# Capacity Calculation Region Hansa's proposal for the regional design of long-term transmission rights in accordance with Article 31 of the Commission Regulation (EU) 2016/1719 of 26 September 2016 establishing a guideline on forward capacity allocation

**14th of August 2019**

The Transmission System Operators within the Capacity Calculation Region Hansa, taking into account the following:

## Whereas

(1) The European Commission has established Regulation (EU) 2016/1719 laying down detailed rules on cross-zonal capacity allocation on the forward markets (hereinafter referred to as the "**FCA Regulation**"), which entered into force on 17 October 2016.

(2) Article 31 of the FCA Regulation requires Transmission System Operators (hereafter referred to as "**TSOs**") of a capacity calculation region (hereafter referred to as "**CCR**"), where long-term transmission rights (hereafter referred to as "**LTTRs**") exist, to jointly develop a proposal for the regional design of LTTRs to be issued on the relevant bidding-zone borders within the CCR.

(3) Article 31 of the FCA Regulation constitutes the legal basis for this Proposal and defines specific requirements that this Proposal should take into account. Article 31 has the following content:
*"1. Long-term cross-zonal capacity shall be allocated to market participants by the allocation platform in the form of physical transmission rights pursuant to the UIOSI principle or in the form of FTRs – options or FTRs – obligations."*

*"2. All TSOs issuing long-term transmission rights shall offer long-term cross-zonal capacity, through the single allocation platform, to market participants for at least annual and monthly time frames. All TSOs in each capacity calculation region may jointly propose to offer long-term cross-zonal capacity on additional time frames."*

*"3. No later than six months after the entry into force of this Regulation, TSOs in each capacity calculation region where long-term transmission rights exist shall jointly develop a proposal for the regional design of long-term transmission rights to be issued on each bidding zone border within the capacity calculation region.*

*No later than six months after the coordinated decisions of the regulatory authorities of the bidding zone border to introduce long-term transmission rights pursuant Article 30(2), TSOs of the concerned capacity calculation region, shall jointly develop a proposal for the regional design of long-term transmission rights to be issued on each bidding zone border within the concerned capacity calculation region.*

*Regulatory authorities of Member States in which the current regional design of long-term transmission rights is part of a TSO cross-border re-dispatch arrangement for the purpose of ensuring that operation remains within operational security limits may decide to maintain physical long-term transmission rights on its bidding zone borders."*

*"4. the proposals referred to in paragraph 3 shall include a time schedule for implementation and at least the description of the following items specified in the allocation rules:*

*(a) type of long-term transmission rights;*
*(b) forward capacity allocation time frames;*
*(c) form of product (base load, peak load, off-peak load);*
*(d) the bidding zone borders covered."*

*"5. The proposals shall be subject to consultation in accordance with Article 6. For the proposed long-term transmission rights to be issued, each TSO shall duly consider the result of the consultation."*

*"6. The allocation of physical transmission rights and FTRs - options in parallel at the same bidding zone border is not allowed. The allocation of physical transmission rights and FTRs – obligations in parallel at the same bidding zone border is not allowed."*

(4) This document is a common proposal by the TSOs of the CCR Hansa as defined in the decision No 06/2016 of the Agency on 17 November 2016 pursuant to Article 15(1) of the Commission Regulation (EU) 2017/1222.

(5) The CCR Hansa TSOs' proposal for the regional design of LTTRs (hereafter referred to as the "**CCR Hansa TSOs' LTTR proposal**") takes into account the general principles and goals set in FCA Regulation as well as Regulation (EC) No 714/2009 of the European Parliament and of the Council of 13 July 2009 on conditions for access to the network for cross-border exchanges in electricity (hereafter referred to as "**Regulation (EC) No 714/2009**"). The goal of the FCA Regulation is the coordination and harmonisation of forward capacity calculation and allocation in the long-term capacity markets, and it sets requirements for the TSOs to cooperate on a pan-European level and across bidding-zone borders.

(6) According to Article 4(8) of the FCA Regulation, the expected impact of the CCR Hansa TSOs' LTTR proposal on the objectives of the FCA Regulation has to be described and is presented below.

