

BritNed consultation on non-IEM Access Rules



EFET response – 1 September 2020

We thank BritNed for the opportunity to comment on their updated non-IEM Access Rules, applicable for deliveries as of 2021. You will find below our comments on detailed elements of the new rules.

- *Rule D3.1: BritNed may announce one or more Reduction Periods in the Auction Specification. In this case, the Auction Specification shall include for each Reduction Period information on the duration of the Reduction Period and the amount of Offered Capacities.*

Information on the reduction periods should not only concern the duration of the reduction period and the amount of offered capacities. It should also include a justification for the reduction periods.

- *Section D5.7: Reserve price*

More than 15 years ago, EFET published an overview of capacity allocation mechanisms and their compliance with the *Guidelines on the management and allocation of available transfer capacity of interconnections between national systems* annexed to Regulation (EC) 1228/2003. Back then, we identified at least five (5) EU borders where the allocation of transmission capacity was subject to a reserve price¹. As of 2020, we note that **BritNed is the only bidding zone border in Europe where a reserve price for the allocation of capacity still applies.**

Section D5.7 of the BritNed non-IEM Access Rules mirrors the current Section 7 of the BritNed border-specific annex to the EU Harmonised Allocation Rules (EU HAR)², providing a legal basis for the application of the reserve price, by exception to article

¹ EFET assessment of congestion management at European borders, dated August 2004 and available at: <https://efet.org/Files/Documents/Electricity%20Market/General%20market%20design%20and%20governance/Aug.%2004%20CB%20CM%20Status%20Table.pdf>.

² BritNed border specific annex to the Harmonised Allocation Rules (GB-NL), available at: <https://acer.europa.eu/en/Electricity/MARKET-CODES/FORWARD-CAPACITY-ALLOCATION/02%20HAR%20annexes/Action%201%20-%20HAR%20annex%20BritNed%20BSA%20proposal%20approved.pdf>.

35.4 EU HAR. However, in its 2019 monitoring report on the implementation of the CACM and FCA Regulations³, ACER notes that “*some annexes to the harmonised allocation rules (‘HAR’) include regional specificities, which in a few instances significantly deviate from the HAR or even from the FCA Regulation itself. The Agency recommends that the concerned TSOs update these annexes to remove all deviations and, where possible, all unnecessary regional specificities*”. In the same report, **ACER rightfully lists the reserve price applied on long-term auctions on BritNed as one of the “current deviations to the full harmonisation in forward capacity allocation rules”**.

According to the BritNed Trading and Nomination Guide, BritNed applies and sets a reserve price “to ensure that at least the operational costs of BritNed are recovered”⁴. While we acknowledge that merchant interconnector operators like BritNed have a different cost recovery structure as TSOs, we note that **no other merchant operator of HVDC cables in Europe applies a reserve price on capacity auctions anymore**.

In addition, there is no publicly disclosed reporting on how reserve prices for long-term auctions contribute to covering the operational costs of BritNed.

In summary, we consider the reserve price applied by BritNed on long-term auctions as a remnant from the past, for which no proper justification of the specific situation of BritNed compared to other merchant interconnectors is provided. We agree with the assessment of European authorities that it is an inappropriate hindrance to the harmonisation of forward capacity allocation rules, and consider that it should be removed.

- *Rule D5.7.2(d): When calculating the Marginal Price (expressed for an Auction, the Reserve Price will be applied based on the following criteria: [...] All capacity, including Return of Long Term Transmission Rights, which was unallocated within the relevant Auction will be returned to BritNed with no remuneration due;*
- *Rule D6.4.2: Returns that cannot be allocated within the Auction due to insufficient Bids above the Reserve Price will not be compensated, in accordance with Rule D5.7 (Reserve Price).*

In addition to our fundamental opposition to the application of a reserve price on long-term auctions, we oppose Rules D5.7.2(d) and D6.4.2 in particular: when a market participant wants to resell capacity and returns it to a subsequent auction at a price that happens to be below the reserve price, their capacity is not sold. Meanwhile, the capacity newly made available by BritNed is sold first while the capacity that the market participant seeks to resell below the reserve price is not allocated and BritNed retains this market participant’s capacity without any financial compensation. This means that BritNed regains capacity already sold to market participants for free when the latter return it for a price below the reserve price.

³ ACER monitoring report on the implementation of the CACM Regulation and the FCA Regulation, dated 31 January 2019 and available at:

https://www.acer.europa.eu/Official_documents/Acts_of_the_Agency/Publication/FCA_CACM_Implementation_Monitoring_Report_2019.pdf.

⁴ See Point 3.1.5 of the BritNed Trading and Nomination Guide, version 3.0 of January 2017, available at: https://website-prd-media.s3.amazonaws.com/documents/BritNed_Trading_and_Nomination_Guide.pdf.

- *Rule D6.3.1: Participants who Returned Long Term Transmission Right are entitled to receive a remuneration equal to the value of the Returned Long Term Transmission Rights set during the relevant subsequent Auction(s) calculated for each hour as follows:*
 - a) *the Marginal Price of the Auction at which the Returned Long Term Transmission Right was reallocated in Euros/MW per hour multiplied by*
 - b) *the amount of MW which was reallocated.*

The new remuneration rules for long-term transmission rights allocated on BritNed depart from the European principles (included in the FCA Guideline and the EU HAR) of remuneration at the spread between the two markets that the interconnector links. Instead, long-term transmission rights are remunerated at the price of each hour in the day-ahead auction.

This type of remuneration will not provide a hedging opportunity between the British and Dutch markets anymore. We remind BritNed that the primary purpose, for market participants, of buying long-term transmission rights, is to hedge their positions in and between different bidding zones.

We understand that, as a result of GB not being part of the IEM and the single day-ahead coupling in case no agreement is found between the UK and the EU by 31 December 2020, there will be no single day-ahead price in GB anymore. As a result, we understand that the existing rule needs to be re-written. However, the solution chosen by BritNed is not satisfactory, as LTTRs will not be remunerated at market spread anymore. Instead, we invite BritNed to:

- plead the case – with competent authorities and the power exchanges – for a single price in GB;
- in case this is not achievable, chose one reference price for the GB market at one of the power exchanges active in GB.

- *Additional comments*

BritNed has announced that the day-ahead explicit auctions will be on the Joint Allocation Office (JAO) platform. We welcome the fact that the auctions will be held on this well-known and used platform. However, we reiterate our call for JAO to set up a 24/7 helpdesk, a feature that was provided by the Damas/Kingdom platform. Ensuring that market participants have proper support at any time is a practical necessity to ensure the good functioning of the market.