European Commission targeted consultation: Revision of the electricity guideline on forward capacity allocation

A Eurelectric response paper

September 2024

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:

WG Market Integration & Network Codes

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Key messages

- Market participants (MPs) are generally satisfied with the current forward market design and hedging tools availability. Liquidity varies by bidding zone, with most MPs preferring to hedge within their own zones. In less liquid areas, they may use proxy hedging though it is not a primary option. The coexistence of various products, such as spread contracts, EPADs, and LTTRs, is complementary and should not be opposed, and MPs should always be free to use trading spread contracts.
- Regulatory measures should be implemented only when proven necessary and in areas deemed essential, such as financial regulation or TSO monopoly regulation. Enhancing hedging opportunities for market participants requires the following:

    1. Supporting EMIR 3.0 reforms by ensuring NRAs and ESMA maintain consistency among CCPs and improve margin model transparency.

    2. Enhancing cross-zonal capacity allocation by maximizing forward market capacity, revising long-term allocation methodologies, extending maturities to at least Y+3 and facilitating earlier capacity allocation through multiple auctions.

    3. Avoiding regulatory interventions that are jeopardizing the trust in the economic and political stability such as the inframarginal cap that has been put in place in the Emergency Regulation and is still active in some areas.

    4. Facilitating secondary trading for LTTRs by allowing TSOs or power exchanges to streamline exchanges between MPs at mutually agreed prices, through a platform either via auctions or continuous trading. Eurelectric advocates for seeking ease of use by market participants. The platforms for the primary and secondary allocations should be built in coherence.

    5. Encouraging power exchanges to innovate and adapt products to market needs, avoiding excessive regulation.

    6. Introducing voluntary market-making services to enhance liquidity.

- FTR options are preferred over obligations as they enhance liquidity by providing market participants with greater flexibility for managing their portfolios and hedging risks, unlike FTR obligations that have currently limited demand.
- Maintaining the full firmness of LTTRs as it currently exists today, is key to preserve the ability of MP to be hedged against variation of price spreads.
- The Long-Term Flow-Based Allocation (LTFBA) methodology should be revised: the current design introduces competition between BZ borders, resulting in 0 allocation at some borders. Furthermore, as repeatedly expressed by Eurelectric, flow-based allocation requires holding only one auction for all borders at the same time. This requires significant collateral requirements for market participants wishing to hedge on several borders and can prevent smaller market participants from fulfilling their hedging needs.
- Eurelectric rejects any suggestion of "undervaluation" or systematic bias regarding LTTRs; their prices accurately reflect market perceptions based on available information at auction time.

- Market Participants does not support the introduction of **regulated** Regional Virtual Hubs (RVTHs), arguing it could harm forward markets, only create liquidity issue displacements, risk to ostracize certain regions like the Iberian peninsula, and increase basis risk without improving hedging ability nor addressing specific industrial needs. Additionally, RVTHs may fail to enhance liquidity in the forward market, as most hedging will still occur within individual bidding zones, and their introduction could limit market participants' range of trading instruments. A thorough quantitative analysis of RVTHs' impact on market participants' hedging capabilities is essential to avoid unnecessary complexity.
- In an effort to forecast the effects on forward markets of setting up regional virtual hubs, Energy Traders Europe, Eurelectric and Europex commissioned Compass Lexecon to perform a forward-looking, quantitative study – which shows that setting up regional virtual hubs in the CORE region would bear more risks than benefits. The key messages based on the study have been underlined in our response to question 22.4 of this document. The final results of our study will be communicated to the European Commission mid-October 2024. In the meantime, we have attached to our response a summary presentation of the preliminary results.
- Eurelectric regrets that the assessment of forward market functioning and revision of secondary legislation has been limited to a call for evidence. We urge the European Commission to follow the standard procedure for revising the Forward Capacity Allocation regulation, ensuring a comprehensive consultation process that allows stakeholders meaningful input on the impact assessment.

Part I: Evaluation of current forward markets

a) Assessment of the electricity forward markets

Question8. Is there, in general, sufficient availability of hedging instruments on the forward markets to effectively perform hedging corresponding to your risk profile?

- Yes
- No

Question9. Is there, in general, sufficient liquidity on the hedging instruments on the forward markets to effectively perform hedging corresponding to your risk profile?

- Yes
- No

Question10. Please list the products for which you encounter insufficient accessibility (in terms of effectiveness and liquidity) and provide a detailed answer to explain what problems you encounter in BZs where availability is insufficient (f.e. lack of competition, market too small, none of the available liquid products is a good proxy, inadequate cross-zonal hedging instruments, …). In case you identify a lack of liquidity in some or several of the markets you resort to, please estimate the slippage costs that result from this lack of liquidity - if possible.

Firstly, we would like to stress that different products/instruments such as trading spread contracts (and EPADs), and LTTRs co-exist in the market; they are complementary and should not be opposed. Trading spread contracts is something that market participants (MPs) should always be free to do.

Secondly, Eurelectric represents various market parties, active in forward trading in various bidding zones in Europe. The liquidity of products differs across regions/bidding zones.

Efficiency of forward market needs liquidity. Liquidity requires regulatory certainty, simplicity and transparency. When improving the forward markets, one needs to pay particular attention to not increasing the level of complexity, that could jeopardize the attractiveness of forward markets.

The level of liquidity varies from one bidding zone to the other. Generally, market participants will seek primarily to hedge within their own bidding zone, as this provides a better hedge. Some bidding zones are however more liquid than others and market participants located in less liquid bidding zones have, among other options, the possibility to make transactions (proxy hedging) in other bidding zones or the Nordic system price, depending on what they consider the most appropriate (depending on liquidity, correlation between the prices, ...). In that regard, one should note that cross-border hedging is not a goal per se nor the primary hedging option.

This is because proxy hedging is leaving the MP with a basis risk, corresponding to the risk of price spread variation between their home market and the hedge they have taken, such as the MP will only proxy-hedge if he considers this as a less problematic solution compared to taking a more expensive hedge either in their home market or through other markets (e.g. the gas market) or not take any hedge at all.

Tools/products already exist to mitigate this basis risk. These products can be developed by the market or issued by TSOs. They can co-exist and are not mutually exclusive. LTTRs are products issued by TSOs as they own and operate the grid which represents a natural hedge for price spread risks between neighboring bidding zones. Next to LTTR, the market is used to trade spread contracts between bidding zones and/or between zone and hub such as the EPADs in the Nordics. Note that the fact that a power exchange/market operator lists a product does not imply that this product is liquid. The liquidity of spread contracts and/or EPAD is not guaranteed by the fact they are listed. When TSOs are allocating capacity in the forward time frame (by issuing LTTRs or by providing liquidity on the EPADs like done in the recent Svenska Kraftnät pilot project), it allows MP to acquire spread hedging tools (between BZ or between HUB and Zone) more easily. The grid is a natural hedge for these spread positions.

