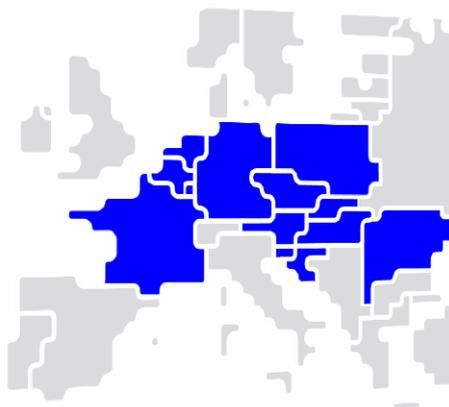




Consultation Report 2nd amendment of the Core CCR TSO's regional design of long-term transmission rights based on Article 4(12) of Commission Regulation (EU) 2016/1719

01 April 2019



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GLOSSARY

All definitions and abbreviations of the Core CCR TSOs regional design on long-term transmission rights apply accordingly.

1. INTRODUCTION

This document is the consultation report for 2nd amendment of the Core CCR TSO's regional design of long-term transmission rights. The 2nd amendment of the Core CCR TSO's regional design of long-term transmission rights is based on Article 4(12) of Commission Regulation (EU) 2016/1719.

Core TSOs would like to thank all parties involved in the public consultation for their interest in the 2nd amendment of the Core CCR TSO's regional design of long-term transmission rights. Core TSOs welcome the feedback received as it is valuable for the further development and detailing of the Core CCR TSO's regional design of long-term transmission rights.

Via the ENTSO-E Consultation Platform, the public consultation document for the 2nd amendment of the Core CCR TSO's regional design of long-term transmission rights was available to Core stakeholders from the 7th of February 2019 until the 7th of March 2019. In total, four stakeholders submitted their responses in time, whereas two additional answers arrived after 7th of March. Even though these two additional answers were received after the public consultation deadline, Core TSOs decided to treat them as regular public consultation contributions. Nevertheless, this does not create a blue print for future public consultations and participants to public consultations should stick to the set deadlines to ensure their opinion is duly taken into account.

Since the public consultation results should be processed in an anonymized manner, the identity of the respondents is not disclosed in this consultation report. Please note that all responses were, however, shared with the Core National Regulatory Authorities (NRAs) in a non-anonymised manner.

Main views and recurring comments have been summarized in this report. The Core TSOs wish to clarify that the content of this document is intended to summarize the results obtained in the public consultation. The Core TSOs did their best to reply to all comments and concerns.

2. 2ND AMENDMENT OF THE CORE CCR TSO'S REGIONAL DESIGN OF LONG-TERM TRANSMISSION RIGHTS – CONSULTATION FEEDBACK

2.1. General

In this chapter, a summary is provided of all stakeholder responses received via the ENTSO-E Consultation Platform. All contributions can be found in the Annex.

2.2. Methodology

Article 1(1)

In the relation to amend stipulations for the bidding zone borders NL-DE/LU, FR-DE/LU, BE-DE/LU to FTR Options there is only one of six respondents with clear preference for PTRs, since in his impression FTRs are not a satisfactory hedging instrument for his business model which is physical power delivery. Four respondents are neutral, but ask for TSOs motivation to switch and raising some concerns. One respondent does not comment the LTR design.

FROM TSOs' PERSPECTIVE THROUGH THE INTRODUCTION OF FTRs WE ACHIEVE A WIN-WIN SITUATION:

- Market parties can be given the total NTC in LT auctions for hedging purpose.
- Due to no possibility to nominate LTRs the total NTC is available for market coupling in the day-ahead timeframe and raise the welfare benefits.

