

ENTSO-E consultation on block bids for the allocation of long- term rights

A Eurelectric response paper

April 2021

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.

The solution proposed by ENTSO-E is described in:
https://consultations.entsoe.eu/markets/blockbids_new_approach/ltrrs/consult_view/

What would be your appetite for such type of products?

- It is a crucial development that would significantly improve our business
- It is a useful feature, and we see opportunities for our business
- It would not affect our business.
- It would make the business much more complicated.

Not choosing any specific option. Our response can be found below.

Please complement your answer:

Eurelectric is supportive of an introductory target solution with monthly products in yearly auctions of long-term transmission rights (LTTR) with the possibility to link monthly products to build on yearly, seasonal, or trimester products. From Eurelectric's perspective, this development would provide market participants more flexibility to apply their hedging strategy.

This benefit will be maximized if TSOs use this feature to increase the volume of LTTR to be allocated year ahead, in particular on borders where the LT capacity varies throughout the year as monthly products could follow the variation of NTC calculated year ahead much better than yearly product.

As a reminder, Eurelectric supports the idea that cross-border capacity should be put at disposal of the market, as soon as it is calculated and that reserved ribbon for latter allocation should be avoided. For this to work properly in terms of efficiency, a functioning secondary market has to exist.

Do you think further developments in linking of products direction (i.e. ability to bid for a series of blocks or nothing) instead of the bids on the monthly blocks to be independent (like in the proposal) would provide additional value?

Yes, the possibility to link monthly products is a must to maximize the use of LTTR as a hedging capability. Should this feature be technically challenging, a stepwise approach should then be envisaged to not slow down the implementation of monthly product allocation and to avoid splitting the market of LTTR yearly allocation in 13 autonomous auctions for yearly products and monthly products.

Would you be interested in more complex products? If so, which ones?

Apart from allowing the linking of monthly products to make it possible to bid on trimester, seasonal or yearly blocks, developing more complex products is not the highest priority from Eurelectric's perspective.

TSOs should focus on maximizing the volumes of LTTR to be allocated year ahead.

Should auctions of the various products (monthly blocks and yearly ribbon product) be simultaneous or successive? And shall the Y-1 monthly block auctions (12) be run simultaneously or subsequently?

Eurelectric supports a joint allocation of yearly and monthly products through the consideration of block bids. Moreover, one should note that where/when monthly block bids can be linked to a yearly block, the standard yearly product become redundant and could be phased out.

From this perspective, Eurelectric does not support an ex-ante split of the baseload volume to be allocated year ahead for an allocation through different types of products. This

principle goes against the concept of an efficient allocation of the LT capacity and provides a discretionary flexibility for TSOs to discard the whole concept of the comparison of bids for yearly and monthly products and selection of the most valuable bids from a TSO perspective.

How do you think this new approach would influence competition, would it trigger discrimination or market power issues?

The proposed approach with 13 autonomous yearly auctions (for each month + for the annual product) might be detrimental as it could split the liquidity between yearly products and monthly products.

If the possibility to compare monthly and yearly bids (potentially made of linked monthly block bids) with a single yearly allocation is implemented, Eurelectric supports the publication of aggregated statistics concerning the paradoxically-rejected bids.

As long as there is no reservation of volumes for one specific type of product only (e.g. yearly and monthly products as proposed by ENTSO-E), Eurelectric does not see the greater flexibility in bid format as a hurdle for a fair competition. On the contrary, this has the potential to attract new participants in the yearly auctions.

What improvements would you suggest to this “block bids” mechanism?

Please list three and rank them, being “1” the most relevant and “3” the least.

1. Remove the ex-ante split of liquidity in the year-ahead auction between monthly and yearly products and consider the linking of monthly blocks to have a joint allocation.
2. Maximize the capacity to be allocated with the yearly auctions by allocating more capacity for months where the LT capacity calculation identifies greater capacity
3. Increase the share of capacity to be allocated year ahead (splitting rules) and allow LTTR holders to use monthly auctions as a secondary market to resell their LTTR if other market participants offer a greater value than they would expect.

Would you consider participating to the development costs of such a solution? If so, how do you think costs should be shared with market participants?

Having an efficient and competitive allocation of LTTR is primarily of the interest of the TSO’s tariff payers as this will maximize the volume and predictability of the congestion rent captured by the TSOs.

From this perspective, Eurelectric considers that the development of the clearing algorithm (which by the way does not seem to be at a very high cost compared to the congestion rents captured by the TSOs through the yearly auctions) is to be supported by the TSOs.

Which would be the preferred ratio between the monthly product (year ahead allocated) and annual products (i.e. how thin the annual product would be (item 1 in the graph)?

Eurelectric considers that the ratio should not be defined as ex-ante but that it should all be the result of the algorithm and related optimization. The fair comparison of the congestion rent captured with a year-ahead allocation of LTTR with monthly vs yearly products should be done by the allocation mechanism rather than an ex-ante assumption by the TSOs.

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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