



European Federation
of Energy Traders
SO YOU CAN RELY ON THE MARKET

Amstelveenseweg 998
1081 JS Amsterdam
+31 20 520 7970
secretariat@efet.org
www.efet.org

Core TSOs survey on splitting of long-term cross-zonal capacity



EFET response – 17 December 2018

We thank the Core TSOs for their informal survey on cross-zonal transmission capacity allocation in the forward timeframe and related splitting rules.

The calculation and allocation of cross-border transmission capacity, including in the forward timeframe, is one of the most fundamental tasks of TSOs in the internal power market. The current practices of TSOs in that regard ought to be improved, whether it concerns the allocated volume of capacity, or its repartition between different timeframe. Therefore, we appreciate that the CORE TSOs anticipate the formal consultation process that will take place for the implementation of article 16 of Commission Regulation (EU) 2016/1719 establishing a guideline on forward capacity allocation (FCA Guideline).

An informed and transparent debate should contribute to improving the quality of the TSO methodology proposals on allocating and, as the case may be, splitting long-term cross-border capacity.

Allocation of long-term rights to market participants also conveys 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, possible infrastructure investment needs and congestion revenues forecasts.

1. On behalf of which company / association do you fill in this questionnaire?

European Federation of Energy Traders – EFET

2. Will you answer the following questions only for some Core CCR bidding zone borders (if so, for which) or in a general matter?

Our response applies to all Core bidding zones borders.

3. Do you agree that hedging on average happens progressively over a period, meaning the closer the delivery, the higher the share (of his consumption and/or generation) that a market participant hedges?

If so, how much of your portfolio would you have hedged in total one year ahead and one month ahead?

If not, how would you then characterize the usual hedging behaviour of market participants?

Based on which criteria would you create a hedging strategy?

We strongly disagree with the basic concept put forward by TSOs in their question: for market participants, hedging is about assessing and then protecting themselves against a variety of risks in the market: 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 hedge themselves. 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.

Hedging is also dynamic, 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 the secondary market for forward transmission rights, as well as 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.

As EFET itself is not a market participant, we cannot give the TSOs details on our hedging strategy. However, some market participants do publish information on this matter.

4. In case long-term splitting is applied, would you prefer to have fixed percentages as a splitting rule or a fixed MW amount of capacity reserved for monthly auctions?

As mentioned above, we believe that the TSOs should 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. 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. 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.

Should the TSOs nonetheless decide to propose the status quo concerning capacity calculation and allocation in the forward timeframe (i.e. single capacity calculation and allocation at different time horizons in forward timeframe based on capacity splitting), a percentage breakdown seems more appropriate. In this case, at least 70% of the calculated capacity should be allocated year ahead.

5. Would it be acceptable if, as result of applying splitting rules, no capacity would be offered in some months, but there would be a larger share of offered capacity for the yearly auction?

The fact that more capacity would be offered year-ahead and sometimes none for some months would make sense in a world where the TSOs make available to the market the maximum capacity they can as far in advance of real time as possible (at least one year), and further release capacity at shorter time horizons in the forward timeframe (monthly, weekly) based on capacity recalculations or gradual release of the margins and constraints initially applied for year-ahead allocation. In this context, we would not be opposed to capacity being set at 0 for some of the monthly auctions.

In a context of single capacity calculation and an allocation ruled by capacity splitting based on percentages, we don't see why it should be the case that no capacity would be offered for some of the monthly auctions.

6. How would you as a market participant choose to split 100 MW between yearly and monthly LTTR products to best meet the hedging needs in the market? Please justify your choice.

Once again, we advocate 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), and further release capacity at shorter time horizons in the forward timeframe (monthly, weekly) based on capacity recalculations or gradual release of the margins and constraints initially applied for year-ahead allocation.

In the current example, that would mean that the 100 MW are released and auctioned by the TSOs in the yearly auction. Capacity availability for monthly and/or weekly auction would be decided based on full recalculation of capacity for the concerned month/week, or at the very least on the additional capacity released to the market as a result of the decreasing uncertainties and related reduction of TSO reliability margins and of other system constraints and allocation constraints they are increasingly prone to apply.

7. What criteria have you applied for your offered LTTR splitting described above? Please describe them in detail and their underlying rationale.

Our position of advocating maximization of capacity allocation as far ahead of real time as possible, with recalculation at shorter time horizons in the forward timeframe is based on the following principles:

- economic efficiency at the time of allocation
- allocating all the capacity at the latest year-ahead as per calculation at that time and recalculation/release of margins and constraints for monthly and/or weekly products ensures that TSOs do not unnecessarily sit on hedging and portfolio management possibilities that could be valued on the market, to the benefit of TSOs and market participants

8. At the moment, Core TSOs consider the following indicators as worth to be investigated for the decision-making on potential ratios of offered capacities between yearly and monthly auctions:

- *Offered vs. requested capacity on yearly and monthly timeframes. Is this indicator relevant? If not, please provide your explanation.*
- *Historical auctioned volumes for proportional splitting the LTTRs between yearly and monthly time. Is this indicator relevant? If not, please provide your explanation.*
- *Seasonality effects. Is this indicator relevant? If not, please provide your explanation.*
- *Would you also propose different indicators? Please give a justification for other indicators.*

Once again, we favour a capacity allocation method where the TSOs make available to the market the maximum capacity they can as far in advance of real time as possible (at least one year), and further release capacity at shorter time horizons in the forward timeframe (monthly, weekly) based on capacity recalculations or gradual release of the margins and constraints initially applied for year-ahead allocation.

We doubt that the proposed criteria put forward by the TSOs take account of the reality of hedging and portfolio management by market participants. These criteria are a mix of the various justifications used by national TSOs to apply the currently arbitrary split of capacity allocated between the different time horizons in the forward timeframe.

As real time approaches the management of a portfolio of generation and supply contracts becomes less a matter of managing price risk and more a matter of managing volume and operational risks. And for these purposes a reliable and consistent maximisation by TSOs of capacity allocation per individual border months and weeks ahead (via recalculations of capacity or gradual release of the margins and constraints initially applied for year-ahead allocation) is just as crucial as a high volume of transmission right issuance year ahead.

9. Do you have any suggestions how Core TSOs can ensure that the hedging needs of market participants are met by the splitting rules?

See answers above.

10. Do you have any other aspects that you would like to make Core TSOs aware of?

We take the opportunity of this consultation to remind the TSOs that in the specific cases of FTR options allocation at a specific border, EFET sees no operational or technical justification for allocating below 100% of the available capacity. Contrary to PTRs, which can be nominated, FTRs are financial instruments only and do not grant FTR holders the right to nominate flows. Once only FTR options are issued at a border, 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 forward timeframe (the physical element is only used in the calculation process, to assess the volume of FTR options to be issued), no system security argument can be raised to justify the reservation of capacity for the day-ahead timeframe.