

EAI comments to ENTSO-E consultation on forwards capacity allocation rules

The Electricity Association of Ireland (“EAI”) welcomes the opportunity to respond to ENTSO-E’s consultation on the Draft Allocation Rules for Forward Capacity Allocation (“the Consultation”), dated 2 March 2015.

The EAI is concerned with a number of issues within the Consultation, in the context of their impact on Irish Single Electricity Market (“SEM”) participants. These issues concern in particular financial firmness proposals and the special provisions provided for the SEM-GB border transmission rights as outlined in Annex 12 to the Consultation. EAI’s concerns in order of priority include:

- **Firmness** (Articles 2, 58 and Annex 12): EAI believes that the reference to two firmness deadlines is unnecessary and should be removed. Caps on curtailed rights under the Framework Guidelines are intended only to apply as a derogation to the general compensation for curtailment rule – the proposed monthly caps are arbitrary and given that they could outturn at zero depending on the interconnectors’ availability, the caps could significantly negatively impact forwards liquidity in SEM (and in the new market intended to replace SEM from October 2017). Any caps should at least be based on yearly long-term and day ahead congestion income earned;
- **Annex 12** (Articles 6-8, regarding reductions in remuneration): The addition of a scenario for “Capacity Shortages” for which curtailment caps should also apply is far too broad and undermines the value of transmission rights and forwards liquidity. The scenario should be removed;
- **Article 5** (Effective date and application): Technical constraints, e.g. ramping should not be permitted to impinge on transmission rights’ revenue considering that TSOs are best placed to manage such capabilities. Long notice of transmission rights that will apply on interconnectors is required before their auctioning. The value of previously bought transmission rights should not be eroded on implementation of a new type of right;
- **Article 21** (Form of Bank Guarantee): Credit ratings are too high and could ultimately limit access to transmission rights / forwards liquidity. Allocation platforms should be permitted discretion to apply their own credit worthiness requirements for an unlimited period of time;
- **Article 28** (Capacity allocation timeframe and form of product): Granular products should be permitted to be offered and over time these products should be standardised with products offered in connecting markets;
- **Article 29** (Auction specification): The notice for provision of the ‘provisional’ and ‘final’ auction specification is too short. Timelines currently used on interconnectors should continue at a minimum. This Article’s timelines should only apply in the case of final auction specifications;
- **Article 31** (Bids submission): Borders should have discretion to apply bid compilation rules.

1. Financial firmness of rights in case of Curtailment

- i. **Article 2 (definitions) and Article 58 (Compensation for curtailments to ensure system security).** Issue: Existence of a “long term firmness deadline”:-

EAI does not agree with the notion of having two time periods where, depending on the period in question, the financial firmness of your transmission rights would be more or less firm. The rationale for two firmness deadlines (the ‘long term’ and the ‘day ahead’) is undermined further with the stipulation that the long term deadline is 2 hours before day-ahead gate closure and the day-ahead deadline is 30 minutes before day-ahead gate closure. Adopting two firmness ‘deadlines’ adds unnecessary complexity and further detail on the expected value of adopting two such deadlines is requested. Ultimately EAI believes that references to long term firmness deadlines should be removed.

- ii. **Article 58 (3) and (4) (Compensation for curtailments to ensure System Security).** Issues: Caps on curtailment compensation:-

EAI reiterates the ACER Framework Guidelines’ provisions that capacity should be firm; that TSOs should ensure that enough re-dispatching/ countertrading means are available for ensuring firmness; and that congestion rents should be used for guaranteeing firmness of allocated capacity. Capacity

holders must also be compensated for curtailment (except in Force Majeure) and any caps on such compensation should only be as a “derogation” to the general compensation rule.

The caps for compensation in this Article again differentiate depending on the time period at when curtailment occurs. Compensations for curtailment happening in a particular month will be capped: a) for curtailments before the Long Term Firmness deadline, at the congestion income from allocation of long term transmission rights in that particular month; and b) for curtailments after the Long Term Firmness but before the Day Ahead Firmness deadlines, at the congestion income from allocation of long term transmission rights plus congestion from day-ahead transmission rights allocation in that month.

These “monthly” caps are extremely arbitrary and could have significant knock-on negative effects on forwards liquidity in electricity markets. For e.g., if an interconnector goes on outage for part of/ an entire month, then transmission rights holders’ compensation would be capped at “0” given that the interconnector cannot possibly earn congestion income if it is not even in operation over a particular month. This situation must not be permitted to arise. Any adopted caps must at least be done on a yearly basis and take into account both congestion income from allocation of long-term and day-ahead transmission rights.

