Access to long-term capacity for electric interconnections: toward a single European set of rules

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Towards a single set of European LT rules (1/2)

- Long maturity transmission rights are a crucial element for developing competition and the creation of an European electricity market
  - Long-term capacities allow market players to take sustainable position in neighbouring markets and to hedge themselves against price differential volatility
- The degree of harmonisation between the different allocation rules in force within the European borders is already high
  - The ERGEG Benchmarking report on medium and long-term electricity allocation rules shows that a single European allocation set of LT rules is within reach.

Towards a single set of European LT rules (2/2)

- But several recurrent issues still need to be addressed:
  - Firmness
  - Maximization of cross-border capacity
  - Product characteristics (physical or financial?)
  - Secondary markets

- Framework Guidelines on Capacity Allocation and Congestion Management provide an answer to these issues.

Guaranteeing firmness of cross-border capacity

- Guaranteeing firmness of cross-border capacity is a key element of the single European electricity market:
  - The **absence of firmness is a risk for market players** that is taken into account in their bids for capacity
  - This risk is even more difficult to handle for market players without generation units on both sides of the interconnection

- The FG CACM provide a clear regulatory framework in that respect:
  - Curtailment only in emergency situations and force majeure
  - Curtailment compensation based on **DA market price differential (financial firmness)**
  - **Physical firmness** is the privileged approach for **nominated capacities**
  - In case of force majeure, capacities are reimbursed

Maximizing the amount of cross-border capacities

- Full firmness may increase the risk born by TSOs/network users, and thus incentivize TSOs to **decrease** the interconnection capacity.

- The FG on CACM foresees a stronger involvement of Regulators to address this trade-off
  - According to FG CACM, LT **capacity levels must be reviewed and approved** by NRAs.

- Other tools may as well be used to manage this trade-off:
  - Recovery of firmness costs to TSOs
  - Introduction of caps on the price differential for compensation
  - Modification in the distribution of XB capacities between timeframes
  - Appropriate incentives for maximizing firm XB capacities

Moving to Financial Transmission Rights

- The LT target models* defined by FG CACM are:
  - PTR options with UIOSI
  - FTRs (options or obligations
- In coupled markets, operational processes are made less complex with FTRs, as the nomination step disappears
- A majority of long term capacities is already used as FTRs on coupled markets (TLC)

2008	Share of LT capacities resold in daily
France - Belgium	52%
Belgium - France	88%
The Netherlands - Belgium	77%
Belgium - The Netherlands	73%

*unless appropriate XB financial hedging instruments are offered in liquid financial markets

Developing liquidity on secondary markets

- The implementation of secondary markets, in particular with the possibility of transferring capacity between players, has always been a strong demand from market players.
- Although transfers are possible, these are very little used by market players at the moment.
- FG CACM provides for the development of regional, anonymous platforms for secondary trade. The long-term goal is a pan-European platform.
  - → Simplification of the entry of new traders to the secondary market (OTC no longer the only way to trade)
  - → More liquidity to the secondary markets
  - → Better valuation of LT capacities
- In addition, the target model defined in FG CACM includes automatic resale of non-nominated physical LT rights in DA auctions (UIOSI mechanism).

Thank you for your attention!

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