All TSOs' proposal for amendments of the methodology for Harmonised Allocation Rules for long-term transmission rights

A Eurelectric response paper

January 2023

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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7. Any views on the proposals are welcomed together with more specific questions related to each topic of the proposal

Key messages:

- Eurelectric continues to challenge the added value of Flow Based allocation which has not been sufficiently demonstrated and is hence not compliant to FCA guideline article 10. Most importantly, it has not been proved that FB allocation will lead to more cross-zonal capacities being allocated, which should be the ultimate goal given the need for long-term hedging under current circumstances.
- Collateral: Eurelectric wants to highlight that the move to Flow Based Allocation implies a significant increase of collateral requirements which has so far not been addressed and is therefore seriously imperiling any benefits of the Flow Based Allocation.
- Hedging for longer term horizon is not sufficiently foreseen in the EU HAR. The proposal does not sufficiently support the possibility for allocation of FTR beyond the year-ahead horizon.
- Transparency: the EU HAR lacks sufficiently detailed and effective transparency provisions with regards to the evolution of the Flow Based Calculation and Allocation;
- we reiterate our opposition to Art. 49 which provides for a cap for the remuneration of LTTRs in case of decoupling event and would like to remind that it is not compliant with the FCA regulation (Art. 35);
- on the last slide, in the part "*Amendment article/General*", we don't not understand what ENTSOE means by "*possibility to amend certain aspects of the HAR without regulatory approval*". We believe HAR changes must always require regulatory approval.

General comments

<u>Format of the consultation:</u>

We welcome the ppt explaining the main changes, this is pedagogical and useful.

<u>FTR obligations:</u>

Eurelectric would like to remind its opposition to the use of FTR obligations. As said in our answer to the consultation of ACER on the Forward Policy paper. We therefore reiterate our request to remove the FTR obligations in the EU HAR.

<u>LTTR beyond the one year ahead horizon:</u>

The maturities of LTTRs should be aligned with the maturities of forward products in the market. It would allow MPs to hedge their cross-border risk together with other risks in the market.

We recommend the EU HAR to be adapted to accommodate such potential evolution, should a decision be taken to implement LTTR allocation beyond year-ahead.

8. Please provide your views on provisions related to collaterals requirements.

<u>Collateral issues:</u>

We understand in the background power point document that an update of EU HAR is needed in order to review how bids are assessed and rejected due to insufficient credit limit and TSOs to assess if the amount of credit limit required can be reduced.

We fail to understand the following sentence and would welcome clarification: “Included as unsolved and open question for Shadow Opinion and PC”.

Eurelectric wants to highlight that the move to Flow Based Allocation implies a significant impact for collateral requirements. We understand that the collateral requirement has not been adapted/modified to the allocation of more than 20 borders at the same time: therefore, Market Participants will have to provide at once the full amount of collateral corresponding to the “sum” of all the induvial borders they are bidding. This will drastically increase the cost of hedging and trading in general. This major drawback of the Flow Based allocation is not addressed in the EU HAR, contrary to what has been said during the LTFBA workshop in November 2022. The filtering which is foreseen to reject bids that would not be covered by the provided collateral, is seriously challenging the benefit of the Flow Based Allocation. Eurelectric called several times for a proper solution to address this problem, without success.

Finally, the required collateral (for both Flow Based and ATC) seems disproportionate compared to the risks TSOs are bearing. Indeed:

- article 22 mentions that the validity of the collateral requirements should be 30 days after the end of the Product Period;
- Article 66 says that the payment for long term rights shall be settled before the start of the Product Period;

We suggest that the validity of the collateral should end right after the payment of the acquired rights.

9. Please provide your views on contestation of auction results and fallback procedures and articles affected by these.

Transparency (article 29):

Article 29.2 states that in the event of FB, “final offered capacity” shall be published. It is also clarified that in the event of Flow based allocation, the “final Offered Capacity” shall consist of: “a) Max Exchanges (MaxBex) and; c)b)Max Net Positions”

Feedback:

First we want to point out that there is no definition of “Max Exchange” or “Max Net Positions”, neither a reference to the relevant capacity calculation methodologies. Second, we consider that publishing only “Max exchange and max net position” is not sufficient for “final offered capacity” in case of Flow Based Allocation. Indeed, the full list of required data (e.g. as published in the CORE LT CCM, annex 1, article 20.1, referring to article 3f of FCA regulation) shall be published prior to the auction; How will this be ensured ? where will this data be published ?

