

Deliberation by the French Energy Regulatory Commission of 26 November 2015 containing its opinion on the structure for allocation of capacity between timeframes at the France-Spain border, following the commissioning of a new interconnection between the two countries

Present: Philippe de LADOUCKETTE, President, Catherine EDWIGE, H el ene GASSIN, Yann PADOVA and Jean-Pierre SOTURA, commissioners.

In accordance with the provisions of point 2.6 of the guidelines annexed to Regulation (EC) No 714/2009 of the European Parliament and of the Council of 13 July 2009 on conditions for access to the network for cross-border exchanges in electricity: *"the TSOs shall define an appropriate structure for the allocation of capacity between different timeframes. This may include an option for reserving a minimum percentage of interconnection capacity for daily or intra-daily allocation. Such an allocation structure shall be subject to review by the respective regulatory authorities. In drawing up their proposals, the TSOs shall take into account: the characteristics of the markets; the operational conditions, such as the implications of netting firmly declared schedules; the level of harmonisation of the percentages and timeframes adopted for the different capacity-allocation mechanisms in place"*.

Within this framework, the French Transmission System Operator R eseau de transport d'Electricit e (RTE) has submitted to the CRE, in its letter dated 30 October 2015, a version 3.0 of a proposal of structure for allocation of capacity between timeframes at the France-Spain border.

1. Electricity interconnections between France and Spain

The new Baixas - Santa Llogaia interconnection line between France and Spain, inaugurated on 20 February 2015, has been operational since 5 October 2015. Prior to its commissioning, the maximum interconnection capacity totalled approximately 1,400 MW in the France – Spain direction and 1,000 MW in the Spain – France direction.

This fully-underground direct current line connects the Baixas municipality close to Perpignan in France, and the Santa Llogaia municipality near to Figueres in Spain, over a total distance of 64.5 km. The project represented an investment of 700 million euros, borne equally between RTE and the Spanish transmission system operator (*Red El ectrica de Espa a*, hereinafter referred to as REE). It was declared as a priority project of European interest and received a subsidy from the European Union totalling 225 million euros, as well as a loan from the European Investment Bank amounting to 350 million euros.

This commissioning marks the completion of a European project launched in 2008 with the goal of doubling interconnection capacity to 2,800 MW in the France to Spain direction, as in the Spain to France direction.

2. Structure for allocation of capacity between timeframes on the France – Spain border

The commissioning of this new interconnection will increase the level of capacity that will be allocated at the different timeframes in 2016 and in the upcoming years.

The rules for capacity splitting define the manner in which the available capacity at the France – Spain border is split among the different allocation timeframes, through annual, monthly or daily auctions.

2.1. Content of the draft structure submitted by RTE

The current structure for allocation of capacity between timeframes (or “splitting rules”) is identical in both directions. The principle applied is the equal distribution of capacity among the three timeframes: 1/3 for the annual product, 1/3 for the monthly product and 1/3 for the daily product. No capacity is booked for the timeframes close to real time (intraday or balancing exchanges).

RTE proposes to maintain this principle of splitting capacity in thirds among the three timeframes as well as a few minor changes compared to the current rules:

- the elimination of the minimum level of capacities offered at annual auctions (the commercial operation of the new high-voltage direct current (HVDC) line, which notably increases the capacity available at the France – Spain border, makes this minimum, in absolute terms, annual capacities level offered irrelevant);
- harmonisation of the terms of reference with the rules on long-term capacity allocation by explicit auctions (Harmonised Allocation Rules, hereinafter HAR rules) applied as from 1 January 2016;
- modifications related to the setting up of explicit auctions known as "shadow auctions" if market coupling is unavailable at the France – Spain border (previously at this border there was no fall-back procedure for market coupling, fall-back allocation was done in the intraday timeframe).

2.2. CRE's analysis

Minor adjustments were made to the structure for allocation of capacity between timeframes proposed by RTE as a result of several recent developments and in particular the commissioning of the Baixas - Santa Llogaia line, as well as CRE's deliberation of 15 October 2015 approving the rules on long-term capacity allocation by explicit auctions (HAR rules).

CRE is in favour of the modifications proposed.

However, it notes that the structure for allocation of capacity between timeframes, or splitting rules, is significantly different from one border to the next. These differences are due to the particularities of each interconnection.

CRE considers that certain European work, such as the implementation of Regulation (EU) 2015/1222 of the Commission of 24 July 2015 establishing a guideline on capacity allocation and congestion management (hereinafter CACM regulation), the adoption in the upcoming months by the Commission of the network code on forward capacity allocation (FCA) and also the extension of market coupling, will lead to greater harmonisation of the terms for calculating or allocating capacity. These developments may justify a revision of the structures for allocation of capacity between timeframes towards greater harmonisation.

