

## **EFET response to the long-term auction proposal by National Grid on the IFA and IFA 2 Interconnector**

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**23 February 2022**

The European Federation of Energy Traders (EFET<sup>1</sup>) welcomes the opportunity to provide our feedback to the customer questionnaire launched by the National Grid Group (NGIC) on the long-term auction proposal related to the IFA and IFA 2 Interconnector.

We overall support the alternative mechanism proposed by NGIC for the allocation of capacity on IFA/ IFA 2, including the capacity split, the timing of volume confirmation and the potential creation of a two-year calendar project. We acknowledge the intention of NGIC to create more flexibility in determining the monthly auction volumes by introduction of a hybrid and a dynamic approach in terms of the long-term capacity auction.

### **We give a qualified welcome to the hybrid approach on the long-term capacity auction strategy for IFA/ IFA2**

We understand the potential merit of a hybrid approach when considering the long-term auction strategy for IFA/ IFA2. However, we would like to see more transparency in the way that the capacity will be calculated.

We understand that, under both the dynamic and hybrid approaches, NGIC would publish a range of volumes (instead of a firm value) to be auctioned in December Y-1. Under the proposed hybrid approach, the volumes would be published and confirmed monthly for the auctions to take place the following month, with the aim of giving a more appropriate level of prior notice to the market<sup>2</sup>.

We welcome this solution provided that it is implemented in the spirit of maximizing the capacity allocated to the market. We moreover accept an estimation of range, once the splitting rules are approved by CRE, which will serve as a signal to market participants of the minimum volumes in MWs that NGIC will sell in the calendar auctions the following year, provided there are no outages and that the full capacity is available. We accept a notification of the volume to market participants closer to real-time on condition of greater transparency in its calculation.

<sup>1</sup> The European Federation of Energy Traders (EFET) promotes and facilitates European energy trading in open, transparent and liquid wholesale markets, unhindered by national borders or other undue obstacles. We build trust in power and gas markets across Europe, so that they may underpin a sustainable and secure energy supply and enable the transition to a carbon neutral economy. EFET currently represents more than 100 energy trading companies, active in over 27 European countries. For more information: [www.efet.org](http://www.efet.org)

<sup>2</sup> Compared to the hybrid approach, the dynamic approach enables market participants to see the final volumes to be auctioned in the technical specification on JAO two days before the auctions are held.

### **We welcome the introduction of the Year + 2 product**

We support the introduction of an Annual Auction (CAL) product two years ahead of delivery (Y+2 product). We view the Y+2 product as an important step forward which will allow market participants to access capacity further ahead of time and to start to adopt that in their trading strategies. We consider necessary the adequacy regarding volumes traded on forward horizon and the cross-border capacity allocated to the market. As additional feedback, we would furthermore welcome the possibility to hedge or spread position on the same forward time frame.

### **EFET concerns on the methodology of determining the volumes and capacity allocation based on market prices**

Further to noting the positive elements of the proposal, we would like to flag the following issues:

- a) We understand that NGIC does not follow a formal algorithmic methodology (such as a CCM) to decide on the volumes, while these would not be inputs that market participants would also be able to forecast. We note that the driving factors taken into consideration are rather subjective and that they mainly depend on the view of NGIC on the forward market direction (spread) with the aim of maximising the auction revenue.
- b) We also understand that other decision factors for the capacity that NGIC will be making available in each auction, beyond the maximisation of auction revenue and forward prices, involve consideration of any capacity limitations raised by onshore TSOs. There is also a potential NTC consideration from the French side that might serve as a factor towards the end of this year that will also potentially determine the volume.

Considering the above, we would like to raise our concern over a TSO being allowed to decide on allocation of capacity upon its calculation based on market prices. If this can be justified from an overall economic optimization standpoint, there will still need to be clear and replicable criteria for the decision on capacity allocation.