Question11. Are additional measures needed to improve the ability of market participants to hedge price risks in the forward markets?

- Yes
- No

If yes, which ones?

In general, we consider that regulatory measures should only be undertaken when they are proven necessary and for matters where they are essential (e.g. financial regulation, TSO monopoly regulation etc.).

In particular, Eurelectric welcomes the recent reform of the central clearing system via the European Market Infrastructure Regulation (EMIR 3.0) which can reduce hedging costs for energy market participants in a lasting way. In particular, the extension of eligible collateral to uncollateralised commercial bank guarantees and public guarantees (Art. 46.1, 46.3) will reduce the cash liquidity pressure that exacerbated the recent energy crisis. National regulators and ESMA should ensure that central counterparties (CCPs) develop a consistent approach to the admission of such guarantees. In addition, the obligation for CCPs to improve transparency on their margin models and to develop simulation tools anticipating margin calls (Art. 38.7, 38.8) will improve the risk-preparedness of energy market participants. Such simulation tools should also include intra-day margins and add-ons applied by CCPs.

Furthermore, since the allocation of cross-zonal capacity by TSOs is regulated, regulatory measures to improve their use are certainly relevant. Specifically, Eurelectric believes that the following list of measures are needed:.

- TSOs should maximize the volumes of capacity offered in the forward market.
- TSOs should allocate capacity in the forward market at all borders. With this regard, Eurelectric strongly encourages ACER and the relevant stakeholders to revise the existing long-term flow-based allocation methodology to ensure that LTTRs are allocated at all borders. To

do so, either a minimum volume should be allocated at all borders, or an ATC allocation, possibly following an ATC extraction from a flow-based domain should be executed.

- Maturities should be extended to the liquid trading horizon (up to at least Y+3). Longer maturities would better support long-term cross-border Power Purchase Agreements (PPAs) and reduce basis risk over extended periods.
- Secondary trading for LTTRs should be facilitated: for instance, having TSOs (or power exchanges) easing the exchange of LTTRs between MPs at a price agreed between them. The shortcoming of the current secondary market is likely partly due to the low volumes of LTTRs offered by TSOs (Market Participants keeping them for their hedging) compared to the physical cross-border capacity. Additionally, there are also organizational reasons, and we support the idea that the secondary market should be better facilitated (e.g.: possibility to have a platform to resell LTTRs with price limit, either through auctions or through continuous trading).
- The misalignment between the LTTR remuneration and the dual price in case of decoupling events should be solved.

In parallel to spread hedging products issued by TSOs, it is very important that power exchanges are taking leading role in innovation, creating new products and adapting to the needs of the market such as standardized products related to asset's profiles. Excess of regulation could hinder that innovation.

Finally, voluntary market making could be introduced, whenever considered efficient, to allow market makers to actively drive liquidity on forward markets. Market participants should be free to enter such market making services, on a voluntary basis only. The design of the market making service should be non-discriminatory, open to all market participants. In case of contracted market making services, they should be allocated through a market-based process with voluntary participation. The selected entity performing the market making function would have the obligation to post a minimum volume of buy and sell orders for selected standard products, with a maximum bid-ask spread to increase liquidity. In exchange for this service, the market maker would be remunerated with a competitively set fee through the tender for the attribution of its function.

Question12.1.1 In case you have physical assets or activities (demand, retail supply, generation): to what degree or percentage do you hedge price risks related to these assets?

Not possible to answer as an EU association

No price risk hedging for physical assets or activities (indicate between 1-100):

Full price risk hedging for physical assets or activities (indicate between 1-100):

Question12.1.2 In case you have physical assets or activities, please describe in broad terms your hedging activities.

Not possible to answer as an EU association

Question12.2. In case you have physical assets or activities (demand, retail supply, generation) and in case you do not hedge (a part of) your physical assets or activities, what are the main reasons for not hedging (f.e. availability of hedging products, costs of hedging, risk management choice, etc)

Not possible to answer as an EU association

Question12.3. In case you have physical assets or activities (demand, retail supply, generation): would you hedge a larger proportion of physical assets if the market conditions were more favorable? In this case, which conditions would need to be met?

Not possible to answer as an EU association

b) Cross-zonal forward hedging

Question13. Is the status-quo regarding the availability, design and type of cross-zonal instruments adequate to meet your hedging needs?

- Yes
- No

Please provide a detailed

First, we would like to underline that the vast majority of traded volumes does not concern cross-border hedging, which is only a mean to help Market Participants (MPs) to proxy hedge when they cannot hedge in their home market. Nonetheless, they provide substantial value for MPs, ultimately benefiting end- consumers, and any change should be carefully considered to ensure that no value is lost. As such we are in general satisfied with the current design. They can still be improved as listed in part of our answer to question 11.

In addition, regarding firmness, we are generally satisfied with its current features and reiterate our strong support for this characteristic. It should be preserved and remain unchanged in any future revision of the Forward Capacity Allocation regulation.

Lastly, we should note that forward markets are very different from short-term markets in terms of goal and nature: they deal with anticipation of future equilibrium point (considering among others the expected flows at interconnections at delivery) and not with confronting physical offer and demand. The added value of LTTRs/cross-border hedging instruments entirely lies in liquidity improvement, not directly in the forward price formation.

Question14. When trading in another bidding zone, what products do you use (if any) to cover the basis risk?

Not possible to answer as an EU association

- LTTRs
- EPADs
- EPADS supported by TSOs (as auctioned by Svenska krafnat - SvK)
- Future spreads
- Italian CCC (transport capacity fee hedge) products
- Others - please specify:

Other: please specify

Question15.1. Hedging instruments issued or supported by TSOs : Have you traded cross-zonal hedging instruments issued or supported by TSOs in the last 3 years

- Yes

- No

Not possible to answer as an EU association

Question15.3. Hedging instruments issued or supported by TSOs: Do cross-zonal instruments supported by TSOs satisfy your hedging needs (in terms of maturity, frequency of auctioning, type of product, …)? If not, please elaborate your

We are in general satisfied with the current design. The current design can still be improved. Please refer to our answers to questions 11 and 13.

Question15.4. Hedging instruments issued or supported by TSOs: After acquiring a FTR option, do you engage in delta hedging for the acquired option on the electricity forward obligation market?

