**Conclusions of the 14th IG meeting**

**ERI South-West Europe**

Madrid, 25th February 2014

The 14th IG meeting was attended by the TSOs, PXs and NRAs of the SWE region. ACER was not represented, but their key messages were sent before the meeting and read by the Chair.

1. **Long term capacity allocation**

* **IFE (Interconnection France-Spain)**

Following the request of NRAs in the previous IG meeting, RTE and REE have made the preparations to transfer the long-term auctions of the FR-ES interconnection to CASC.EU (acting as a service provider) under adapted IFE rules as a pragmatic interim solution. In this context, RTE and REE submitted the draft IFE rules v. 3.1 to public consultation between 16th January and 5th February 2014. The rules were slightly adapted following the public consultation, and they have been already submitted to CRE and the Spanish Ministry[[1]](#footnote-2). Additionally, REE has submitted to the Ministry Operational Procedures (OPs) related to the management of the IFE. After the discussion in the IG meeting, it became clear that the approval of these OPs is a prerequisite for SWE full market coupling implementation but not for launching the IFE long term auctions in CASC. Furthermore, RTE and REE announced that IT trilateral tests had been completed and that the contractual arrangements between CASC and the TSOs are on track to be finalized. Therefore, the go-live of the project is pending on IFE rules approval by CRE and CNMC.

In parallel, CNMC launched a public consultation on a draft Circular establishing principles for access to interconnections on February 19th. The deadline for submitting comments to the Circular will finish on 3rd March. Once adopted, this Circular will replace the Ministerial Order 4112/2005 and consequently, after publication of the Circular in the Official Journal (which should occur on the second week of March), CNMC will be able to approve the IFE rules.

CNMC and CRE intend to formally approve IFE rules 3.1 by mid-March to allow the go-live of the project for the monthly April auction (foreseen on 24th March, subject to required regulatory approvals). The formal approval by the Board of CRE is expected on 12th March and the formal approval by the Board of CNMC could take place on 18th March. RTE and REE confirmed that 18th March would be the latest acceptable day for confirming that the first monthly auction in CASC will take place on 24th March.

The pre-contracting phase with participants has already been launched by CASC, RTE and REE to be ready for the go-live planned on 24th March). They have also reported on their websites the intention to launch the April auction by CASC (subject to NRAs’ approvals).

RTE informed that a delay on the approval of the IFE rules would postpone the go-live of the CASC-IFE project until the monthly May auction, late April. This would impact the go-live of the SWE Full Market Coupling which would incur one month delay (It is not possible for RTE IT tools to perform two go-lives so close in time).

After considering the tight timing and the associated risks for delays in the regulatory approval of the IFE rules, CNMC and CRE committed to do their best to allow the first IFE monthly auction in CASC to take place on 24th March.

As for the evolution of the IFE long term auctions, RTE mentioned that the HAR should be updated by January 2015 in order to allow the implementation of market coupling on the Italian borders. CNMC and CRE proposed to use this opportunity for including the IFE in the HAR. In addition, CNMC and CRE requested TSOs to improve the firmness regime in the light of the work carried out by NRAs on FCA NC and of the comments raised by stakeholders during the public consultation, and to include rules applying to shadow auctions (as fallback solution in case of day-ahead decoupling). RTE committed to this proposal.

CNMC and CRE reminded that applying IFE rules to the auctions held by CASC was agreed only as a transitory solution and they require IFE to join the HAR at the earliest opportunity after the SWE region is coupled and at the latest by end 2014, regardless of other initiatives such as a possible set of HAR developed by ENTSO-E that could be applicable to all Europe at the beginning of 2016. Furthermore, a message from ACER was read, ACER asking for considering the specific set of rules as a transitory solution and for developing a roadmap for the implementation of HAR by the end of 2014.

* **IPE (Interconnection Portugal-Spain)**

The MIBEL Council of Regulators worked on the allocation rules for the implementation of a Regional Solution (FTR options) in a transitory phase, till integration of IPE in CASC (when CASC complies with all the requirements to issue FTRs).