Consequently, CRE requests RTE to carry out and present in a consultation group, before 31 July 2016, a review of the capacity splitting rules at the different French interconnections, in order to envision possible developments.

3. Capacities allocated in the annual timeframe for 2016

3.1. RTE's proposal

RTE informed CRE that RTE's and REE's estimates enable them to offer 700 MW of capacity in the annual timeframe for the year 2016 in both directions. This product represents guaranteed capacities except during scheduled maintenance programmes, which will be communicated to market participants before the end of November. As a reminder, the annual capacities offered for 2015 and the two previous years were 300 MW in both directions. While this level of capacity represents a significant increase compared to the capacities allocated in the previous years, it is still lower than the level expected following the commissioning of the new Baixas - Santa Llogaia interconnection.

RTE has stated to CRE that the commercial capacity which will effectively be proposed to the market will not reach, once the line is put into operation, the level initially expected of 2,800 MW. Capacity will be limited to an average 2,000 MW in both directions:

- in the Spain to France direction, the delay in the installation of a phase-shifting transformer in the Arkale station in Spain limits capacity that can be allocated to the market to 2,300 MW. This equipment is set to be put into operation in 2017. The target capacity of 2,800 MW in the Spain to France direction therefore cannot be attained before that time;
- moreover, the interconnection capacity effectively available in both directions is currently limited by constraints in the Spanish domestic network. In particular, due to problems with local acceptance, the construction of two separate lines downstream of the new Baixas - Santa Llogaia link did not go as scheduled, with a portion of the route finally being built on one line. As a consequence, this part of the route is the cause of stricter capacity limits, in compliance with Spanish operating rules. Interconnection capacity between France and Spain is therefore limited to an average 2,000 MW in both directions, for the greater part of the year.

3.2. CRE's analysis

Since the work in Spain did not proceed as expected, capacities offered to the market are lower than the initially planned level of 2,800 MW. This situation reduces the benefits expected of this interconnection for market participants and for consumers. Market participants will have less exchange capacity than planned to optimise production cost at regional level. Consumers will fund the entire investment through TURPE, while income related to the interconnection, deducted from TURPE, will be significantly reduced.

To avoid the reoccurrence of such a situation, CRE stresses the need for close collaboration between operators concerned throughout interconnection project development. It requests RTE to ensure, within the framework of studies carried out prior to the implementation of any new interconnection, that the investments necessary for lifting domestic network constraints on both sides of the interconnection are taken into account exhaustively.

In addition, with a given level of interconnection capacities, it is essential for interconnections to be used as efficiently as possible. Therefore, CRE commends the implementation of daily market coupling with Spain since 2014, which optimises flows, as well as the implementation that same year of the offering of tertiary reserve balancing exchanges (Balancing Inter TSOs - BALIT project) between RTE and its Spanish counterpart which aims to meet the requirements, by 2018, of the European balancing project, Trans European Replacement Reserves Exchanges (TERRE).

However, in 2014, capacities offered totalled only an average 1,040 MW in the France to Spain direction and 860 MW in the Spain to France direction, while the maximum capacity, with the grid fully utilised, is 1,400 MW in the France to Spain direction and 1,000 MW in the Spain to France direction. The capacities offered to the market were therefore considerably lower than the maximum theoretical capacity of the interconnections. This is partly due to the capacity calculation methods, which, at this border, is done weekly and without coordination, with the minimum value among those proposed by RTE and REE being taken into account.

RTE has already set up for the Belgian and German interconnections a coordinated capacity calculation method at D-2 and is about to do the same for the France – Italy border (specific methodologies are applied for the France – England & France – Switzerland interconnections, due to technical or regulatory particularities).

Therefore, CRE requested RTE to collaborate with REE in order to propose as soon as possible both to CRE and to the competent Spanish regulatory authority (*Comisión Nacional de los Mercados y la Competencia*, hereinafter CNMC) a coordinated capacity calculation method at D-2.

4. CRE's opinion

Given all of the above-mentioned elements, CRE is in favour of the version 3.0 Structure for allocation of capacity between timeframes at the France – Spain border.

5. CRE's requests

CRE requests RTE to carry out and present in a consultation group, before 31 July 2016, a review of the current structures for allocation of capacity between timeframes at the different French interconnections, in order to envision, with its counterparts and in consultation with market participants, the developments that could be proposed to CRE.

CRE requests RTE to ensure, within the framework of the studies carried out prior to the implementation of any new interconnection, that the investments necessary for lifting domestic network constraints on both sides of the interconnection are taken into account exhaustively.

CRE requests RTE to collaborate with REE in order to propose to CRE and to CNMC the implementation of a coordinated capacity calculation method at D-2.

Paris, 26 November 2015

For the Energy Regulatory Commission,
The Chairman,

Philippe de LADOUCETTE