

# European Harmonised Auction Rules – explicit long term auctions

Context, Roadmap, Principles and Structure

EMD WG 15 January 2015 Viviane Illegems

## Agenda



- > Context
- Roadmap
- > Principles
- > Structure

### Context – Long Term Transmission Right Allocation Rules

- 2008: CASC-CWE : set up by the TSOs of CWE region of one common organisation to facilitate cross-border power markets
- 2010: CASC-CWE becomes CASC.EU : TSOs of Central South Europe (CSE)
   & Swissgrid join the common CWE organisation.
- 2013 : Energinet.dk & Statnett join CASC.EU
- 2014 : long term auctions on the Spanish-French Interconnection by the CASC.EU
- Further work on harmonisation of auction rules is needed to fulfil the requirements of the Network Code on Forward Capacity Allocation (FCA) according to which TSOs need to provide harmonised auction rules 12 month (six month according to ACER) after entry into force of FCA NC.
- ENTSO-E decided to start harmonisation work in order to ensure sufficient lead-time to delivery the EU HAR in time



### Roadmap – high level view

Dec 2014: HAR draft shared with ACER/NRAs and stakeholders for feedback – update and internal approval

Feb 2015: Public consultation and stakeholder workshop

Spring 2015: Update and finalisation of the Auction Rules

Summer 2015: Internal ENTSO-E/TSOs approval and submission to NRAs

