

**Gas Natural Fenosa's response to  
ERGEG's benchmarking report on medium and long-term  
electricity transmission capacity allocation rules (E09-ERI-23-03)**

Dear Sirs,

We would like to congratulate you for your benchmarking report on this topic which has been very helpful analysing the variety of solutions that have been implemented among Europe for the long term transmission capacity allocation and, at the same time, provides a global view of the improvements that are still needed to promote cross border trading.

We are very pleased to provide you our comments to your questions and we hope they contribute to clarify and make progress in the harmonization of long term transmission capacity allocation.

**1. Do you think that an important degree of convergence has been reached in terms of conditions for participation in the auctions, the characteristics of allocated products and the functioning of secondary markets?**

Yes indeed, we are truly pleased about the majority of initiatives that have been carried out through last years in terms of harmonization, coordination and definition of a single target model, whose aim is finally to achieve the integration of different European electricity markets.

Nevertheless, Gas Natural Fenosa (from now GNF), as a market player , believes that there are still some issues pending that need to be improved in order to reach a good level in terms of market performance.

From our point of view, further efforts need to be done in the following critical aspects:

- Establishment of a single European platform where market agents could negotiate firm transactions over different borders at the same time would provide more flexibility to market participants and would probably increase liquidity
- Capacity firmness is needed to be in place for all negotiated products. In addition to that, compensation mechanisms in case of curtailments and reductions of capacity based on full market spread should be the best model to follow, like in the interconnection between France-Spain. In this sense, any type of cap or limitation for compensations should be avoided (in the IFE caps have never been reached). In the same line, rules like "use it or get paid for it" (automatic resale) seem to be the best practice to apply to non nominated long term capacity (IFE rules are a clear example for that)
- To avoid any national law that could hamper participation in auctions, a clear impact analysis on how it would affect competition and efficient allocation of capacity rights should be done. An example can be found on IFE, where the participation of four market players in auctions from France to Spain is forbidden ex-ante without an impact analysis on the causes and the consequences of such measure.

**2. Do you think that a special attention should be paid by ERGEG on lack of harmonisation of auction rules, lack of firmness of both allocated and nominated capacities and long term financial capacity products not allocated by TSOs?**

Yes, of course. GNF considers that ERGEG has a vital role on the process related to help to determine which are the main problems needed to be solved towards a correct and homogeneous model among all the interconnections. We encourage and support ERGEG to achieve a general consensus between all the parties involved.

**3. What share of the available transmission capacity should be allocated on long-term basis and what should be reserved for short-term allocations?  
Please, give your justification for the proposed shares.**

GNF advocates the use of long term products; they are an essential tool for market players to hedge positions among different markets and promote cross border trading. Having the possibility of contracting firm long term products would provide companies with the appropriate instruments to facilitate cross-border trading business management in a more efficient way. In this sense, we support the idea that all available transmission capacity should be dedicated and distributed between long term products (for example beginning from months to calendar years) and no capacity should be reserved for short term in advance.

**4. What concrete improvement in long-term auction rules would you propose?**

From our general perspective, these are some of the improvements that could be implemented on the present rules:

- Concerning products, we prefer to have liquid and standard instruments, continuous and with characteristics and maturities similar to products that can be hedged and traded on the market. We have a clear preference for physical options products. They help companies setting a portfolio for retailing activities, as well as for trading. In this particular issue we would like to highlight the present situation in the Spain-Portugal border, where despite the fact that there is high level of integration concerning the spot market with a market-splitting mechanism, improvements are still needed regarding harmonization of long term capacity allocation management of this border. From our perspective, products that have been offered to agents in the past (spread swaps/forwards) do not necessarily represent the best choice of all the possible instruments available and existing in the rest of interconnections around Europe
- Firmness of capacity is a matter that has to be treated with special attention and has to be improved. TSOs should make available the maximum capacity (ATC) for market agents at any time. In this sense, Regulators should boost the design of a clear regulatory framework that would provide TSOs the correct incentives in order to achieve this objective. Transparency of ATC calculation rules as well as common grid model and coordinated procedures are other issues to improve and harmonize
- The implementation of a single platform where markets agents can manage capacity for several interconnections, nominate and also negotiate capacity in secondary markets, would help to reduce operational risk as well as to facilitate simplification and automation of all process involved
- Regarding credit aspects, single methodologies of calculation, as well as the possibility of providing a flexible portfolio of guarantees need also to be improved
- Unbundling of the TSOs is desired to guarantee their independence
- The harmonization of procedures and criteria applied by National Regulatory Authorities in order to modify the capacity allocation process with additional requirements further than EC Regulation.

**5. What are the main difficulties, concerning auction rules, for trading electricity on a long term basis from one country to another crossing several interconnections?**

We strongly believe that a single negotiation platform is a step forward in order to achieve a successful and fully integration between different markets. Nowadays, the wide variety of IT systems, paperwork (not always in English), among all the interconnections could be an obstacle to take into account.

In the same way, diversify of different type contracts and financial guarantees that are necessary to put in place with all parties involved, is also a barrier.

**6. How do you see the development of auction platforms and what would you consider the most efficient solution for the internal electricity market (a more centralised approach or the current decentralised one) taking into account the developments on the solutions for day-ahead and intraday timeframes?**

A centralized organization is the ideal model to follow.

Nevertheless, we are aware about challenges involved during the process. That is why regional initiatives are the best practical solution in the short term, but it is still necessary to provide clear and single guidelines to them and keep a high level of coordination between all the parties involved.