DIFFERENCE BETWEEN PTRs AND FTRs

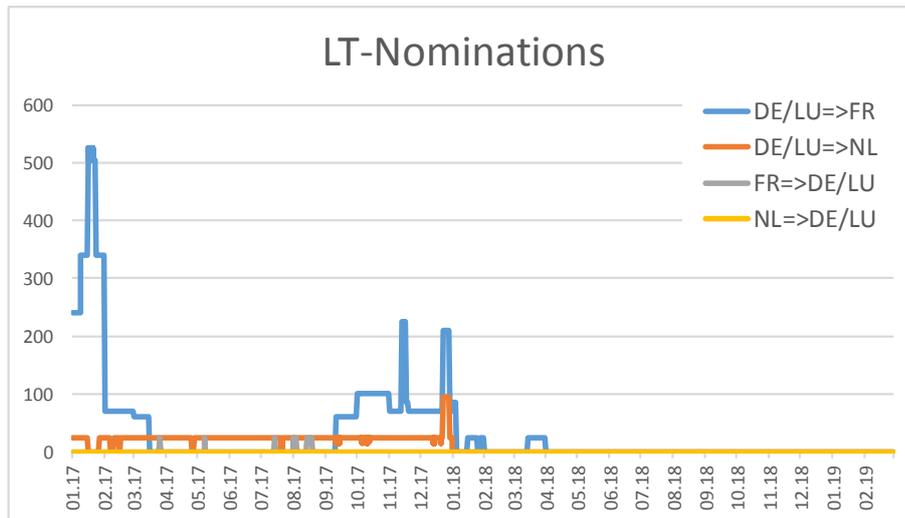
PTRs with UIOSI entitle the rights holder to nominate parts or all of its PTRs at the TSO for physical delivery beyond the particular border. If PTR holders do not nominate their rights (or part of it) before the defined nomination deadline, they obtain a remuneration which is defined as the positive day-ahead market spread (if any) in the direction of the long-term transmission right on the particular border.

FTR Options entitle its holders a remuneration defined as the positive day-ahead market spread (if any) in the direction of the long-term transmission right on the particular border (as for non-nominated PTRs with UIOSI) but cannot be nominated for physical delivery.

Hence with FTR Options the entire available cross-zonal transmission capacity is available to the day-ahead market coupling, whereas with PTRs with UIOSI nominated long-term rights already use part of the available capacity prior to day-ahead market coupling.

CONSEQUENCES OF USING FTR OPTIONS INSTEAD OF PTRs WITH UIOSI

Under FTR Options no nomination of long-term rights are possible anymore. On the one hand, the degree of flexibility for long-term right holders to effect deliveries of electricity on a long-term basis would be reduced compared to a situation with PTRs. Nevertheless, the TSOs of the borders NL-DE/LU and FR-DE/LU observed that the PTRs with UIOSI were hardly nominated and actually being used as FTR (see graph below). On the other hand, more cross zonal capacity would be made available for the day-ahead market coupling to all market participants.



With FTR Options, operation tasks and systems as well as business processes and reporting requirements will ease (e.g. IT systems, contracts, resources) because the PTR nominations are no longer needed for long-term nominations for the concerned borders.

This additional day-ahead capacity in the market coupling in combination with the fact that cross-border trades are only executed via the market coupling (and not bilaterally any more) would increase - or at least ensure a certain level of - liquidity on the coupled day-ahead market (while decreasing bilateral OTC trades).

As such FTR Options contribute to a consistent and reliable price formation on the day-ahead market (especially for cases where after nomination of PTRs only limited cross-zonal capacity would be left for the day-ahead market coupling). The improvement of the day-ahead market price formation is beneficial for the wholesale market as the spot price is increasingly used as a reference price in supply contracts, bringing more transparency for consumers.

The volume of LTTRs to be allocated is not dependent on the choice between FTR Options or PTRs with UIOSI and must in general reflect the underlying physical available cross-zonal capacity for the different long-term time frames. In general, seen from an economic and technical point of view, the capacity given to the market should not exceed the physically available capacity. Otherwise, market price signals would be inefficient and TSOs would be exposed to a significant financial and/or technical risk.

Another consequence of FTR Options is that all capacity is allocated in the day-ahead market timeframe in an implicit way and as such ensures a level-playing field among market parties. Under PTRs long-term nominations for physical delivery might be more difficult to conclude for new market participants (entry barrier), e.g. not having physical positions in different countries.

At borders with direct nominations via one company (A-A), neither PTR with UIOSI (unless they are nominated) nor FTR Options require LTR holders to have a BRP contract. As such the entrance barrier for new participants for FTR Options and PTR with UIOSI are the same. Nevertheless, a BRP contract and the possibility to have physical positions in Core CCR markets are required in order to nominate PTRs with UIOSI. As such FTR Options ensure a more equal level of playing field between all market parties regardless whether they are able to have physical positions in all Core markets (the use of PTRs with UIOSI could differ between players with and without BRP contract).

Moreover, the omission of nominations would have the advantage that the harmonization of nomination rules within Core CCR becomes obsolete, as required by the FCA (Art 36.3). This would save costs for some TSOs, market parties and society.

CONCLUSION

Despite some backdraft listed above and mentioned by market participant respondents, Core TSOs of the concerned bidding zone borders (those with the intention to introduce FTR options in the current proposal) see advantages of increased liquidity of the day-ahead market due to the introduction of FTR options.

