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Public consultation on the proposed amendments to the HAR methodology

Fields marked with * are mandatory.

Introduction

ACER consults stakeholders on the amendments to the Harmonised Allocation Rules (HAR) proposed by all Transmission System Operators (TSOs). Amending the HAR will allow for the implementation of long-term flow-based allocation in the Core and the Nordic capacity calculation regions (CCRs).

This consultation is addressed to all interested stakeholders, including regulatory authorities, market participants and the TSOs.

ACER invites all interested stakeholders to provide their view on the HAR Proposal.

Please respond to this survey by **26 September 2023,** 23:59 hrs (CET).

In case you have questions related to this survey, please contact ACER-ELE-2023-007@acer.europa.eu.

Data protection

ACER will process personal data of the respondents in accordance with Regulation (EU) 2018/1725, taking into account that this processing is necessary for performing ACER's consultation tasks.

More information on data protection is available in ACER's data protection notice and on ACER's website.

ACER will not publish personal data.

Confidentiality

Following this consultation, ACER will make public:

- the number of responses received;
- company names, unless they should be considered as confidential;
- all non-confidential responses; and
- ACER's evaluation of responses. In the evaluation, ACER may link responses to specific respondents or groups of respondents.

You may request that the name of your company or any information provided in your response is treated as confidential. To this aim, you need to explicitly indicate whether your response contains confidential information.

You will be asked this question at the end of the survey.

☑ I have read the information provided in this section.

Respondent's data

* Name and surname:

This information will not be published.

Michaël Van Bossuyt

* Company

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This information will not be published.

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Background documents

Legal acts

Regulation (EU) 2019/942 of 5 June 2019 establishing a European Union Agency for the Cooperation of Energy Regulators.

Regulation (EU) 2019/943 of 5 June 2019 on the internal market for electricity.

Commission Regulation (EU) 2016/1719 of 26 September 2016 establishing a guideline on forward capacity allocation (FCA Regulation).

Commission Regulation (EU) 2015/1222 of 24 July 2015 establishing a Guideline on Capacity Allocation and Congestion Management (CACM Regulation).

Relevant documents

ACER Decision 15/2021 of 29 November 2021 on the TSOs' proposal for amendment of the harmonised allocation rules for long-term transmission rights (version of HAR currently in force)

ACER Decision 05/2023 of 22 March 2023 on the TSOs' proposal for amendments to the requirements for the Single Allocation Platform (SAP) and the SAP cost sharing methodology

TSOs' first submission of the HAR Proposal (methodology, methodology in track changes, explanatory note)

TSOs' second submission of the HAR Proposal (methodology, methodology in track changes, explanatory note)

Procedural background

The current version of the Harmonised Allocation Rules (HAR) for long-term transmission rights was approved by ACER on 29 November 2021 (ACER Decision 15/2021).

On 1 March 2023, ACER received all TSOs' proposal for the amendment of the current HAR. On 1 August 2023, the TSOs complemented their proposal by submitting the amendments to the provisions on collaterals in the HAR. The two submissions are available on ACER's consultation page (under section "Consultation documents") and are hereinafter collectively referred to as "**the Proposal**".

The HAR revision is required for the implementation of the long-term flow-based allocation in the Core and Nordic CCRs. In the Nordic CCR, the long-term capacity calculation methodology under Article 10 of the FCA Regulation (FCA CCM) was approved on 30 October 2019 (ACER Decision 16/2019). The FCA CCM of the Core CCR was approved on 3 November 2021 (ACER Decision 14/2021). The two methodologies are based on flow-based cross-zonal capacity calculation and can only be fully implemented once capacity calculation results are allocated with long-term flow-based allocation. Amending the HAR is the final step in this process, following the amendments to the single allocation platform, the congestion income distribution and sharing costs incurred to ensure firmness and remuneration of long-term transmission rights, already approved by ACER on 22 March 2023.

ACER has six months (until 1 February 2024) to take a decision on the Proposal. ACER will review the Proposal and amend it, where necessary, in order to ensure that it is in line with the purpose of the FCA Regulation and contribute to market integration, non-discrimination, effective competition and the proper functioning of the market.

Consultation questions

Topic 1: Collateral requirements

1.1 Background

With the introduction of long-term flow-based allocation (LTFBA), auctions will be performed simultaneously for all bidding zone borders in the CCRs where the flow-based capacity calculation approach is applied. The currently approved HAR requires that participants in an LTTR auction provide sufficient collaterals to

cover the value of their bids. Having simultaneous auctions for all bidding zone borders implies that the collateral requirements may significantly increase during the auction phase if the current approach remains unchanged. Therefore, under Article 34(6) of the Proposal, TSOs propose to introduce a price cap for the calculation of the maximum payment obligations in case of flow-based allocation. The only impact of such price cap would be to limit the collateral requirements from a bid for the calculation of the maximum payment obligations. More specifically, it is proposed that if the original bid price is lower than the price cap, the bid price shall be used for the calculation, and if the original bid price is higher than or equal to the price cap, the price cap shall be used for the calculation. The TSOs propose to calculate the price cap as follows:

1. For yearly auctions, the average value of market spreads of the six (6) last calendar months before the publication of the final auction specification shall be used for calculation, by adding all MTUs with positive values of the market spread for a bidding zone border direction. The resulting total value shall be divided by the number of MTUs with such positive market spread.
2. For all auctions having a shorter product duration than yearly auctions, the average value of market spreads of the last calendar month before the publication of the final auction specification shall be used for calculation, by adding all MTUs with positive values of the market spread for a bidding zone border direction. The resulting total value shall be divided by the number of MTUs with such positive market spread.

