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# Italy North TSOs' proposal for a common methodology on splitting long-term cross-zonal capacity (FCA Article 16)

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## EFET response – 13 March 2020

The European Federation of Energy Traders (EFET[1]) welcomes the opportunity to provide our comments on ENTSOE consultation on the proposal for splitting long-term cross-zonal capacity in accordance with Article 16 of the Commission Regulation (EU) 2016/1719 of 26 September 2016 establishing a Guideline on Forward Capacity Allocation (FCA).

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.

**Comments on individual articles**

*Article 3*

*c) the offered capacity in import direction of Italy on the yearly time frame shall not exceed 85% of the average capacity resulting from the yearly capacity calculation according to Article 10 of the FCA Regulation;*

*d) the offered capacity in the export direction of Italy on the yearly time frame shall not exceed 20% of the average capacity resulting from the yearly capacity calculation according to Article 10 of the FCA Regulation;*

*e) the offered capacity in the export direction of Italy on the monthly time frame and already allocated capacities on yearly timeframe shall not exceed 50% of the average capacity resulting from the monthly capacity calculation according to Article 10 of the FCA Regulation.*

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 85%[2] for import and 20% for export.

[2] EFET defended this position in responses to the TSOs consultation on the Channel, SWE and Hansa CCRs Splitting Rules for forward capacity allocation, dated respectively 15 April, 30 April and 27 May 2019, and available at: https://efet.org/Files/Documents/Downloads/EFET_ENTSOE%20consult%20Channel%20Splitting%20Rules_15042019.pdf, https://efet.org/Files/Documents/Downloads/EFET_SWE%20Splitting%20Rules_16042019.pdf and https://efet.org/Files/Documents/Downloads/EFET_Hansa%20Splitting%20Rules_27052019.pdf

[1] 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

Moreover, we disagree with the Italy North TSOs' proposal to make a difference between import and export capacity. Capacity splitting should remain market participants' choice, whichever the general trends of capacity use: market participants will adapt their bookings on their own.

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 to re-trade purchased yearly forward transmission rights on the secondary market, the TSOs may choose to allocate the 100% of calculated capacity year-ahead not only via yearly products but also via monthly products (but a year in advance). For example, the TSOs could 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 allows 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 acknowledge the fact that historical data show that on the export direction of Italy the situation is significantly different compared to the import direction since most of capacity is not required on yearly time frame, but on monthly or even on day-ahead time frame.

However, we notice that there are also different use trends at other borders in Europe and that Italy North proposal is the only ones to propose a differentiated split. We stress that the proposal should look at:

1. Maximisation of capacity made available to the market in the year-ahead auction;
2. If market participants don't think yearly products in one of the directions are useful, they will not book them, only monthly capacity;
3. If even monthly capacity is not useful, they will not book LT capacity at all.

We argue that it is a question of letting market participants make the choice themselves, not the TSOs as clearly stated by art 16.2 of the FCA Regulation:

*2. The methodology for splitting long-term cross-zonal capacity shall comply with the following conditions:*

*(a) it shall meet the hedging needs of market participants;*

*(b) it shall be coherent with the capacity calculation methodology;*

*(c) it shall not lead to restrictions in competition, in particular for access to long-term transmission rights.*

We do not support a lower capacity reservation for the monthly auctions, from 50% to 20% and we propose to 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.

*Article 4*

*The PVP of the products offered in the yearly and monthly time frames shall be at least 80%.*

We appreciate the fact that the proposal sets a limit to reduction periods, both in number and % value of available capacity, although we argue that it should be part of the capacity calculation methodology.
However, we seek more clarity the product calculated according to all the criteria described in the proposal results to be lower than 10 MW.