

ACER decision on Harmonised Allocation Rules for Long-Term Transmission Rights – collateral provisions

Eurelectric position paper

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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Introduction

ACER consults stakeholders on the amendments to the Harmonised Allocation Rules (HAR) proposed by all Transmission System Operators (TSOs). Amending the HAR will allow for the implementation of long-term flow-based allocation in the Core and the Nordic capacity calculation regions (CCRs).

This consultation is addressed to all interested stakeholders, including regulatory authorities, market participants and the TSOs. ACER invites all interested stakeholders to provide their view on the HAR Proposal. Please respond to this survey by 26 September 2023, 23:59 hrs (CET).

Procedural background

The current version of the Harmonised Allocation Rules (HAR) for long-term transmission rights was approved by ACER on 29 November 2021 (ACER Decision 15/2021).

On 1 March 2023, ACER received all TSOs' proposal for the amendment of the current HAR. On 1 August 2023, the TSOs complemented their proposal by submitting the amendments to the provisions on collaterals in the HAR. The two submissions are available on ACER's consultation page (under section "Consultation documents") and are hereinafter collectively referred to as "the Proposal."

The HAR revision is required for the implementation of the long-term flow-based allocation in the Core and Nordic CCRs. In the Nordic CCR, the long-term capacity calculation methodology under Article 10 of the FCA Regulation (FCA CCM) was approved on 30 October 2019 (ACER Decision 16/2019). The FCA CCM of the Core CCR was approved on 3 November 2021 (ACER Decision 14/2021). The two methodologies are based on flow-based cross-zonal capacity calculation and can only be fully implemented once capacity calculation results are allocated with long-term flow-based allocation. Amending the HAR is the final step in this process, following the amendments to the single allocation platform, the congestion income distribution and sharing costs incurred to ensure firmness and remuneration of long-term transmission rights, already approved by ACER on 22 March 2023.

ACER has six months (until 1 February 2024) to take a decision on the Proposal. ACER will review the Proposal and amend it, where necessary, in order to ensure that it is in line with the purpose of the FCA Regulation and contribute to market integration, non-discrimination, effective competition and the proper functioning of the market.

Eurelectric wishes to emphasize the following critical key messages regarding the HAR methodology consultation:

1. Eurelectric disputes the added value of Long Term Flow-Based Capacity Allocation (LTFBA), urging ACER to explore alternative approaches or mitigation measures. We emphasize prioritizing an appropriate approach over strict deadlines, as LTFBA is not mandated in FCA guideline Art.10 (5.a).
2. Regarding collateral requirements, Eurelectric deplores the fact that allocating all LTTR via a single auction will lead to bid filtering. The only appropriate approach for such filtering is to integrate the bid selection in the optimization function (option3). Should this not be feasible by November 2024, then a deadline extension should be envisaged.
3. Eurelectric strongly opposes the TSO proposal to cap LTTR holder remuneration during decoupling events, citing flaws in the rationale and potential harm to both holders and tariff payers. This approach does not effectively address the issue of limited competition in shadow auctions and may reduce the reliability of LTTRs as a hedging solution.

Preliminary feedback

Eurelectric continues to challenge the added value of Flow Based (FB) allocation which has not been sufficiently demonstrated and is not mandated in FCA guideline Art.10 (5.a). It has not been proven that FB allocation will lead to more cross-zonal capacities being allocated, which should be the primary objective, particularly considering the imperative need for long-term hedging in the current environment. It's essential to clarify that Article 10.5.a exclusively pertains to capacity calculation, and a FB approach may be suitable if it promotes overall welfare.

Recent simulations performed by TSOs showing that some bidding zone will have very low or even zero capacity volumes allocated at their borders. We have repeatedly suggested TSOs and ACER to investigate possible mitigation measures, such as imposing a minimum volume at each border, to prevent any bidding zone from becoming isolated in the forward market. This would be similar to the approach applied in intraday for which TSOs manage to extract ACT from the flow based domain. We regret deeply to see that our call for mitigation measures has not been addressed, and, even more concerning, ACER seems to dismiss their appropriateness, continuing to advocate for a Flow Based approach in the allocation of FTRs, introducing competition between borders, with a singular focus on maximizing economic surplus. The sole focus on economic surplus is not the most appropriate when allocating long-term capacity. While welfare is without doubt the guiding principle for efficient short-term power markets, we question its omnipotence when it comes to ensuring explicit transmission is available for market participants to trade and hedge. The current CCM is clearly constructed on surplus maximization, even when ACER acknowledges it *“actually implies somewhat less allocation of cross-zonal capacities compared to the actual auctions. [...] The methodology might under-allocate cross-zonal capacities”*. The objective of providing sufficient hedging opportunities is clearly not fulfilled.