N.A.

- Yes
- No

Question15.5. Hedging instruments issued or supported by TSOs: On a scale from 1 to 10, do you consider that the LTTRs' price reflects the forward market fundamentals?

No (indicate between 0-10)

Yes (indicate between 0-10) -> 10

Please elaborate your answer (date, border, data, etc)

We refute any statement implying an "undervaluation" of LTTRs, or indicating any systematic bias observed on LTTRs. The LTTR prices reflect the view the market has on the product, considering all available information known at the time of the auction, as well as the product's characteristics, including the risks and costs borne by LTTR holders. ACER made it also clear in its November 2023 publication "Progress of EU electricity wholesale market integration"[1] that there is no systematic undervaluation of LTTRs related to the realized DA spreads. The price at which market participants are buying FTR options from A to B is the result of the current underlying value (i.e. the value of the spread at the moment of the auction = forward price in B – forward price in A) plus the additional risk premium translating their vision of the probability that this spread vary over the option period. Auction price reflects the market value of the product at the moment of auctioning. It does not constitute a "price floor" below which the realized spread (= the spread in day-ahead) cannot go. We also want to remind

[1] "*The analysis shows that most borders present a good correlation between the long-term transmission right prices and the average day-ahead price spread. These cases even show relatively low risk premiums. (...) Some specific cases, namely the French borders in import direction, show a significant deviation. For those borders, the average risk premiums over a time horizon of several years shows that 2022 was an exceptional year, suggesting the extreme values can be attributed to the crisis. (...)* ***The low ex-post risk premiums detected in most borders suggest that LTTRs are generally a cost-effective option for the hedging needs of market participant against short-term price differentials***."

that the price paid reflects all the risks embedded in the product (credit risk, cost of capital, force majeure and "emergency situation" covering a.o. outages in the grid, ...) and borne by Market Participants (MPs).

Furthermore, the FTR also embed a price divergence risk in case of decoupling that is impossible to hedge. Indeed, as shown recently on June 25th, there can be situations (partial decoupling) where two prices co-exist in the same bidding zone (those with Multi-Nemo Agreement in place). In this case, the remuneration of LTTR is based on the SDAC price. However, some MP are hedged with the NEMO that is decoupled and hence, are not capturing the SDAC price. This problematic situation should be solved.

Question15.5. Hedging instruments issued or supported by TSOs: should you have identified a potential disconnect between LTTR and forward market fundamentals, do you see any risk of contagion across market segments (through arbitrage, for instance)?

Please refer to our answer to question 15.4 regarding LTTR valuation where we explain and emphasize that there is no "undervaluation" of LTTRs nor has any systematic bias been observed.

Furthermore, Eurelectric does not see any risk of "contagion" and considers the question unclear. Price variations in the forward electricity markets are completely normal: the forward price varies depending on available information, uncertainties, and the characteristics/nature of the products involved.

c) Future-proofness: expected evolution of the Forward market

Question16.1. Do you consider that the following policies and market trends have an impact on the hedging incentives of market participants on the forward market: **Contracts for difference (as a state-aid scheme)**

No (indicate between 0-10)

Yes (indicate between 0-10) → **5**

Question16.2. Do you consider that the following policies and market trends have an impact on the hedging incentives of market participants on the forward market: **Power Purchase Agreements**

No (indicate between 0-10)

Yes (indicate between 0-10): → **5**

Question16.3. Do you consider that the following policies and market trends have an impact on the hedging incentives of market participants on the forward market: **Capacity remuneration mechanisms**

No (indicate between 0-10)

Yes (indicate between 0-10) → **0**

Other policies and/or market trends - please specify:

All long-term instruments are essential, as hedging needs vary depending on the specific requirements of generators and customers. Therefore, it is important to maintain the complementarity between these instruments.

Contracts for Difference (CfDs):
If not carefully designed, two-way CfDs can reduce forward market liquidity by providing a guaranteed price to certain generators, thus diminishing their need to hedge. However, as highlighted in our recent study on CfD design and acknowledged in the EMD revision, this can be mitigated by setting reference prices based on forward market indices and requiring a minimum level of trading or hedging in the forward market. Such measures should also be meticulously configured to ensure that volumes are offered freely in the forward market at a price representing market fundamentals. Furthermore, regulatory certainty around the design and implementation of CfDs is crucial to maintaining market confidence and participation.

Power Purchase Agreements (PPAs):
PPAs offer an alternative way for parties to hedge directly, operating alongside forward markets. Their primary purpose is not to provide liquidity but to facilitate tailored hedging agreements between parties, meeting their specific needs.

Capacity Remuneration Mechanisms (CRMs):
We do not see any impact of CRMs on the forward market. From a generator's perspective, CRMs help address the missing money problem, while forward markets remain a key hedging tool.

Question17.1. How do you expect the forward markets to evolve in the next 5 to 10 years with respect to **hedging needs**:

The increase in RES production sources, the entry of new market participants and more active consumers, the gradual increase of new flexible technologies (electricity storage, power-to-x, nuclear...) will probably lead to a growing need in terms of hedging. The crisis highlighted the need for providing instruments to safeguard against market prices for consumers and market participants willing to hedge and bear the related cost.

Those trends will likely lead to increased use of hedging instruments (forward markets, PPAs, CfDs etc.). Eurelectric considers it is crucial to ensure that regulatory actions are appropriately tailored to the specific instruments, geographical areas and timeframes where they are needed, while avoiding any unnecessary regulatory intervention. The market will naturally develop to meet its own needs.

We expect PPAs to further develop (confer qu16, PPA operating alongside forward markets)– complementary tools/means (not exclusive to classical forward contracts).

Question17.2. How do you expect the forward markets to evolve in the next 5 to 10 years with respect to **trading volume**:

The likely increase in hedging needs (cf. to our answer to question 17.1) will in turn most likely result in an increase in trading volumes. The increase in electrification and development of new technologies may also lead to increased trading volumes.

However, this will hold true if market participants have the ability to turn to well-functioning and well-adapted hedging instruments. This depends on several conditions, below a non-exhaustive list:

- Safeguarding the forward markets that are currently liquid.

- Avoid implementing unnecessary measures that are not answering needs from market participants (e.g. the flow-based allocation of LTTRs, the forced introduction of regulated regional virtual hubs) or that are jeopardizing the trust in the economic and political stability such as the inframarginal cap that has been put in place in the Emergency Regulation and is still active in some areas.
- Maintaining FTR options where they are implemented while bringing desirable improvements (confer our response to question 11).
- Easing collaterals and prepare, already today, relevant instruments to alleviate the burden of collateral requirements in case of a new energy crisis in order to avoid having to react under strongly constrained timings and to ensure a common and harmonized responses from all concerned Member States.