Article 31:

While article 31.3 and 31.4 refer exclusively to ATC allocation, article 31.6 mentions that all previous provisions refer to both ATC and Flow based. Could EntsoE clarify this ?

Decoupling and cap on LTTR remuneration (article 49):

TSOs once again exhibit a large need to stress the importance of the possibility to curtail the remuneration in case of the de-coupling in the DA, in our view beyond the magnitude of the actual issue. This is reflected in article 49 of the revised Harmonised Allocation Rules.

Eurelectric feedback on article 49:

As a first point, we would like to remind that we are strongly opposed to the approach that the remuneration of LTTR in case of decoupling is equal to the shadow capacity price, as explained in our answer to ACER consultation on EU HAR update in 2021, and as stated in our letter dated 6th April 2021[1] to the European Commission and ACER after this idea of altering the firmness of LTTR during decoupling events was presented by ENTSO-E at the MESC of 11th March 2021. This idea has already been proposed by ENTSOE in 2021 and rejected by ACER since it wouldn't be compliant with FCA Article 35. We therefore strongly disagree that it is brought again for discussion, without any new arguments that would justify the reopening of the issue.

The letter clearly described the flaws in the rationale presented by ENTSO-E to reduce the firmness of LTTR in case of decoupling. Furthermore, the letter outlines a way forward and requests ENTSO-E to focus on the management of decoupling events and improving the competition in the shadow auctions. We request ENTSO-E to refer to this letter for more details on our concerns, and we reiterate a few major points presented in the letter below.

The proposal of ENTSO-E that the remuneration of LTTR could be capped in the case of decoupling is claimed to be introduced to ensure fairness and a level playing field both for market participants and for tariff payers. However, challenging the firmness of LTTR could not only be detrimental to the holders of LTTR for the period of the decoupling, but could even be detrimental to network tariff payers, as the risk of a revenue loss in case of decoupling event would eventually be accounted for by bidders when they auction to buy the LTTRs. In other words, TSOs would permanently get less revenues from LTTR auctions if they make LTTR a less reliable – and thus less valuable – hedging solution.

Moreover, we consider that the proposal is not appropriate to address the problem of limited competition in the shadow auctions, which induces a loss of congestion rents for TSOs during decoupling events. Penalizing only the LTTR holders in terms of LTTR remuneration will not solve this concern. Eurelectric supports the ambition to increase competition in shadow auctions, but consider that the facilitating measures should target all market participants and not only the LTTR holders.

Finally, if a decoupling event has significant consequences in terms of congestion rents or price formation, Eurelectric considers that the economical compensation measures should rather be paid by the party that is responsible for the failure that caused the decoupling. As LTTR holders could by no means be considered responsible of the past decoupling events, their penalization provides incorrect incentives for minimizing decoupling events. It is the responsibility and operational performance of other stakeholders of the market coupling process that should rather be correctly incentivized.

Therefore, we are strongly opposed to the idea that the remuneration of LTTR could be altered in the case of decoupling. This goes against the key principle that LTTR is a hedging product for market participants, who would then bear a risk that they have no means to mitigate. Last but not least, we would like to point out that the Market Coupling Steering Committee recently decided to increase the price threshold triggering a book reopening, with the argument that this would drastically reduce the risk of decoupling.

As a second point, we are also strongly opposed to the modification to cap the remuneration to monthly revenues, instead of yearly revenues. TSOs are well protected for the remuneration of LTTR with a yearly approach, and there has been no justification of the reason for such change. We do not see what is justifying such limitation which seems disproportionate.

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[1] https://cdn.eurelectric.org/media/5278/letter_to_acer_remuneration_of_lttrs-2021-030-0157-01-e-h-14527037.pdf

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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