Given that,

- with FTR Options all cross zonal capacity would be implicitly allocated in the day-ahead market contributing to a reliable day-ahead market price formation;
- actual use of PTR with UIOSI indicates that market parties use PTR with UIOSI in the majority of the cases like FTR options as such no need to maintain the functionality;
- FTR Options result in operational simplification for market parties and TSOs; and lower system and operational costs, because harmonization of nomination rules is obsolete and subsequent system or operational changes for all parties involved can be avoided.

ASSESSMENT OF FURTHER CONCERNS

Fees for power exchanges due to obligation to close positions on both sides of the borders:

In contrast to other hedging options (especially future markets) LTTRs are allocated and settled up via JAO without any fee for market participants. The possibility of alternatives to stock exchanges ensures competitive fees which are more likely to fall as a result of MNA implementation.

Risk of partial clearing and high imbalance prices:

This is a very theoretical risk which never happened since the start of market coupling. Further the risk is independent of the LTTR design since it would apply (more likely) after [PX] gate closure and this is much later than today deadlines for physical nomination.

HAR Art. 56 curtailment:

The risk is independent of the LTTR design since anyway all already allocated capacities, meaning day-ahead and intraday as well, would be curtailed pro-rata. Since compensation is market spread (different remuneration due to Force Majeure is not criticized by any of the respondents) the FTR holder does not even notice that he was curtailed.

Article 1 (2), related to added paragraph b(4):

Four out of six respondents raised their concerns to modify already allocated transmission rights from PTRs to FTR Options for the bidding zone borders CZ-AT and HU-AT.

In response to this concerned TSOs want to highlight that indeed it is not possible, but also not foreseen, to change any conditions on already existing LTTR contracts. Instead it is intended to inform market participants latest with the auctions specifications already on the automatic transfer of awarded PTRs to FTR Options in parallel with the 'Go-Live' of the Interim Coupling before allocation of such LTTRs. In addition, TSOs will inform the market participants before the allocation of such LTTRs of the date where the implementation of the Interim Coupling is planned to give the market participants best available information to consider this in their bidding strategies.

APG, MAVIR and CEPS see this approach as the most beneficial especially for market participants, because of legal restrictions given by FCA Art. 31(2) and 31(6) to offer a yearly product which is not zero on the one hand and to enable the 'go-live' date of the Interim Coupling in parallel with a maximum of liquidity in the day-ahead market based on FTR Options (in alternative possible go-live dates would be restricted to each 1st January after readiness for 'go-live' which would mean earliest by 1st January 2021).

ANNEX

Respondent 1

Risk management through (cross-border) hedging is a key element in sourcing and providing electricity to customers competitively, as it allows market participants to avoid exposure to short-term price volatility and imbalance costs. Allocation of long-term rights to market participants also provides long-term signals to the TSOs regarding potential congestion on certain cross-border elements. This provides an indication to the TSOs regarding forward market activities and could potentially help in forecasting additional congestion revenues that TSOs receive as a congestion income.

Comments on Article 1(1):

The main change proposed in this second amendment, in Article 1(1), concerns the introduction of FTR options at the NL-DE/LU and FR-DE/LU (thereby having FTR options issued at all CWE borders following the switch to FTR options at the Belgian borders in 2016). The Core TSOs also propose to introduce FTR options at the BE-DE/LU bidding zone border after the go-live of the HVDC interconnector ALEGrO, and at the AT-CZ and AT-HU borders.

While we acknowledge the fact that the introduction of FTR options is a possibility foreseen in the FCA Guideline, it is also an important market design change. This proposal should be accompanied by an explanation of the motivations of the Core TSOs, as well as an assessment of the expected benefits of the change in terms of overall social welfare. We have seen no explanation of why those changes have been proposed now and why at those borders.

We are in principle neutral to the issuance of either PTRs or FTR options by the TSOs. We support the issuance by TSOs of forward transmission rights (PTRs or FTR options) at all bidding zone borders in Europe and in all directions, to the full amount that the underlying infrastructure can offer for each timeframe, as calculated according to the relevant capacity calculation methodology. However, the main difference between PTRs and FTR options is the capacity of market participants to nominate PTRs, and this option to nominate PTRs has, as such, a value. We would hence like to highlight a few concerns regarding the exclusive use of FTR options:

