



TSOs consultation on Channel Splitting Rules for forward capacity allocation



EFET response – 15 April 2019

The European Federation of Energy Traders (EFET) welcomes the opportunity to provide comments on the ENTSO-E consultation on Splitting Rules for forward capacity allocation in the Channel region. Forward capacity allocation is critical to allow market participants to hedge their long-term positions across borders and make sure that they are not exposed to short-term price volatility and imbalance costs. 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.

General considerations

We welcome the Channel TSOs' proposal to maintain the allocation of capacity in the forward timeframe with a high level of granularity (seasonal, quarterly, weekly, week-end in addition to the yearly and monthly allocation required by the FCA GL) compared to most other capacity calculation regions where TSOs only allocate yearly and monthly capacities.

However, there is vast room for improvement on other provisions. First and foremost, we consider the calculation methodology not detailed enough, especially with regard to the splitting of capacity between the different time horizons in the forward timeframe. This methodology is supposed to present clear rules that TSOs shall abide by. But it only describes the factors that the TSOs *may* consider in their splitting rules in a markedly vague fashion. The FCA GL was already approved as a Guideline and not a Network Code as a result of its lack of binding effect; its implementation methodologies, including the present ones, should set clear rules and not postpone decisions once more.

Secondly, we disagree with the concept of capping forward capacity allocation to a “Maximum Long-Term Quantity” in any of the time horizons within the forward timeframe. 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 (seasonal, quarterly, monthly, weekly, week-end) 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. Hence, we oppose the use of the percentage thresholds for maximum capacity allocation at each time horizon within the forward timeframe as presented in Annex 1 of the methodology document.

Thirdly, many provisions on the methodology leave too much space for individual TSOs to amend the rules, going against the harmonisation of rules for long-term capacity allocation. Articles 6.2.1 and 6.3.2 should have clearer boundaries where TSOs may amend the rules.

Comments on individual articles

- **Art 2.2:** *‘Maximum Long-Term Quantity’ shall mean the maximum percentage of Nominal Capacity that can be split by this Splitting Rules Methodology, as stated in Annex 1.*

We strongly disagree with this concept. 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. All the capacity calculated as available by the capacity calculation process year ahead should be made available to the market at that stage by way of transmission rights. Further release of capacity at shorter time horizons in the forward timeframe (seasonal, quarterly, monthly, weekly, week-end) 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.

Capping the forward capacity allocation is redundant, as the calculation methodology is already taking into account historic and security factors, as described in Art 5.3 (“historic allocation results and prices, forward energy curves, energy and fuel price forecasts, planned market evolutions, new technologies and direct feedback from market parties”) and in the Channel Splitting Rules Explanatory Note (“9. Explanation on how we use various factors to calculate the split”).

Hence, we request the deletion of the concept of ‘Maximum Long-Term Quantity’ as defined in article 2.2 and the related Annex 1.

- **Art 2.3:** *‘Minimum Long-Term Quantity’ shall mean the sum of the Minimum % of each Long-Term timeframe, as stated in Annex 1.*

In relation to our comments on article 2.2, the ‘Minimum Long-Term Quantity’ should always be 100% of the capacity calculated as available to the market at each time horizon in the forward timeframe. That means 100% of the capacity calculated year ahead should be released for the yearly auction. In turn, 100% of the capacity recalculated for seasonal, quarterly, monthly, weekly and week-end auction – or 100% of the release of the margins and constraints initially applied by the TSOs for year-ahead allocations when uncertainties reduce as real time gets nearer – should be made available for each new auction.

Should the TSOs not follow our advice on this provision, they should at the very least ensure that the definition of article 2.3 makes sense and is aligned on the definition of article 2.2, with the percentage referring to the nominal capacity of the interconnectors (currently article 2.3 does not state what the percentage refers to).

- **Art 4.4:** *The sum of the Capacity Split that can be offered for allocation on an Interconnector shall not be more than the Maximum Long-Term Quantity, defined as a percentage of Nominal Capacity.*

As per our comments on article 2.2, we disagree with this paragraph and request its deletion.

- **Art 4.5.1:** *The Responsible TSO(s) can offer for allocation less than the minimum % range identified in Annex 1 in the following situations: Capacity cannot be offered for allocation due to the Long-Term Capacity Calculation result being less than the Minimum Long-Term Quantity.*

As per our comments on article 2.3, should the TSOs follow our recommendation and mandate the allocation of a minimum of 100% of the capacity calculated as available at each point in time in the forward timeframe, then the allocation would not be dependent on a reference to a percentage of the nominal capacity of the interconnectors. Hence article 4.5.1 could be deleted.