Q4 2015: Entry into force of HAR (if approved) for 2016 auctions



## **Recommendations on 8 principles**

Accession principles

Legal principles

**Capacity Products and Allocation Process principles** 

Allocation Algorithm principles

Transfer, Return and UIOSI principles

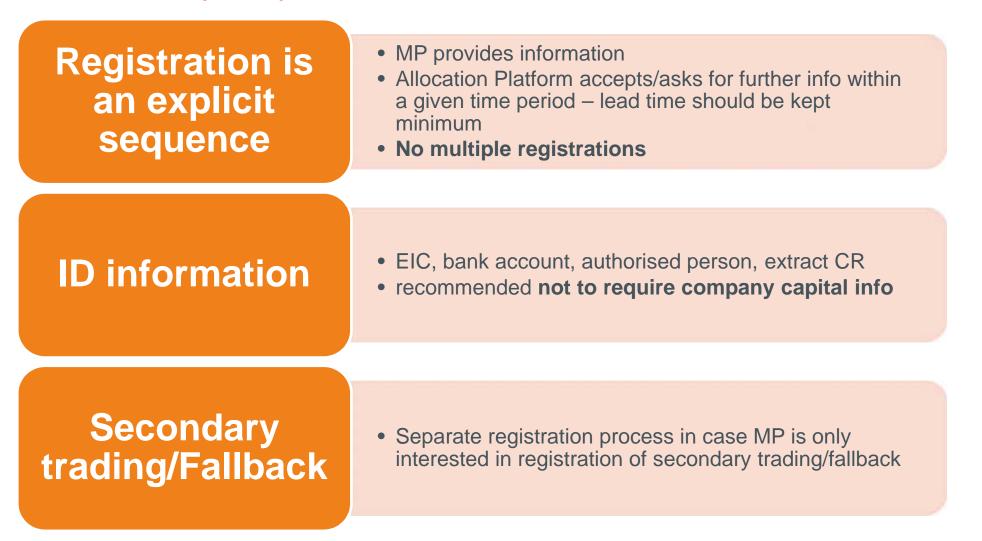
**Credit Cover and Invoice principles** 

**Curtailment principles** 

Capacity Usage principles

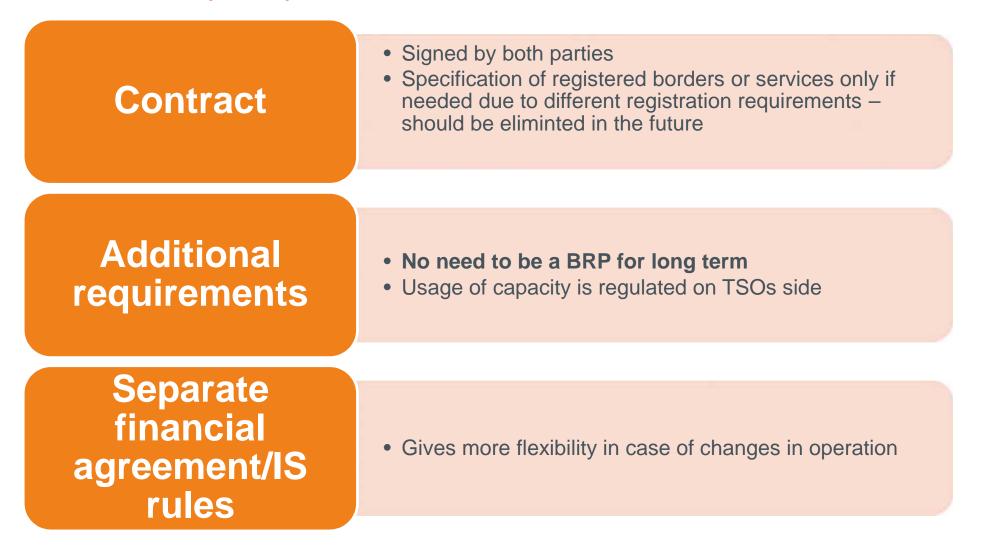


### Accession principles – recommendations I





## Accession principles - recommendations II





## Legal principles – recommendations I





# Legal principles – recommendations II

Force majeure & emergency situation	<ul> <li>Definitions as in NC CACM for TSOs to be extended to MP &amp; Allocation Platform</li> </ul>
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## Legal principles – recommendations III

## Transparency

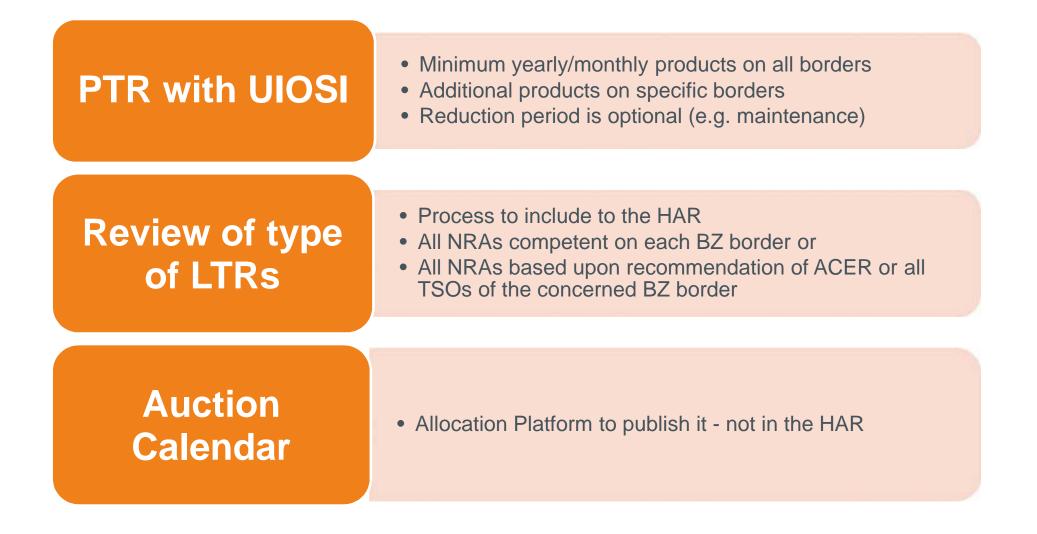
- No specific rules in the HAR
- Reference to compliance with EU legal framework (Transparency Regulation)

# Suspension / Termination

- Suspension in 2 ways:
  - with former notice and remedial period
  - with immediate effect
- Termination in 4 ways:
  - upon MP's request (i) without reason or (ii) with a reason
  - upon notice by Allocation Platform (iii) with a reason or (iv) due to AP termination
- Event, Processes and consequences to be defined in the HAR