(Note: the market spread means the difference between the hourly day-ahead prices of the two concerned bidding zones for the respective market time unit in a specific direction, as defined in the FCA Regulation art. 2 (9))

ACER agrees with the TSOs that there is a need to amend the provisions on the collateral requirements for flow-based allocation of LTTRs. However, as described under point 1.2, ACER is concerned about the expected accuracy and efficiency of the cap calculation as proposed by the TSOs.

In ACER's view, there are several ways to limit the collateral requirement in case of flow-based allocation. ACER would like to collect stakeholder views on the possible options outlined below.

1.2 Option 1: Cap option using the average value of the market spread

According to Article 34(6) of the Proposal, the TSOs intend to use an average of the latest market spreads before an LTTR auction to define the cap. ACER in general considers that using the market spread for defining such a cap would be a simple and transparent method. While other, more complex methods may provide a higher forecast accuracy, ACER considers that the approach based on the market spreads would be easy to implement and can be expected to be in place before the go-live of the LTFBAs in the Core CCR in November 2024.

However, ACER sees some room for improving the TSOs' proposed calculation. More specifically, only dividing the total summed-up value by the amount of MTUs with a positive value, the calculated cap might not result in an equal consideration of all bidding zone border directions and could lead to unjustified high caps for some bidding zone border directions. While bidding zone border directions with constant positive values over all MTUs would have an accurate representation of the past directional market spread, bidding zone border directions with a very small share of MTUs with a positive value would be subject to a

significantly overestimated cap. Dividing the total summed-up value by the number of all MTUs within the relevant time period might be, in ACER's view, a more accurate approach than the calculation method proposed by TSOs.

1. Do you consider Option 1, using the average value of the market spread, an acceptable solution?

- ○ Strongly agree
- ○ Agree
- ◉ Neutral
- ○ Disagree
- ○ Strongly disagree

2. In your opinion, what is the preferred method on how to address the described issue of collateral requirements, which could still be implemented by the deadline of November 2024?

> IFIEC Europe has no specific position on the calculation of the collateral requirements. IFIEC Europe insists that the collateral requirements should not lead to an entry barrier for participation to the market and that they should avoid reaching an undue level through the participation to several auctions and transactions. However, IFIEC Europe also wants to insist that the purpose should also not be to lower the collateral requirements too much ,as there is a trade-off between their cost and the reason why they exist, to avoid a. o. that the grid users and their tariffs would ultimately be exposed to the cost of transactions from market parties with insufficient funding which would not be possible to be concluded.

3. Do you have any comments on the TSOs' proposal for the cap calculation?

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1.3 Option 2: Cap option using forward prices

Another approach to calculate the price cap could be to use available prices from the forward electricity market. It is expected that using forward prices would result in more accurate forecasts of LTTR auction results than when using the average of past day-ahead prices. Option 2 would therefore result in a more efficient cap application. One problem with the use of forward electricity prices is the availability of reliable and consistent prices that can be used for a cap calculation for all relevant bidding zone borders. Another complexity is the transformation of bi-directional market spread resulting from the available forward electricity obligation prices to a market spread per bidding-zone border direction (i.e. required for defining a cap per auctioned LTTR option). ACER is therefore concerned about the complexity of implementing this method, especially considering the required implementation by November 2024.

4. Do you consider Option 2 of using forward prices an acceptable solution?

- ○ Strongly agree
- ○ Agree
- ◉ Neutral
- ○ Disagree
- ○ Strongly disagree

5. If you agree, please provide a detailed description on how you consider the calculation of the price cap using forward prices can be done in the best way possible (i.e. how should the described problems be addressed most efficiently)

On the cap option using forward prices, IFIEC Europe has no specific position and cannot provide a specific calculation method. However, it is clear that a correlation exists between correctness and complexity. Furthermore, insofar an effective and efficient way would be found to compute a cap based on forward prices, this would be a much better proxy for the calculation.

