

FCA 2.0 Exchange BMWK / BNetzA / 5TSOs

30.01.2025 14-15 Uhr



Scope: What questions around FCA 2.0 are currently being discussed extensively and possible room for research.

Agenda

- Why is FCA 2.0 important for BMWK?
- Advocacy process: Quo Vadis?
- Requests from German TSOs for the future design of the LT market
- Main topics according to TSOs
- Next steps

Why is FCA 2.0 important for BMWK?

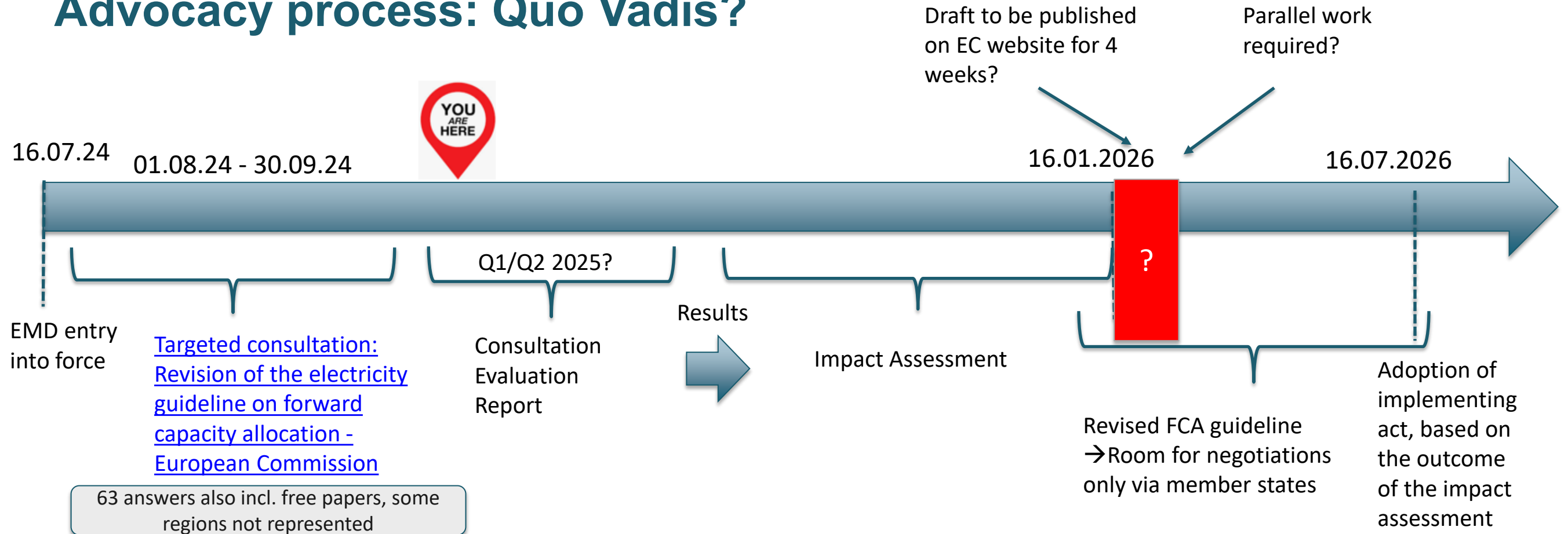
- **Link with Bidding Zone Split (BZS)**
 - Virtual Hub is a foot in the door towards BZS
 - So far, one of the main arguments against BZS is the German Futures/Forwards Liquidity and its importance for hedging in an integrated European market
- Due to the advocacy process (see next slide) **BMWK will have to play a central role**
 - No official drafting role planned for TSOs/ENTSO-E as experienced in past guidelines, despite playing a key role in the process

FCA 2.0 is a key topic for the existing German liquidity in the long-term markets.

Usage of TSOs' congestion income (CI) shall be clarified: main goal of CI today is to finance the development of physical grid and cross-border relevant redispatch.