## Capacity products – recommendations I





# Capacity products – recommendations II

Auction specification	<ul> <li>HAR to specify when to publish it on Allocation Platform website</li> <li>Information to include is based on Article 43 of NC FCA</li> </ul>
Auction results	<ul> <li>HAR defines when the Allocation Platform shall notify TSOs, MP and holders of LT PTRs</li> <li>Allocation Platform to inform MPs on the execution status of bids</li> <li>Contestation period is applicable</li> </ul>
Market information after allocation	<ul> <li>Allocation Platform to publish information listed in Article 51 of NC FCA including:</li> <li>Auction Specifications; Indicative Auction Calendar; Capacity Allocation results; MPs per Auction; list of MPs eligible for Secondary Trading;</li> <li>Allocation Platform contact details</li> <li>Allocation Platform to publish: Offered/requested/allocated capacity; price; bid curve; list of MPs who received long term PTRs</li> </ul>

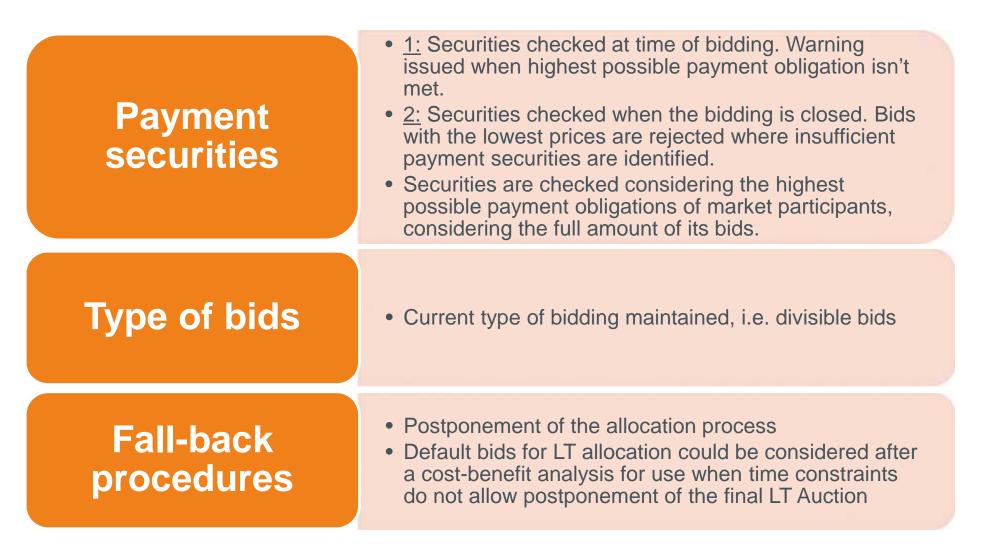


## Allocation Algorithm – recommendations I

Algorithm capabilities	<ul> <li>Algorithm will be capable of handling at least all features of currently existing algorithms</li> <li>Algorithm should select winning bids in such a way that sum of the MPs surplus and Congestion Income generated by the winning bids is maximized</li> <li>Capabilities: <ul> <li>single and multiple constraints per border;</li> <li>constraints affecting one or more border(s); and</li> <li>reserve prices.</li> </ul> </li> </ul>
Pricing mechanism	<ul> <li>Marginal price, i.e. price to be paid by market participant will be created by the last accepted (winning) bid</li> </ul>
Bids with same bid price	<ul> <li>If bids cannot be fully accepted the capacity will be allocated with an improved pro-rata approach</li> <li>Other options can be considered if preferred by market participants: simple pro-rata or first-come-first-served</li> </ul>



### Allocation Algorithm – recommendations II





## Transfer, Return & UIOSI – recommendations I

Platforms to facilitate the transfer	<ul> <li>Bulletin/notice board</li> <li>Secondary markets can be organised by third parties</li> <li>Allocation Platform to be notified about the transfer</li> <li>Transfer complete when notification is acknowledged by the Allocation Platform</li> </ul>
Requirements for transfer	<ul> <li>MPs are registered, not suspended or terminated;</li> <li>Transmission rights are paid for or at least secured – payment obligations remain</li> <li>Contestation period has expired and final results of relevant allocation are published</li> <li>Minimum volume is 1 MW over 1 hour</li> <li>Deadlines for notification are met</li> </ul>
Additional information	<ul> <li>Transfer cannot be withdrawn once accepted by transferee (but can be transferred back by transferor)</li> <li>No financial compensation in case of unexpected breakdown of IT or failure of communication</li> <li>Fall-back procedure is foreseen (could be manual)</li> </ul>



