

TSOs consultation on the review of the EU Harmonised Allocation Rules and the CORE and Hansa CCR specific annexes

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EFET response – 20 June 2019

The European Federation of Energy Traders (EFET)¹ thanks the European TSOs for the opportunity to comment on the proposed amendments to the EU Harmonised Allocation Rules (EU HAR) and the CORE and Hansa CCR specific annexes.

EFET has followed the initial drafting and approval of the EU HAR and its Annexes, and we continue to exercise scrutiny on any type of proposed amendment. With time, the quality of the EU HAR has significantly improved, and we welcome this, as they are core to a reliable allocation process of forward transmission in Europe. 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.

You will find below our comments on the changes proposed in the main body of the EU HAR, as well as the CORE and Hansa CCR specific annexes.

¹ The European Federation of Energy Traders (EFET) promotes and facilitates European energy trading in open, transparent, sustainable and liquid wholesale markets, unhindered by national borders or other undue obstacles. We improve the operation of European wholesale energy markets and enhance the performance of traders and their support functions in those markets. We reinforce the markets' functionality and facilitate their liquidity and transparency.

Comments on the main body of the EU HAR

Recital (5):

We welcome the amendment to recital (5) stating that border specific annexes shall not significantly deviate from the HAR or the FCA Regulation. Based on the history of the development of these annexes, we would even have welcomed a stronger wording. We also miss an amendment to article 4 on regional specificities that reflects the inclusion of this new wording in Recital (5), such as a strict limitation of the possibilities for deviation from the EU HAR only to the four elements listed in **article 4.3**.

Article 7:

The timing to register for auctions on the Single Allocation Platform has been extended from seven to nine working days. While registration to the platform should only happen once for each market participant, it is nonetheless a form of inconvenience to see the registration process become slower, which we would expect to be duly justified by the TSOs or JAO. Without such justification we request to go back to the original text of the EU HAR.

Article 56:

As stated at numerous occasions, we remind the 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 to ensure that operation remains within Operational Security Limits: 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.

While FTRs curtailed to ensure that operation remains within Operational Security Limits shall be compensated to market participants at the market spread, this compensation is subject to a cap. Hence, article 56.3 creates a risk of curtailment and incomplete compensation for cases that are not justifiable in practice.

We therefore request that TSOs take the responsibility to review this article, especially given the increasing number of borders that will use FTR options going forward.

Article 59:

We welcome the clarification in article 59.2 and 59.3 that the calculation of possible compensation caps for curtailed transmission rights includes congestion income from all timeframes.

Comments on the CORE specific annex

Article 8:

We acknowledge the proposed monthly compensation cap for curtailed transmission rights at the BE-DE/LU border as compliant with article 59.3, as the new border will consist of an HDVC link.

Former article 21:

We welcome the deletion of specific provisions for the allocation of capacity at the HU-RO border.

Article 22:

We fundamentally reject the first, second and fifth paragraphs of article 22 that foresee an automatic switch from PTRs to FTR options of already allocated yearly PTRs at the AT-CZ and AT-HU borders, as of the date of go-live of implicit allocation in day-ahead.

First, this proposal, once again, comes without a justification of the TSOs. We can only guess that the TSOs do not wish to implement market coupling at these borders with PTRs. Market coupling, including flow-based, has functioned and continues to function with PTRs. Hence, we do not understand the rush and the uncertainty for the market brought about by this proposal. It disregards responses from market participants to the informal survey run by the CORE TSOs, and shows either ignorance or disregard for hedging practices.

Second, 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.

Third, we deem this proposal as non-compliant with the FCA Regulation or the EU HAR. Both the Regulation and the EU HAR foresee that transmission rights shall be firm, with specific conditions for their curtailment. Nowhere in the Regulation or the EU HAR is a possibility to amend the characteristics of a right. This proposal seems to us even less compliant with the EU HAR now that the TSOs included a last sentence in Recital (5) – see comments above.

As a conclusion, we call on the TSOs to delete the first, second and fifth paragraphs of article 22. The switch from yearly PTRs to yearly FTRs should happen for the start of a new allocation of yearly rights, without affecting already allocated rights.

If, against all the experience gathered over years on the operation of market coupling with PTRs, the concerned TSOs still deem it desirable to switch from PTRs to FTRs in the middle of a year, then the TSOs should not change the characteristics of the allocated rights: rather, they should buy them back and re-issue capacity in the form of monthly FTRs for the rest of the running year.

Comments on the Hansa specific annex

Article 6:

We acknowledge the proposed monthly compensation cap for curtailed transmission rights at the DK1-NL border as compliant with article 59.3, as the new border will consist of an HDVC link.