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RTE and National Grid consultation on a Brexit contingency plan for the allocation of cross-border transmission capacity on IFA

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EFET response – 25 January 2019

The European Federation of Energy Traders (EFET) thanks RTE and National Grid for consulting market participants on their Brexit Contingency Plan proposal, and more precisely the IFA Long-Term Allocation Rules and the IFA Access Rules version 13. However, we have **significant concerns with the proposed changes concerning the financial firmness of allocated transmission rights**. We also propose a change of timing for the explicit day-ahead auction.

1. Firmness of allocated transmission rights

We note that Chapter 9 of the IFA Long-Term Allocation Rules (in particular art. 59.1.c and 61A.c) and Chapter 10 of the IFA Access Rules v.13 (in particular Rule 55.1.ii.c) foresee that in case implicit auctions are not available on the IFA interconnection anymore – as expected in case of hard Brexit / no deal, when Rule 5.5 would apply – **the compensation for curtailed rights in case of emergency situation / to ensure operations remain within operational security limits will mimic the regime applicable to Force Majeure**. This rule would be valid both before and after the firmness deadline. This means that **such curtailments will be compensated at the initial price paid under the new rules, instead of the day-ahead market spread** under the rules currently applicable thanks to the EU Harmonised Allocation Rules (HAR).

EFET has always advocated that the sale by TSOs of fully firm cross-border transmission rights is critical to ensuring robust and liquid cross-border power trade in the European internal electricity market, as well as to allowing more efficient hedging across borders. **TSOs, as natural sellers of transmission capacity rights, have the ability to manage the risks involved with selling forward transmission rights, enjoy a variety of operational and physical means to adjust those risks, and indeed are the only players in the electricity sector that can do both**. The transfer of the “firmness risk” from market participants to TSOs (in exchange for payment) has resulted in an improved efficiency of cross-border forward markets and welfare gains. The firmness regime enacted in the Forward Capacity Allocation (FCA) Guideline and the EU HAR was a milestone that improved the confidence of market participants in the forward markets. **By now, we thought that full financial firmness – capped at the yearly or monthly congestion income on the interconnection – was accepted by all TSOs. In no case should Brexit change this key principle**.

EFET considers that **in all other circumstances than Force Majeure, the compensation should duly reflect the market value of the capacity**, as it is the case for other borders in Europe. A solution has to be found to establish a fair compensation. The initial auction price is certainly not the correct value of the curtailed product.

Besides, as expressed at multiple times during the drafting and approval phase of the FCA Guideline, **Force Majeure events and Emergency Situations correspond to clearly different situations that deserve different treatments**. The ability of the TSOs to react and take corrective actions is more important in case of Emergency Situation. If the TSOs take the decision to curtail forward transmission rights in such cases, they should bear the financial consequences of that decision – up to the cap agreed between the TSOs, the industry and the regulators in the art. 54 of the FCA Guideline.

The TSOs have not provided any explanation for the proposed change of firmness regime in case of curtailment in Emergency Situations on the IFA interconnector. We see no reason, be it technical or legal, which justifies such a deterioration of the firmness regime of allocated transmission rights at this bidding zone border. We fear, however, that the TSOs may make the fallacious argument that market coupling not being in place anymore, they cannot guarantee that a reference price will always be available in GB. This type of argument has been used at other borders in Europe, most notably between Italy and Greece, to justify weak firmness regimes. EFET, alongside the European Commission, have repeatedly criticised this position. Should the TSOs nonetheless continue to refuse mirroring the currently applicable regime under the EU HAR for this reason, one alternative could be to work on a national auction in the UK (grouping NPS and Epex) to ensure that a reference price is always available for the settlement of curtailed PTRs.

In summary, we strongly oppose the proposed change of firmness regime. The new rules would result in an inferior firmness regime for products sold by TSOs on all market timeframes (forward, day-ahead and intraday) at the France-GB interconnection compared to the existing framework in place and to the rules applicable at other European bidding zones borders. **EFET therefore urges RTE and National Grid to find a solution to maintain the firmness regime at least equal to current situation, i.e. to ensure a financial settlement that guarantees the financial firmness of allocated transmission rights in all cases of curtailment except for Force Majeure**.

2. Timing of the day-ahead auction

We consider the proposed timing for the explicit auction and the ATC publication a bit too late. We suggest advancing all the processes of the auction by 30 minutes. This would mean an ATC publication around 9:00 CET instead of 9:35 CET.

Furthermore, we consider that IFA, Britned, and NEMO Link should coordinate and harmonise the timing of their respective day-ahead explicit auctions, instead of having proposing three different timings, one for each interconnector. It would make more sense for market participants to bid for capacity on all interconnectors with GB at the same time in the morning of D-1.