## Transfer, Return & UIOSI – recommendations II

Platforms facilitating returns	<ul> <li>Transmission rights can be returned to a subsequent long term allocation auction</li> </ul>
Requirements for returns	<ul> <li>Returns must be initiated on the Allocation Platform</li> <li>Contestation period must have expired and final results of relevant allocation published</li> <li>Minimum volume is 1 MW over 1 hour</li> <li>Deadlines for notification are met</li> <li>Allocation Platform provides an acknowledgement</li> <li>Financial obligations fulfilled by the holder of rights</li> </ul>
Additional information	<ul> <li>No financial compensation in case of unexpected breakdown of IT or failure of communication</li> <li>Fall-back procedure is foreseen (could be manual)</li> <li>Remuneration: marginal price of the subsequent auction multiplied by the MWh volume returned</li> </ul>



## Transfer, Return & UIOSI – recommendations III

Use It or Sell It	<ul> <li>Non-nominated PTRs are by default subject to UIOSI, i.e. to be allocated on the day-ahead timeframe</li> <li>FTRs options are not subject to this mechanism</li> </ul>
Calculation of remuneration	<ul> <li>For implicit daily allocation = the positive market spread when valid for the direction of the flow</li> <li>For explicit daily allocation = the marginal price of the daily auction</li> <li>For Fall-back daily allocation = the marginal price of the Fall-back auction</li> <li>In specific cases other than where implicit or explicit daily allocation takes place, the remuneration is based on the income from that allocation</li> </ul>
Transmission losses	<ul> <li>Where losses have been included in the day-ahead allocation, they need to be taken into account for the calculation of the remuneration to be paid due to UIOSI</li> </ul>



# Credit Cover and Invoice – recommendations I

Type of collaterals	<ul> <li>Bank guarantee/letter of credit and/or deposit in a dedicated deposit account opened at the bank selected by Allocation Platform will be accepted</li> </ul>
Validity period and changes of credit cover	<ul> <li>Required validity: from the date of the respective auction bidding gate-closure extending until at least one month after the (first) payment (of instalment) due date</li> <li>Credit cover shall be renewed to secure at least the next respective-installment plus on-going bids and acquired capacities with the required validity</li> </ul>
Utilisation level and credit cover management	<ul> <li>Credit cover minus the aggregate amount of (potential) debts payable shall be greater than or equal to zero</li> <li>Products shorter than one month duration shall be 100% covered</li> <li>Products longer than one month shall be covered for 1 or 2 instalments (depending on payment due date)</li> </ul>

