– Consultation response –

Block Bids - A new approach for the allocation of long-term transmission rights

Brussels, 31 March 2021 | Europex welcomes the opportunity to comment on this joint TSO and NRA consultation on the so-called 'block bids' approach to LTTR allocation. We provide below selected questions from our response.

What would be your appetite for such type of products?

We are in favour of an LTTR allocation approach which allows market participants more flexibility to develop tailored hedging strategies. Improving access to the capacity products and making more capacity available to the market as far ahead of real-time as possible (i.e. Y-1 as compared to capacity reserved for the month-ahead monthly auctions) will allow market participants more flexibility in covering different risks. Having suitable cross-zonal hedging instruments in place is necessary to improve liquidity and market integration in the forward timeframe.

Do you think further developments in linking of products direction (i.e. ability to bid for a series of blocks or nothing) instead of the bids on the monthly blocks to be independent (like in the proposal) would provide additional value?

We do not currently see the need for this. The current proposal, with independent bids on the monthly blocks would be in line with the FCA requirement to calculate yearly and monthly timeframes, and monthly blocks could be combined up to a full year to provide more tailored solutions.

Would you be interested in more complex products? If so, which ones?

Different granularity products are already available: quarterly, seasonal, weekly etc., depending on the CCR. In general, the development of LTTR products which mirror the availability of forward products (e.g. also multi-annual LTTR products) would help to provide more efficient LTTR cross border hedging solutions and support the development of the forward market.

Should auctions of the various products (monthly blocks and yearly ribbon product) be simultaneous or successive? And shall the Y-1 monthly block auctions (12) be run simultaneously or subsequently?

No preference. Coherence with the existing auction calendar should be ensured and the timetable should be designed to ensure predictability and ease of access.

How do you think this new approach would influence competition, would it trigger discrimination or market power issues?

If fundamental rules around the public auctions of the products stay the same, maintaining fair access, we see no scope for restriction of competition or changes to market power.

What improvements would you suggest to this "block bids" mechanism?

Please list three and rank them, being "1" the most relevant and "3" the least.

1. Develop secondary trading of LTTRs: Developing efficient secondary markets for trading LTTRs of all bidding zone borders where LTTRs are the supported hedging tool will help to optimise hedging opportunities for market participants. While, under current arrangements, acquired yearly capacity can be resold by market participants at the monthly auctions (via notification on the auction platform), this is no replacement for liquid secondary markets allowing trading in listed products. As a first step, an open registry of the long-term cross-zonal hedging products issued by the TSOs under the FCA guideline would allow an equitable treatment of all venues that want to list those instruments for secondary trading. Market participants should be able to choose whether to buy transmission rights either in a continuous trading market or via the auction-based single allocation platform.

2. Allow market demand to determine the split of capacity products: As a general principle, all of the capacity resulting from the year ahead long-term capacity calculation (as per Article 10 of the FCA Regulation) should be made available to the market as early as possible. While a reservation is currently made, according to regional splitting methodologies, for monthly products to be allocated month/s ahead on a monthly basis throughout year Y, releasing all the capacity year ahead in monthly products will allow the market to determine the optimum split between yearly and monthly capacity. Month-ahead auctions should still take place on the basis of any capacity available following monthly recalculations.

With respect to reservation of long-term capacity for day-ahead allocation, in the context of possible scarcity of cross-zonal capacity for the SDAC, we do not believe reservation is necessary. We agree with ACER's proposed solution in Decision 32/2020 on SEE LTSR which suggests that in in the event that the long-term and day-ahead capacity calculation methodologies result in little or no available capacity for the SDAC, TSOs and NRAs, rather than reserve long-term capacity, can choose to offer financial transmission rights (FTRs) instead of physical transmission rights. This would effectively ensure that all physically available cross-zonal capacities are available for SDAC.

Would you consider participating to the development costs of such a solution? If so, how do you think costs should be shared with market participants?

No comment.

Which would be the preferred ratio between the monthly product (year ahead allocated) and annual products (i.e. how thin the annual product would be (item 1 in the graph)?

Following the introduction of any year ahead monthly product, TSOs should assess the impacts and efficiency of this approach vs the annual product to determine which is most efficient and which best meets the needs of market participants.

About

Europex is a not-for-profit association of European energy exchanges with 29 members. It represents the interests of exchange-based wholesale electricity, gas and environmental markets, focuses on developments of the European regulatory framework for wholesale energy trading and provides a discussion platform at European level.

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