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ENTSO-E proposal for amendments of the methodology for HAR for long-term transmission rights

A Eurelectric response paper

May 2023

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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

Contact:
Donia PEERHOSSAINI, Advisor - Wholesale Markets -
dpeerhossaini@eurelectric.org

7. Please provide your view on setting collaterals according to a cap

8. Please provide your views on the method for calculating the cap

Eurelectric thanks ENTSO-E for the opportunity to respond to the consultation "All TSOs' proposal for amendments of the methodology for Harmonised Allocation Rules for long-term transmission rights".

Eurelectric wants to highlight once more 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.

To partially mitigate the issue, we take note of the proposal to cap the price based on which the collateral will be computed. The proposed cap equals the average observed realized spread during a certain period. Since the FTR auctions concern forward maturities (and not day-ahead), we suggest using the average observed forward spread instead during a certain period. It is important to make sure that the reference price used to compute the cap is in line with the maturities of the FTRs. We suggest Entso-E to engage into discussions with data providers in order to obtain the necessary data.

That being said, we want to reiterate our concern that performing an auction with only a limited set of buying orders challenges the potential merit of such an auction. In order to properly assess the situation, we suggest performing an analysis to test to which extent the set of buying orders would be limited by collateral.

In addition, we think that the constraint related to collateral (ie the limitation in terms of bidding a market participant will have to respect) should be integrated into the optimization algorithm, in order to make sure that the best combination of bids is selected (instead of an ex ante arbitrary selection).

Last but not least, we want to remind a comment we shared at last consultation. We consider that 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.

Could ENTSO-E clarify this point ?

Finally, Eurelectric wants to once more challenge the added value of Flow Based allocation which has not been sufficiently demonstrated by ACER 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. More worrying, the recent simulations performed by TSOs show that some bidding zone will have very low/zero volumes allocated at their borders. We suggest TSOs to investigate possible mitigation measures, such as imposing a minimum volume at each borders, ensuring that no bidding zone becomes isolated in the forward market.

9. Please provide your view on the penalty mechanism

In the consultation text, the proposal "If such dunning process is again not successful, the MP will lose all rights on awarded capacity from the day after the dunning process ended. JAO will collect collaterals from MPs, given in form of bank guarantee or cash deposit all open amounts, to balance open invoices." can be interpreted as: should a MP be in default (ie not paying the needed amound), there would be a call made to others MP to "fill the gap". To avoid misunderstandings, we recommend specifying in the EU HAR text that JAO will collect collaterals from the concerned MP.

10. Please provide your view on the altered auction timings

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

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
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