

CASC consultation on the draft rules for the allocation of long-term PTRs on the German-Danish borders and on the Great Belt cable – 27 August 2013

Response of the European Federation of Energy Traders

General remarks

The European Federation of Energy Traders (EFET) welcomes the opportunity to provide its views on the need for long-term PTRs on the border between Germany and Denmark East, and on the Great Belt Cable, and on the draft auction rules that would apply to the allocation of such PTRs.

EFET believes that a common design model for the wholesale power market must be introduced on a European basis, and we therefore fully support the introduction of yearly and monthly PTRs. Their introduction would:

- ensure full market opening by offering the full infrastructure hedging capacity to the market,
- ease cross-border competition and facilitate market entry.
- rationalise price signals and participate to the efficient coupling of Forward markets,
- provide additional transparency, and
- increase liquidity on the market,

Specific comments

We would like to make the following specific comments on the proposed draft rules:

- the calculation of the cap on compensation for reductions linked to Safety of the Power System should include daily congestion rent, related to capacity volumes that were not offered in the form of annual or monthly products, which may be collected over the course of a month;
- the definition of Force Majeure should be harmonised with the definition given in the auction rules that apply to the CWE, CSE, French-Spanish and Swiss borders; and,
- references to ITVC could be removed, in light of the fact that market coupling for the NWE region is planned to go live before the exercise date of PTR products, which all refer to 2014 periods.

Rationale for the need for PTRs at all European bidding zones borders

As mentioned in the EFET response to the 2012 Questionnaire to market participants on long-term hedging possibilities between the Nordic Region and continental Europe¹, **PTRs (or FTRs) should be issued by TSOs between all bidding zones and in all directions, to the full amount that the underlying infrastructure can offer for each timeframe.** EFET is not aware of a successful example of "appropriate cross-border financial hedging" being offered "in liquid financial markets on both side of an interconnector" in any part of Europe in any other way than through the issuance of PTRs (which may become effectively FTRs when subject to UIOSI procedures day-ahead) by TSOs.

EFET does not believe there is any reason to consider a non-harmonised model for the issuance of transmission risk hedging products in any part of Europe, based solely on the liquidity (or not) of financial trading in electricity contracts. The fundamental role of TSOs in calculating, publishing and allocating all available capacities in all directions and on all borders on a forward basis is therefore an essential part of their "public service" activities.

The proposed introduction of PTRs at the border between Germany and Denmark East, and on the Great Belt Cable would:

- guarantee that a certain minimum volume of products will always be available and offered on a transparent and non-discriminatory manner through organised auctions. This allows all market participants to take part, without having to rely on the non-guaranteed liquidity of financial markets. This is essential for the development of any trading or retail activity for non local participants and this is also essential for generators so that they can benefit from the liquidity (and "coupling") of all EU markets on a forward basis;
- provide some substantial congestion income to TSOs / cable operators, by allowing them to extract the maximum value out of the network infrastructure they manage;
- provides better and more reliable visibility for market participants as to the total volumes of hedging products;
- ensure that the capacity that is offered to the market is maximised at all points in time and that any variations of these volumes is published in a timely and effective manner;
- provide valuable signals as to the structural value of cross border capacity, from a "congestion" point of view. This is useful for all market players and for TSOs and regulators, whereas the daily price signals are much more volatile. For example, forward allocation provides clear market based price signals as to the need for additional infrastructure investments.

¹ Available at:

http://www.efet.org/Cms_Data/Contents/EFET/Folders/Documents/EnergyMarkets/ElectPosPapers/~contents/WWGJUW/MZXDR7SWXT/EFET-LgT-hedging-Nordic_21-03-2012.pdf.