switzerland, Italy-Austria, Italy-Slovenia and Italy-Greece interconnections.

## 2. Extension of day-ahead market coupling at the France-Italy border

### 2.1. Work conducted to prepare the coupling extension

Market coupling is the target model for the allocation of interconnection capacity at day-ahead timeframe. Coupling involves an implicit allocation of interconnection capacity and thereby favours an optimised use of generation facilities on a European level according to marginal generation costs. CRE approved the gradual implementation of the mechanism on four of France's six borders between 2007 and May 2014. Coupling is not yet in place on the Italian and Swiss borders.

In particular, the lack of coupling on the Italian border results in annual additional electricity generation costs representing €30M for the two countries.

For several years now, CRE has been preparing the extension of coupling to the Italian border in cooperation with the other regulatory bodies of the Central-South region, by drafting joint guidelines for the concerned transmission system operators and power exchanges. As part of this preparation, CRE has requested that the conditions governing the extension of coupling to this region provide for:

- A fallback mechanism in the form of shadow auctions, to ensure that there is still a day-ahead capacity allocation phase in the event of partial decoupling. This is important as the lack of data on which coupling is based (order books, commercial interconnection) may suffice to prevent proper operation of this mechanism. The optimisation of generation facilities does, however, require an access to interconnections that must be guaranteed,
- A rollback mechanism to suspend the extension of coupling should it result in malfunctions with regard to the entire European coupling mechanism (as it currently exists in its geographical scope),
- A total harmonisation of minimum and maximum prices at which a bid may be submitted and at which a price may be formed. If this is not put into place, distortions may appear: the sharing of supply and demand curves only makes sense if the value given to the supply and demand bids is based on the same scale.

While the first two points form an integral part of the conditions submitted to CRE, it has not been possible to completely harmonise minimum prices as from the date on which coupling between France and Italy goes live. CRE therefore asks the parties concerned to work towards this harmonisation, the importance of which is particularly highlighted in the responses to the public consultation organised by the project partners.

During its periodical meetings with project representatives, CRE has also insisted that it must be demonstrated that the performance and efficiency of market coupling are not affected by this extension. The *Euphemia* algorithm which underpins the coupling mechanism must find a market result within a given timeframe, and additional volumes on the new coupled markets and the importance of complex orders known as PUN orders on the Italian market make compliance with this condition more difficult. A new version of *Euphemia* was developed in the last quarter of 2014, and was validated by RTE, EpexSpot and the other system operators and power exchanges concerned with regard to its resilience and ability to cope with the new geographical scope of European coupling.

### 2.2. The next steps in the implementation of the target model with regard to day-ahead capacity allocation

The development of the European electricity market requires the drafting of European policy documents (network codes or guidelines) that describe how interconnections must be managed and as a result how the various national markets must interact with each other.

The regulation on Capacity Allocation and Congestion Management (CACM) describes the target models for the calculation and allocation of day-ahead and intraday capacity. In particular, these models provide for the implementation of market coupling across the European Union.

Following the extension to Italy, market coupling will be in place at five of France's six borders. In this respect, the implementation of this important factor of the CACM guidelines has been anticipated to a great extent. CRE notes that the implementation of the target model with regard to day-ahead capacity allocation

will only be completed, however, when Switzerland will join European coupling, which requires successful negotiations (both institutional and specific to the electricity industry) between the European Union and Switzerland.

It is nevertheless important that the quality and performance of coupling are secured and improved. This is why CRE stresses that efforts to improve the algorithm must continue to ensure that it finds a satisfactory market solution in compliance with the procedures set out by the project partners, even in the event of increasing volumes exchanged on the markets or an increase in the share and diversity of complex products.

RTE and EpexSpot must inform CRE of any major change to the market coupling algorithm. CRE may request the submission of a performance study. CRE believes that every major change, and in particular the extension of coupling to new borders, must be carefully prepared in order to ensure that the mechanism's efficiency is not adversely affected.

### 2.3. The next steps in the implementation of the target model with regard to day-ahead capacity calculation

The implementation of the day-ahead target model also requires the creation of an efficient capacity calculation method. One coordinated capacity calculation method on the north Italian borders two days ahead of real time is under development and must be launched in the coming months. This method is more precise and closer to real time, and shall have a positive impact in terms of commercial capacity and network security.

In addition, this coordinated capacity calculation method must bring about improved cooperation between transmission system operators. This first step is important as flow-based market coupling, which makes up the target model to combine day-ahead capacity calculation and allocation, requires a high level of coordination between the various system operators. Its implementation on the north Italian borders could therefore benefit from this first day-ahead collaboration and from feedback relating to the flow-based project in the Central-West Europe region (CWE)<sup>2</sup>.

### **3. Changes to intraday rules and import-export rules**

The introduction of coupling requires the adaptation of intraday capacity allocation rules. As coupling shares the supply and demand of various European countries, the gate closure time of the Italian spot market must be aligned with that of other European markets, at midday.

The first intraday allocation gate, currently from 1.45pm to 2pm, would be too close to the day-ahead gate. It will therefore be pushed back almost two hours to 3.40pm to 3.55pm.

CRE believes that this necessary adaptation of intraday capacity allocation does not allow for a shift towards the target model and is a minimal change. Intraday allocation is still organised through explicit auctions, and not by continuous implicit allocations. Moreover, the target model provides that the allocation for each hour in the day only stops one hour before real time. Even with the postponement of the gates, the time between the deadline to purchase an hourly block and its delivery time will be 5 hours and ten minutes at best, and 23 hours and five minutes at worst. The postponement of this first gate is only a very slight improvement.

CRE reminds that the regulatory authorities, transmission system operators and power exchanges of the region have decided that a regional working group must be created to prepare the continuous intraday coupling solution (XBID) at the borders concerned, and in particular at the France-Italy border. CRE insists that local factors must be taken into consideration in advance (in particular the regional implicit auctions

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<sup>2</sup> The CWE region includes France, Germany, Austria, Belgium, Luxembourg and the Netherlands.

within Italy which make up the current allocation mechanism for this timeframe between the various Italian price zones, or the balancing's management which results in market closures several hours ahead of real time) in order to extend the XBID solution to the France-Italy border as quickly and efficiently as possible.

#### **4. CRE's decision**

CRE approves:

- The extension of day-ahead market coupling to the France-Italy border,
- The "Rules for Intraday Capacity Allocation by Explicit Auctions Version 2.0 on north Italian borders",
- The "Access Rules for Imports and Exports on the French Public Power Transmission System Version 3.6".

Executed in Paris, 29 January 2015,

On behalf of the French Energy Regulatory Commission (CRE),

The President,

Philippe de Ladoucette