



EFET response to the TSOs consultation on SWE Splitting Rules for forward capacity allocation



EFET response – 30 April 2019

EFET response to the TSOs consultation on SWE Splitting Rules for forward capacity allocation

The European Federation of Energy Traders (EFET) welcomes the opportunity to provide comments on the ENTSO-E consultation on Splitting Rules for forward capacity allocation in the SWE region. 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. 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 (at least one year), as per their calculation at that time, by means of issuing forward transmission rights.

General considerations

We welcome the SWE TSOs' proposal to maintain the allocation of capacity in the forward timeframe at the ES-PT border with a higher level of granularity (yearly, quarterly and monthly allocation) compared to the requirements of the FCA GL.

Apart from this, there is vast room for improvement on the other provisions of the methodology. Most particularly, we disagree with the concept of capping forward capacity allocation to specific percentages for each time horizon within the forward timeframe (yearly, quarterly for the ES-PT border, and monthly). We also oppose any reservation of capacity for the day-ahead timeframe. TSOs should make available to the market the maximum capacity they can as far in advance of real time as possible. All the capacity calculated as available at the SWE borders by the capacity calculation process year ahead should be made available to the market at that stage by way of transmission rights (i.e. 100% of the calculated capacity year-ahead). Further release of

capacity at shorter time horizons in the forward timeframe (quarterly where applicable, and 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. Hence, we oppose the use the percentages of capacity to be allocated at each time horizon within the forward timeframe.

Thirdly, many provisions on the methodology leave too much space for individual TSOs to amend the rules, going against the harmonisation of rules for long-term capacity allocation. Articles 6.2.1 and 6.3.2 should have clearer boundaries where TSOs may amend the rules.

Comments on individual articles

- **Article 3.2:** *Additionally, the value of calculated capacity, in average, should be shared among the different timeframes including short term timeframes. The total value of long term offered capacity should not be high enough to put in financial risk the SWE TSOs.*

We strongly disagree with this concept. 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. All the capacity calculated as available by the capacity calculation process year ahead should be made available to the market at that stage by way of transmission rights. Further release of capacity at shorter time horizons in the forward timeframe (quarterly for the ES-PT border and monthly for both SWE borders) 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.

Capacity calculation year-ahead takes account of historic and security factors, and foresees significant margins and constraints to adapt to variations of capacity availability as time passes. Capacity is then re-calculated to adjust to these changes. Therefore, we disagree with the principle of sharing capacity as of the year-ahead capacity calculation and reserving part of the capacity calculated at that point in time for quarterly (where applicable), monthly and day-ahead allocation.

Hence, we request the deletion of article 3.2.

- **Article 4.7:** *The sharing of calculated long term capacity may be revised at initiative of any of the SWE TSOs upon agreement of all SWE TSOs to fit better the market needs or derived from adaptations of any Regulation. This would result in a new request for approval towards the SWE regulatory authorities.*

We would welcome a clarification by the TSOs that any change request on this methodology would not only be submitted to regulatory approval but also be consulted with market participants beforehand, as per the provisions of articles 5 and 6 of the FCA GL.

- **Article 5.1:** *For each timeframe, after the calculation capacity process has provided its results, an average value per direction is obtained.*

It is not fully clear from the wording of article 5.1 whether or not there is a binding obligation on the TSOs to recalculate capacity for each quarterly and monthly auction following the initial year-ahead calculation. The text seems to hint in that direction but is prone to different interpretations. We suggest making article 5.1 more explicit and amending it as follows: “The results of the capacity calculation process, repeated for each timeframe, provides an average value per direction.”

- **Article 6.1:** *The percentage of long term offered capacity with respect to the calculated long term capacity average for Portuguese – Spanish bidding zone border is set at 60%.*
- **Article 6.3:** *The sharing of calculated long term capacity average among the three different timeframes is established equally as 20% in each timeframe.*

As mentioned in our comment to article In relation to our comments on article 3.2, we request that the TSOs make available to the market the maximum capacity they can as far in advance of real time as possible. All the capacity calculated as available at the ES-PT border by the capacity calculation process year ahead should be made available to the market at that stage by way of transmission rights (i.e. 100% of the calculated capacity year-ahead). Further release of capacity at shorter time horizons in the forward timeframe (quarterly and 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 quarters or 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 quarterly and monthly products (but a year in advance). There can be a distinction between the timing of the auctions and the granularity of the products offered by the TSOs.

Finally, contrary to other Splitting Rules methodologies proposed by the TSOs in other CCRs, there is a lack of clarity with regard to the obligation on the TSOs to recalculate capacity for each auction (quarterly or monthly) following the initial year-ahead calculation. Should there be no recalculations, this will lead to a sub-optimal capacity allocation at the quarterly and monthly auctions.

Hence, we request the modification of articles 6.1 and 6.3 as follows:

- Article 6.1: “The percentage of long term offered capacity with respect to the calculated long term capacity average for Portuguese – Spanish bidding zone border is set at 100%.”
- Article 6.3: “The TSOs shall make available to the market 100% of the capacity calculated year-ahead during the yearly allocation. The TSOs shall recalculate the available capacity that can be allocated during each quarterly and monthly auction in addition to the capacity allocated at the yearly auction.”

- **Article 7.1:** *The percentage of long term offered capacity with respect to the calculated long term capacity average for French – Spanish bidding zone border is set at 66%.*
- **Article 7.3:** *The sharing of calculated long term capacity average between the two different timeframes is established equally as 33% in each timeframe.*

As mentioned in our comment to article In relation to our comments on article 3.2, we request that the TSOs make available to the market the maximum capacity they can as far in advance of real time as possible. All the capacity calculated as available at the ES-FR border by the capacity calculation process year ahead should be made available to the market at that stage by way of transmission rights (i.e. 100% of the calculated capacity year-ahead). 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 quarters or 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). There can be a distinction between the timing of the auctions and the granularity of the products offered by the TSOs.

Finally, contrary to other Splitting Rules methodologies proposed by the TSOs in other CCRs, there is a lack of clarity with regard to the obligation on the TSOs to recalculate capacity for each monthly auction following the initial year-ahead calculation. Should there be no recalculations, this will lead to a sub-optimal capacity allocation at the quarterly and monthly auctions.

Hence, we request the modification of articles 6.1 and 6.3 as follows:

- Article 7.1: “The percentage of long term offered capacity with respect to the calculated long term capacity average for French – Spanish bidding zone border is set at 100%.”
- Article 7.3: “The TSOs shall make available to the market 100% of the capacity calculated year-ahead during the yearly allocation. The TSOs shall recalculate the available capacity that can be allocated during each quarterly and monthly auction in addition to the capacity allocated at the yearly auction.”