2. Annex 12 “regional specific annex for the borders Great Britain- Ireland and Great Britain-Northern Ireland (SEM- GB)”

- i. Article 2. 5(a): EAI seeks removal of the additional provision in this annex (which goes beyond the main HAR), for transmission right remuneration to be adjusted to reflect “ramping constraints” on interconnections between Bidding Zones when the ramping constraints are included in the day-ahead Cross Zonal Capacity allocation process. Technical attributes should not be permitted to impinge on commercial revenues insofar as possible. In light of the role of interconnector transmission in managing market risk; the variable nature of large volumes of wind on the SEM system; and the TSO being the best placed party to control ramping, placing the risk of exposure to ramping capability limitations on FTR holders could further undermine FTR values and forwards liquidity.
- ii. Articles 2.6, 7, 8: In addition to EAI’s comments in relation to Article 58 regarding compensation for curtailment and caps thereon, EAI believes that the proposal to allow rights on HVDC interconnections to be curtailed due to insufficient physical capacity available in any settlement period for reasons which cannot be attributed to an event of Force Majeure, an Emergency Situation or a System Security event as far too broad. The proposal that the arbitrary caps (as discussed under Article 58) should also apply to these so-called “Capacity Shortage” events, places rights holders at risk of zero compensation for rights any time the interconnector goes down, no matter what the reason. These provisions introduce significant risk for rights holders, undermine the value of such rights and in SEM’s case, could significantly impact cross-border trading and hence forwards market liquidity to the detriment of competition and ultimately consumers. The provisions must be deleted.

3. Article 5 – “effective date and application”

Art 5(2) states that these rules shall govern all rights and obligations in connection with long term transmission rights “acquired before the entry into force of these Allocation Rules but with the delivery date after the entry into force of these Allocation Rules”. EAI emphasises the need for explicit notice of the date at which a market participant’s access to one type of transmission right ceases and another begins. Depending on the type of transmission right (e.g. FTR option or FTR obligation) it can affect the value of capacity and market participants need to know, with as much notice as possible, what this value is before buying transmission rights. The Allocation Rules should not be permitted to retrospectively erode the value of transmission rights purchased prior to implementation of a new type of transmission right.

4. Article 21 – “form of bank guarantees”

Art 21(1)(h) provides that the bank issuing the Bank Guarantee or the financial group it belongs to shall have a long term credit rating of not less than A (S&P or Fitch) and A2 (Moody’s). If the bank that issues a guarantee fails to meet this rating at anytime, participants have only 5 working days to submit a new guarantee by a bank with the correct credit rating or else the Allocation Platform can at its own discretion decrease the required rating for a limited period of time.

These credit ratings are very high and currently rule out many banks in the Irish market (e.g. AIB, BOI, Danske Bank, Ulster Bank, Permanent TSB). Provision should be made to allow Allocation Platforms to use its own discretion as to the appropriate credit rating required as it can vary greatly from country to country, and there should be no time limitation as to how long that decision stands (they should be entitled to make their own decision on appropriate credit worthiness levels). Otherwise forwards liquidity will be severely undermined which could be detrimental for SEM participants.

5. Article 28 (4)– “capacity allocation timeframe and form of product”

While additional forms of products beyond ‘standard products’ can be offered, explicit provision should be made that granular products are an additional form of product that can be offered but that these granular products should be standardised with products offered in connecting markets over a reasonable period of time.

6. Article 29 – “auction specification”

Article 29 (2) states that a provisional version and final version of the Auction Specification (defined as the list of specific characteristics of a particular Auction including nature of offered products and relevant dates) will be published (i) for yearly auctions no later than 1 week before... and (ii) for any other shorter auctions, no later than 2 working days before... **the end of the Bidding Period** (time period over which you can submit bids).

This is very short notice for details that are important to know ahead of bidding into an auction for products. In particular, market participants should at least have provisional notice on issues including for e.g. “form of product”; “Product Period”; “Bidding Period” at the earliest feasible time the platform is able to give such information before **the start of the Bidding Period**. On SEM interconnectors, this information is currently known months in advance and the rules should provide that the timelines that are already in existence should be retained at a minimum. The final Auction Specification is the only detail that should be permitted to be published during the auction itself in accordance with Article 29(3) which provides that final specification (which includes updated information relevant to auction terms of products and final offered capacity) shall be published no earlier than 4 hours after the provisional specification is published. The deadlines outlined in the article should only apply to final specifications.

7. Article 31 – “Bids Submission”

Provision should be included here for bid compilation rules to be allowed to apply on a border by border discretionary basis (e.g. via Annexes).