(7) The CCR Hansa TSOs' LTTR proposal generally contributes to and does not in any way hamper the achievement of the objectives of Article 3 of the FCA Regulation. In particular, the CCR Hansa TSOs' LTTR proposal serves the objectives of promoting effective long-term cross-zonal trade with long-term cross-zonal hedging opportunities for market participants and respects the need for a fair and orderly forward capacity allocation and orderly price formation, as this proposal clearly identifies long-term transmission rights that can be offered across CCR Hansa bidding-zone borders, which provides the market participants with a range of options for cross-zonal hedging opportunities.

(8) The CCR Hansa TSOs' LTTR proposal clearly lists all long-term transmissions rights that can be offered across CCR Hansa bidding-zone borders and the implementation of the products, which ensures and enhances transparency and reliability of information on forward capacity allocation.

(9) The CCR Hansa TSOs' LTTR proposal ensures a fair and non-discriminatory treatment of TSOs, the Agency, NRAs and market participants and provides a non-discriminatory access to long-term cross-zonal capacity as this proposal envisages the use of the Harmonised Allocation Rules (hereafter referred to as "**HAR**"), the Single Allocation Platform (hereafter referred to as "**SAP**") and a common description of the long-term products in regards to form, timeframes, and type.

(10) In conclusion, the CCR Hansa TSOs' LTTR proposal contributes to the general objectives of the FCA Regulation to the benefit of all market participants and electricity end consumers.

**SUBMIT THE FOLLOWING PROPOSAL FOR THE REGIONAL DESIGN OF LONG-TERM TRANSMISSION RIGHTS TO ALL NATIONAL REGULATORY AUTHORITIES WITHIN CCR HANSA:**

## Article 1 – Subject, matter, and scope

Arrangements described in this CCR Hansa TSOs' LTTR proposal are in accordance with Article 31 of the FCA Regulation.

## Article 2 - Definitions and interpretation

1. For the purposes of the CCR Hansa TSOs' LTTR proposal, the terms used shall have the meaning of the definitions included in Article 2 of the FCA Regulation and Regulation (EC) No 714/2009.
2. The terms used in this proposal shall have the meaning of the definitions in the latest approved version of HAR.
3. In addition, the following definition shall apply:
    a) "Base load products" means a fixed amount of MW is allocated throughout all hours of all relevant days of the period subject to announced reduction periods.
4. In this CCR Hansa TSOs' LTTR proposal, unless the context requires otherwise:
    a) the singular indicates the plural and vice versa;
    b) the headings are inserted for convenience only and do not affect the interpretation of the CCR Hansa TSOs' LTTR proposal;
    c) references to an "Article" or "Annex" are, unless otherwise stated, references to an Article of this CCR Hansa TSOs' LTTR proposal; and
    d) any reference to legislation, regulations, directives, orders, instruments, codes or any other enactment shall include any modification, extension or re-enactment of it when in force.

## Article 3 – General principles

1. The CCR Hansa TSOs' LTTR proposal aims for a harmonized and simple design of LTTRs within the CCR Hansa in order to promote the objectives set out in Article 3 of the FCA Regulation.
2. The amount of cross-zonal capacity to be offered on each bidding-zone border shall be determined in accordance with the methodology for calculating long-term capacity required by Article 10 of the FCA Regulation and the methodology for splitting long-term cross-zonal capacity required by Article 16 of the FCA Regulation from the point in time onwards at which these methodologies have been approved and implemented.
3. For each bidding-zone border in CCR Hansa where LTTRs exist, the SAP established according to FCA GL shall be used for offering long-term cross-zonal capacities to the market participants in accordance with the allocation rules set out in the HAR.

## Article 4 - Bidding zone borders covered

1. The bidding-zone borders covered by CCR Hansa TSOs' LTTR proposal include all borders between two bidding zones, which are part of the CCR Hansa according to ACER Decision No. 06/2016 subject to provisions of Article 4.3.

2. CCR Hansa TSOs' LTTR proposal does not apply to bidding-zone borders for which the competent regulatory authorities have adopted coordinated decisions not to issue LTTRs in accordance with Article 30(1) of the FCA Regulation.

3. The bidding-zone borders covered by the CCR Hansa TSOs' LTTR proposal are set out in Annex 1.

4. In case of the introduction of new bidding-zone borders or the deletion of bidding-zone borders within the CCR Hansa where LTTRs are to be allocated, the CCR Hansa TSOs' LTTR proposal shall be amended accordingly, as set out in Article 4(12) of the FCA Regulation.