Question17.3. How do you expect the forward markets to evolve in the next 5 to 10 years with respect to **the maturities of products**:

The evolution will largely depend on the willingness of consumers and market participants to hedge. It's crucial to strike a balance between responding to short-term price signals (like demand- response) and meeting hedging needs to secure energy costs.

We support initiatives that remove barriers to finalizing longer-term contracts, such as PPAs. These initiatives could include extending the maturities of Long-Term Transmission Rights (LTTRs) beyond the current one-year timeframe. Among the measures proposed in our response under question 17.2, easing collaterals could also contribute to allow increased maturities as it would relieve part of the collateral burden associated with hedging on longer timeframes (cf to our response to question 11).

Question17.4. How do you expect the forward markets to evolve in the next 5 to 10 years with respect to **active players (f.e. type of players, shares, etc)**

N.A

Question17.5. How do you expect the forward markets to evolve in the next 5 to 10 years with respect to **products**:

Diversity of products is already increasing and shall continue to do so.

Flexibility needs are increasing, it is important to allow the market to develop according to the needs of the system.

Question17.6. How do you expect the forward markets to evolve in the next 5 to 10 years with respect to **the evolution of liquidity**

See our answer to question 17.2

Question17.7. How do you expect the forward markets to evolve in the next 5 to 10 years with respect to the **evolution of liquidity needs**:

See our answer to question 17.2

Question17.8. How do you expect the forward markets to evolve in the next 5 to 10 years with respect to **share of volume traded among the different bidding zones**:

Since we expect the liquidity and the hedging needs to increase in the coming years in general and given the fact that market participants will always look for the product that fit their needs better (eg: trading in their home market versus proxy hedging, confer our answer to question 10), we also expect

the trading “across bidding zones” to increase. This increase could be facilitated by the improvements of LTTRs that we propose. It will also depend on the level of interconnection capacities that are developed in the future and the allocation of these capacities.

Question17.9. How do you expect the forward markets to evolve in the next 5 to 10 years with respect to **the configuration of bidding zones**:

The ongoing Bidding Zone Review is expected to deliver its recommendations by the end of 2024. Eurelectric does not want to anticipate its outcome but underlines that splitting bidding zones could lead to skewed bidding zones in terms of supply and demand and hence lead to lower liquidity.

In parallel, Eurelectric would like to highlight that the potential development of offshore Bidding Zone will have consequences that need to be carefully assessed.

Question17.10. How do you expect the forward markets to evolve in the next 5 to 10 years with respect to **any other trends (please specify)**:

N.A.

Part II: Assessment of potential improvement to the forward capacity allocation by TSOs

a) Evolution of the current design for TSOs to support forward markets

Question18. Frequency: How frequently should the auction of long-term transmission rights (supported by TSOs) take place? Should the frequency of auctions differ depending on the maturity of the LTTR? If yes, what frequency would you propose for which product and maturity? Please provide a detailed answer

Eurelectric is in favor of the following incremental improvements in the design of LTTRs and their allocation:

- Maturities of LTTRs should be extended at least to the liquid trading horizon.
- A secondary market should be set up to allow market participants to rebalance the risk position of their portfolio. This would help relieve part of the burden relying on the question of the frequency of auctions (if TSOs issue sufficient levels of LTTRs).
- Volumes of LTTRs auctioned by TSOs should be maximized. Eurelectric considers that a significant increase from the existing situation can be expected without jeopardizing operational security.
- For a given delivery year Y, assuming a 3-year maturity, capacity should be allocated as from Y-3, with at least one auction per year: in Y-3, in Y-2 and in Y-1. The capacity issued during a given year, e.g. on Y-3, could be offered through more than one auction on the condition that it represents a significant volume for each auction. Alternatively, the full capacity could be offered each time (without arbitrarily setting aside a part of the calculated volume), if TSOs are able to free sufficient new volumes of capacity after a new capacity calculation. It is important to ensure that sufficient levels of volume are offered at each auction. This is especially important in case there isn't a secondary market.

Under the current framework, (no secondary market and only capacity issued in Y-1 for delivery year Y): we would welcome if the capacity could be allocated earlier than it is today (typically in November Y-1), for instance, in September Y-1. The question of organizing several auctions each year for the same delivery year depends on the volume that is offered and TSOs ability to free further capacity after a new capacity calculation.

Question19.1. Volume: How should the total volume of offered cross-zonal capacity be split among products across different maturities (monthly, quarterly, yearly)? Should more capacity be allocated to shorter maturity, longer maturity products or equally in general?

See our answer to question 18.

Granularities under the yearly product shall be allocated with subsequent auctions, after a refinement/update of the capacity calculation.

Question19.2. Volume: Should the auctions of cross-zonal instruments foresee any safeguards or automatic volume adjustments in case of lack of sufficient interest in the auctions?

- Yes
- No

Question19.3. Volume: How should the forward transmission capacity be offered? (coordinated vs uncoordinated way in each border, statistical vs scenario-based calculation, thresholds, split, allocation, possibility of offering longer maturities, etc)

First, Eurelectric generally agrees that capacities should be calculated in a coordinated manner in order to maximize available cross zonal capacities offered to the market. A flow-based calculation approach is not a necessity for such an objective as this can be achieved applying a CNTC approach (possibly with sequential allocation).

In addition, while Eurelectric does not have a strong position on the matter at this stage, we can imagine that offering longer maturities such as suggested in our response to question 20.1 would require an evolution from the historic deterministic approach to a statistical approach as longer term scenarios would be subject to more uncertainties and would as such require greater margins from TSOs.

For all other aspects please refer to our responses to questions 18 and 19.1.

Question20.1. Maturities: How to define the ideal maturities for cross-zonal instruments? Please provide a detailed answer:

Market participants (MPs) regret that TSOs are not issuing LTTRs beyond one year ahead. Aligning the maturities of LTTRs with the maturities of forward contracts (i.e. up to at least 3 years) would be a positive evolution.

MPs should have the possibility to benefit from the transmission grid in at least Y+2 and Y+3, allowing suppliers, producers, all market participants to better hedge in the forward market. At the end of the day, this would be beneficial for the customer who would have more opportunities to hedge its exposure against market price volatility.

Question20.2. Maturities: Should the maturity of cross-zonal instruments be the harmonized at EU level, regional (per capacity calculation region) level or not at all?