- The exclusive use of FTR options would tie market participants to power exchanges, as no physical hedging instrument will be able to back OTC cross-border forward transactions. This restricts market participants' ability to weigh the benefits and drawbacks – in financial terms and practical arrangements – of using OTC platforms or power exchanges for their physical cross-border transactions. In practical terms, market participants will have to close their physical positions on the day-ahead market on both sides of the border, increasing the administrative and financial burden – such as mandatory membership to the power exchange, clearing fees, reporting, etc.
- In case of partial clearing, the outcome will be different than with PTRs due to a potential remaining imbalance at BRP side. However, first, market participants should still be able to rely on cross-border capacities to balance their portfolio, as the case might be. The switch from PTRs to FTR options does not change the interconnection capacity available to the market. As a result, this implementation should not result in a regression in the functioning of the market, most particularly in terms of cross-border transmission capacity made available to the market as far in advance of real time as possible. Second, the introduction of FTR options should not come with a risk of paying high imbalances that would not have been there if market participants decided to nominate their PTRs. Therefore, a mechanism should be in place to cover any risk related to unserved energy in the concerned

bidding zones. As an example, this risk has been acknowledged by CREG when the switch from PTR to FTR options was implemented at the Belgian borders (cf. CREG decision B1446, paragraph 76). This risk can be particularly high at borders connecting bidding zones with low liquidity. For this proposal, the AT-CZ and AT-HU borders would be most at risk of failing to see the day-ahead market clear.

- As noted in our response to the Core TSOs survey on splitting long-term cross-zonal capacity all the capacity available (as the output of the long term capacity calculation process) should be allocated in forward time frame as far in advance as possible. TSOs should update their computation throughout the year and offer the additional released capacity (if any) in subsequent auctions.

This is true for PTRs, but even more so for FTR options: there should be no reservation for day-ahead, as no physical event linked to operational security or emergency situation may affect FTR options. We therefore hope that no capacity will be reserved ex-ante for the day-ahead or balancing markets (as was the case at the French-Belgian border with 200 MW reserved for day-ahead during the allocation process of 2017).

- As a final note, we remind the Core TSOs that we have serious concerns regarding article 56.3 of EU HAR for the case of FTR options. Article 56.3 lays down the rules for curtailment of allocated rights, i.e. one of the elements of the firmness of long-term transmission rights which is of course of utmost importance for market participants. We do not agree with the possibility for TSOs to curtail allocated FTR options for reasons of system security: since FTR options cannot be nominated, their allocation cannot have any impact on the state of the system, hence TSOs bear no physical risk. Therefore, we do not see any reason to apply a curtailment for system security reasons to FTR options. Only curtailments in case of Force Majeure should be applicable for FTR options. We therefore suggest that TSOs themselves request a review of this article, especially given the increasing number of borders that will use FTR options going forward.

In short, before the switch from PTRs to FTR options at the concerned borders, we request:

- Proper justification of the reasons for this switch and an assessment of its benefits from a social welfare perspective;
- Cross-border transmission capacity allocation maximised to 100% of the available capacity at the time of calculation (system security reservations should not be tolerated for FTR options);
- Full financial firmness of FTRs, and impossibility to curtail for any other reason than Force Majeure (system security justifications should not be tolerated for FTR options);
- No additional exposure for the market, e.g. in case day-ahead markets do not clear.

Comments on Article 1(2):

Concerning the modification of Article 8 of the methodology, as proposed in this amendment's Article 1(2) – “The change of the type of the long term transmission right shall apply also to already allocated yearly transmission rights” – we strongly oppose the automatic application of the switch from PTRs to FTR options to already allocated PTRs. Market participants buy a certain hedging instrument from the TSOs for defined reasons, based on its full set of characteristics. Those characteristics contribute to determining the value of the instrument. In no way should TSOs give themselves the right to go against basic principles of contract law and modify the specification of a product that they have already sold to the market.

Respondent 2

We are happy to contribute to the Core regional design of LTRs and expect that our views as a stakeholder will be duly considered (Art 6 (EU) 2016/1719). We recognise a strong trend to introduce FTRs on all Core borders. Generally we do not see FTRs as adequate hedging instruments, since they do not balance the physical position of the balance group but rather pay an amount of money to the rights holder. Since our business model roots in the physical power delivery, we cannot accept an FTR as a satisfactory instrument. Furthermore the Harmonised Allocation Rules (HAR) gave way for curtailments of cross border long term rights. We consider the compensation scheme for curtailed capacities intransparent, weakening the FTR as a hedging instrument even more.