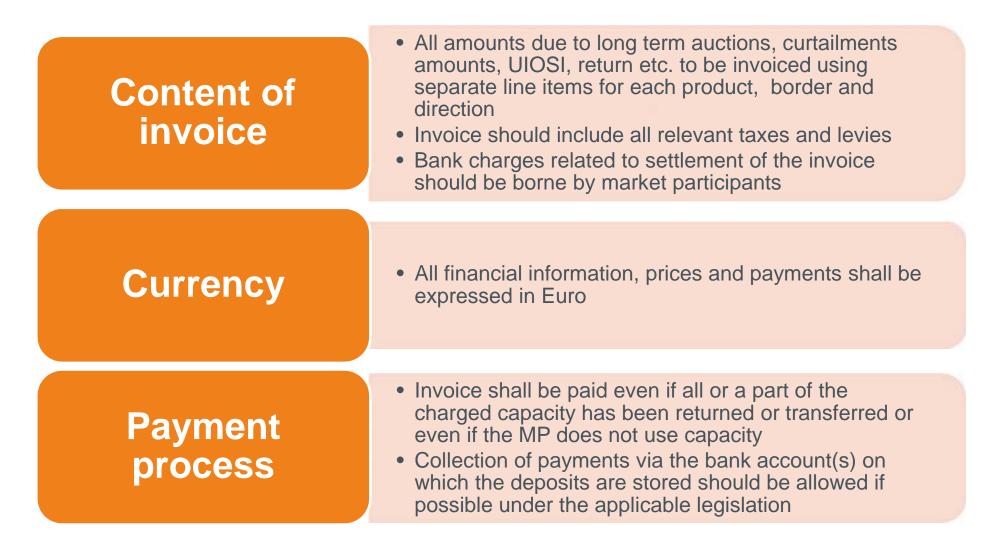


## Credit Cover and Invoice – recommendations II

Tax	<ul> <li>Relevant taxes and levies should be applied to amounts invoiced and also whenever the credit cover is blocked or validated.</li> </ul>	
Amount due	<ul> <li>Amount due is equal to marginal price multiplied by the duration in hours of the corresponding product multiplied by the volume of allocated capacity (including maintenance periods where applicable).</li> <li>In case of products covering a period longer than one month, equal monthly instalments over the delivery period will be calculated and charged.</li> </ul>	
Invoicing timeline	<ul> <li>One invoice to the relevant MP issued no later than the 10<sup>th</sup> Working Day of the month</li> <li>For payment by MP invoice due 5 working days after the date of issuance</li> <li>For payment by Allocation Platform of credits due 7 working days after the date of issuance of invoice to MP</li> </ul>	



### Credit Cover and Invoice – recommendations III





## Credit cover and Invoice – recommendations IV

Self-billing	<ul> <li>A self-billing process should be used by the Auction Platform Administrator for sums it owes to MPs as a mandatory mechanism.</li> <li>Self-billing should be carried out by the Auction Platform Administrator only.</li> </ul>
Payment Incident	<ul> <li>If payment not settled by the MP within a fixed period after the due date, the Allocation Platform Administrator registers a Payment Incident and informs the MP by formal notice.</li> <li>Consequences: Credit cover may be invoked, suspension and in specific cases also termination of the contract of the MP apply</li> </ul>
Payment Dispute/Claim	<ul> <li>Period for claim notification and response time of the Allocation Platform will be defined.</li> <li>A claim should in no way relieve the MP from the obligation to pay the invoice.</li> </ul>



## Credit Cover and Invoice – recommendations V

## Late Payments

- A creditor is entitled to charge interest on the amount due in accordance with the governing law
- Allocation Rules will provide interest rate and minimum amount per incident, compliant with valid legislation

## Curtailment principles - recommendations I



**Disclaimer**: Since NC FCA has not entered into force the findings are not final. The document contains recommendations according to the resubmitted version of NC FCA by ENTSO-E in April 2014. They will be supported by TSOs and proposed for NRA approval under the condition that NC FCA enters into force in this version especially regarding the cost recovery provisions.

Triggering events for curtailment	<ul> <li>NC FCA provides for curtailment in the following situations (as defined by NC CACM):</li> <li>System Security</li> <li>Emergency Situation</li> <li>Force Majeure</li> <li>Capacity Shortage on HVDC interconnectors also triggers curtailment and must be considered in the context of system security, emergency situation and/or force majeure</li> </ul>
Deadlines	<ul> <li>Long Term Firmness Deadline (LTFD): Respective nomination deadline at the Bidding Zone Border</li> <li>Day Ahead Firmness Deadline(DAFD): As long as there is no common DAFD: 30 minutes before respective DA GCT</li> </ul>

## Curtailment principles - recommendations II



Before L	TFD:
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- Market spread capped by congestion income from LT allocations of month/border/interconnector
- After LTFD and before DAFD:
  - Market spread capped by congestion income from LT and from daily allocation of respective month/border/interconnector concerned
- For Borders without Market Coupling (MC)
  - current rules continue to apply until MC is in place

Reimbursement Force Majeure/ Emergency Situation

**Compensation** 

**System** 

Security

• TSOs reimburse the initial price paid (100% of marginal auction price)

## Curtailment principles - recommendations III



Individual compensation rules	<ul> <li>TSOs can propose compensation rules subject to NRA approval for outages which last for a long period of time and for borders with one single interconnector</li> </ul>
Daily ATC < LT nom	<ul> <li>If Daily DA capacities are lower than non-nominated LT rights, the latter will have to be curtailed and will be compensated as described (depending on triggering event System Security, Emergency Situation or Force Majeure)</li> </ul>
Curtailment methodology	<ul> <li>Pro rata curtailment</li> <li>Remaining capacity is rounded down to nearest MW</li> </ul>

