

# **ERGEG Public Consultation on Regional Initiative Progress Report - November 2009**

## **Response of Iberian TSOs of the SW region**

On November 2009 ERGEG has made public a new Progress Report on the Regional Initiatives covering from January 2008 to October 2009. This Report mainly shows the key achievements in the different regions in this period and reflects the work carried out and the current developments.

In the framework of the public consultation launched by ERGEG, the TSOs of Portugal and Spain, REN and REE, welcome the opportunity to comment on this Report and wish to send to the regulators' their gratitude for such a constructive analysis.

This TSOs' document tries to answer the set of questions raised by the regulators and to introduce some remarks on the Report that might be of interest.

### **1 - Response on the questions raised by ERGEG**

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#### **B. ERGEG Electricity Regional Initiative**

##### ***B.1. From your point of view, what is the main achievement of the Electricity Regional Initiatives process?***

The identification of the most important tasks to accomplish at each region with regard to market integration as well as the obstacles towards the creation of the IEM is probably the main achievement.

The TSOs have the impression that a great effort has been made by the regulators in the launching of the process and by the TSOs with regard the preparation of deliverables. However, it could be said that other developments had been achieved and better coordination had been reached in some initiatives with a higher and homogeneous degree of involvement of all the stakeholders of the SW region.

#### **Capacity calculation**

##### ***B.2. What should be the framework conditions for having flow-based capacity calculation based on a common grid model implemented in practice?***

The TSOs support, where needed, the utilization of a flow-based approach in Europe and the implementation of a common grid model.

Nevertheless, in the SW region, due to the specific topology of the France-Spain and Spain-Portugal interconnections and since the flows of energy in both interconnections are not linked, the ATC approach currently used is the simplest solution and a flow-based approach would only add complexity.

In this regard, the TSOs would like to remark once again the successful collaboration with the regulatory authorities, the specific meetings held and the publications that have made the capacity calculation methodology fully transparent in SW region.

The TSOs consider that a clear identification of regions where the flow-based approach should be adopted would be very useful and propose to ERGEG the elaboration of this kind of analysis.

***B.3. What do you believe should be the short- and long-term goals for a regional approach to capacity allocation?***

Having in mind that all the developments should be in accordance with the European Regulation in force, the TSOs believe that the short term goals should be the following:

- Implementation of a coordinated system of explicit auctions in the interconnection Portugal-Spain, in accordance with the already existing in the interconnection France-Spain, at least at monthly and yearly timeframes, complemented with a suitable secondary market;
- Full development of coordinated and harmonized mechanisms in the long-term timeframes in all the SW region interconnections;
- Day-ahead market coupling between MIBEL and CWE + Nordpool.

The long-term goals towards regional capacity allocation should be:

- Evolution from PTRs towards FTRs, when possible, always managed by TSOs
- Continuous intraday platform
- Balancing trade

The Regional Initiatives should work in close collaboration with the Work Streams of the Project Coordination Group (PCG).

***B.4. Do you consider transparency requirements for capacity calculation sufficient? If not, what do you need additional data/information for?***

As TSOs, REN and REE are committed to enhance the efficiency and coordination of the capacity calculation methods in SW region and are already sharing all the information needed to perform the capacity calculations (network modelling, generation and demand scenarios, outages...) so, as the regulators of SW region know, the TSOs are fully transparent in this regard and they do not identify at this moment the need of publishing or exchanging other additional information.

**Capacity allocation**

***B.5. What practical steps should be taken at an interregional level to ensure an efficient and harmonised approach to capacity allocation in the 1) long-term; 2) day-ahead; and 3) intraday markets?***

In the long-term, despite the future evolutions will probably end in the use of FTRs, at the moment the goal should be to implement, in all the interconnections, coordinated mechanisms for PTRs/FTRs, managed by the TSOs, and to harmonize, as far as possible, the different auction platforms. The Contracts for Differences, currently only established in the Spanish System, could always be offered in forward markets without the support of the physical exchange capacity.

With regard day-ahead, the development of a realistic road-map for implementation is a must, and all the design issues should be clearly defined in advance in the regions to

be implemented. The Regional Initiatives should play a supporting role in the recently announced project of coupling CWE + Nordpool + MIBEL.

***B.6. What are the future challenges in ensuring that allocation mechanisms across all timeframes can work together?***

The main challenges will be the harmonization and integration of access rules, national regulations, interfaces and IT systems.

***B.7. Do you consider that achievements by different regions towards a harmonised set of rules at regional level for long-term capacity allocation merit further work or should there be more emphasis put on inter-regional harmonisation (considering that this may impede short-term regional progress)?***

The effort should be put in regional developments in the short term. It is better to start the way and permit the market participants to manage their risks in the long term than to focus on inter-regional harmonisation, which is a much longer process.

