

To **CWE TSOs (through convenor, Esther Bos)**
From MPP
CC ACER, ENTSO-E, DG ENER
Date 11 March 2016

Subject Reaction to the Long Term Capacity Calculation stakeholder meeting, 20 January 2016

Introduction

This note gives the reaction to the Long Term Capacity Calculation stakeholder meeting, organised by the CWE TSOs on 20 January 2016. CWE TSOs have asked this reaction as input for further work.

Reaction

1. In the concept it was mentioned that:

*“After day-ahead capacity calculation (yearly ex post analysis), it is aimed to have **at most 50%** of the available capacity in the long-term timeframes, with the exact splitting rules subject to further analysis and consultation”.*

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. In our view the more cross-border capacity made available to the market, the better. Furthermore, the maximum capacity shall be made available to market participants to comply with the Regulation (EC) 714/2009.

Hence it is important that at the moment of the yearly auction, all the capacity that has been safely calculated by TSOs is made available to the market (with no reservation) and that TSOs make an update of their computation at the moment of the monthly auctions and offer the additional released capacity (if any) during the monthly auctions.

TSOs are proposing to implement a set of capacity splitting rules for the entire CWE region, i.e. they want *“to reserve at most 50% of ex-post capacities for long-term timeframes due to technical and economical reasons”* as explained during the workshop. The MPP sees this as a substantial decrease in capacities at certain borders. We see this as a step back for market participants and contrary to what should be done.



2. Question to market participants:

“What is the optimum of splitting rules for the MP in general? What is the preference for monthly or yearly capacities”.

LTR's should even cover years ahead: y+2, y+3 and further. The reason is that there is demand in the market for these timeframes, e.g. for hedging power plants and from (retail & large) consumers. As mentioned above, all capacity that has been safely calculated by TSOs should be made available to the market. Most volumes in the market are traded in the forward timeframe.

3. Regarding the net position allocation with bids per border: TSOs have proposed a preferred mechanism that involves bidding after which an algorithm determines net positions.

We have strong doubts about this mechanism as this restricts the allocation of trading products that are valued low by the market. We challenge the presumption that the forward market should be consistent with the Day-ahead FB methodology. A TSO should sell forward capacity that is asset backed by the interconnector cable even if no commercial flow is expected (in which case the price difference on that particular border is expected to be zero, hence the LTR expires worthless). That way market parties can efficiently compete cross border. To give the market an idea of the current grid situation, the allocation mechanism should offer a given amount for a given border **before** the bidding begins. This could take the form of a *range* depending on the bidding behavior with a minimum and a maximum quantity per border.

4. With regards to stakeholder involvement in March you propose “a CCG meeting [which] will be used for regular updates on the development of the methods and further involvement of stakeholders”. This seems to be the last moment to influence the decision making process.

For Market Parties many aspects are still unclear and the process is regarded too hasty for a good assessment. What are the framework and the principles on which decisions will be based? We would appreciate more involvement, including an additional workshop dedicated to LTCC concepts and a *formal* stakeholder consultation. Besides all proposed methodologies, especially regarding the scenarios and the statistical method, should be made available (far) in advance to the CCG meeting in March

5. We would also like to repeat our concern about the operational performance of the TSO auction platforms (JAO and CASC). Very often auction details are published late. A striking example is the monthly Feb16 cross-border capacity auction from Spain-France & France-Spain, which was cancelled approx. 34 min after gate closure. This is really unacceptable. Partially based on our input EFET has send a letter raising this issue on the 14th of Jan 2016.



6. Finally elaborating on the previous bullet, we want address transparency and the duty by TSO's to disclose critical market information (e.g. article 4 of REMIT). Sometimes market participants get surprised by auction volumes that are lower as expected. For example, during the yearly auction for 2016 there was 0 MW available for NL->GER. An explanation to this was given only a few weeks later, instead of prior to the auction. These kind of 'surprises' are detrimental for the trust by market participants and hence to the attractiveness of the forward market.