



Yearly and monthly allocations: secure, easy and transparent exchanges on Belgian interconnections

The interconnected European grid enables market parties to import and export electricity across the border between two countries, f.i. between France and Belgium and Belgium and The Netherlands. Practically, commercial exchanges use physical assets between the countries.

However, the exchange possibilities are not unlimited. The capacity available for the market on interconnections has to be first calculated on the basis of security criteria. It is then distributed amongst the market parties.

In order to distribute the capacity in a non-discriminatory way, Elia and neighboring transmission system operators (CWE TSOs, CEE TSOs, CSE TSOs and Swiss TSO¹), have jointly developed harmonized capacity allocation mechanisms, which are drawn up in the Auctions Rules.

For yearly and monthly allocations, a mechanism of explicit closed auctions comprising a single or multiple rounds has been set up by the transmission system operators (TSO). On the Belgian borders the allocation of long term capacity is done in a single round.

I. Yearly and monthly allocation mechanism on the Belgian interconnections: principles

I.1. interconnections: principles

The congestion management method on the Belgian interconnections, for yearly and monthly capacities, allocated via Financial Transmission Rights Options. Allocation of capacity is carried out by the joint auction office JAO.EU ("the Joint Operator") in accordance with the market "(FTR options)" mechanisms described in the Auctions Rules; <https://www.entsoe.eu/major-projects/network-code-implementation/Harmonisation-of-Allocation-Rules/Pages/default.aspx>.

I.2. Why are there allocations?

Since an interconnection only has limited capacities to import and export across the border between two countries, the capacity that can be offered to the market on this interconnection has to be first calculated on the basis of security criteria. The system operators jointly stipulate the capacity levels to allocate to the different time-frames (yearly and monthly), in both directions of the interconnection. It is then made available for the market parties for various auctions.

I.3. Several time-frames

To allow the parties to optimize their import and export strategies, a number of allocation categories (different capacity products) are provided covering different time scales:

- long and medium-term allocations (yearly, monthly) at the France-Belgium and Belgium-The Netherlands interconnections;
- short-term allocations (daily allocations²) at the France-Belgium and Belgium-The Netherlands interconnections (daily allocations - see sheet "Market coupling");
- intraday allocations at the France-Belgium and Belgium-The Netherlands interconnections (see sheets "Intraday allocations South or North").

The total capacity available at the Belgian interconnections is distributed amongst the different time-frames (long term, medium term and short term). For intraday allocations no capacity is reserved in advance, the available capacity for the market is calculated again after the day-ahead process.

I.4. Explicit auctions

A mechanism of marginal-price single-round explicit closed auctions is applied to allocate yearly and monthly capacities to market parties. The mechanism works as follows:

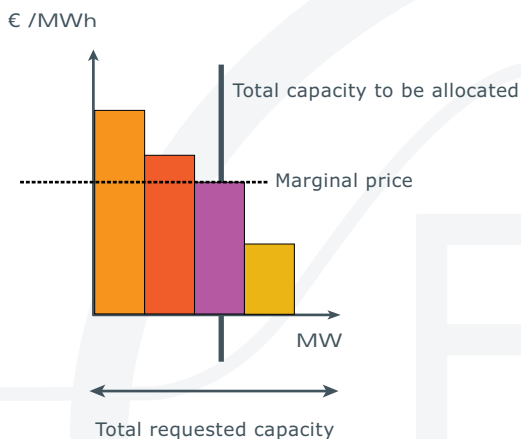
- the participants submit their capacity requests to the Joint Operator in the form of "bids" that include:
 - the quantity (capacity in MW) requested by the participant;
 - the price (in €/MWh) that the participant is prepared to pay for that capacity.

1 CWE TSO (the region composed of Belgium, The Netherlands, Luxemburg, France, & Germany); CSE TSO (Central South Europe, the region composed of Austria, France, Germany, Greece, Italy and Slovenia).

2 On daily basis, capacities are allocated together with energy in one step, by means of the market-coupling mechanism: this is the implicit allocation (consult the sheet: "Market Coupling").

A single participant can submit up to twenty separate bids for any given auction:

- all the bids submitted to the Joint Operator by the participants are examined at the same time;
- once all the bids have been received, the Joint Operator ranks them in descending order of price. The capacity is allocated first to those participants that have made bids with the highest price. The selection procedure continues on this basis until the capacity available for the allocation has been exhausted. If more than one bid have the same price and the capacity still to be allocated is not enough to provide a positive response to all the requests, the capacity will be shared out in proportion to the quantities requested in each of these bids;



- the participants that have obtained capacity will pay for this at the marginal price (price of the lowest selected bid). In other words, the price will be lower than or equal to the one that they had initially proposed paying. If the capacity requests do not exhaust the capacity available for allocation, the price will be zero €/MWh and all the capacity requests will be met.