***B.8. Do you think that extending the geographical scope of existing auction offices is advisable/feasible?***

A pre-requisite step before extending or merging auction offices is to fully develop joint auction mechanisms in all the SW interconnections, explicitly for the Spanish-Portuguese interconnection.

The process of extending the geographical scope of existing offices will unavoidably be done by merging different auction offices. However, it is important to remark that, having in mind the users' point of view, the most important point is to access to a common interface, at least by region. This access to a single interface independently of the number of auction platforms operating in each region should be considered much more important than having all the different platforms unified.

***B.9. Do you agree with price market coupling as the target model for day-ahead capacity allocation?***

The TSOs fully support to implement a single price coupling all over Europe.

The main prerequisites for this purpose are:

- Top-down coordinated guidance of the implementation processes
- Harmonization of characteristics of the markets:
  - Gate Closure Times (GCTs)
  - Nature of products offered
  - Complex conditions of bids
- Governance

The TSOs offer their whole collaboration to make the project of coupling CWE + MIBEL + Nordpool a success.

## **Balancing**

### ***B.10. How important do you consider further development of cross-border balancing solutions? Which model do you consider appropriate and efficient?***

The TSOs consider that cross-border balancing is very important. The balancing services exchanged between system operators will permit the shared use of reserves between TSOs, respecting in any moment the systems security and with significant benefits in terms of cost reductions and renewable energy integration in a regional framework. The cross-border access to balancing markets is also a basic tool for the integration of renewable energies in the European network.

The TSOs have already stated that the exchange of balancing services between system operators (TSO-TSO model) is the preferable solution to be adopted in the SW region. This solution permits the shared use of reserves by means of bilateral exchanges between TSOs, while the market participants continue taking part in their respective balancing markets.

REN and REE are working bilaterally on the implementation of the TSO-TSO model in the region.

## **Transparency**

### ***B.11. Do you share ERGEG's view that significant progress in transparency has been reached thanks to the ERGEG Regional Initiatives? What steps should be taken in order to enhance transparency further?***

Obviously the level of progress reached in transparency depended on the previous situation in each system. Whereas in some systems there was a high degree of transparency with regard information management and data handling, in others the Regional Initiatives have definitely helped to improve new developments.

With regard this issue, the TSOs think that the perspective of the market participants should be taken into account. Specific meetings with stakeholders or public consultation processes to improve transparency are a good option.

## **2 –Comments on the text of the Progress Report**

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### **Section 1.2.3 – Market integration incentives**

The TSOs would like to be involved in the process of establishing incentives to the maximization of the level of available interconnection capacity, always without adversely affecting the system security.

### **Section 3.1. – Key developments in SW region**

With regard to the new interconnection line between France and Spain, REE and RTE have made a joint venture to build up this new corridor. Furthermore, the interconnection lines between Spain and Portugal are being reinforced according to the agreed investment plan.

In relation to transparency, some information included in the Report is not totally updated. When talking about transparency in SW region the Report is referring to data published by June 2009, whether several improvements regarding new publications have been made by the TSOs during the last months.

The TSOs are not aware of the implementation plan of the PXs to couple MIBEL and CWE. Perhaps this information is not relevant once announced the PCR project and maybe it should be just said that the PXs started the implementation plan (accordingly to the information provided by the PXs during 3<sup>rd</sup> SG meeting).

The TSOs would like ERGEG to analyse the inclusion of Austria and Switzerland in the PCR project. The date of the finalisation of the first report on interconnection management and use in the region should also be revised in the Report.

Finally, it is worth mentioning that the SW TSOs' proposal for cross-border balancing implementation has not been presented by the end of 2009 as announced since the next IG meeting has been delayed to January/February 2010.

#### **Section 3.2.1. – Capacity calculation**

It should be remarked that transparency on limiting constraints and on flows on critical branches should only apply to TSOs and to regulatory authorities, since the publication of this kind of data can represent a risk for the security of the systems.

The TSOs welcome ERGEG's explicit mention to the methodology used for the capacity calculation and to the clarifications offered to the regional regulators (CNE, CRE and ERSE) concerning the need for the ATC approach.

#### **Section 3.2.2. – Capacity allocation**

The TSOs consider of high interest the benchmark of long-term allocation rules and would welcome any further information on the availability of this study.

REE confirms the information contained in the Report with regard new version 3.0 of the IFE Rules applicable from June 1<sup>st</sup> 2009.

With regard day-ahead, the TSOs are aware of the main challenges identified by ERGEG in the Report and offer their full collaboration for this purpose.

Finally, referring to intraday and balancing, whereas it is true that the result of the public consultation on intraday showed that it is not a priority for market participants, REN and REE think that this issue should also be tackled because of its importance in the development of cross-border balancing. In this regard, a continuous intraday platform as the one proposed in the target model of the PCG would be a good solution.