ENTSO-E consultation on updated harmonised allocation rules for long-term transmission rights

A Eurelectric response paper

June 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.

Dépôt légal: D/2019/12.105/17

WG Market Integration & Network Codes

Contact:
Ioannis RETSOULIS - Senior Advisor Wholesale Markets & Network Codes - iretsoulis@eurelectric.org

ENTSO-E consultation on updated harmonized allocation rules for long-term transmission rights

A Eurelectric response paper June 2019

Eurelectric thanks ENTSO-E for giving the possibility to comment on the updated EU HAR and on a set of specific borders. Eurelectric recalls that it is essential to provide market participants with the ability to hedge their risk associated with cross-border trading. The FCA Regulation aims namely at promoting the development of liquid and competitive forward markets and at enabling market participants to hedge against the uncertainty of electricity prices on short term markets. Therefore, the EU HAR are of utmost importance since they frame the way long term transmission rights are allocated to the market. Eurelectric provides a series of specific comments in this paper.

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 45:

PTRs for balancing services (Article 45.5)

Eurelectric remains opposed to the reservation by TSOs (i.e. with a mechanism in which the TSOs would assess the value of the capacity) of cross-border capacity for balancing purpose. Eurelectric considers that the appropriate way to reserve capacity for balancing capacity exchange is via a mechanism where the market determines the price of the capacity (ie for instance via an auction). We refer here to the answer to the relevant balancing consultation that we will submit.

In that respect, the possibility to reserve PTRs for balancing services as introduced in Article 45.5 of EU HAR should be seen as a possible way to grasp effectively the economic benefits of exchanging reserves instead of energy through interconnectors, and to leave the possibility for Market Participants to make efficient trade-offs on the best way to use cross-border capacity for DA, ID or BAL.

Article 52:

Eurelectric disagrees with the addition of Article 52(3)(c) ("*An Auction cancellation may be announced […] after the end of the contestation period, in the case a special event led to a bidding zone border not being part of the Internal Energy Market anymore*"). This addition seems to be related to the handling of the Brexit effects, but is in our view not acceptable, since it would lead to an ex-post cancelling of already allocated rights, without any compensation for their owners.

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.

<u>CORE specific annex 1:</u>

Eurelectric disagrees with the proposal to switch from PTR to FTR on already allocated products in parallel to the go-live of the day-ahead implicit allocation on AT-CZ and AT-HU borders. The characteristics of a product should not change after the sale of those products. The markets participants are indeed taking into account all their characteristics when they price their bids.

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

eurelectric

Union of the Electricity Industry - Eurelectric aisbl
Boulevard de l'Impératrice, 66 – bte 2 - 1000 Brussels, Belgium
Tel: + 32 2 515 10 00 - VAT: BE 0462 679 112 • www.eurelectric.org
EU Transparency Register number: 4271427696-87