ACER consultation on harmonised allocation rules for cross-border transmission in electricity

A Eurelectric response paper

September 2019

Eurelectric represents the interests of the electricity industry in Europe. Our work covers all major issues affecting our sector. Our members represent the electricity industry in over 30 European countries.

We cover the entire industry from electricity generation and markets to distribution networks and customer issues. We also have affiliates active on several other continents and business associates from a wide variety of sectors with a direct interest in the electricity industry.

We stand for

The vision of the European power sector is to enable and sustain:

- A vibrant competitive European economy, reliably powered by clean, carbon-neutral energy
- A smart, energy efficient and truly sustainable society for all citizens of Europe

We are committed to lead a cost-effective energy transition by:

investing in clean power generation and transition-enabling solutions, to reduce emissions and actively pursue efforts to become carbon-neutral well before mid-century, taking into account different starting points and commercial availability of key transition technologies;

transforming the energy system to make it more responsive, resilient and efficient. This includes increased use of renewable energy, digitalisation, demand side response and reinforcement of grids so they can function as platforms and enablers for customers, cities and communities;

accelerating the energy transition in other economic sectors by offering competitive electricity as a transformation tool for transport, heating and industry;

embedding sustainability in all parts of our value chain and take measures to support the transformation of existing assets towards a zero carbon society;

innovating to discover the cutting-edge business models and develop the breakthrough technologies that are indispensable to allow our industry to lead this transition.

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WG Market Integration & Network Codes

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Topic 1: Reduction periods

Q1.1: **Do you see a benefit in having earlier auctions with flexible reduction periods?**

Yes

No

Q1.2: **Please further clarify the reasons for your answer above.**

Eurelectric welcomes the possibility and intention to move the yearly allocation of cross-border capacity further ahead of delivery. Indeed, having cross-zonal hedging tools is key for market participants, for the benefit of the customer. Having those auctions organized earlier would increase the possibilities for market participants to hedge their cross-zonal positions before December Y-1.

However, over the last years, Eurelectric has been promoting the need to have strong firmness regime applied to transmission rights issued by TSOs. We therefore welcomed the rules framing firmness and curtailment principles laid down in FCA guideline.

For Eurelectric, selling transmission rights with a flexible reduction period would represent a breach to the firmness principles from the FCA guideline. We therefore oppose such practice. Should TSOs encounter issue to manage the sold transmission rights, they can always rely on the curtailment possibilities, applying the proper compensation regime according to the regulation in place. We also would like to remind that the compensation costs for TSOs are limited thanks to the caps introduced by EU HAR.

Q2.1: **Would you consider LTTRs with a flexible reduction period still as a relevant instrument to hedge your long-term positions??**

Yes

No

Q2.2: **Please further clarify the reasons for your answer above.**

With flexible reduction periods, market participants bear a risk that they cannot mitigate themselves. It would be more relevant that TSOs allocate LTTRs with no (or firm) reduction periods in August Y-1, and bear the financial risk of changing maintenance plans later on.

Topic 2: Remuneration rules

The Agency deems it necessary to clarify the rules for remuneration. In cases of no price in at least one of the two relevant bidding zones but existing results from the fallback solutions in the form of explicit auctions of transmission rights in day ahead, LTTRs should be remunerated with the price formed in the explicit day ahead fallback auction (in which the LTTRs are reallocated) since this price is more likely to reflect the price situation than using the marginal price of the initial LTTR auction if no price is formed in one of the relevant bidding zones. While such an event should be unlikely, the Agency deems it necessary to include such possible incidents, pursuant to the principle in Article 72(3)(d) of the CACM Regulation, by amendments in Article 48 and 59 of the TSOs' proposal.

Q3: **Do you agree on having the clarification of remuneration rules for the described case of no market spread between bidding zones but available results from explicit fallback auctions?**

Yes

No

Q4: **Please provide any further comments on the remuneration rules.**

Eurelectric welcomes the Agency's intention to clarify the remuneration rules, if it is considered that those remuneration rules lack clarity.

Currently, article 48 of the EU HAR specifies how the LTTR are remunerated in case of fallback mechanism.