- EU level
- Regional (per capacity calculation region)
- Not harmonized at all

Please provide a detailed answer

We support harmonisation of maturities at the EU level to prevent regional fragmentation, or in general, the allocation of capacities in the forward market by TSOs.

Question21.1 Type of products: Should LTTRs only be issued as baseload products or should other types of products be envisaged?

First, the need is to improve maturities for existing options. At this stage there is no other need identified and we agree that LTTRs should remain as baseload products.

Question21.2 Type of products: What are the advantages and disadvantages of LTTRs defined as options ?

FTR options have positive impact on the liquidity in the forward market: when MPs buy an option, they have optionality in their portfolio to manage. When their option is moving in and out of the money (i.e. when the forward value of the spread is varying around the value at which they bought the option), MPs usually adjust their hedges accordingly by entering into forward transactions (buying/selling forward contracts, unwinding positions). Those buying/selling orders are contributing to higher liquidity in the forward market.

Question21.3. Type of products: What are the advantages and disadvantages of LTTRs defined as obligations?

Disadvantages:

First, Eurelectric would like to underline that FTR-obligations are already foreseen as a possibility in the FCA guideline. Any interest for such products, would have already been expressed by MPs when the dedicated methodologies were consulted, and NRAs could have asked for the implementation of these products. The choice of products for LTTRs should ultimately depend on the appetite of MPs.

Second, FTR options better reflect the optionality nature of the network from which TSOs benefit and represent as such a more direct and better way for them to commercialize LTTRs. FTR options also prevent TSOs from committing to any trading activity, which is not their role nor their domain of competence, which would otherwise be necessary in case TSOs issue FTR obligations (to ensure their levels are aligned with the expected value of commercial exchanges).

Third, FTR options offer, by nature, better properties and agility in terms of hedging MPs' underlying risks and exposures. Contrary to FTR obligations, FTR options allow a customer to benefit from potential decrease of the electricity price in its bidding zone. For instance, a customer located in bidding zone B who decided to buy a forward contract in zone A and an FTR from A to B, can benefit from a price decrease in zone B in the case of an FTR-option, but not in the case of an FTR-obligation. Likewise,
a producer located in zone A who decided to sell in zone B could benefit from an increase of the electricity price in its bidding zone in case he holds an FTR option but not in case of an FTR obligation.

Finally, 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.

Advantage:

- FTR obligations could potentially allow TSOs to increase the quantities of LTTR offered. However, all other things being equal, the value of an obligation is lower than the value of an option.

- FTRs obligations 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.

Question21.4. Type of products: What are the advantages and disadvantages of LTTRs defined as Physical Transmisison rights (PTRs) ?

Advantage: market parties holding a PTR are not exposed to unserved energy risk neither to decoupling price risk, since they do not need to close their position in the SDAC.

Disadvantage: nominated PTRs can lead to inefficient flows in DA (from high price zone to low price zone) and can create operational burden for TSOs in managing the physical flows.

Question21.5. Type of products: What are the advantages and disadvantages of LTTRs defined as Financial Transmission Rights (FTRs)?

Advantage: FTRs, since they are financial products, do not lead to operational burden in DA for TSOs to manage the flows, and also do not lead to counter intuitive flows in the DA.

Disadvantage: MP holding FTR, at the contrary to a PTR, are exposed to unserved energy risk and to price divergence risk for bidding zones with Multi Nemo Agreement (MNA) in place.

Question22.1. Should cross-zonal hedging instruments be issued :

- on bidding zone borders only – as today
- from any zone to any other zone (within the same capacity calculation region)
- from any zone to regional hub (including EPADs)
- as a combination of two futures contracts

N.A. unclear question

Question 22.2 Which of the above solution(s) would be the most resilient to potential changes in the markets (f.e. increased deployment of renewables, less hedging demand due to flexible demand, offshore bidding zones and bidding zones reconfigurations, volume contracted under power purchase agreements, etc)?

Eurelectric did not provide answer to question 22.1 since we consider that there is no “silver bullet” solution that fits all situations.

However, we consider that TSOs should allocate capacity in the forward market with the improvements listed in our response to question 11.

Eurelectric would like to underline that the combination of forward or future contracts (bundled as “spread contracts”) are already traded today and do not require any regulation, at the contrary of products issued by regulated entities such as TSOs.

We acknowledge the value of the current forward market model, with its simple and agile regulatory framework to foster innovation. This allows the market to develop new products that can effectively respond to potential changes in the markets. Eurelectric rather recommends removing existing barriers (e.g. by easing collaterals, facilitating a secondary market for LTTRs etc.) which could in turn boost the liquidity in the forward market and improve hedging.

Finally, Eurelectric does not consider resilience to Bidding Zone reconfiguration as an acceptable objective of the forward market design. Decisions on the forward market design should be taken with regard to criteria related to the efficiency of forward market such as transaction costs, liquidity etc. In practice, as mentioned in the public consultation regarding transaction and transition costs of the

Bidding Zone Review, should a change in the BZ configuration be decided it should not be implemented before the end of the trading horizon of forward markets (encompassing LTTRs).

Question22.3 Should cross-zonal hedging instruments be issued from any zone to any other zone or from any zone to a regional hub, should it remain possible to trade cross-zonal hedging instruments on border-to-border basis?

- Yes
- No

Please comment on your answer:

First, we consider that there is no ground to force the introduction of regulated Regional Virtual Hub. We urge the Commission to be very careful before introducing a regulated VTH. This would constitute a significant paradigm shift that could harm the well-functioning of forward markets and does not respond to any industrial need. Before any such introduction, the Commission should conduct an extensive qualitative and quantitative assessment of the impact of VTHs on the ability for all market participants to hedge efficiently. That assessment should begin with a nuanced and comprehensive diagnostic that allows to clearly identify where and when challenges currently arise in forward markets. It should also take into account the specificities of forward markets that distinguish them from spot markets.

Eurelectric considers that any measure taken should be tailored and targeted in order to avoid introducing unnecessary complexity and to ensure that solutions are addressing actual challenges.

In addition, Eurelectric has several concerns over the introduction of VTHs :

- VTHs would only displace the liquidity issue encountered in the forward market in some BZs to a liquidity issue on zone to hub hedging instruments;
- VTHs could lead to the ostracization of some regions (e.g. Iberian peninsula);
- VTHs would not improve hedging efficiency and, on the contrary, would leave market participants face a greater basis risk. Over time, price correlation between individual zones and the hub could face greater volatility, leading to a further increase of such basis risk;
- In addition to creating a liquidity issue on zone to hub rights, VTHs would not bring all the expected liquidity on the forward market as most of hedging is and will remain primarily within the same bidding zone;
- An artificial regulatory-driven introduction of VTHs may reduce MPs range of trading instruments.

