

Hansa TSOs consultation on the design of long-term transmission rights



EFET response – 12 May 2019

The European Federation of Energy Traders (EFET) thanks the Hansa TSOs for the opportunity to comment on the proposed amendments to the Hansa 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.

Detailed comments

- **Article 4.2:** *CCR Hansa TSOs' LTTR proposal does not apply to bidding zone borders for which the competent regulatory authorities have adopted coordinated decisions not to issue LTTRs in accordance with Article 30(1) of the FCA Regulation.*

We still oppose the 2017 decision of the Swedish and Polish regulators to waive the obligation on TSOs to issue forward transmission rights on the SwePol cable. We believe that the voice of market participants was not listened to appropriately in the assessment leading to this decision. We refer to our response to the URE consultation on the subject for more details¹, and request that the decision of the regulators be reviewed.

¹ EFET response to the URE consultation on the needs for cross-zonal risk hedging opportunities on Polish bidding zone borders, dated 3 February 2017 and available at: <https://efet.org/Files/Documents/Downloads/EFET-response-to-URE-consultation-no72017.pdf>.

- **Article 5.3:** *The type of LTTRs that shall be applied on each bidding zone border covered by this CCR Hansa TSOs' LTTR proposal is defined in Annex 1.*

The main change proposed in this methodology, laid out in annex 1, concerns the introduction of FTR options at the NL-DK1 border (Cobra cable).

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 responses to the various CCRs' surveys and consultations on splitting long-term cross-zonal capacity², **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 capacity will be reserved ex-ante for the day-ahead or balancing markets.
- As a final note, we remind the Hansa 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 important 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 introduction of FTR options at the NL-DK1 border, we request:

- 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.

² 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

EFET response to the SWE TSOs consultation on splitting rules, dated 30 April 2019, available at:
https://efet.org/Files/Documents/Downloads/EFET_SWE%20Splitting%20Rules_16042019.pdf