

## Forward transmission rights underpin the single electricity market

The European Federation of Energy Traders (EFET)<sup>1</sup> welcomes the continued implementation by European TSOs, power exchanges and regulators of day-ahead coupling of national and regional wholesale electricity markets (DAMC), notably the extension of the price coupling of regions (PRC) to Iberia, Switzerland, Italy and CEE. EFET also supports the introduction of a single order book (SOB) platform to facilitate the execution of continuous intra-day power trading across borders of bidding zones within the single market. Yet there is a danger, as the involved parties work on such coupling projects, of forgetting the axiomatic importance to the wholesale traded markets of forward transmission rights issued by TSOs. Auctions of these rights have underpinned the development of cross border liquidity in the continental wholesale power market since the early years of liberalisation at the start of the millennium. Bidders for rights are enabled to take a view on the transmission basis risks they need to hedge and to time and pitch their bids (or their secondary market purchases) accordingly. The availability of these hedging instruments correspondingly promotes competition in electricity supply across national and control area boundaries at the wholesale level.

On 18 December 2013, the European Agency for the Cooperation of Energy Regulators (ACER) published its opinion on the draft Forward Capacity Allocation (FCA) network code submitted to it by ENTSO-E on 1 October. In its opinion, the Agency requested amendments to the code as a condition for recommending its adoption to the European Commission. The amendments requested by ACER are, in the view of EFET, the bare minimum required to make the new code fit for purpose. That is to say, without such amendments, the standards will not be met for certainty, objectivity, non-discrimination and firmness, required to allow the market in forward transmission capacity to survive and prosper.

The most important principles justifying the amendments requested by ACER are, in the view of EFET:

- Day-ahead market spread remuneration at the option of transmission right holders, to allow for conversion of physical rights to financial before the day-ahead exchange gate closure in those areas already subject to market coupling; accompanied by harmonised remuneration rules effective across all relevant bidding zones borders.
- Annulment of issued rights or physical curtailment of transmission capacity only in objectively verified emergency situations and proven cases of *force majeure*.
- Full financial firmness in the event of curtailment, except in proven cases of *force majeure*, with any compensation caps allowed only as an exception to be approved by national regulators; in any case absolute periodic caps should not be permitted,

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<sup>1</sup> 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 currently represent more than 100 energy trading companies, active in over 27 European countries. For more information, visit our website at [www.efet.org](http://www.efet.org).

while caps based on congestion income of TSOs should take account of their total annual revenue received from transmission capacity allocation across all timeframes (not only forward) at the relevant bidding zone border.

- Rigorous and objective assessment of whether alternatives to the issuance by TSOs of forward transmission rights at a particular border between bidding zones provide sufficient cross border hedging opportunities to market participants, in cases where a TSO or regulator proposes to sanction the exemption of a TSO from such issuance.

EFET calls upon ENTSO-E to take full account of the above-stated principles, and of the requests for amendments made by ACER, as it completes work on a revised version of the FCA network code. EFET also calls upon the European Commission to insist on due respect for the principles, when it considers whether to take a draft code into a comitology approval process.

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