EFET European Federation of Energy Traders
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Amstelveenseweg 998
1081 JS Amsterdam
+31 20 520 7970
secretariat@efet.org
www.efet.org

ENTSO-E survey on a block bids approach to year-ahead LTTRs allocation

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What would be your appetite for such type of products?

It is a useful feature, and we see opportunities for our business

Please complement your answer

We wholeheartedly thank the TSOs for conducting a survey on the proposal that EFET made at MESC meetings in the course of 2019/2020 for a reform of the year-ahead allocation of long-term transmission rights (LTTRs). We are pleased to see that this proposal is discussed in the open and we believe that this survey is a good occasion to test this idea with the greater community of market participants.

Looking at the survey, we believe that the proposal of the TSOs does not fully reflect the proposal initially made by EFET. As it stands, we are not in a position to support the TSO proposal. In order for the reform of year-ahead allocation of LTTRs to bring added value to the market, the TSOs need to take their proposal two steps further:

- By **removing the band of capacity reservation for monthly products** to be allocated at the month-ahead auction (item 3 in the graph). The goal of our initial proposal was indeed to ensure that all the capacity calculated year-ahead is made available to the market.
- By **allowing monthly "block bids" to be linked** so that market participants can still create a yearly product (and any other types of multi-monthly products).

Background:

Since the adoption of the Second Energy Package in 2003, **EFET has repeatedly pushed TSOs to allocate to market participants all the capacity calculated a year before delivery in the year-ahead auction via long-term transmission rights** (LTTRs), by way of removing the capacity reservation for monthly auctions from the capacity calculated a year in advance.

Our calls have been only partly successful, considering that a greater proportion of that capacity is now allocated year-ahead, but not in its entirety, and not in all the capacity calculation regions (CCRs). While continuing to advance our views, we realised that allocating all the capacity calculated one year in advance in the year-ahead auction in the form of calendar products may not fit the needs of all market participants.

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This is the case for those – including smaller market participants or market participants with a seasonal portfolio – who are attached to the ability of buying products of smaller granularity. Indeed, removing the capacity reservation for monthly auctions from the capacity calculated a year in advance would likely mean fewer monthly products allocated in the month-ahead auctions, which could become a problem in areas where the secondary market for LTTRs is not liquid enough.

Hence came about our idea, in order to guarantee that all the capacity calculated year-ahead is allocated at that point to the market, to decorrelate the granularity of the products (yearly or monthly LTTRs) from the time at which they are allocated (year-ahead or month-ahead auctions).

We believe that the "block bids" approach to year-ahead LTTRs allocation, whereby all the capacity calculated by the TSOs the year before delivery is allocated to market participants in the year-ahead auction via monthly LTTRs would be a decisive market design evolution with the following advantages:

- Ensure that the maximum of capacity calculated year-ahead is allocated to market participants
- Ensure that the split between yearly and monthly products best fit with market participants' hedging needs – instead of a simple split pre-determined in fixed rules
- Circumvent the liquidity problems observed on secondary markets for LTTRs in certain regions

Justification for TSOs to go beyond their proposal and follow the initial EFET proposal:

On the two additional steps we recommend compared to the TSOs proposal:

1. **Release of all the capacity calculated year-ahead without reservation of capacity for monthly auctions**: ensuring that all the capacity calculated by the TSOs one year in advance is the basis of our reform proposal. Without additional capacity release compared to the existing allocation process, the reform would bring little added value, if not risks of liquidity losses between the different products.
2. **Allowing the linking of bids on monthly products**: this feature is essential to ensure that market participants can buy single monthly products or combine them in an annual product (or multi-month product). The linkage of bids (via a single auction process) is necessary to avoid liquidity split and to ensure that market participants themselves can perform a choice between the different types of products at a single point in time.

