Amstelveenseweg 998
1081 JS Amsterdam

Phone: + 31 20 520 7970
Email: secretariat@efet.org
Website: www.efet.org

EFET response to the CREG consultation on the breakdown of capacity allocated in the different timeframes at the Belgian-Dutch border

■

28 September 2015

The European Federation of Energy Traders (EFET)[1] welcomes the CREG consultation on the breakdown of capacity allocated in the different timeframes at the Belgian-Dutch border. We acknowledge that this consultation takes place in a series of changes proposed by Elia in connection with the implementation of harmonised allocation rules for long-term transmission rights in Europe. We would like to refer to our response to the CREG consultation on the implementation of the EU HAR and the introduction of FTRs, submitted on 18 September 2015, for more details on the EFET position on the EU HAR[2].

EFET notes that the Elia proposal foresees a breakdown of capacity allocated in the different timeframes, which consists of a reservation of cross-border transmission capacity for the monthly, daily, and intraday allocations. While CREG requests additional transparency on a few elements in the Elia proposal, it plans to broadly approve the Elia proposal without, it seems, questioning the fundamentals of the request.

As mentioned in previous consultations on the subject, risk management through (cross-border) hedging is a key element in sourcing and providing electricity to customers competitively, as it allows market participants to avoid exposure to short term price volatility and imbalance costs: TSOs, as managers of cross-border capacity, have the ability to manage the associated risks and are the *only* players in the electricity sector that can do so. Hence TSOs are also the only asset owners and/or operators with an in-built capability to offer primary, physical hedges against future congestion rents through the prior creation of firm cross-border transmission capacity rights. TSOs in this sense are *natural* sellers of firm

[1] The European Federation of Energy Traders (EFET) promotes and facilitates European energy trading in open, transparent, sustainable and liquid wholesale markets, unhindered by national borders or other undue obstacles. We currently represent more than 100 energy trading companies, active in over 28 European countries. For more information, visit our website at www.efet.org.

[2] EFET response to the CREG consultation on the implementation of the EU HAR, available at: http://www.efet.org/Cms_Data/Contents/EFET/Folders/Documents/EnergyMarkets/ElectPosPapers/NatRegLevel/~contents/ZCXJF2SR6YTVMCCR/EFET-response_CREG-FTRs_18092015.pdf.

transmission capacity rights. Allocation of long-term rights to market participants also provides long term signals to the TSOs regarding potential congestion on certain cross-border points. This provides an indication to the TSOs regarding forward market activities and could potentially help in forecasting additional congestion revenues that TSOs receive as a congestion income.

These signals to the market and the TSOs however only reflect the reality of market participants' needs and inter-zonal congestions if capacity allocation is maximised as much in advance of real time as possible. In this regard, we would like to remind CREG that according to Article 16.3 of Regulation (EC) 714/2009:

> ***The maximum capacity of the interconnections and/or the transmission networks affecting cross-border flows shall be made available to market participants****, complying with safety standards of secure network operation."*

In the Elia proposal that CREG is suggesting to approve, Elia looks to "optimise" capacity allocation, rather than maximise it. **Maximising available capacity should always be the objective of the TSOs, as laid out in Regulation (EC) 714/2009 and its annexed Congestion Management guideline**. Optimisation of capacity allocation brings no incentive for the TSOs to offer sufficient capacity in the forward timeframe. In extreme cases, even when there is no congestion, TSOs could "optimise" the calculation in a way that it creates congestion and therefore congestion revenues. Outright reservation of capacity for the monthly, daily and intraday markets are tantamount to the TSOs withholding hedging opportunities from the market.

Furthermore, although we have expressed reservation about this process[3], it seems that CREG is set to approve the issuance of Financial Transmission Rights (FTRs) in replacement of Physical Transmission Rights (PTRs) at the Belgian borders for the monthly and yearly capacity allocations as of 2016. Contrary to PTRs, which can be nominated, FTRs are financial hedges only and do not grant FTR holders the right to nominate flows. Once only FTRs are issued at the Belgian borders, the allocation of physical transmission capacity will not be performed before the day-ahead timeframe: physical capacity will therefore be allocated and optimised in the same timeframe. As there is no physical element involvement in the allocation of FTRs in the yearly and monthly timeframes, no system security argument can be raised to justify the reservation of capacity for the day-ahead timeframe. In this configuration, **any reservation of capacity for the day-ahead timeframe is in breach of Regulation (EC) 714/2009**. We urge CREG to strictly apply European regulation to the Elia proposal and refuse the proposed provisions on reservation of capacity for the day-ahead timeframe.

Finally, the Elia proposal foresees the reservation of cross-border transmission capacity for the intraday timeframe. As Elia observes, there has indeed been significant reductions in available cross-border capacity at the Belgian and Dutch borders since the introduction of

[3] EFET response to the CREG consultation on the implementation of the EU HAR, available at: http://www.efet.org/Cms_Data/Contents/EFET/Folders/Documents/EnergyMarkets/ElectPosPapers/NatRegLevel/~contents/ZCXJF2SR6YTVMCCR/EFET-response_CREG-FTRs_18092015.pdf.

flow-based day-ahead market coupling. The reduced intraday capacity is not only a consequence of a better use of capacities in the day-ahead market, but is also linked to the nature of the flow-based model, whereby the shape of the domain may leave little to no room to an ATC domain in intraday. As a quick fix to this problem, Elia proposes to reserve cross-border capacity at the Belgian-Dutch border for the intraday timeframe. We believe this is not an appropriate way to proceed: the justification for reservation of cross-border capacity is hardly tenable on the grounds of system security, and it does not solve the fundamental issue. On the contrary, **EFET has advocated for months already to recalculate the ATC domain after day-ahead clearing**, based on all the available information at the time[4]. This mechanism was already in place in the 2013/2014 winter at the Belgian borders. Hence, this process could be used until flow-based day-ahead calculation and intraday capacity allocation are coordinated. Nevertheless the target should be a common flow-based approach for the day-ahead and intraday calculation of capacities.

In conclusion, we urge CREG to reconsider its draft opinion on the Elia proposal on breakdown of capacity allocated in the different timeframes at the Belgian-Dutch border. We believe that the Elia proposal, in many respects, is not in line with Regulation (EC) 714/2009 and misses sound technical arguments for any reservation of cross-border capacities. We count on CREG to maintain the integrity of the forward market and its ability continue to provide sound hedging opportunities to market participants at the Belgian-Dutch border.

[4] EFET response to the CREG consultation on the implementation of flow-based day-ahead market coupling, available at: http://www.efet.org/Cms_Data/Contents/EFET/Folders/Documents/EnergyMarkets/ElectPosPapers/NatRegLevel/~contents/PXN2PBRY9BS58E47/EFET_CREG-consult-FBMC_14042015_web.pdf.