On the Portuguese side, regulation was approved in December 2013 and an auction was held in that month under the coordinated rules, however, the products allocated in this first auction were only issued by the Portuguese system. The products auctioned in December were FTR options covering the 1st quarter of 2014. The amount of capacities auctioned were 200 MW in the PT->ES direction and 200 MW in the ES->PT direction.

As regards the situation in Spain, although the CNMC had the power to establish the methodology for the management of interconnections (established in Law 3/2013), the modification of the Ministerial Order 4112/2005 was needed in order to approve the CNMC Circular. That modification was established in Order IET/107/2014 of January 31st, which reviews access tariffs of electricity for 2014.

In this regard, a public consultation on the draft Circular was launched on February 19th. This Circular contains a specific Chapter II devoted to the interconnection between Spain and Portugal which includes the principles of the coordinated mechanism for the long term management of this interconnection. The deadline for submitting comments to the Circular will finish on 3rd March. If the Circular is adopted in a timely manner, a first coordinated auction could take place in late March for FTRs covering Q2 2014.

1. **SWE Day-ahead market coupling project**

Since 4th February, NWE price coupling is operational and the SWE region performs common synchronised operations with NWE. OMIE explained that this is working properly and showed the flow observed in IFE and IPE versus price differentials registered, before / after change of GCT in Spain (15th October 2013) and before / after NWE market coupling go-live (4th February 2014). The explicit allocation in IFE continues to deliver a proportion of cross-border exchanges in the opposite direction to the market spread. This situation should disappear when implicit allocation (full market coupling) is launched in IFE.

OMIE explained that in MIBEL there are limits on bid prices (currently 0-180 €/MWh), but there are no market results price caps. Therefore, any bids with higher and lower prices from other countries can be matched in PCR, and any resulting market price is accepted in MIBEL (including negative prices and/or prices higher than 180). After the discussion, CRE proposed to explain this to stakeholders in the next AESAG meeting. CNMC and ERSE stated that the diversity of bids’ characteristics in different national markets are closely related to the structure of the market, capacity remuneration mechanism, RES subsidies and other national energy policies. Furthermore, CNMC clarified that the limits on bid prices in MIBEL could be reviewed in the future if it becomes relevant, but they do not mean any distortion to the functioning of market coupling. CRE reminded that the draft CACM NC requires all NEMOs to develop a proposal on harmonised maximum and minimum bid prices to be applied in all Bidding Zones, within three months after entry into force. PXs should therefore start thinking about bid prices harmonization.

As far as fallback procedures are concerned, in case decoupling occurs in IFE, the MIBEL day ahead market will run independently from the rest of the day ahead markets. The full coupling is foreseen to be launched in May with the current Intraday explicit allocation as a fallback transitory solution. Works for the implementation of shadow auctions held by CASC on behalf of REE and RTE are being carried out in parallel. Their implementation will require regulatory and IT changes for which REE considers necessary regulatory comfort. As regards the IPE, existing MIBEL market fallback mechanisms will apply.

Finally, the high level planning of the project was updated. CRE reminded that they intend to approve not only the I/E rules but also the extension of market coupling to the SWE region (NWE market coupling was approved in October 2013). The Implementation Group of the SWE region committed to develop all the pending tasks in a timely manner in order to launch full market coupling in May.

The NRAs asked the project parties whether they see merits in running a joint public consultation on the market coupling project. CRE clarified that a public consultation on the extension of NWE coupling is needed before formal approval by the Board of CRE. CNMC explained that there were and will be a number of consultations in Spain on different regulatory texts before the launch of market coupling. After the discussion, the Implementation Group concluded that separate consultations will take place in each country considering the fact that different texts need to be consulted on (such as import-export rules in France, OPs in Spain, etc.) and taking into account that many important aspects of market coupling are already implemented (timings, algorithm, etc.) and reported to market participants in AESAG and SG meetings. These consultations may include dedicated questions on market coupling features, where needed. The NRAs will exchange the content of the consultations.

