

## Core TSOs consultation on the design of long-term transmission rights



### EFET response – 7 March 2019

The European Federation of Energy Traders (EFET) thanks the Core TSOs for the opportunity to comment on the proposed amendments to the Core CCR methodology on the design of long-term transmission rights.

Risk management through (cross-border) hedging is a key element in sourcing and providing electricity to customers competitively, as it allows market participants to avoid exposure to short-term price volatility and imbalance costs. Allocation of long-term rights to market participants also provides long-term signals to the TSOs regarding potential congestion on certain cross-border elements. This provides an indication to the TSOs regarding forward market activities and could potentially help in forecasting additional congestion revenues that TSOs receive as a congestion income.

#### Comments on Article 1(1):

The main change proposed in this second amendment, in Article 1(1), concerns the introduction of FTR options at the NL-DE/LU and FR-DE/LU (thereby having FTR options issued at all CWE borders following the switch to FTR options at the Belgian borders in 2016). The Core TSOs also propose to introduce FTR options at the BE-DE/LU bidding zone border after the go-live of the HVDC interconnector ALEGrO, and at the AT-CZ and AT-HU borders.

While we acknowledge the fact that the introduction of FTR options is a possibility foreseen in the FCA Guideline, it is also an important market design change. This proposal should be accompanied by an explanation of the **motivations of the Core TSOs**, as well as an **assessment of the expected benefits of the change in terms of overall social welfare**. We have seen no explanation of why those changes have been proposed now and why at those borders.

We are in principle neutral to the issuance of either PTRs or FTR options by the TSOs. EFET supports the issuance by TSOs of forward transmission rights (PTRs or FTR options) at all bidding zone borders in Europe and in all directions, to the full amount that the underlying infrastructure can offer for each timeframe, as calculated according to the relevant capacity calculation methodology. However, the main difference between PTRs and FTR options is the capacity of market participants to nominate PTRs, and this option to nominate PTRs has, as such, a value. We would hence like to highlight a few concerns regarding the exclusive use of FTR options:

- **The exclusive use of FTR options would tie market participants to power exchanges**, as no physical hedging instrument will be able to back OTC cross-border forward transactions. This restricts market participants' ability to weigh the benefits and drawbacks – in financial terms and practical arrangements – of using OTC platforms or power exchanges for their physical cross-border transactions. In practical terms, market participants will have to close their physical positions on the day-ahead market on both sides of the border, increasing the administrative and financial burden – such as mandatory membership to the power exchange, clearing fees, reporting, etc.
- **In case of partial clearing, the outcome will be different than with PTRs due to a potential remaining imbalance at BRP side.** However, first, market participants should still be able to rely on cross-border capacities to balance their portfolio, as the case might be. The switch from PTRs to FTR options does not change the interconnection capacity available to the market. As a result, this implementation should not result in a regression in the functioning of the market, most particularly in terms of cross-border transmission capacity made available to the market as far in advance of real time as possible. Second, the introduction of FTR options should not come with a risk of paying high imbalances that would not have been there if market participants decided to nominate their PTRs. Therefore, a mechanism should be in place to cover any risk related to unserved energy in the concerned bidding zones. As an example, this risk has been acknowledged by CREG when the switch from PTR to FTR options was implemented at the Belgian borders (cf. CREG decision B1446, paragraph 76). This risk can be particularly high at borders connecting bidding zones with low liquidity. For this proposal, the AT-CZ and AT-HU borders would be most at risk of failing to see the day-ahead market clear.
- As noted in our response to the Core TSOs survey on splitting long-term cross-zonal capacity<sup>1</sup>, **all the capacity available (as the output of the long term capacity calculation process) should be allocated in forward time frame as far in advance as possible.** TSOs should update their computation throughout the year and offer the additional released capacity (if any) in subsequent auctions. This is true for PTRs, but even more so for FTR options: there should be no reservation for day-ahead, as no physical event linked to operational security or emergency situation may affect FTR options. We therefore hope that no

<sup>1</sup> EFET response to the Core TSOs survey on splitting long-term cross zonal capacity, dated 17 December 2018, available at: [https://efet.org/Files/Documents/Downloads/EFET\\_Core%20TSOs%20survey%20LT%20capacity%20splitting\\_17122018.pdf](https://efet.org/Files/Documents/Downloads/EFET_Core%20TSOs%20survey%20LT%20capacity%20splitting_17122018.pdf).

capacity will be reserved ex-ante for the day-ahead or balancing markets (as was the case at the French-Belgian border with 200 MW reserved for day-ahead during the allocation process of 2017<sup>2</sup>).

- As a final note, we remind the Core TSOs that **we have serious concerns regarding article 56.3 of EU HAR for the case of FTR options. Article 56.3 lays down the rules for curtailment of allocated rights**, i.e. one of the elements of the firmness of long-term transmission rights which is of course of utmost importance for market participants. EFET does not agree with the possibility for TSOs to curtail allocated FTR options for reasons of system security: since FTR options cannot be nominated, their allocation cannot have any impact on the state of the system, hence TSOs bear no physical risk. Therefore, we do not see any reason to apply a curtailment for system security reasons to FTR options. Only curtailments in case of Force Majeure should be applicable for FTR options. We therefore suggest that TSOs themselves request a review of this article, especially given the increasing number of borders that will use FTR options going forward.

**In short, before the switch from PTRs to FTR options at the concerned borders, we request:**

- Proper justification of the reasons for this switch and an assessment of its benefits from a social welfare perspective;
- Cross-border transmission capacity allocation maximised to 100% of the available capacity at the time of calculation (system security reservations should not be tolerated for FTR options);
- Full financial firmness of FTRs, and impossibility to curtail for any other reason than Force Majeure (system security justifications should not be tolerated for FTR options);
- No additional exposure for the market, e.g. in case day-ahead markets do not clear.

**Comments on Article 1(2):**

Concerning the modification of Article 8 of the methodology, as proposed in this amendment's Article 1(2) – "*The change of the type of the long term transmission right shall apply also to already allocated yearly transmission rights*" – we strongly oppose the automatic application of the switch from PTRs to FTR options to already allocated PTRs. Market participants buy a certain hedging instrument from the TSOs for defined reasons, based on its full set of characteristics. Those characteristics contribute to determining the value of the instrument. In no way should TSOs give themselves the right to go against basic principles of contract law and modify the specification of a product that they have already sold to the market.

<sup>2</sup> EFET response to the CRE consultation on the use of long-term transmission rights at the French borders, dated 18 May 2018, available at: [https://efet.org/Files/Documents/Downloads/EFET\\_CRE%20consult%20LTRs\\_18062018.pdf](https://efet.org/Files/Documents/Downloads/EFET_CRE%20consult%20LTRs_18062018.pdf).