Therefore, Eurelectric urges ACER to reconsider the benefit of introducing mitigation measures to the Flow Based allocation of FTR, and to do so prior to its go-live. Overall, we observe that the priority of ACER seems to be focused on meeting the deadline set by their decision. Thus, we believe that it is more crucial to prioritize finding the most appropriate approach for establishing Flow Based Allocation of LTTR, rather than focusing solely on meeting this deadline.

Consultation questions

Topic 1: Collateral requirements

1.1 Background

With the introduction of long-term flow-based allocation (LTFBA), auctions will be performed simultaneously for all bidding zone borders in the CCRs where the flow-based capacity calculation approach is applied. The currently approved HAR requires that participants in an LTTR auction provide sufficient collateral to cover the value of their bids. Having simultaneous auctions for all bidding zone borders implies that the collateral requirements may significantly increase during the auction phase if the current approach remains unchanged. Therefore, under Article 34(6) of the Proposal, TSOs propose to introduce a price cap for the calculation of the maximum payment obligations in case of flow-based allocation. The only impact of such price cap would be to limit the collateral requirements from a bid for the calculation of the maximum payment obligations. More specifically, it is proposed that if the original bid price is lower than the price cap, the bid price shall be used for the calculation, and if the original bid price is higher than or equal to the price cap, the price cap shall be used for the calculation. The TSOs propose to calculate the price cap as follows:

1. For yearly auctions, the average value of market spreads of the six (6) last calendar months before the publication of the final auction specification shall be used for calculation, by adding all MTUs with positive values of the market spread for a bidding zone border direction. The resulting total value shall be divided by the number of MTUs with such positive market spread.
2. For all auctions having a shorter product duration than yearly auctions, the average value of market spreads of the last calendar month before the publication of the final auction specification shall be used for calculation, by adding all MTUs with positive values of the market spread for a bidding zone border direction. The resulting total value shall be divided by the number of MTUs with such positive market spread.

ACER agrees with the TSOs that there is a need to amend the provisions on the collateral requirements for flow-based allocation of LTTRs. However, as described under point 1.2, ACER is concerned about the expected accuracy and efficiency of the cap calculation as proposed by the TSOs.

In ACER's view, there are several ways to limit the collateral requirement in case of flow-based allocation. ACER would like to collect stakeholder views on the possible options outlined below.

1.2 Option 1: Cap option using the average value of the market spread

According to Article 34(6) of the Proposal, the TSOs intend to use an average of the latest market spreads before an LTTR auction to define the cap. ACER in general considers that using the market spread for defining such a cap would be a simple and transparent method. While other, more complex methods may provide a higher forecast accuracy, ACER considers that the approach based on the market spreads would be easy to implement and can be expected to be in place before the go-live of the LTFBAs in the Core CCR in November 2024.

However, ACER sees some room for improving the TSOs' proposed calculation. More specifically, only dividing the total summed-up value by the amount of MTUs with a positive value, the calculated cap might not result in an equal consideration of all bidding zone

border directions and could lead to unjustified high caps for some bidding zone border directions. While bidding zone border directions with constant positive values over all MTUs would have an accurate representation of the past directional market spread, bidding zone border directions with a very small share of MTUs with a positive value would be subject to a significantly overestimated cap. Dividing the total summed-up value by the number of all MTUs within the relevant time period might be, in ACER's view, a more accurate approach than the calculation method proposed by TSOs.

1. Do you consider Option 1, using the average value of the market spread, an acceptable solution?

- ☐ Strongly agree.
- ☐ Agree
- ☐ Neutral
- ☐ Disagree
- ☒ Strongly disagree.

2. In your opinion, what is the preferred method on how to address the described issue of collateral requirements, which could still be implemented by the deadline of November 2024?

As already mentioned in our answer to the ENTSO-E consultation, Eurelectric considers that since the FTR auctions concern forward maturities (and not day-ahead), we suggest using the average observed forward spread during a certain period, instead of historical spot prices. It is important to make sure that the reference price used to compute the cap is in line with the maturities of the FTRs, at least for "in the money" directions. We do not consider appropriate the use of spot prices as a benchmark for the forward. We note however that ACER slightly improves the ENTSO-E proposal by including all prices (and not only positive price spreads) and we appreciate this minor improvement.