In any case, the required consultations will be planned and developed avoiding any risk of delay for the launch of full coupling in May. In addition, ERSE reminded that the high level planning of the SWE day-ahead market coupling project as well as the shadow auctions as fallback for the coupling in IFE was presented and discussed in the last Stakeholder Group meeting in Lisbon.

1. **Balancing**

Acknowledging that IT development and tests are achieved and that relevant contracts and agreements are ready for signatures by the TSOs, the interim solution should be implemented as soon as all necessary legislation and/or regulation is approved and published.

In Spain, one Operational Procedure (OP) must be approved by CNMC and three OPs must be approved by the Spanish Ministry. CNMC committed to approve the corresponding OP by end of March. The Implementation Group encourages the Spanish Ministry to approve the pending OPs as early as possible.

In Portugal, the “Manual de Procedimentos da Gestão Global do Sistema” is ready for approval by ERSE. No regulatory changes are required in France.

As for the enduring solution, NRAs expect that TSOs will commonly provide asap an updated detailed mid-term planning towards the enduring solution. The expectation of the project parties is that TERRE will replace BALIT in 2016. Both solutions (BALIT and TERRE) will not coexist, the BALIT IT tool will be dismantled. CRE cautions against this approach for two reasons. First, REE’s involvement in TERRE project has not been confirmed yet, and all benefits arising from BALIT would be lost for Spain if BALIT enduring solution is replaced by TERRE without any commitment from REE. Secondly, there might be a significant loss of social welfare if BALIT enduring solution is not implemented while in the meantime TERRE go-live is postponed. Therefore CRE requested TSOs to provide a costs and benefits analysis of implementing the so called BALIT enduring solution to justify it is more efficient to pursue TERRE as enduring solution, before NRAs accept to end BALIT project.

REN mentioned that the three TSOs of SWE, in previous presentations, haven’t specified that there would be a BALIT enduring solution. Nevertheless, taking advantage of the current platform some improvements could be analyzed to the interim solution. CRE answered that the enduring solution of BALIT was mentioned in the Annex of the request for comfort sent by TSOs in June 2012.

RTE and REN explained the status of the TERRE[[2]](#footnote-3) pilot project. Currently, there is a dialogue with REE and Swissgrid for them to join the project as participant or observer. The signature process of the MoU and NDA for the design phase is ongoing (already signed by RTE). The design phase will finish by June, afterwards, the project parties will seek regulatory comfort before starting the implementation phase. Critical choices are being made in design phase. For that reason, and in order to better anticipate the transition from BALIT to TERRE, it is welcomed the participation of REE in the TERRE initiative, if possible as member and at least as observer.

REE confirmed their interest in the project and announced they will join the design phase always under the condition of not having common costs to be faced. Before starting the implementation phase, REE will request comfort for the required regulatory changes and recovery of associated costs. CNMC reminded its support to TERRE in previous meetings and invited REE to participate in this project.

**Next steps**

The NRAs proposed a list of next steps after the IG meeting: In the coming weeks, the NRAs will follow up the preparations of the go-live of IFE-CASC, BALIT and full market coupling in SWE. In particular, the necessary public consultations in each country will be carried out. There will be a slot for NRAs and TSOs of France and Spain in the next AESAG meeting on 5th March to report on IFE-CASC and SWE coupling projects.

The IG agreed that the monthly reports of the regional projects that are submitted jointly by the project parties to the NRAs will be circulated as well to the ACER Electricity Department.

The next IG meeting will be convened around the first week of April. In the next meeting, NRAs expect (at least):

* An update on XBID project and plans for combining auctions and continuous by OMIE and EPEX taking into account the NC CACM (soon to be approved in comitology).
* A detailed planning from TSOs to develop new HAR applying to CASC and including the FR-ES border.

1. The Ministry forwarded the IFE rules to the CNMC on 27 February. [↑](#footnote-ref-2)
2. To date, the project parties are: RTE, REN, TERNA and National Grid. [↑](#footnote-ref-3)