We note that the only obligations of the Guideline on Forward Capacity Allocation (FCA GL) is on TSOs to calculate long-term cross-zonal capacity at least on annual and monthly timeframes (article 9) and allocate LTTRs – in no specific shape or form (article 30 and 31). There is no specification is the GL that both annual and monthly LTTRs need to be allocated, nor that allocation needs to take place every year ahead or month ahead. We therefore see no legal hurdle in article 16 of the FCA GL for TSOs to propose and NRAs to approve a splitting methodology along the lines highlighted above.

In complement to this "block bids" approach to the allocation of capacity in the year-ahead auction with monthly products, further release of capacity month-ahead (and quarter-ahead or week-ahead, depending on CCR) should be the result of capacity recalculations. There may well be times when month-ahead capacity recalculations do not allow TSOs to release additional capacity in the month-ahead auction, as is already the case today. But these occurrences should be rare considering the gradual release of margins and constraints initially applied by the TSOs for year-ahead calculations, as uncertainties reduce with real time getting nearer. Further enquiry and disclosure of historical data of month-ahead capacity recalculations compared to year-ahead calculations would certainly help inform the debate on this point.

Do you think further developments in linking of products direction (i.e. ability to bid for a series of blocks or nothing) instead of the bids on the monthly blocks to be independent (like in the proposal) would provide additional value?

The proposal would require technical features in the allocation tool that would allow to easily bundle monthly products into various forms (at least yearly bundles, but possibly also quarterly bundles).

Would you be interested in more complex products? If so, which ones?

Rather than complex products, we invite the TSOs to study to possibility of calculating cross-zonal capacity more than one year in advance of delivery and of consequently issuing LTTRs in Y-2 or Y-3. LTTRs issued at even longer time horizons than one year in advance would contribute to the uptake of cross-border power purchase agreements (PPAs).

Should auctions of the various products (monthly blocks and yearly ribbon product) be simultaneous or successive? And shall the Y-1 monthly block auctions (12) be run simultaneously or subsequently?

We believe that all monthly products allocated year-ahead should be allocated during the same auction, in order for those market participants who wish to do so to be able to bundle the monthly products of their choice.

How do you think this new approach would influence competition, would it trigger discrimination or market power issues?

We do not see a greater risk in terms of competition with the proposal than with the existing pre-determined split approach. On the contrary, the “block bids” approach to year-ahead allocation of LTTRs, if all the capacity calculated at that stage is made available to the market, would broaden the offer and likely attract more participants in the auction. It would also circumvent potential competition and liquidity issues faced by market participants in certain CCRs when they wish to resell part of the yearly capacity that they bought.

What improvements would you suggest to this "block bids" mechanism?

Please list three and rank them, being "1" the most relevant and "3" the least.

1. Ensuring that **all the capacity calculated by the TSOs the year before delivery is allocated to market participants in the year-ahead auction** (provided that no reservation is made for subsequent monthly auctions, as per our recommendations)
1. Meeting **market participants' hedging needs** (article 16.2.a FCA GL) by letting them decide on the split of long-term capacity between yearly and monthly capacity thanks to the **allocation at the year-ahead stage of monthly products that can be bundled**
1. Circumventing **competition and liquidity issues of secondary markets for LTTRs** in certain CCRs

Would you consider participating to the development costs of such a solution? If so, how do you think costs should be shared with market participants?

As usual, EFET would be pleased to contribute its expertise to the development of solutions to ensure that TSOs fulfil their role of market facilitators in the most efficient manner possible.

As far as costs for the development of new systems is concerned, we believe that this falls into the scope of the regulated activity of TSOs, and we would be surprised to be asked to contribute financially to this effort. There is no precedent of cost-sharing between TSOs and market participants for the development of improved capacity allocation methods for the day-ahead and intraday timeframe, or for the balancing platforms. Besides, as noted in the survey, there is a likelihood that a more efficient forward capacity allocation process would bring additional congestion rent to the TSOs. Finally, market participants will also have their own costs to bear in order to adapt existing IT structures internally.