6. If you disagree, please clarify the reasons why you consider such solution not acceptable or not feasible

1.4 Option 3: A solution where bid filtering is based on the market results

An approach, where the bid filtering is based on the market results and is not performed before the auction, might constitute an appropriate long-term solution. This approach should eliminate the need to exclude bids before the algorithm is run. Such a solution would therefore effectively address the drawback of a cap solution, where inaccurate forecasts for the calculation of the cap would lead to inaccurate assessments of the required collaterals before the auction is run. Although this approach can't be implemented in time for the go-live of the LTFBA in the Core CCR, it could be explored at a later point in time as a potential long-term solution and ACER would therefore still like to receive input on this option. The go-live of the first LTFBA auctions in November 2024 would require another, transitory solution.

7. Do you consider that Option 3 should be further explored as a long-term solution (i.e. after the go-live of the first LTFBA auctions)

- ○ Strongly agree
- ○ Agree
- ◉ Neutral
- ○ Disagree

Strongly disagree

8. Do you have any other comments concerning Option 3?

IFIEC Europe has no specific position on bid filtering, but it seems clear that if bids would only be rejected if collaterals would be insufficient, this could prove an improvement towards the future. However, for IFIEC Europe it is at this point not clear how this should work from an operational point of view, taking into account simultaneous auctions.

1.5 Timing for publishing the calculated cap on collaterals

According to the Proposal, the calculated price cap for collaterals in case of flow-based allocation is published with the final auction specifications, at the latest one hour before the start of the bidding period. ACER considers that it could be beneficial to publish the calculated cap on collaterals earlier, so that market participants have more time to alter their credit limit.

9. Do you have any comments on the proposed timing for publishing the cap on collaterals?

Topic 2: Sanctioning in case of non-payment

In the Proposal, in case a registered participant is suspended from the participation agreement due to a payment incident, they may not use their allocated LTTRs until their payment of the LTTRs is fully settled or fully secured by collaterals. This provision implies that a market participant who refused to pay its debts may regain access to its LTTRs once the market turns in its favour. To prevent such a situation and the resulting costs for the TSOs and consequently the tariff payers, ACER intends to introduce a stricter sanctioning regime in case of non-payment by market participants. ACER would propose that after a non-payment within a certain deadline for settling open positions, market participants will lose all rights on awarded capacity.

In the Proposal, a market participant, who is suspended from the participation agreement, is not able to participate in an auction until the payment of the LTTRs is fully settled or secured by collaterals. To reduce the risks of non-payment of LTTRs, ACER considers to implement a provision where a suspended market participant is excluded from all further auctions for a certain cooling-off period, e.g. minimum of three months, after the LTTRs have been fully settled after the payment incident.

10. Do you have any comments on strengthening the sanctioning regime as proposed by ACER?

While IFIEC Europe understands the analysis of ACER and supports the need for a solution, it wonders whether a cooling-off period for a suspended market participant is the best way forward, and whether no additional options should exist for such market participant to re-enter the market earlier if certain conditions are met to ensure that this would not lead to an unintended substantial reduction of participants in markets that might already not be very liquid.

Topic 3: Auction specifications

3.1 Offered capacity with flow-based in the auction specifications

The final offered capacity is provided in the final auction specifications. According to the Proposal, this final offered capacity in case of flow-based allocation shall consist of:

1. Max Exchanges (MaxBex) per bidding zone border directions;
2. Min Net Positions; and
3. Max Net Positions

ACER considers that it would be beneficial for the market participants to receive the full set of flow-based parameters, in order to have the opportunity to simulate the LTFBA and asses their positions. ACER considers that the final offered capacity in case of flow-based should consist of:

1. Power transfer distribution factors (PTDF) per critical network elements (CNEC) and, if applied, grouped network elements (GNEC);
2. Remaining available margin (RAM) per CNEC and GNEC;
3. External constraints (EC) per border directions, where applied;
4. ATC values per border directions, applied for evolved flow-based (EFB) approach;
5. Max Exchanges (MaxBex) per bidding zone border directions;
6. Min Net Positions; and
7. Max Net Positions

(Note: check the SAP methodology for the definitions of CNEC, GNEC, EC, EFB etc.)

11. Do you support the proposal of providing the flow-based parameters in the final auction specifications?
    - Yes
    - No

12. Do you have any other comments concerning the proposal on the offered capacity with flow-based?

Other comments

13. Do you have any comments on other amendments proposed by the TSOs?

Confidentiality question

* Does your submission contain confidential information?

- ( ) Yes
- (•) No

Useful links

FCA Regulation (https://eur-lex.europa.eu/legal-content/EN/TXT/?toc=OJ%3AL%3A2016%3A259%3ATOC&uri=uriserv%3AOJ.L_.2016.259.01.0042.01.ENG#:~:text=EUR-Lex%20-%2032016R1719%20-%20EN%20Document%2032016R1719%20Share,NL%2C%20PL%2C%20PT%2C%20RO%2C%20SK%2C%20SL%2C%20FI%2C%20SV%)

CACM Regulation (https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32015R1222)

Regulation (EU) 2019/942 (https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32019R0942&from=EN)

Regulation (EU) 2019/943 (https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32019R0943&qid=1569592576398&from=EN)

Contact

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