CONSULTATION RESPONSE

EFET
European Federation of Energy Traders

EFET response to the ENTSO-E consultation on amendments to the splitting rules for long-term cross-zonal capacity at the Italy North borders

Brussels, 20 October 2023 - The European Federation of Energy Traders (EFET) insists that the Italy North TSOs auction the maximum available capacity as far in advance of real time as possible in each direction. Further progress is also needed to limit reduction periods and ensure full transparency on product availability.

Key messages

1. **Maximum available capacity should be auctioned as far in advance of real time as possible** (after the year-ahead calculation for the yearly auction and following monthly recalculations for the monthly auctions).

2. **No capacity should be withheld** from the yearly auction for the monthly auctions, or from the monthly auctions for the day-ahead market.

3. **Capacity maximisation should concern all directions**, without distinction between import and export directions.

4. **Reduction periods should be minimised,** through a maximisation of the product validity.

Detailed comments

Auctioning the maximum capacity calculated as available year and month-ahead in all directions

Under the Methodology for splitting long-term cross-zonal capacity at the Italy North borders, Article 3 details the TSO proposals for capacity splits at each border and in each direction:

Border (direction)	FR>IT	IT>FR	AT>IT	IT>AT	SI>AT	SI>IT
Yearly auction (as % of capacity calculate year-ahead)	85%	85%	75%	20%	75%	20%
Monthly auction (as % of capacity calculate month-ahead)	?	?	75%	50%	75%	50%

This table show that:

- The capacity calculated as available year-ahead is not fully made available to the market in the yearly auction (part of it is set aside for monthly auctions).
- The capacity recalculated as available month-ahead is not fully made available to the market in the monthly auctions (part of it is set aside for the day-ahead market).
- There is a distinction in capacity made available (yearly and monthly) depending on the direction of allocation.

We request that:

1) all the capacity calculated by the capacity calculation process year ahead be made available to the market (i.e. 100% of the calculated capacity year-ahead), not just a fraction of that capacity.
2) Further release of capacity at shorter time horizons in the forward timeframe (monthly auctions) should be the result of capacity recalculations, and gradual release of the margins and constraints initially applied by the TSOs for year-ahead allocations as uncertainties reduce with real time getting nearer (i.e. 100% of the recalculated capacity month-ahead). No capacity should be withheld in the monthly auctions for the day-ahead market.
3) All this should be valid at all the Italy North borders, equally in each allocation direction.

To recall, for market participants hedging is about assessing and covering their positions against a variety of risks: price risk, volume risk, regulatory risk, etc. The further away from real time, the greater the interest and importance for market participants to cover those risks, including across borders. Long-term transmission rights contribute to reducing these risks in case of cross-border or proxy hedging. It is therefore vital that TSOs make available to the market the maximum capacity they can as far in advance of real time as possible.

For avoidance of doubt and bearing in mind that certain market participants may only wish to purchase capacity for specific months and may be reluctant – or unable – to re-trade purchased yearly forward transmission rights on the secondary market, the TSOs may choose to allocate the 100% of capacity calculated year-ahead not only via yearly products but also via monthly products (but a year in advance). The TSOs could even make sole use of monthly products in the year-ahead and monthly auctions, which could be bundled into multi-month or annual blocks in the yearly auction. This distinction between the timing of the auctions and the granularity of the products offered by the TSOs would allow the market itself, at the time of the yearly auction, to perform the splitting of capacity between yearly and monthly capacity in the most economically efficient manner.

We also believe that this approach is in line with article 9 and 16 of the FCA Regulation. Indeed:

- Article 9 states that "All TSOs in each capacity calculation region shall ensure that long-term cross-zonal capacity is calculated for each forward capacity allocation and at least on annual and monthly time frames" – Our proposal still foresees a calculation of capacity year-ahead and each month.
- Article 16 states that "The TSOs of each capacity calculation region shall jointly develop a proposal for a methodology for splitting long-term cross-zonal capacity in a coordinated manner between different long-term time frames within the respective region" – The article does not mandate TSOs to decide on a split, but to design a methodology for splitting capacity; with our proposal, the market would decide on the split, based on rules and auction design agreed between the TSOs and NRAs.

We believe that the solution presented above is the best solution to reach the objective of the FCA Regulation in general, and its article 16 in particular, i.e. meeting the hedging needs of market participants. In the manner described above, it will be the market itself adjusting the split of capacity to the hedging needs of its participants at each auction and in each direction.

Maximising and improving the transparency on product availability

Article 4 of the methodology details the so-called "Product Validity Periods" (PVP) as a percentage of hours in which the transmission rights are entirely available. In parallel, the TSOs also define to maximum reduction periods for transmission capacity in different auctions.

While we appreciate that clear criteria for product availability (PVP 80%, maximum 25 reduction periods for yearly capacity, maximum 5 reduction periods for monthly capacity), are included in the methodology, we still view these practices as abnormal – not applied in other CCRs – and non-transparent. Indeed, there is no indication or transparency framework as to the reasons why the Italy North TSOs take decisions to reduce capacities in the allocation process.

As previously mentioned in earlier consultations on the subject, we call on the Italy North TSOs to include the constraints leading to capacity reductions in the capacity calculation process itself (rather than in capacity allocation) in order to ensure full transparency.

Conclusion

We request that the Italy North TSOs significantly improve this methodology by **ensuring that the maximum available capacity is made available to the market in all direction at each calculation or recalculation of capacity – without ex-ante reservation for subsequent timeframes.**

This should ideally be done by **leaving the choice to market itself decide on the split between yearly and monthly capacities**.

Finally, **product availability should be maximised and the constraints of the Italy North TSOs leading to reduction periods should be included in a transparent manner in the capacity calculation process**.

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