Question22.4. If TSOs were to allocate cross-zonal capacity on zone-to-hub product (f.e. LTTRs), would you subsequently trade the futures with the corresponding underlying system price?

- Yes
- No
- It depends, please precise the conditions

Please comment on your answer:

Eurelectric does not trade, but comment on the VTH model.

In an effort to forecast the effects on forward markets of setting up regional virtual hubs, Energy Traders Europe, Eurelectric and Europex commissioned Compass Lexecon to perform a forward-looking, quantitative study – which shows that setting up regional virtual hubs in the CORE region would bear more risks than benefits.

Preliminary results, based on virtual hub prices calculated from forward prices of underlying zones weighted by each zone's electricity consumption, indicate that:

- Price spreads between local zones and existing natural hubs (like Germany or Hungary) are less volatile than when using a VTH
- Local zone correlate better with existing natural hubs than with a VTH
- Price spreads distribute unevenly with existing natural hubs or VTH

All this means that proxy hedging is generally safer and less costly in existing hubs like Germany or Hungary than it would be on a regional virtual hub. As a consequence, hedging will mostly remain on local zones and existing natural hubs, while some market participants from a few specific zones may find an interest and start hedging on regional virtual hubs. This will have the adverse effect of splitting liquidity between regional virtual hubs and existing natural hubs, with efficiency losses compared to the existing setup. This will translate into higher hedging transaction costs for market participants, and ultimately higher costs for consumers.

Requiring TSOs to issue zone-to-hub LTTRs is unlikely to remedy this de-optimisation of forward markets: they would be less adequate instruments than current zone-to-zone LTTRs as traders should continue to proxy hedge on existing natural hubs. And they would increase the TSOs' financial exposure, with LTTRs disconnected from physical cross-border lines.

In summary, virtual hubs in the CORE Region are no silver bullet to improve forward markets, and should be discarded from inclusion in the review of the FCA Regulation. Instead, market participants and operators call the European Commission to focus on preserving liquidity in existing hubs and improving the design of zone-to-zone to facilitate hedging on the more efficient natural hubs.

The final results of our study will be communicated to the European Commission mid-October 2024. In the meantime, we have attached a summary presentation of the preliminary results.

Question23.1. System price / hub: If you have experience with the trading on the Nordic electricity forward market: Please provide feedback on the current market design of the Nordic region based on a system price

Some of the Eurelectric members do have experience in the Nordic forward markets.

In the Nordic region, market participants mainly hedge their basis risk exposure through system price products, and if needed, zone-to-hub price area differentials (EPADs). The region has 12 bidding zones reflecting physical structural congestions in the grid. The Nordic system price is an index of what would have been obtained if the entire region had no grid congestions and cleared as a single bidding zone. The product attracts liquidity from all Nordic market participants. Its calculation method has been

debated many times over the past years, but alternatives (such as a volume-weighted price) have so far not garnered enough support. Until 2019/2020, the system price long provided a good hedge for most Nordic bidding zones. Since then, wider price area differences between the north and the south in the region made the system price less relevant for market participants exposed to basis risk in specific bidding zones. This has contributed to reduced liquidity on the forward market. The problem is related to stronger wind supply in the north, increased interconnector capacity to Germany and the UK in the south, as well as limited internal grid capacity. In addition, the energy crisis and record-high gas prices in Europe exacerbated the regional imbalance. While market liquidity has improved gradually over the past two years, it has not come back to pre-crisis levels, as price differences persist.

Due to structural imbalances between production and consumption, there have been asymmetries between buying and selling interest of EPADs. Since 2023, Sweden's TSO has auctioned small volumes between Swedish bidding zones to address the underlying symmetry and support the current hedging system structure.

In Q4 2024, Norway will start auctioning EPADs between all bidding zones (200-250 MW per bidding zone), while cross-border EPAD auctions are scheduled between Norway and Sweden at a later stage.

Since March 2024, market participants can trade their basis risk through zonal futures listed by EEX. However, liquidity has so far been very poor, probably due to asymmetry between selling and buying interests. Liquidity has mainly been observed in a few bidding zones, such as SE2, SE3 and FI.

In conclusion, we note that the implementation of a hub only shifts the liquidity issue faced in the forward market of certain bidding zones to a liquidity issue on the zone-to-hub rights. While the idea of attracting liquidity in one single hub may sound interesting, liquidity issues will continue to be raised as long as a basis risk remains.

Question23.2. System price / hub: If you have experience with the trading on the Nordic electricity forward market: Would forward market based on zonal futures and zone-to-zone LTTRs be more appropriate for the Nordic Market to achieve higher liquidity for all Nordic market participants?

- Yes
- No

N.A.

Please comment on your answer:

We encourage that TSOs allocate capacity in the forward market.

Question24.1. Firmness of products: How does the non-financial firmness of cross-zonal instruments impact your interest in such instruments?

Maintaining the full firmness of LTTRs as it currently exists today, is key to preserve the ability of MP to be hedged against variation of price spreads. Financial firmness should be guaranteed – except for Force Majeure events – including for period of decoupling (as already stated in previous EU HAR consultations).

Question24.2 Firmness of products : Should cross-zonal instruments issued by TSOs be fully firm?

- Yes
- No

Please elaborate on pros/cons

Refer to our response to question 24.3

Question24.3. Firmness of products: In case LTTRs are concluded on a firm basis and in an obligation-type, how should the counterparty risk of TSOs be managed, in order to ensure holders of the LTTRs are able to collect the payout that is owed to them?

Eurelectric is opposed to the introduction of FTR obligations for the reasons explained in our response to question 21.3.

Additionally, switching to FTR obligations would require TSOs to establish a system to manage counterparty risk. We do not see any added value in making such a system change at this time.

Question24.4. Firmness of products: Do you see any financial stability risk arising from the non-firmness of those instruments (i.e., counterparties not receiving their forecasted payouts and being left unhedged)?

As stated in our responses to Q 24.1 to 24.3, we are against reducing the firmness of LTTRs.

Question24.5. Firmness of products: Should LTTRs be concluded on a firm basis, what sort of risk mitigation tools do you believe the SAP should be subject to in order to manage the risks?

We lack specific information on JAO's risk mitigation tools, TSOs' congestion rents, and payouts to LTTR holders. Experience indicates that TSOs generally have enough congestion revenues to fully support LTTRs, even during rare market decoupling events.

Without a clear demonstration from the TSOs, we consider any proposals to reduce the firmness of LTTRs to be disproportionate.

