

## **Greece-Italy TSOs proposal for splitting long-term cross-zonal capacity in accordance with Article 16 of the Commission Regulation (EU) 2016/1719 (FCA Guideline)**

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### **EFET comments – 17 January 2019**

#### **Introduction**

The European Federation of Energy Traders (EFET) welcomes the opportunity to provide comments on the TSOs proposal for splitting long-term cross-zonal capacity on the Italy-Greece border. As highlighted at many occasions, forward capacity allocation is vital for market participants to hedge their long-term positions and make sure that they are not exposed to short-term price volatility and imbalance costs. For this reason, the maximization of capacity allocated as far in advance of real time as possible and its firmness are key in order to provide market participants with appropriate hedging instruments.

#### **Meeting the hedging needs of market participants**

Hedging is about assessing and covering against a variety of risks: price risk, volume risk, regulatory risk, etc. The further away from real time, the greater the uncertainty and therefore the greater the interest and importance for market participants to cover those risks. It is therefore vital that TSOs make available to the market the maximum capacity they can as far in advance of real time as possible (at least one year), as per their calculation at that time, by means of issuing forward transmission rights.

Therefore, we would question that providing a minimum 10% threshold for the Yearly Capacity does provide for an appropriate hedging level to the market. This value should be well increased: Currently, due to the frequent and longstanding outages of the interconnection cable, it is likely that the capacity offered in the yearly auction will constitute a floor. This amount of course does not reflect the thermal capacity of the interconnection, hence the hedging needs of market participants would not be met in the yearly timeframe.

At the same time, we seek clarifications on the reasons why an upper threshold of 50% for the Yearly Capacity is considered “to guarantee an equal balance between yearly and monthly capacity to be offered to the market”.

Further release of capacity at shorter time horizons in the forward timeframe (monthly, weekly) should be the result of capacity recalculations, or gradual release of the margins and constraints initially applied by the TSOs for year-ahead allocations when uncertainties reduce as real time gets nearer.

We underline that hedging is also a dynamic market activity, so market participants will continue to refine their hedges as real time gets closer. From a cross-zonal transmission capacity perspective, market participants will be able to rely on any additional allocations of transmission rights at shorter time horizons in the forward timeframe (monthly, weekly) based on the capacity recalculations of TSOs nearer to real time.

Therefore, we do not believe that a single capacity calculation a year in advance with arbitrary splitting and no recalculation for month or week-ahead rights is the right way forward.

**Quantity and quality of transmission rights: firmness of the product and firmness of allocated transmission rights**

According to the TSOSs of the IT-GR CCR, "the level of firmness of the Yearly Capacity is based on a percentile of NTC that does not guarantee an appropriate level of firmness of the yearly product".

EFET would hope that the longstanding issues with the cable - which is far from being used to its full potential – can be solved once for all. This is even more important given the importance of the Italy-Greece interconnection for giving relevant price signals to the whole SEE region

Regarding instead the 'quality' of allocated transmission rights, we call on the full application of the EU HAR to the IT-GR border, also to provide a consistent approach across different borders: a full firmness regime with compensation equal to market spread and well-defined triggering events and consequences of curtailment on Long Term Transmission Rights are essential to provide market participants with appropriate hedging tools.