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ENTSO-E consultation on Baltic TSOs amendment proposal for regional design of long- term transmission rights (FCA GL Article 31)

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EFET response – 3 May 2022

The European Federation of Energy Traders (EFET) welcomes the opportunity to provide comments and to facilitate the long-term transmission rights on the bidding zone borders between Finland and Estonia.

We particularly support that the Finnish NRA Energiavirasto and the Estonian NRA Konkurentsiamet, considering FCA Regulation art. 30, agreed as a coordinated decision **to request the respective TSOs Fingrid and Elering to issue LTTRs on the FI-EE bidding zone border from 2024**. We expressed at multiple occasions our disappointment with the EU Nordic NRAs' decision back in 2017 not to issue long-term transmission rights (LTTRs) at the borders of their bidding zones, according to article 30.2 FCA GL.

We hope that the NRAs that have decided not to issue LTTRs on the bidding zone borders of Lithuania and Poland and Lithuania and Sweden will also reconsider their stance.

Since the start of the liberalisation of the electricity sector, EFET has supported the issuance by TSOs of forward transmission rights 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 in advance of delivery[1,2]. This activity is an essential part of the TSOs' "public service" activities, as regulated entities. The issuance of forward transmission rights at all borders in all directions allows to:

- guarantee that a certain minimum volume of products will always be available and offered on a transparent and non-discriminatory manner through organised auctions;
- provide substantial congestion income to TSOs by allowing them to extract the maximum value out of the network infrastructure they manage in advance of delivery;
- provide better and more reliable visibility for market participants as to the total volumes of cross-border transmission hedging products;
- ensure that the capacity that is offered to the market is maximised at all points in time and that any variations of these volumes is published in a timely and effective manner;
- provide valuable signals as to the structural value of cross-border capacity, from a "congestion" point of view. This is useful for all market participants and for TSOs and regulators, whereas the daily price signals are much more volatile. For example,

[1] See EFET response to Thema questionnaire on Nordic hedging November 2020 and EFET response to NVE-RME consultation on price hedging in the Nordics September 2021.

[2] See the EFET paper calling for compulsory issuance by TSOs of forward transmission rights throughout Europe, dated 22 July 2014 and available at: https://data.efet.org//Files/Documents/Downloads/EFET_Compulsoryforward-TRs-22-Jul-14.pdf.

forward allocation provides clear market-based price signals as to the need for additional infrastructure investments.

We agree with the proposal to use FTR options in the Baltic CCR. EFET is of the opinion that Physical Transmission Rights (PTRs) based on "Use It or Sell It" (UIOSI) principle or Financial Transmission Rights (FTRs) as options (not obligations) are the long-term hedging products which should, at a minimum, be offered by TSOs between all bidding zones across Europe. These products give the maximum flexibility for companies to compete across borders and avoid creating new barriers to entry to cross-border market participants. The introduction of pure transmission obligations could be developed by the industry itself and should only be considered after the TSOs have established a healthy market for transmission rights as options.

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.

All available capacity (as the output of the long-term capacity calculation process) should be allocated in the 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.

If the functionality of anticipated netting was considered as part of the TSO activities, additional consultation and details would need to be considered. An important requirement would be to avoid splitting liquidity of the limited volume of available rights. Therefore this function could also be added as an option to existing LTTRs. Another simple alternative would be to limit TSO activity to optional rights based on the volume of available interconnection capacity volumes and to let the industry develop the adequate regime for obligatory rights as they require very different competencies and processes.