Question25. Revenue adequacy: How to maintain revenue adequacy for TSOs (i.e. that day-ahead congestion income is sufficient for LTTR payout)? Should revenue adequacy be maintained for each market time unit or on a less granular basis (f.e. at least daily monthly or annually)?

Until now, there has not been any demonstration backed by quantitative elements, to prove that TSOs have suffered from excessive costs related to the compensation of LTTRs. We are however open to discuss whether and how revenue adequacy should be ensured if that could allow offering more capacity in the forward market, while preserving TSO financial balance. In any case, one should only consider such adequacy on a large granular basis (at least a year, possibly several years).

Question26. Secondary market: Should there be an active secondary market for cross-zonal instruments issued by TSOs?

- Yes
- No

Please comment on your answer

Confer to our response to question 11.

Secondary market (i.e. transfer of LTTRs between MPs) is permitted, though not frequent. Additionally, Market Participants can also return the yearly LTTR they bought during the monthly auctions (without control over the price at which they are resold which constitutes an additional price risk). The weakness of the current secondary market is likely partly due to the low volumes of LTTRs offered by TSOs (MPs keeping them for their hedging) compared to the physical cross-border capacity. There are also organizational reasons at play, and we support the idea that the secondary market should be better facilitated (e.g.: have possibility to have a platform to resell LTTRs with price limit, either through auctions or through continuous trading).

Question27.1. Secondary market: If a secondary for cross-zonal instruments were to be organized, how and where should this secondary market be organised: please select (several choices possible)

- Single Allocation Platform (SAP)
- Power exchanges
- Others, please specify

Other - please specify

We interpret that this question refers to LTTRs issued by TSOs. Of course, power exchanges should be free to list any spread hedging instruments and Market Participants should be free to trade them.

Under such interpretation, Eurelectric advocates for seeking ease of use by market participants. The platforms for the primary and secondary allocations should be built in coherence.

JAO and the TSOs appear to already have the necessary technical infrastructure to organize the secondary market, as they are already issuing the primary instruments. This suggests that the same platform could be used for both the primary and secondary markets. However, at this stage, we do not have any strong opposition to having power exchanges organizing it, if it is proven that it has an added value compared to SAP.

Question27.2. Secondary market: Do you see benefits in the possibility of transferring Financial Transmission Rights from the SAP to a power exchange?

Refer to our response to question 27.1.

Question27.3 What are your views about the possibility for the SAP to match opposite bids for LTTRs without the allocation of cross-zonal capacity where possible?

As far as we understand, this idea of matching opposite bids does not function with FTR options. Since we are opposed to the introduction of FTR obligation, we consider it irrelevant. If a secondary market is in place, it also makes these features irrelevant.

Question 27.4 What are your views about the possibility for SAP to optimize the allocation of yearly, quarterly and monthly products when they cover the same delivery period?

If overlap, an optimization should indeed be done (per border, not across border, in line with our positions on Long-Term Flow-Based Allocation). More than the platform itself, the algorithm and process used for this optimization are important.

However, we remind our position expressed at question 19.1, we consider that all the capacity deemed available for a given delivery year Y should be allocated straight away. Capacity available for smaller granularities (Q, M), should be the result of subsequent capacity recalculation and should be allocated closer to real time. No capacity should be reserved from the yearly capacity calculation to be allocated later as a Monthly (or Quarterly) product.

Question28. How to take into account the existence of preexisting intergovernmental agreements when calculating forward transmission capacity? [Background: preexisting intergovernmental agreements refer to agreement on physical delivery of electricity between two Member States]

No answer

b) Alternative designs to support cross-zonal hedging in the forward markets

Question29. What other measures could be necessary to improve the availability of hedging opportunities so that hedging needs can be addressed with hedging products that are both liquid and provide efficient hedge?

Please refer to our answer to question 11. TSO should allocate capacity at all borders and for maturities at least equal to Y+3. We also remind that cross-zonal hedging should not be the only point of improvement and refer to the proposal made at question 11.

Question30. Are the forward hedging instruments offered by TSOs necessary to support the functioning the forward market? Can cross-zonal price risks be sufficiently hedged with other available products listed by power exchanges (spreads, EPADs)?

Products listed by power exchanges such as spreads or EPADs are complementary products, they are not mutually exclusive to TSOs allocating capacities. As any other product, the fact that a spread or an EPAD is listed/quoted does not mean that the liquidity is there. TSO own and operate the grid. They are the best equipped to facilitate the cross-border hedging by allocating capacity: when/where the grid is a good hedge for facilitating the forward market, capacity should be offered to allow the market (and the consumers) to benefit from the grid in the forward market and hence, reduce hedging costs.

It does not mean that in parallel, spread or other products cannot be traded.

Question31.1. Among these key evolutions proposed by various stakeholders to improve the LTTR design, please select your favorite one(s):

- Zonal futures combined with LTTRs on bidding zone borders. This model represents the status quo in Continental Europe
- Zonal futures combined with LTTRs between any two borders bidding zone borders. This model differs from the status quo in Continental Europe by allowing LTTRs between any two bidding zones, and not only between two neighboring bidding zones.
- Zonal futures and hub futures combined with zone to hub LTTRs. This model differs from the status quo in Continental Europe by offering zone-to-hub LTTRs which can also be used in pairs to hedge between any two zones. Market participants would then have a choice whether to trade zonal futures or system price futures and in which way they would use LTTRs.
- Other model

Potential other model, please define:

We remind that TSOs should allocate capacities in the forward time frame, at least up to Y+3, at all borders. For borders where LTTRs are allocated, this means that it is not a status-quo since they are allocated only for Y+1 today. Hence, none of the proposed answers fully fits our views.

Where a system price is already in place, TSOs should also allocate capacities to provide basis-risk mitigation solutions.

We would like to reiterate our warning against the introduction of regional virtual trading hubs as we believe there is currently no ground for their implementation in all regions.

Question31.2. Alternatively to issuing LTTRs, TSOs could allocate capacities to support other products. The two models below have been identified by stakeholders. Please select your favorite one:

- As alternative to the previous model, the TSOs' capacity is not used to offer LTTRs but to support the trading of existing products (EPADs, future spreads) through the allocation of their cross-zonal capacity. A power exchange would therefore be selected for auctioning those products and the allocation of transmission capacity.
- Zonal futures combined with auctions of zonal futures with implicit capacity allocation. Under this model, TSOs would not allocate LTTRs, but would instead organize auctions of zonal futures and subsequently the open positions in futures would be transferred to power exchanges.
- Other model

Potential other model, please define:

Refer to our answer to question 31.1.

