PHYSICAL AND FINANCIAL CAPACITY RIGHTS FOR CROSS-BORDER TRADE

Booz & Company

- Study recommended FTR Obligations (FTR-OB) over FTR Options (FTR-OP). TSOs should also be free to sell FTR-OP, if technical/economical feasibility, while not exclusion of selling obligations
  - only obligations facilitate netting à greater trading opportunities, improving the integration of the market
  - obligations can be chained to create rights connecting non-adjacent zones – increase of hedging opportunities and market liquidity
  - E.g. of FTR OB: Spain - Portugal

EURELECTRIC advocates for Financial Transmission Rights Options

- Electricity production has clear opportunity costs
  - electricity will be produced <u>only</u> under provision that
    market price > variable costs
  - A generator will <u>only</u> use the cross-border capacity if it is “in the money” in the other market across the border
    - It does not make any sense as a generator to take an “obligation” to export to a market where actually the production is cheaper.
- Netting does not happen in practice
  - FTRs obligations are not bought in both directions but only in the one which makes economic sense
  - FTR OB at ES-PT are offered only in the direction ES-->PT

    Resolution of the Spanish Energy Ministry on the 16 November 2011