# CONSULTATION RESPONSE

EFET
European Federation of Energy Traders

## EFET supports maximization of capacity allocation and market-based splitting in response to Core TSOs amendment to the methodology for splitting long-term cross-zonal capacity

Brussels, 18 August 2022 – The European Federation of Energy Traders (EFET) welcomes the opportunity to provide comments to the CORE TSOs' proposal for the 1st amendment of Methodology for splitting long-term cross-zonal capacity in accordance with Article 16 of Commission Regulation (EU) 2016/1719 (FCA Regulation) and ACER Decision No 14/2021 of 3 November 2021.

### Key messages

1. Core TSOs should allocate all the cross-zonal capacity calculated as available for the year-ahead auction at this point in time.
2. The splitting methodology can and should allow market participants to decide on their own how they want to purchase capacity (yearly, monthly or bundled products)
3. We are concerned that the minRAM values will not be respected and provide lower allocated capacities when compared to actual uncoordinated NTC allocation

### Detailed comments

We understand that most of the changes proposed by the TSOs are required due to the introduction of flow-based long-term capacity calculation for the CORE CCR by 2025. We stress that a change of paradigm towards mandatory flow-based capacity calculation and allocation in the forward timeframe would require a deeper impact analysis and a quantitative study – including of all collateral/side effects –before implementing it.

EFET and the Market Parties Platform (MPP) responded to the CORE TSOs consultations back in July and September 2019[1]. We welcomed some of the progress that had been made in the version of the TSOs methodology compared to the initial draft methodology. However, we still recommend a more elaborate splitting method than the proposed split of capacity between yearly and monthly capacity of 80%-20%. As in 2019, we propose a solution that would allow the market itself to decide on the split between yearly and monthly products, in order to stick as close as possible to the FCA Regulation objective of meeting market participants' hedging needs.

[1] EFET-MPP response to the ACM consultation on the CORE TSOs' proposal of forward capacity splitting rules, September 2019
and EFET-MPP response to the CORE TSOs consultation on long-term capacity splitting rules, July 2019

## Splitting ratio & reservation of capacity for the monthly timeframe

> **Article 3.1** *In case of high voltage alternating current interconnectors, eighty percent of the Remaining Available Margin by Critical Network Elements and Contingencies resulting from the yearly capacity calculation in accordance with article 10 of the FCA Regulation will be offered to the subsequent yearly capacity allocation session at the Single Allocation Platform.*

Back in 2019, we welcomed the fact that the TSOs seem to have heard market participants' call to release more capacity in the yearly auction. This led the TSOs to raise the proposed split of capacity between yearly and monthly capacity from 50%-50% to 80%-20%. However, we call on CORE TSOs and the regulators of the CORE region to go even further.

Indeed, we believe that all the capacity calculated by the capacity calculation process year ahead should be made available to the market (i.e. 100% of the calculated capacity year-ahead), not just 80%. Further release of capacity at shorter time horizons in the forward timeframe (monthly) should be the result of capacity recalculations, or gradual release of the margins and constraints initially applied by the TSOs for year-ahead allocations as uncertainties reduce with real time getting nearer.

For avoidance of doubt, and bearing in mind that certain market participants may only wish to purchase capacity for specific months and may be reluctant or unable to re-trade purchased yearly forward transmission rights on the secondary market, the TSOs may choose to allocate the 100% of capacity calculated year-ahead not only via yearly products but also via monthly products (but a year in advance). The TSOs could even make sole use of monthly products in the year-ahead and monthly auctions, which could be bundled into multi-month or annual blocks in the yearly auction. This distinction between the timing of the auctions and the granularity of the products offered by the TSOs would allow the market itself, at the time of the yearly auction, to perform the splitting of capacity between yearly and monthly capacity in the most economically efficient manner.

To recall, for market participants hedging is about assessing and covering their positions 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, including across borders. 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. We believe that the solution mentioned in the paragraph above is the best solution to reach the objective of the FCA Regulation in general, and its article 16 in particular, i.e. meeting the hedging needs of market participants. In the manner described above, it will be the market itself adjusting the split of capacity to the hedging needs of its participants at each auction.

We also believe that this approach is in line with article 9 and 16 of the FCA Regulation. Indeed:

- Article 9 states that "All TSOs in each capacity calculation region shall ensure that long-term cross-zonal capacity is calculated for each forward capacity allocation and at least on annual and monthly time frames" – Our proposal still foresees a calculation of capacity year-ahead and each month.
- Article 16 states that "The TSOs of each capacity calculation region shall jointly develop a proposal for a methodology for splitting long-term cross-zonal capacity in a coordinated manner between different long-term time frames within the respective region" – The article does not mandate TSOs to decide on a split, but to design a methodology for splitting capacity; with our proposal, the market would decide on the split, based on rules and auction design agreed between the TSOs and NRAs.