Additionally we would welcome the introduction of a wider product range for LTRs, e.g. quarters and month products for upcoming delivery time frames that lie half a year or a year in the future. We consider the front month auction too close to delivery and we think that a wider range of products along the delivery time line could make the auctions more attractive. Though, the layout of splitting long-term cross-zonal capacity maybe detailed in a methodology according to Art 16 (EU) 2016/1719, we think that also the regional design proposal according to Art 31 4(b) (EU) 2016/1719 demands the “[...] description of [...] (b) forward capacity allocation time frames;”. This supports the idea of products for deliveries lying further in the future, and not just a simple month/year ahead scheme.

Respondent 3

We do not object introduction of FTR on CZ-AT border as such. However we would like to note that there are some uncertainties in the proposal, which should be clarified.

We should avoid situation, in which there are both yearly physical transmission rights and monthly transmission rights applied on the same border. Any change from physical to financial transmission rights should occur hand in hand with yearly auctions. In no way should already allocated physical transmission rights be transferred to financial rights or cancelled / curtailed, as suggested in Article 1. This is in strong contradiction to basic principles of contract law, as it tries to modify the specification of the product that have already been sold to the market. In this regard, we suggest deleting the last sentence of paragraph 2.4 in Article 1 and amending the paragraph accordingly.

We would also like to highlight once more that we have serious concerns regarding article 56.3 of EU HAR for the case of FTR options. Article 56.3 lays down the rules for curtailment of allocated rights, i.e. one of the elements of the firmness of long-term transmission rights, which is of course of utmost importance for market participants. We do not agree with the possibility for TSOs to curtail allocated FTR options for reasons of system security: since FTR options cannot be nominated, their allocation cannot have any impact on the state of the system, hence TSOs bear no physical risk. Therefore, we do not see any reason to apply a curtailment for system security reasons to FTR options. Only curtailments in case of Force Majeure should be applicable for FTR options. We therefore suggest that TSOs themselves request a review of this article, especially given the increasing number of borders that will use FTR options going forward.

Respondent 4

LTRs are used for hedging purposes and are therefore important for market participants, hedging being a sine qua non condition for efficient markets; in particular, they avoid having an exposure to one single market and allow to mitigate market risks. The main change proposed in this second amendment concerns the introduction of Financial Transmission Right-options (FTR-options) on all CWE borders.

While we recognize that FTR-options are envisaged by the FCA Guideline and can discern a possible benefit for the organization of the day-ahead market coupling, we would have appreciated that TSOs clearly explain the motivations as well as the expected value of such a change. We have strong reservations regarding a switch to FTR-options and consider that possible drawbacks should be evaluated and eventually addressed before such an evolution can take place. Indeed:

- The exclusive allocation of interconnection capacity by means of FTR-options forces market participants to close their physical position in the power exchanges in day-ahead on both sides of the border, which may induce additional costs (exchange and clearing fees).
- By being obliged to close their position in the power exchange, market participant are exposed to the risk of partial clearing and, therefore, of unserved energy. They could hence be left with an open position and bear the risk of high imbalance prices. However, the switch from PTRs to FTR-options does not modify the physical interconnection capacity available to the market. Hence, we believe that TSOs have to ensure that the switch does not deteriorate the hedging capacities offered by the long-term rights. This risk has been acknowledged by CREG when the switch from PTRs to FTR-options has been implemented at the Belgian borders . Therefore, a mechanism should be put in place to cover this risk in case of unserved energy if PTRs are replaced by FTR-options.
- We take the opportunity to remind our concerns regarding Article 56 of EU HAR for the case of FTR-options, and hence suggests reviewing it, especially given the proposed switch to FTR-options in CWE region. Firmness of transmission rights is of course of utmost importance for market participants. We do not agree with the notion of curtailment for reasons of system security in the case of FTR-options, since TSOs are bearing no physical risks in this context. Therefore, we do not see any reason to apply a curtailment for system security reasons when FTR-options are used.
- Last but not least, for all the borders using FTR-options, all the capacity available (as the output of the long-term capacity calculation process) should be allocated in forward timeframes. There should be no reservation for day-ahead capacity when FTR-options are used. Indeed, no enhancement of the day-ahead market liquidity can be put forward to justify such a reservation, since all the physical interconnection capacity available is offered in the day-ahead market coupling. Besides, the uncertainty inherent in the long-term capacity calculation should be properly dealt with in the long-term capacity calculation methodologies, and not by reserving an arbitrary share of the calculated capacity for the day-ahead timeframe. We therefore fail to understand why 200 MW were still reserved for day-ahead during the allocation process of 2017 at the French-Belgian border (as mentioned in the consultation from CRE on the long-term transmission rights organized in April 2018).

