



DIRECTIVE 3/2020

FORMALIZATION OF ELECTRONIC SECURITIES FOR THE MARKET OPERATOR

12 - November - 2020

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1. PREAMBLE

The rules of operation for the day-ahead and intraday market for electricity production currently in effect were approved by a resolution by the Comisión Nacional de los Mercados y la Competencia on October 10, 2019.

Rule 56.6.1 “INSTRUMENTS FOR FORMALIZING SECURITIES” sets forth the following as some of the possible instruments for formalizing securities on the market operator:

“b) Joint guarantee from a Spanish bank, savings bank, or credit union or a branch of a non-resident entity located in Spain ../..”

e) Joint surety bond certificate issued by a Spanish insurance entity or a branch of a non-resident entity located in Spain ../..”

It also states that:

“The market operator shall establish a method of formalizing and communicating securities by electronic means. The market operator shall publish the detailed guidelines for the chosen method of formalization and the time in which it will be implemented. This period shall not be less than six months from the date of publication of that those guidelines.”

For some time, the market operator has been considering implementing a method of formalizing securities electronically for guarantees and surety bond certificates that will allow both market agents and guarantors and the market operator to benefit from the advantages this method can offer. These include automatic processing and validation of information about securities, electronic authentication from the signer, immediate receipt of the security, ease of cancellation, reduction of operational risks, and so on.

The state of emergency declared by Royal Decree 463/2020 on March 14, along with the related mobility restrictions, led this operator to publish Directive 2/2020. These established a method of formalizing securities electronically using PDFs signed by the guarantor entity’s representative with an electronic certificate, given the urgent, exceptional situation. The systems cannot handle this format automatically, and it does not cover all of the features listed above. However, it

does allow agents to formalize securities without requiring them to physically travel to the market operator's offices to deliver the security.

However, the market operator has continued to develop a method of formalizing the standardized electronic security and has finally implemented it. Though its text is tailored to the market's purpose, it can be widely used by guarantor entities and may replace conventional paper securities. To this end, the model designed by Caja General de Depósitos (CGD) has been used. It is based on the CODICE procurement platform's specifications. This platform consists of XML files that enable information to be processed automatically.

Thus, this Directive aim to complete the formalization of electronic surety bond certificates and guarantees on the market operator with this new system. Electronic means are thus prioritized over physical formats on paper; of the various electronic means, priority is given to the one that enables processing information automatically, as does the XML format. This electronic security system designed by the market operator also covers the entire security lifecycle, i.e., acceptance, modification, cancellation, and, where applicable, execution.

The market operator believes that the advantages of electronic securities will lead to the gradual elimination of paper securities.

2. DEVELOPMENT OF RULE 56.6.1

The process of receiving and accrediting the formalization of guarantees and surety bond certificates will occur in the following order of priority:

- 1st. Electronic security in XML format¹
- 2nd. Electronic security in PDF format
- 3rd. Security in physical format

2.1. FORMALIZATION OF SECURITIES IN XML FORMAT

The security is set up as an XML message containing all of the necessary information.

The model designed by the Caja General de Depósitos (CGD) was used. It is based on the specifications of the CODICE procurement platform. The market

¹The market operator initially developed the XML security for bank guarantees; this method may also be adapted for surety bond certificates as deemed appropriate.

operator believes that this is a standard system that can be widely used by guarantor entities. However, the market operator has tailored the model to cover the payment obligations of agents in the electricity market.

The security XML message is signed electronically with a certificate from the guarantor entity's representation.

The signature system accepted by the CGD is supported as outlined in the CODICE Implementation Guide. The aim is to establish a singular standardized digital signature method. The market operator also supports securities signed with the Autofirm application in "enveloped" mode.

The flow of securities exchanged with the market operator is based on the following principles:

- 1) The market operator is the only representative to the market operator regarding the securities.
- 2) The guarantor provides the market operator with the electronic security through the procedures that have been put in place. The market agent will present it to the market operator by submitting it through the operator's platform.
- 3) The security will be automatically validated by the market operator when presented based on its format, content, and the validity of the electronic signature.² An electronic message signed by the market operator will be issued regarding its acceptance or rejection. The agent will be able to send this message to the guarantor entity.
- 4) If the security is validated successfully, it is registered in the market operator's information system and is considered valid for all purposes.
- 5) If the agent wishes to cancel or reduce the security, they will request the desired action through the market operator's platform. The system will respond with a signed XML message indicating whether the request was accepted or not.
- 6) The guarantor may only issue a reduction in the security's amount once the agent sends the message accepting the reduction issued by the market operator. In the absence of this message, the market operator will reject the change to the security.

²Signature validation will be done manually in an initial phase, so it must be allowed to be validated using the Valid-e application at the following link:

<https://valide.redsara.es/valide/validarFirma/ejecutar.html>

- 7) The guarantor may cancel the security in advance once the agent sends them the message regarding the acceptance of cancellation issued by the market operator.
- 8) Notifications about modifications to securities shall be like the messages regarding security acceptance. They state the security's registration number on file with the market operator.
- 9) To ensure successful execution, the informational fields on the security require the guarantor entity's e-mail address for executions, as well as the agreement that the guarantor entity will accept the request for enforcement by a signed letter from the market operator's proxy sent to that e-mail.

On its public website, OMIE will publish:

- The security model
- Documentation on the technical specifications for the XML file.
- A user manual and description of validations

Because validation is automatic, modifying the text of the security will not be supported. The fields' values must follow the predetermined format.

2.2. FORMALIZATION OF SECURITIES IN PDF FORMAT

As an alternative to the method described above, the market operator will also accept the security in the form of a guarantee or a surety bond certificate in PDF format, electronically signed by the guarantor entity's representation with an electronic certificate.

The signature must be able to be validated with the Valid-e application at the following link:

<https://valide.redsara.es/valide/validarFirma/ejecutar.html>

Once electronically signed, the security will be e-mailed to liquidaciones@omie.es. Providing documents in person at OMIE's offices will not be necessary.

Rule 56.6.3 on the COMMUNICATION OF ACCEPTING, RELEASING, OR MODIFYING SECURITIES will continue to be in effect. As such, agents must communicate data on the security through OMIE's agent webpage in order for it to be accepted or to request cancellation.

For purposes of the guarantor's knowledge, the market operator's acceptance of the electronic security's cancellation will take place when the market operator



electronically sends the agent the document with the market operator's electronic signature authorizing the cancellation of that security.

Valid electronic models of guarantees and surety bond certificates are available in the "Market Access Guide" and at the link

<https://www.omie.es/es/modelos-de-garantias>

The market operator shall not accept any modification to the text of those documents.

3. OTHER PROVISIONS

The market operator may update the electronic security model and signature methods by informing market agents at least one month in advance. These updates will be published on OMIE's public website.

The formalization of paper securities shall not be accepted after one year has passed since this Directive went into effect, except in situations deemed exceptional by the market operator. Agents shall have an additional six months from the end of that period to replace existing physical securities with those formalized electronically.

This Directive replaces Directive 2/2020 from March 16, 2020, and the latter shall be repealed when the current Directive enters into effect.

This Directive shall go into effect on November 12, 2020. Their content shall be relayed to market agents and be included on OMIE's public website.