In their Explanatory Document, the TSOs argue that "the very purpose of splitting is to reserve a certain value of yearly cross zonal capacities (after splitting) for monthly timeframe with the aim to increase the probability to make optimal capacity available to the market […] Core LT CCM clearly defines how the monthly cross zonal capacities be calculated and what has to be guaranteed for monthly time-frame, this is not done by splitting rules applied on the long term capacity between the yearly and monthly long-term timeframes of the splitting methodology." We disagree with this assertion:

- While the Core LT CCM defines a method for the calculation of cross-zonal capacity in the monthly timeframe, it concerns the calculation of capacity done each month (month-ahead). This has no bearing on how the capacity calculated every year (year-ahead) is split and used as monthly products, yearly products, or bundled products.
- Article 16 FCA Regulation does not foresee an actual obligation that capacity be allocated at any point. The obligation is to calculate capacity and allocate what is available for the yearly and monthly timeframes (i.e. the products), but capacity may not necessarily be available at each auction. TSOs know this perfectly, as instance of zero offered capacity, reduction of capacity or curtailment of capacity are not uncommon. With our proposal, there may indeed be occurrences of monthly auctions without capacity available – though with monthly recalculation and relaxation of TSO constraints, this should happen rather rarely. However, there will not be occurrences of market participants not being proposed monthly or yearly products – and those will be subscribed exactly in the amount and proportion that is most economically efficient.
- Second, the proposal of the TSOs does not guarantee that the 20% of available long-term capacity withheld for monthly auctions will actually be allocated at the monthly auctions. Indeed, there may be occurrences where the monthly recalculation of capacity will result in an assessment by the TSOs that they cannot

> release the 20% of initial capacity that they withheld. With the TSO proposal, there is actually no guarantee that market participants will always have access to either yearly or monthly hedging products in the proportion they need.

To conclude, while we appreciate the efforts made by the TSOs in trying to find a compromise solution, we still have fundamental objections with their overall approach to capacity splitting. We believe that TSOs go beyond their mandate in trying to impose to the market what they consider market participants' hedging needs are. The practical solution we propose has the added value of maximising capacity allocation as far away from real time as possible while securing capacity for the yearly and monthly timeframes, with a split decided by the market itself. It is also in line with the FCA Regulation's spirit and letter.

> **Article 4.1** *In case of new high voltage direct current interconnectors for the first three years of operation, sixty five percent of long-term capacity available at the year ahead time frame will be offered to the subsequent yearly capacity allocation session at the Single Allocation Platform.*
> **Article 4.2** *In case of high voltage direct current interconnectors with more than three years of operation, eighty percent of long-term capacity available at the year ahead time frame will be offered to the subsequent yearly capacity allocation session at the Single Allocation Platform.*

Our comments to article 3.1 apply equally to articles 4.1 and 4.2 (see above).
In addition, we see that the differentiation between pre-existing and new DC interconnectors (up to three years of operation), introduced in 2019, remains in the methodology. For the latter, only 65% of the capacity calculated year ahead should be made available in the yearly auction, while for the former, the same provision as for AC interconnectors applies (80% of the capacity in the yearly auction).

This derogation for new DC links was justified in 2019 by the "temporary potential issues linked to the operation of new assets" in the TSOs post-consultation report. We believe that derogations of this sort should be thoroughly backed by data showing the lower reliability rates of DC links in the first years of operation, in the same order of magnitude as the derogation allows. Otherwise, the derogation should be amended to reflect the reality of this data or deleted if not properly justified.

## MinRAM values for the allocation process

> **Article 6** *The Core TSOs' Long-Term Splitting Methodology shall be implemented at the latest once the results of the first capacity calculation for the yearly time frame, based on the approved Core TSOs' common capacity calculation methodology for long-term time frames elaborated in accordance with article 10(1) of the FCA Regulation, are available.*

We are concerned that the minRAM values (20% for yearly and 10% for monthly capacities) presented in January 2022 will provide lower allocated capacities when compared to actual uncoordinated NTC ones. The minRAM will be key and having a visibility on it (including derogations) will be essential. We request further visibility on the extraction of the NTC domain because there is no clarification in the explanatory document.

The statement of the TSOs in the Explanatory Document that the values provided for allocation process can be lower than a minRAM value due to splitting rules application is worrying. The accompanying explanation is particularly confusing, and we invite TSOs to develop their considerations on the matter in a public manner before submission to the NRAs.

## Contact

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