Regarding the addition to article 8 (“The change of the type of the long-term transmission right shall apply also to already allocated yearly transmission rights”), we are strongly opposed to the possibility to modify already allocated transmission rights. TSOs should not have the right to modify the specification of a product that is already sold to the market.

Respondent 5

We encourage Entso-e to consider cross-border physical PPAs in its review of long-term transmission rights at the borders of these bidding zones. In order to facilitate cross-border PPAs across these borders the buyer and seller in question would need to purchase the respective transmission rights for a period of 10-20 years with reasonable visibility on price evolutions within that period and if possible with a fixed price. We understand these could be financial transmission rights rather than physical transmission rights. We would be happy to work with Entso-e to identify further measures that would enable cross-border PPAs and recommend also working with EFET who are in the process of drafting a template contract for corporate PPAs that could also be used across national borders.

Respondent 6

LTRs are important as they provide liquidity, accelerating the market integration as it facilitates cross-border trading. LTR's are important for hedging purposes: that way exposure to one single market is avoided and opportunities to diversify are created. Hedging is a condition sine qua non for competitive and thus efficient market. The main change proposed in this second amendment concerns the introduction of FTR options at all CWE borders.

While we recognize that FTRs are envisaged by the FCA guideline and understand the potential benefits for the organization of the day-ahead market coupling, we would have appreciated to understand the motivations of TSOs as well as the foreseen benefits of such change.

We would like to highlight a few concerns regarding the switch to FTR options, which would need to be alleviated before such evolution can take place:

- The exclusive allocation of capacity by the mean of FTR options forces market participants to close their physical position in the power exchanges in day-ahead on both sides of the border, with the consequences that this implies (membership to the power exchange, exchange and clearing fees)
- By being obliged to close their position in the power exchange, market participant are hence exposed to the risk of partial clearing and as a natural consequence, of unserved energy. They could hence be left with an open position and bear the risk of high imbalance prices. However, the switch from PTR to FTR does not modify the physical inter-connection capacity available in the market. Hence, we believe that the switch should also not deteriorate the hedging capacities offered by the long term rights. This risk has notably been acknowledged by CREG when the switch from PTR to FTR has been implemented at the Belgian borders*. **Therefore, a mechanism should be put in place to cover this risk in case of unserved energy.**
- Although this is not stricto sensu part of this consultation, we would like to remind that we have serious concerns regarding article 56.3 of EU HAR for the case of FTR options. We hence suggest reviewing it, especially given the proposed switch to FTR options in CWE region. Firmness of transmission rights is of course of utmost important for market participants. We do not agree with the notion of curtailment for reasons of system security for the case of FTR options, as with FTR options, TSO bear no physical risks. **Therefore, we do not see any reason to apply a curtailment for system security reasons for FTR options.**
- Last but not least, for all the borders using FTR options, all the capacity available (as the output of the long-term capacity calculation process) should be allocated in forward time frames. **There should be no reservation for day-ahead.** Indeed, no enhancement of the day-ahead market liquidity can be put forward to justify such a reservation in case of FTRs, since all the physical capacity available is in any case offered in the day-ahead market coupling; besides, the uncertainty inherent in the long-term capacity calculation should be properly dealt with in capacity calculation methodologies, and not by reserving an arbitrary share of the calculated capacity for the day-ahead timeframe. We therefore fail to understand why 200 MW were still reserved for Day-Ahead during the allocation process of 2017 at the French-Belgian border (as mentioned in the consultation from CRE on the long-term transmission rights organized in April 2018).

*CREG decision B1446, paragraph 76

Regarding the addition of text to article 8 (“The change of the type of the long-term transmission right shall apply also to already allocated yearly transmission rights”), we are strongly opposed to the possibility to modify already allocated transmission rights. **TSOs should not have the right to modify the specification of a product that is already sold to the market.**

We take the opportunity of this consultation to also comment on articles for which no modification is proposed. In particular, we think that article 6 should be clarified. We are of the opinion that multi-annual products should be developed. This would be compliant with article 28 of the EU HAR. Indeed, this can provide market participants with additional possibilities to hedge long-term risks. Especially in smaller, less liquid market zones this can provide a valuable link to a broader pool of liquidity. NRAs already grant some Interconnectors the right to issue multi-year products to alleviate market risks. The interest in these products shows an appetite at market side for such long-term products. Similar products could be considered for other interconnectors, providing longer-term hedging possibilities for market participants.