In ACER attempt to clarify, Eurelectric would like to further understand what is meant by "no price". According to us, and as specified in article 48.1, the LTTR should remunerate holders to the level of the market spread between the two bidding zones, even in case of fallback auctions (and not to the level of the transmission capacity between those bidding zones). This is key for market participant to ensure a good hedging of their market spread. Only in case no price could be calculated, even by the national auctions, the remuneration can then be equal to the result of the shadow capacity auction (instead of the initial auction price).

Q5: **Please provide any other comments concerning the proposed harmonised allocation rules for long-term transmission rights.**

Eurelectric would like to remind a set of key elements already communicated through previous consultations. .

Recital 5:

Eurelectric appreciates that recital 5 specifies that specific requirements shall not deviate significantly from the HAR or from the FCA. It is a small step in the right direction. Indeed, Eurelectric believes it is important to limit, as much as possible, the number of annexes to having different sets of rules across European markets. We would like to emphasize that to achieve a real harmonization between all borders the objective should be to phase-out the regional annexes (in order to avoid too many specific rules). In this respect, Eurelectric would welcome a stronger governance on the existence and phase out of annexes. For instance, we believe that TSOs should provide the NRAs and the market participants with a view on the timeline for the phase-out together with a justification for having specific rules at their borders. NRAs could then request TSOs to provide a justification every year for maintaining the existence of annexes. We consider that some other specific points need further clarifications and explanations, as mentioned below in further details.

FTRs Options and FTRs Obligations (Article 2)

Eurelectric would like to remind some concerns on the FTR obligations. These products do not derive from an explicit need of the market, nor from an explicit request from market participants. In the case of FTR obligations, TSOs will namely collect congestion revenues if the request for capacity (with the price > 0) is higher than the available capacity at each allocation. In case the spread is in the opposite direction, we do not see the rationale for paying a negative spread to the TSOs, which do not support any financial risk in allocating cross-border capacity. FTRs as obligation would only make sense if market participants would trade between themselves such or similar contracts. In such case, payment for the negative spread would be the consequence of risk premiums. This is however not the case when TSOs allocate capacity. For the time being, we do not see any reason justifying FTRs Obligations.

Article 7:

We read that the deadline for submitting a Participation Agreement has been moved from 5 days to 9 days prior to the first participation. We would like to understand the motivation for such a change.

Article 56 and 57:

Curtailment and firmness (Article 57 and Annexes)

Eurelectric would like to remind concerns on the firmness regime, since no modification of the EU HAR has been proposed compared to previous version.

EURELECTRIC considers that the regime of firmness should not, in any border, derogate from the main body of HAR rules, and is therefore opposed to different firmness regime in border specific annexes. If caps were to be applied, they should be duly justified and periodically reviewed.

This is a good example to illustrate the importance of phasing out the annexes as soon as possible to offer the same level of firmness across Europe (i.e. the application of a cap on the compensation for curtailment is to be considered as an exception and should be duly justified).

Apart from the progressive evolution of EU HAR to align with FCA firmness regime, we would like to recall that one of the TSOs tasks should be to optimize the available capacity on forward timeframes. In this respect, TSOs should use curtailment as a last resort measure after having activated all other available remedial actions (such as re-dispatching and countertrading) and regulators should have a monitoring role in this respect.

To ensure the monitoring of curtailment's events, we should ensure that "the factual reasons that lead to the curtailments" are published in due time and reported to the respective regulatory authorities, as imposed by Article 53(1) of FCA Regulation, to avoid any preventive curtailment and ensure that curtailment is really the last resort measure. We therefore recommend to explicitly include the obligation to publish "factual reasons that lead to curtailment" in the notification mentioned in Article 57.2 "process and notification of curtailment" of the EU HAR.

Additionally, we consider that FTRs should not be curtailed for "Operational Security Limits". FTR Options can't be nominated (by definition). We therefore see no reason to apply a curtailment for system security reason. We acknowledge that curtailed FTRs for operational security limits are compensated at the day-ahead spread, but the compensation is subject to a cap. This therefore create a financial risk for market participants. Given the current willingness to increase the number of borders on which FTRs are applied, we recommend TSOs to review articles 56 and 57 accordingly.

Eurelectric pursues in all its activities the application of the following sustainable development values:

Economic Development

- Growth, added-value, efficiency

Environmental Leadership

- Commitment, innovation, pro-activeness

Social Responsibility

- Transparency, ethics, accountability

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