- **Art 5:** *Capacity Split Principles*

As mentioned earlier, we request 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. Further release of capacity at shorter time horizons in the forward timeframe (seasonal, quarterly, monthly, weekly, week-end) 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.

Article 5 in general strikes us with its lack of binding character. This methodology is the document for TSOs to commit to specific rules. See more specific comments below.

- **Art 5.2:** *The Capacity Split for each Interconnector shall:*
 - 2.1. *Be determined independently for each direction;*
 - 2.2. *Respect the Splitting Ranges;*
 - 2.3. *Respect the Minimum Long-Term Quantity and Maximum Long-Term Quantity, except in the situations detailed in Article 4; and*
 - 2.4. *Be determined solely by the Responsible TSO(s) relating to the Interconnector in question.*

All the “principles” in article 5.2 refer to setting rules for capacity splitting at a later stage. Further, point 4 of article 5.2 indicates that only the TSOs responsible for an interconnector will decide on the capacity splitting for that interconnector. This is in our mind not compliant with article 16 of the FCA GL, which requires a common methodology for capacity splitting for each CCR, and more specifically one that is coherent with the capacity calculation methodology (CCM), article 16.2(b) FCA. In CCMs, the capacity is calculated in a coordinated manner by all TSOs of the CCR. It seems incoherent that the capacity splitting rules would not be coordinated and applied in the same manner by all the TSOs of the CCR. Besides, the potential lack of transparency in the application of different splitting rules on each interconnector of the region – and surely its lack of practicality for users – risks hindering the capacity of the splitting rules to meet market participants’ hedging needs – article 16.2(c).

- **Art 5.3:** *The Capacity Split shall be determined by the Responsible TSO(s) by conducting analysis based on factors such as historic allocation results and prices, forward energy curves, energy and fuel price forecasts, planned market evolutions, new technologies and direct feedback from market parties.*

First, we refer to our comments on article 5.2: it should not be the responsibility of “the Responsible TSOs” to determine the capacity split, but the responsibility of “all TSOs of the CCR”.

Second, we harbour concerns with the list of factors of article 5.3 to be taken into account by TSO in the determination of the capacity split:

- Though the ACER Recommendation 02/2016 only referred to the CACM GL, TSOs should keep it in mind when developing methodologies for capacity calculation and splitting in the forward timeframe. Therefore, we miss a reference to **economic efficiency** (at the time of allocation from an overall welfare standpoint) in the factors to be taken into account by the TSOs for capacity splitting. This factor should actually be the first listed in article 5.3, and be mandatory to assess. Should TSOs be forced to conduct this economic efficiency analysis, it would become apparent that they should allocate all the capacity calculated as available to the market at the yearly auction and recalculate and allocate/release margins and constraints for shorter duration products.

- We do not agree with including “*historic allocation results and prices, forward energy curves, energy and fuel price forecasts, planned market evolutions, new technologies*” in the TSOs assessment for the splitting: the TSOs allocation of capacity should solely be based on the technical capacity and requirements of the grid. It is not the place of system operators to analyse market data in order to maximise their benefits from forward capacity allocation. We remind the TSOs that by owning the interconnectors, they de facto sit on a free hedge that can and should be made available to the market as much and as early as possible. Retaining this hedge opportunity from the market based on expectation of evolutions of market prices could be considered market manipulation.

- **Art 6.2.1:** *Following the first Annual Long-Term Capacity Calculation: The Responsible TSO(s) for each Interconnector may amend the Capacity Split to ensure that future allocations can fulfil this Splitting Rules Methodology and meet the requirements of market parties, in accordance with the terms of Article 5, based on the result of the Long-Term Capacity Calculation.*
- **Art 6.3.2:** *At any time, including following each subsequent Long-Term Capacity Calculation: The Responsible TSO(s) may amend the Capacity Split and publish in accordance with Article 7.*

We refer to our comments on article 5.2 regarding the need for all TSOs of the CCR to determine the capacity split.

Besides, we consider that the current Splitting Rules Methodology is more than flexible enough not to add the possibility for TSOs to change the capacity splitting rules in the course of the allocation year. This would go against both the spirit and letter of art 16.2 of the FCA GL. We request the deletion of the concept of “provisional version of the Capacity Split”.

- **Annex 1**

The Maximum Long-Term Quantity shall not be more than 90% of Nominal Capacity for each Interconnector on all Channel Region Bidding Zone Borders.

We refer to our comments on article 2 and 4 and request the deletion of Annex 1.