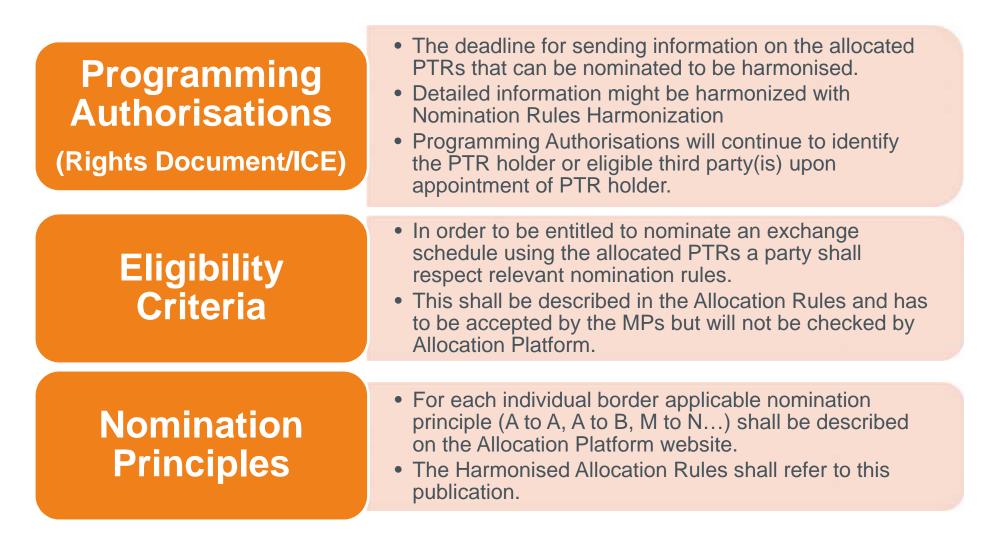
## Curtailment principles – recommendations IV



Auction cancellation	<ul> <li>Cancellation of auctions without compensation possible before allocation results are final and contestation period is closed</li> <li>When allocation results are final and contestation is closed, cancellation is regarded as curtailment and respective compensation rules apply</li> </ul>
Notification	<ul> <li>Allocation Platform Administrator is obliged to publish information on curtailments asap within set timelines</li> <li>Reason for curtailment and estimated duration need to be explained</li> </ul>
Liability	<ul> <li>In case of curtailment or auction cancellation market participants are compensated</li> <li>no additional damage other than specified compensation can be claimed by market parties</li> </ul>



## Capacity Usage – recommendations I





## Capacity Usage – recommendations II

TSO Designation	<ul> <li>Relevant for borders where bidding zone consist of several TSOs</li> <li>The Harmonised Allocation Rules will provide information for relevant borders on form and deadlines and possible options for notification of TSO designation</li> </ul>
Nomination Deadlines	<ul> <li>For each individual border applicable nomination deadline will be available on the Allocation Platform website.</li> <li>The Harmonised Allocation Rules will refer to this publication.</li> </ul>



## Foreseen structure of Harmonized Allocation Rules

Allocation Rules structure is designed as follows

- considers in general the structure of the allocation rules principles as presented before
- corresponds with the steps of the Market Participant to be taken when it is willing to take part in an auction, i.e. starting with conclusion of the agreement with the Allocation Platform, being followed with Auction process organization, and description of the return and transfer and other procedures including settlement process.



## Foreseen structure of Harmonized Allocation Rules

### **GENERAL PROVISIONS**

- subject matter, definitions...

#### **REQUIREMENTS FOR PARTICIPATION IN AUCTIONS**

- agreement conclusion, additional requirements, additional declarations...

#### **CREDIT COVER**

- form of credit cover, validity, credit limit...

#### **AUCTIONS**

- auction specification, bid submission, auction results determination and notification...

#### **RETURN OF LTR**

- process of notification and remuneration

#### TRANSFER OF LTR

- process of notification and legal consequences



## Foreseen structure of Harmonized Allocation Rules

#### **Continuation...**

### **USE OF LTR WITH UIOSI**

- nomination, TSO/ITR designation, remuneration of non-nominated rights

#### FALLBACK PROCEDURES

- postponement, data exchange fallback...

### CURTAILMENT

- triggering events, reimbursement / compensation calculation...

#### INVOICING AND PAYMENT

- standard invoicing and payment regulations

#### MISCELLANEOUS

- standard legal regulations