

**IBERDROLA RESPONSE TO ERGEG DRAFT COMITOLOGY GUIDELINES ON  
CAPACITY ALLOCATION AND CONGESTION MANAGEMENT FOR ELECTRICITY  
(REF: E10-ENM-20-03)**

9 November 2010

IBERDROLA welcomes and appreciates the work carried out by ERGEG in order to create the Draft Framework Guidelines on Capacity Allocation and Congestion Management for Electricity that will help to achieve a more integrated market improving the level playing field in the European Electricity System. This work will definitely contribute to trigger the discussion of the necessary improvements to be made to achieve better capacity allocation and cross-border management within all the European Electricity markets.

**From IBERDROLA, we support EFET and EURELECTRIC's responses** in all aspects subject to this consultation. However, we would like to add a few more aspects in some of the ERGEGs questions that, in our opinion, are key elements to contribute to reach a better focus on the Framework Guidelines needed nowadays throughout all the Member States.

1. Are there any additional issues and /or objectives that should be addressed in the CACM IIA and FG?

Within the General Issues addressed in the Consultation, we would like to bring to your attention the particular situation which takes place in the French-Spanish interconnection. In this interconnection, specific and unprecedented dispositions of the Spanish normative regarding import and/or export operations prevent certain agents ex-ante from participating in capacity auctions to import energy from France.

Due to Spanish Regulation RDL 5/2005, the so called "Dominant agents", companies with an ordinary regime production greater than 10 % within MIBEL market (Spain + Portugal), are not allowed to import energy into Spain from neighbour countries.

Therefore, we would like to outline the following aspects:

**Dominant Agents cannot access to the spare capacity in the France-Spain direction** even when capacity is available, preventing a complete and efficient use of the interconnection. This is remarkably serious as according to **article 1.2 of the Congestion Management Guidelines**<sup>1</sup> *"when there is no congestion, there shall be no restriction of access to the interconnection. Where this is usually the case, there need*

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<sup>1</sup> COMMISSION DECISION of 9 November 2006 amending the Annex to Regulation (EC) No 1228/2003 on conditions for access to the network for cross-border exchanges in electricity (OJEU 11.11.2006 L 312/59)



*be no permanent general allocation procedure for access to a cross-border transmission service“.*

It is well known that the greater the number of participants in a market, the better price signal is provided. This same principle applies in capacity auctions, where the more agents participate, the more efficient the cross border trading becomes.

This particular Spanish Regulation has caused that the participation in auctions is being hampered and, therefore, insufficient competitive pressure appears in the France-Spain direction. As an evidence of this, please refer to the document “Effects of Imports Ban to Dominant Agents in the IFE Interconnection” (see attached file).

Moreover, studies carried out in this interconnection show that it is not congested a significant percentage of hours in which importing energy from France to Spain is economically viable (EPEX Spot France < OMEL)<sup>2</sup> as the following data reflects:

	<b>As a percent of total hours in the year (8760)</b>	<b>As a percent of hours when the price in Spain exceeds that in France</b>
Until Feb. 2006	32%	59%
From March 2006	47%	71%

As it can be seen in the chart above, the number of economically viable non-congested hours in the import direction increased after the ban introduction (in March 2006).

13. What further criteria are important in determining the delineation of zones, beyond those elaborated in the IIA and FG?

Iberdrola believes that creating larger zones will not necessarily mean an increase of market liquidity. This effect could take place when two similar bidding zones, with similar market structures and a high interconnection capacity come together. On the other hand, if a small and very illiquid market joins a large and highly liquid bidding zone, there is no evidence that overall liquidity will increase.

Therefore, creating larger bidding zones ought to be the target towards markets should evolve. However, each case must be particularly considered since similar market structures are necessary in order to achieve the desired goal.

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<sup>2</sup> The criteria used to determine these numbers is:  
Economic flow is available when the price in OMEL is higher than the price of EPEX Spot France for a certain hour. Ban of imports was established in Spanish Regulation since March 2006.

14. Are there the preferred long-term capacity products as defined in the framework Guideline suitable and feasible for the forward market timeframe?

From Iberdrola's point of view, we think "long term capacity products" and "longer maturity transmission rights" should have a consistent definition, considering all aspects around them.

Among financial rights, Financial Transmission Rights and CfDs, we believe these last ones can become an efficient solution for the specific case of an interconnection with a lack of liquidity in one of the markets. Therefore, CfDs would enable the more liquid market to introduce a higher level of competition at retail level in the less liquid market. This is the case of Spain and Portugal, where CfDs have allowed competition in the Portuguese retail market despite having an illiquid forward market.

However we would like to point out some aspects that make PTRs + UIOGPFI (*"use it or get paid for it"*) be ahead of FTRs:

- Some national public support mechanisms for RES require physical flow of energy to be accredited with certificates (Certificati Verdi in Italy, LECs in UK). This would not be possible with FTRs.
- In exceptional cases when Power Exchanges price limits are reached, PTRs allow perfect hedging as the physical flow must be done, while FTRs do not assure total hedging in that situation.
- FTRs require participation on the spot markets to be able to undo long-term positions for the delivery-day and that means additional costs due to Power Exchanges fees, while, with PTRs, if a physical flow is done, there is no need to use spot markets, and those fees are saved.
- National fiscal regulations (VAT) applicable currently to financial products may lead to less competitive behaviours amongst the agents.

17. Are there any further issues to be addressed in relation to the target model and the elaborated approach for the Intraday allocation?

Iberdrola wants to strongly support the vision expressed by EFET and Eurelectric regarding Intraday Capacity pricing.

We believe that in case that free capacity becomes available after the day-ahead process this capacity should be delivered at no cost to the agents in order to create a continuous implicit trading process between the markets. This represents a mandatory requirement to develop this mechanism.

This intraday trading system will lead to an efficiency increase in the use of interconnections. In the future, this will become highly interesting to provide a possible alternative in order to better integrate intermittent generation and manage ancillary services.