

Response to Proposal for Amendment of Baltic CCR TSOs' Common Methodology for Splitting LTCZC

Brussels, 26 February

Response

Energy Traders Europe welcomes the opportunity to respond to this consultation. We support the issuance of LTTRs in the Baltic region, including on the Estonian-Finnish border. However, the proposed capacity limit would materially undermine the functioning of forward markets and appears to lack sufficient technical or legal justification.

Well-functioning forward markets are essential to Europe's electricity market design and to the energy transition. The majority of electricity transactions occur ahead of delivery, enabling market participants to manage price risk, enhance cost predictability for consumers, and support long-term contracting, including power purchase agreements (PPAs) that underpin investment in renewable generation.

In this context, LTTRs (issued as FTR options in the Baltic region) are important instruments for hedging cross-zonal price differentials. While they represent a relatively small share of overall forward volumes, they play a key role in facilitating cross-border trading, supporting market liquidity, and contributing to efficient price formation. Their importance is even greater in regions with low forward market liquidity, where market participants must rely on LTTRs.

Structural under-allocation of LTTR capacity weakens cross-border hedging opportunities, reduces market liquidity, and ultimately increases risk premia that are borne by consumers—particularly in countries that rely on electricity imports.

We therefore oppose the proposed reduction of LTTR auction volumes on several grounds:

1. Interconnector outages cannot justify arbitrary limitations on LTTR volumes

Interconnector outage risk is already reflected in capacity calculation methodologies and in the pricing of LTTRs by market participants. Using potential outages as a structural justification to cap LTTR volumes, therefore, constitutes an arbitrary and disproportionate restriction rather than a technical necessity. Moreover, the proposed LTTR volumes represent only slightly less than one-third of the total interconnector capacity. In this context, invoking potential outages to justify a further artificial reduction of capacity is neither proportionate nor economically justified.

2. Misaligned perception of „underselling“

The Baltic TSOs' proposal rests on a perceived “undervaluation” of LTTRs, which we strongly disagree with. LTTR auction prices reflect the value attributed to these rights by market participants at the time of the auction. To do so, they take into account the forward market spread at the time of the auction, a risk premium, and additional factors such as expected demand, firmness, and interconnector availability. These prices incorporate all relevant risks, including credit, capital cost, and potential outages.

The auction price is not a floor for the realised day-ahead spread. Using historical or day-ahead spreads to assess the value of LTTRs allocated months to years before — or to limit allocated volumes - is methodologically flawed and inconsistent with the forward-looking nature of these instruments.

3. Misconception of Congestion Income Maximisation

LTTR allocation should not be guided by the goal of maximising TSO congestion income, as doing so contradicts the relevant legislation, notably:

- **Art. 9.1/2 of the Electricity Regulation 2019/943:** “Transmission system operators shall issue long-term transmission rights or have equivalent measures in place to allow market participants, including owners of power-generating facilities using renewable energy, to hedge price risks [...]. Long-term transmission rights shall be allocated regularly, in a transparent, market-based and non-discriminatory manner through a single allocation platform. The frequency of allocation and the maturities of the long-term cross-zonal capacity shall support the efficient functioning of the Union’s forward markets.
- **Art. 16.2 of the FCA Regulation 2016/1719:** “The methodology for splitting long-term cross-zonal capacity shall comply with the following conditions:
 - a) it shall meet the hedging needs of market participants;
 - b) it shall be coherent with the capacity calculation methodology;
 - c) it shall not lead to restrictions in competition, in particular for access to long-term transmission rights.

TSOs should allocate capacity strictly based on the physical capabilities and operational needs of the grid. It is not their role to withhold transmission capacity to influence market outcomes or maximise their own congestion income. Market participants, not TSOs, should decide how to use the available capacity at the prices offered. As owners and/or operators of interconnectors, TSOs effectively hold a natural hedge which should be fully and promptly made accessible to the market. Restricting this capacity based on expected price

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developments, or using it to inflate LTTR prices, risks distorting the market and could be seen as anti-competitive behaviour.

Views on the amendment proposal to the technical FCA Implementation Framework amendment proposal:

Range of products: We welcome the fact that the TSOs allocate not only yearly and monthly products at the concerned borders but also quarterly products.

Availability of LTTRs as early as possible: For market participants, hedging is about managing a range of risks, including price, volume, and regulatory risks. The further from real-time, the more important it is to secure protection, particularly across borders. LTTRs play a key role in mitigating these risks through cross-border and proxy hedging.

Dynamic splitting between yearly, quarterly and monthly products: We believe that the split between yearly, quarterly and monthly products should be better performed by the market itself.

TSOs should therefore make the **maximum technically available capacity** accessible to the market as early as possible. All capacity calculated a year ahead should be offered in full. Releases of additional capacity at shorter horizons (quarterly or monthly) should come from recalculations or gradual reductions of the margins and constraints initially applied, reflecting the reduction of uncertainties closer to real-time.

For clarity, some market participants may seek hedging only for specific months and may be unwilling or unable to actively manage yearly transmission rights on the secondary market. TSOs should therefore consider offering the full year-ahead calculated capacity not only through annual products, but also through monthly products auctioned a year in advance.

In practice, TSOs could structure year-ahead, quarterly, and monthly auctions around monthly granularity, with the possibility of bundling these into quarterly or annual blocks. Separating the timing of allocation from product granularity would allow the market itself to determine the most efficient split between annual and monthly hedging needs, ensuring that capacity is allocated in line with actual demand rather than through administrative design choices.

Other Comments :

We recommend:

- Issuing LTTRs at maximum available capacity, at all Baltic bidding zone borders
- TSOs to start offering LTTRs with longer maturities (3-5 years) to support the forward markets and facilitate the uptake of cross-border PPAs

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