That being said, we want to stress that this issue is clearly not the priority compared to all the drawbacks brought by the current design choice. We also want to reiterate our concern that performing an auction with only a limited set of buying orders seriously challenges the potential merit of such an auction. In order to properly assess the situation, we suggest once again performing an analysis to test to which extent the set of buying orders would be limited by collateral. To our knowledge, this assessment has not been performed and could seriously affect the relevance of the outcome of the auction.

3. Do you have any comments on the TSOs' proposal for the cap calculation?

[See question 2.](#)

1.3 Option 2: Cap option using forward prices.

Another approach to calculate the price cap could be to use available prices from the forward electricity market. It is expected that using forward prices would result in more accurate forecasts of LTTT auction results than when using the average of past day-ahead prices. Option 2 would therefore result in a more efficient cap application. One problem with the use of forward electricity prices is the availability of reliable and consistent prices that can be used for a cap calculation for all relevant bidding zone borders. Another complexity is the transformation of bi-directional market

spread resulting from the available forward electricity obligation prices to a market spread per bidding-zone border direction (i.e. required for defining a cap per auctioned LTTR option). ACER is therefore concerned about the complexity of implementing this method, especially considering the required implementation by November 2024.

4. Do you consider Option 2 of using forward prices an acceptable solution?

- ☐ Strongly agree.
- ☐ Agree
- ☒ Neutral
- ☐ Disagree
- ☐ Strongly disagree.

5. If you agree, please provide a detailed description on how you consider the calculation of the price cap using forward prices can be done in the best way possible (i.e. how should the described problems be addressed most efficiently)

Before entering the details, we want to remind that we are opposed to the notion of bid filtering and as said in question 2, we suggest performing an analysis to estimate the impact of such filtering on the auction results. We consider that any bid-filtering would reduce the efficiency of the auction. To avoid making an ex-ante bid filtering, we want to voice our support to the “option 3” proposed by ACER and refer to our answer to question 7 and 8, which is for us the only acceptable solution in case bid filtering has to be put in place.

As mentioned in question 2, we consider that forward prices should be used as a benchmark for the value of FTR, not historical spot prices, especially if the historical period does not match with the FTR delivery period (eg: using Q3 spot prices as a benchmark for CAL prices in the forward). One could use the historical forward quotations for the relevant delivery period during an historical period of e.g. 1 or 2 months prior to the auction. This could be used for in the money directions.

For out of the money directions, the question of price cap does not seem that relevant since the value is anyway not very high.

6. If you disagree, please clarify the reasons why you consider such solution not acceptable or not feasible

Again, we want to insist that ex ante filtering is not a proper solution and refer to our answer to questions 7 and 8.

1.4 Option 3: A solution where bid filtering is based on the market results

An approach, where the bid filtering is based on the market results and is not performed before the auction, might constitute an appropriate long-term solution. This approach should eliminate the need to exclude bids before the algorithm is run. Such a solution would therefore effectively address the drawback of a cap solution, where inaccurate forecasts for the calculation of the cap would lead to inaccurate assessments of the required collaterals before the auction is run. Although this approach can't be implemented in time for the go-live of the LTFBA in the Core CCR, it could be explored at a later point in time as a potential

long-term solution and ACER would therefore still like to receive input on this option. The go-live of the first LTFBA auctions in November 2024 would require another, transitory solution.

7. Do you consider that Option 3 should be further explored as a long-term solution (i.e. after the go-live of the first LTFBA auctions)

- ☐ Strongly agree.
- ☒ Agree
- ☐ Neutral
- ☐ Disagree
- ☐ Strongly disagree.

8. Do you have any other comments concerning Option 3?

Should a bid filtering have to be performed, then we consider option 3 as the only acceptable solution. In this approach, each Market Participant defines the maximum acceptable amount of collateral he can provide. Then an optimal bid selection is determined, while respecting the maximum amount defined by each MP. To take the language of the consultation: This approach should eliminate the need to exclude bids before the algorithm is run.

We however disagree with ACER assertion that this should be regarded as a viable long-term solution post-implementation.

We would like to emphasize that the go-live date is set by an ACER decision and not prescribed in a primary regulation. Thus, we believe that it is more crucial to prioritize finding the most appropriate approach for establishing Flow Based Allocation of LTTR, rather than focusing solely on meeting this deadline. It is imperative that all necessary efforts, including the allocation of adequate resources and time – should be dedicated to the project in order to ensure that we do not proceed with a project that could detrimentally impact the efficient functioning of the forward market.