1.5. Limitation of capacity requested in the France-Belgium direction

For both yearly and monthly auctions CREG imposes a limit on transmissions from France to Belgium: for each of these auctions, a market party can request a maximum quantity of 325 MW only.

The limit set by CREG applies to all participants in yearly and monthly auctions, together with companies or groups of companies associated, directly or indirectly, with these market parties.

1.6. Financial aspects

Before participating to a year or a month auctions, the market participant must credit a special Business Account at the Joint Operator with the amount that he will use for bidding. If credit limit is not respected by some participants during auction, a new auction iteration will be run after elimination of the corresponding bids.

Once the participant have obtained capacity in an auction, an amount (month hours x MW x marginal prices) will immediately be blocked on the Business Account. An invoice will be sent by the Joint Operator on 10th working day of month M. On the other hand, the allocation mechanism can be used free of charge, as well as the secondary capacity market (see below).

1.7. Auctions calendar

The yearly and monthly capacity auctions are held according to a defined calendar which is available on the Joint Operator's website

- yearly auctions for the subsequent year take place at the start of December.
- monthly auctions for the following month (M+1) are held each month M.

The specifications including the capacity available are published 7 working days before the day of the yearly auction and 2 working days before the day of the monthly auction. Capacity requests can be submitted to the Joint Operator when the specifications of the auction are published. Participants will be informed of the allocation results no later than 30 min after the auction has closed. The non-confidential data relating to the auctions are published by the Joint Operator on its website (see sheet "Publication of data about interconnections").

II. After allocation

When the participant has obtained some capacity, it can: resell or transfer the capacities obtained via the secondary capacity market.

II.1. Resale and transfer of capacity via the secondary market

A participant that has obtained yearly or monthly capacity on the Belgian interconnections, by means of an auction or on the secondary capacity market, can:

- resell all or part of the yearly capacity obtained to a monthly auction. The participant must inform JAO.EU no later than the deadline specified in the provisional Auction Specification for the subsequent Month The price paid for the capacity resold is the marginal price for the relevant monthly auction;
- transfer all or part of the capacity obtained to another participant that is authorized to participate in the process (see below). The participant must inform JAO.EU about this two working days before the delivery date to which the capacity relates. The price paid for the capacity transferred is freely agreed by the two parties without involvement of JAO.EU.

III. Benefits of the allocation mechanism

The allocation mechanism by auctions set up on the Belgian interconnections is transparent, non-discriminatory and beneficial to efficient operation of the European electricity market:

- the market-based nature of the mechanism ensures transparent, efficient and non-discriminatory access to the Belgian interconnections. There is a level playing field between newcomers and established parties regarding the request of import and export capacities;
- the allocation mechanism enables grid users to diversify their supply channels beyond national borders, giving them more ways of covering their needs;
- traders can use the yearly and monthly allocation mechanisms to cover the risks of volatility in the spot market in the long and medium term;
- the fact that it is a joint mechanism set up by TSOs significantly facilitates for the market parties the contractual and operational procedures involved in the mechanism.

IV. Contractual basis

To be authorized to participate in the yearly and monthly auction processes and the associated secondary capacity market, the market parties must:

- endorse the Rules for Capacity Allocation by explicit auction within CWE, CEE, CSE and Switzerland (“auction rules”) by signing the participation agreement in Appendix 1 of the auction rules;
- open the requested Business Account at the Joint Operator as well as comply to the contractual conditions as written in the auction rules;

V. Future developments

The transmission system operators for Central Western Europe (CWE), Central Eastern Europe (CEE), Central South Europe (CSE) and Switzerland have the intention to further harmonize the auction rules and extend them to other regions within Europe.

The yearly and monthly allocation mechanism on the Belgian interconnections in 5 key points

- The capacities available on the Belgian interconnections are limited. They must therefore be distributed in a transparent way amongst the market parties, using an allocation mechanism.
- The system operators have set up a joint mechanism of yearly and monthly allocations on the Belgian interconnections.
- The yearly and monthly allocations enable market parties to pursue a long and medium-term import and export strategy.
- A system of single-round explicit closed auctions at marginal price is used to allocate the capacities to the parties and to set the price for capacities.
- The mechanism is based on market principles, allowing transparent, efficient and non-discriminatory capacity allocation.