BMWK's active involvement in the FCA 2.0 text drafting is recommended (Cross Border Committee).

Advocacy process: Quo Vadis?



**We have a long way ahead of us, incoming impact assessment will be crucial.
No official process to include stakeholders any more on concrete FCA 2.0 wording.
Role of member states to be important for advocacy (Cross Border Committee?)**

Suggestions of German TSOs for the future design of the LT market

- **Hedging possibilities are manifold in Germany's BZ** → An enlarged role of TSOs in LT markets is not reasonable (no clearing at JAO, no collaterals by TSOs, no internal matching,...)
- If TSO support for LT markets is indicated, a **straightforward concept** needs to be put in place **which clearly supports hedging** of market participants and **is welcomed and deemed reasonable by them**.
- Data prognosis are difficult and per definition always "wrong" → an **easy concept with lean processes which is cost-efficient and allows TSOs to manage their financial risks** should be implemented.
- **Additional costs for tariff payers are not reasonable without clear cost benefit analysis** indicating benefits on their end.
- **Focus of congestion income usage should be network development / reducing costs for cross-border redispatch and not supporting the LT markets** without the clear need for it.

Key Topics (1/2)

Main Messages

Liquidity & Hedging Analysis

1. Assessment procedure for liquidity & hedging analysis to be harmonized and developed
2. TSO products to be offered only in case of illiquid market and in case market makers are not possible
3. Products offered shall match existing hedging needs (e.g. no need for baseload products for RES, more interaction with market parties is necessary)

Volume Determination

1. Paradigm shift towards financial products (removal of Long Term Allocation inclusion), policy choices regarding use of congestion income necessary
2. TSOs shall not auction volumes beyond their natural hedge (expected Day-ahead congestion income due to the interconnectors)
3. In case of collaterals and/or full financial firmness: Feedback loops required

Capacity Allocation

1. Day-ahead & Long-Term Markets differ
2. Long-Term Flow Based Allocation is not adequate, support by TSO's products to be focused where most needed
3. Safety nets (e.g. supply function and/or reserve price) against undervaluation are needed

Key Topics (2/2)

Main Messages

Collaterals

Collateral amount for TSOs to be avoided or at least minimized due to feasibility concerns especially in case of crisis (for all DE TSOs several hundreds of millions € vs. several billions of €)

1. Product type Option setup
2. Product type Obligation setup where positions stay at JAO
3. Feedback loop in volume determination to influence collateral amounts

ACER sees state guarantees as a possibility. TSOs wish for clarity and concrete commitment by legislators beforehand.

Virtual Hub

1. Added value not demonstrated & various implementation difficulties
2. As long as DE is not split into several small BZs there is no real added value of a Virtual Hub*
3. Rather a political target for ACER to push Bidding Zone Split
4. Vast majority of stakeholders against Virtual Hubs as proposed by ACER

Option/Obligation

1. ACER/EC push introduction of product type Obligations instead of Options
2. TSOs see several hurdles when it comes to introducing Obligations (collaterals increasing costs, bigger role of TSOs in forward markets, overall more complex from an operational perspective)
3. Cost-benefit analysis of such a switch outstanding
4. German TSOs have divided views on the topic, majority favours keeping product type Options.

Next Steps

@ENTSO-E:

- Two Short Advocacy Papers planned about volume determination & collaterals
- Q1/Q2 2025 Kick-Off of text proposal for FCA 2.0

@ACER/NRAs

- Further Workshops with ACER and NRAs about Capacity Calculation / Allocation

DE TSOs are at your disposal for more information and discussion:

→ DE TSOs would propose a Trilateral Exchange BMWK/BNetzA/TSOs on a regular basis for knowledge exchange and general updates (ad-hoc/monthly?)

→ For TSOs there are a lot of open points, whereas it seems that ACER/EC(?) have already made up their mind

Thank you for the discussion!

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