We therefore urge ACER and the TSOs to investigate the implementation possibilities for such an option, possibly turning to IT/Algorithm providers if necessary. In any case, we request the publication of a more detailed impact assessment for this solution, before ruling out the possibility of a swift implementation.

1.5 Timing for publishing the calculated cap on collaterals

According to the Proposal, the calculated price cap for collaterals in case of flow-based allocation is published with the final auction specifications, at the latest one hour before the start of the bidding period. ACER considers that it could be beneficial to publish the calculated cap on collaterals earlier, so that market participants have more time to alter their credit limit.

9. Do you have any comments on the proposed timing for publishing the cap on collaterals?

We consider, as ACER, that the cap should be published earlier, at least 3 working days before the auction.

Topic 2: Sanctioning in case of non-payment

In the Proposal, in case a registered participant is suspended from the participation agreement due to a payment incident, they may not use their allocated LTTRs until their payment of the LTTRs is fully settled or fully secured by collaterals. This provision implies that a market participant who refused to pay its debts may regain access to its LTTRs once the market turns in its favour. To prevent such a situation and the resulting costs for the TSOs and consequently the tariff payers, ACER intends to introduce a stricter sanctioning regime in case of non-payment by market participants. ACER would propose that after a non-payment within a certain deadline for settling open positions, market participants will lose all rights on awarded capacity.

In the Proposal, a market participant, who is suspended from the participation agreement, is not able to participate in an auction until the payment of the LTTRs is fully settled or secured by collaterals. To reduce the risks of non-payment of LTTRs, ACER considers to implement a provision where a suspended market participant is excluded from all further auctions for a certain cooling-off period, e.g. minimum of three months, after the LTTRs have been fully settled after the payment incident.

10. Do you have any comments on strengthening the sanctioning regime as proposed by ACER?

No comment

Topic 3: Auction specifications

3.1 Offered capacity with flow-based in the auction specifications.

The final offered capacity is provided in the final auction specifications. According to the Proposal, this final offered capacity in case of flow-based allocation shall consist of:

1. Max Exchanges (MaxBex) per bidding zone border directions;
2. Min Net Positions; and
3. Max Net Positions

ACER considers that it would be beneficial for the market participants to receive the full set of flow-based parameters, in order to have the opportunity to simulate the LTFBA and assess their positions. ACER considers that the final offered capacity in case of flow-based should consist of:

1. Power transfer distribution factors (PTDF) per critical network elements (CNEC) and, if applied, grouped network elements (GNEC);
2. Remaining available margin (RAM) per CNEC and GNEC;
3. External constraints (EC) per border directions, where applied;
4. ATC values per border directions, applied for evolved flow-based (EFB) approach;
5. Max Exchanges (MaxBex) per bidding zone border directions;
6. Min Net Positions; and
7. Max Net Positions

(Note: check the [SAP methodology](#) for the definitions of CNEC, GNEC, EC, EFB etc.)

11. Do you support the proposal of providing the flow-based parameters in the final auction specifications?

- ☒ Yes
- ☐ No

12. Do you have any other comments concerning the proposal on the offered capacity with flow-based?

First, we want to point out that definitions of “Max Exchange” or “Max Net Positions,” and any reference to the relevant capacity calculation methodologies, are missing. Second, we agree with ACER 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. Hence, in addition with ACER list, we consider that the detailed characteristics of the CNECs (i.e., not just an ID but also the various technical components) should be published such as:

- Branch Name
- Contingency Name
- EIC code
- Direction
- Hub from / hub to
- Substation from / substation to

- Element type
- TSO
- Fmax
- Imax
- U
- FRM
- F0core
- F_uaf
- minRAM factor
- AMR

Other comments

13. Do you have any comments on other amendments proposed by the TSOs?

In addition, Eurelectric is opposed to the TSO proposal to introduce a cap for the remuneration of the LTTRs holders for non-nominated physical transmission rights and financial transmission rights in case of decoupling event in the day-ahead market coupling (article 49 in the proposal), as already mentioned in our answer to the EntsoE consultation of December 2022 and in our letter dated 6th April 2021¹ 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.

The letter has clearly described the flaws in the rationale presented by ENTSO-E to reduce the firmness of LTTR in case of decoupling. Furthermore, the letter describes a way forward and requests ENTSO-E to focus on the management of decoupling events and improving the competition in the shadow auctions.

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 and consequently would be accounted 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 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.

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

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Economic Development

- Growth, added-value, efficiency

Environmental Leadership

- Commitment, innovation, pro-activeness

Social Responsibility

- Transparency, ethics, accountability

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