On the TSOs allocating capacities to support the trading of spread products, we would suggest to have impact analysis on the long run on how this effectively boost the liquidity of the forward derivatives based on the Nordic system price.

We strongly oppose the concept of implicit capacity allocation in the forward timeframe. It is important to note that forward markets differ significantly from spot markets, their objective is not to compute an ex ante equilibrium point between the bidding zones. Moreover, Market Participants need continuous hedging possibilities.

Question31.3. Which model (from all the models listed in questions 31.1 and 31.2) do you deem the most appropriate in terms of addressing the existing problems?

We refer to our answer to questions 11 and 31.2. We do not consider that a paradigm shift is necessary at this stage and refer to our suggestions to improve the existing products.

Question31.4. Which model (from all the models listed in questions 31.1 and 31.2) do you deem the most appropriate in terms of being robust for future potential market changes?

Question is too vague as "market change" can encompass a wide range of factors. It can also refer to fundamental changes such as an increase in RES production. For these changes, a more regulated system would not necessarily be more robust. When considering any market changes, policymakers must carefully assess the potential impact of their proposals.

Question32. What could be the adequate geographical scope of a regional system price and how should this scope be determined?

In case a hub is implemented, it should be defined with the aim to have high and stable correlations with single bidding zones over time. Based on experience from the Nordics it is very challenging to create a hub price that always fits the needs of market participants.

Due to changing market conditions, it is necessary to have regular reassessments to the composition of the hub-price. This is a paradox that cannot be solved with one predefined regulated solution such as regional virtual hub. Indeed, the geographical scope of a regional system price should not be pre-defined or regulated but should instead be flexible and determined by market dynamics. The development of regulated regional virtual hubs will disrupt existing trading conditions and force liquidity to migrate in a way that may not align with natural market behaviors and which does not respond to any industrial need.

Therefore, the geographical scope of a regional system price should be guided by where liquidity naturally exists and emerges, should evolve over time and should be based on the interests and trading patterns of market participants and should hence be developed by the market.

Additionally, predefining/regulated hubs based on CCRs would lead to problems of isolating some BZ, fragmentation of the market. For instance, the Iberian peninsula would be isolated from the rest of continental Europe in case a hub would be defined at CORE level.

Question33. How should a system price be calculated:

- Weighted average of spot prices (and if so, please elaborate on the definition of the weights)
- As an "unconstrained" price (such as the current Nordic System Price)
- Other, please precise

Please provide details on your previous question

Refer to our response to question 32. We are unable to answer this very specific question on the implementation details given the lack of agreement of the fundamental elements.

Question34.1. Do forward markets need to be supported with market makers?

- Yes
- No
- It depends

34.2. Should market making be:

- Voluntary (subject to commercial arrangements)
- Mandatory in some cases

Question34.2.2 How should market making costs be covered?

The entity that enrolled in the market making function following a non-discriminatory process would have the obligation to post a minimum volume of buy and sell orders for selected standard products, with a maximum bid-ask spread to increase liquidity in order to receive the expected remuneration. In exchange for this service, the market maker must be remunerated with a competitively set fee through the tender for the attribution of its function. The interest and efficiency of introducing market making should be duly considered beforehand.

Question34.3.1 What entities would be most suitable to act as market makers?

- TSOs
- Large market participants with physical assets
- Large market participants without physical assets

- Else, please precise

Potential other entity, please precise

Market participants (large or not, with or without physical assets..) on a voluntary basis exclusively. TSOs are neutral market facilitators and should in no case become market makers.

Question34.3.2 Under which conditions/requirements should those entities act as market makers?

We think that the best way is to provide the right incentives to market participants. The terms and conditions of the tender should be made in such a way to attract as much market participants as possible to participate.

c) Role of Single Allocation Platform (SAP)

Question35.1. If you traded LTTRs: On a scale from 0 to 10, how satisfied are you with current SAP (JAO) services?

Not satisfied (indicate between 0-10):

Very satisfied (indicate between 0-10):

Proposal not to answer as an EU association.

Question35.2. Please provide detailed comments to justify the score given

Question36. What are your suggestions to improve the functioning of SAP (JAO)?

N.A.

Question37. What should be the role of the SAP in your view? Should SAP be involved in the organization of the secondary market for LTTRs and how exactly?

N.A.

Question38.1. What should be the potential changes to the current knowledge, functioning and organization of the SAP to manage the auctioning of LTTRs on a larger scale, should the electricity market design become much more reliant on those instruments?

N.A.

Question38.2. What should be the potential changes to the current knowledge, functioning and organization of the SAP to facilitate secondary markets for LTTRs?

N.A.

Question38.3. What should be the potential changes to the current knowledge, functioning and organization of the SAP to generally manage the risks to which it is exposed (e.g., operational risk)?

N.A.

Question39. Would you suggest any improvement to the transparency and overall functioning of the auctioning process?

N.A.

Question40. CfD coupling: Should the allocation of transmission capacity to support the forward markets be performed by SAP or by a nominated exchange? Please provide details supporting/explaining your response.

We are opposed to the concept of forward market coupling with CfDs given the complexity of setting it up in a Multi-NEMOs agreement environment and therefore challenging to implement for certain CCRs.

Question41. In your view, what would be the potential impact of the application of financial regulation (EMIR, MIFID, etc), should JAO undertake activities that are regulated under the financial rulebook (e.g., operating a secondary market for trading in financial transmission rights)? What is your view on the appropriate regulatory oversight set-up, considering the various activities JAO engages in (shadow auction for DA market, data services for capacity calculation and allocation, …)?

The Joint Allocation Office is different from investment firms regulated under MiFID and EMIR. It operates strictly as a service provider to TSOs, who offer a limited quantity of transmission rights based on capacity calculations on the Single Allocation Platform. In this sense, it is different from exchanges, which develop financial products for profit. If JAO were to operate a secondary market for FTRs, it would not change the nature of its activity. Regulating JAO under financial market legislation is therefore disproportionate and would increase hedging costs for market participants. We thus believe that JAO should not be treated like power exchanges and keep a special status.

Part III. Conclusion

Question 42. Feel free to add any other element you would like to share

We regret that this important process of assessment of the forward market functioning and revision of a secondary legislation has been limited solely to a call for evidence.

We request that the EC ensure the standard procedure for revision of the Forward Capacity Allocation regulation including full consultation process involving ACER recommendations and consultation.

Furthermore, we ask that a proper consultation on the impact assessment be conducted, allowing for greater visibility and the opportunity for stakeholders to provide inputs.

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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