## Article 5 – Type of long-term transmission rights

1. In accordance with Article 31(1) and 31(6) of the FCA Regulation, LTTRs shall be offered to the market participants in the form of Physical Transmission Rights (PTRs) pursuant to the UIOSI principle; or in the form of Financial Transmission Rights-options and/or Financial Transmission Rights-obligations.

2. The definition as of the product types defined in paragraph 1 follows the definitions and provisions set out in the HAR.

3. The type of LTTRs that shall be applied on each bidding-zone border covered by this CCR Hansa TSOs' LTTR proposal is defined in Annex 1.

## Article 6 – Forward capacity allocation timeframes

1. LTTRs shall at least be issued for the forward capacity timeframes month and year, in accordance with Article 31(2) of the FCA Regulation.

2. Additional timeframes other than the forward capacity timeframes month and year as described in paragraph 1 of this Article may be issued upon approval by relevant NRAs.

## Article 7 – Form of products

1. LTTRs shall be issued in form of base load products with a fixed amount of MW over the product period.

2. Additional products other than the base load products described in paragraph 1 of this Article may be issued upon approval by relevant NRAs.

3. The product form may include reduction periods, i.e. specific calendar days and/or hours within the product period, in which Cross-Zonal Capacities with a reduced amount of MW are offered.

## Article 8 – Implementation

The CCR Hansa TSOs' LTTR proposal shall be implemented on bidding-zone borders where LTTRs are issued by no later than for the next yearly auction after approval, in accordance with the auction calendar as coordinated and published by the SAP.

## Article 9 – Language

The reference language for this CCR Hansa TSOs' LTTR proposal shall be English. For the avoidance of doubt, where TSOs need to translate this CCR Hansa TSOs' LTTR proposal into national language(s), in the event of inconsistencies between the English version published by CCR Hansa TSOs in accordance with Article 4(13) of the FCA Regulation and any version in another language the relevant TSO(s) shall, in accordance with national legislation, provide the relevant NRA(s) with an updated translation of the CCR Hansa TSOs' LTTR proposal.

# Annex 1

## List of bidding-zone borders where the regional design of long-term transmission rights applies

| CCR Hansa bidding-zone border | | | Type of LTTRs | Timeframe | Product |
|---|---|---|---|---|---|
| **Denmark (DK1)** | **-** | **Germany/Luxembourg (DE/LU)** | FTR – options | Yearly & Monthly | Base-load |
| **Denmark (DK1)** | **-** | **Netherlands (NL)** | FTR – options | Yearly & Monthly | Base-load |
| **Denmark (DK2)** | **-** | **Germany/Luxembourg (DE/LU)** | FTR – options | Yearly & Monthly | Base-load |

# Explanatory document for Capacity Calculation Region Hansa' regional design of long-term transmission rights in accordance with Article 31 of the Commission Regulation (EU) 2016/1719 of 26 September 2016 establishing a guideline on forward capacity allocation

**17th of November 2017**

## 1. Introduction

The Commission Regulation (EU) 2016/1719 of 26 September 2016 establishing a guideline on forward capacity allocation (hereinafter "**FCA Regulation"**) sets out rules regarding the type of long-term transmission rights that can be allocated via explicit auctions, and the way holders of transmission rights are compensated in case their rights are curtailed. The overarching goal is to promote the development of liquid and competitive forward markets in a coordinated way across Europe, and provide market participants with the ability to hedge their risk associated with cross-border electricity trading. In order to deliver these objectives, a number of steps are required.

One of these steps is to propose a regional design of long-term transmission rights (hereinafter "**regional design of LTTRs**") within the Capacity Calculation Regions (hereinafter "**CCRs**"). This regional design of LTTRs should contribute to a transparent and non-discriminatory allocation of LTTRs.

Pursuant to Article 31 of the FCA Regulation, all Transmission System Operators (hereinafter "**TSOs**") in the CCR Hansa have developed a regional design of LTTRs. This document provides additional information to the regional design of LTTRs.

This document is meant to ease the approval process of the regional design of LTTRs by all National Regulatory Authorities (hereinafter "**NRAs**") in the CCR Hansa. The terms used in this document follow the definitions of Article 2 of the regional design of LTTRs.

In regards to Norway, the FCA Regulation is not yet implemented as Norwegian law, due to delay in ratifying the Regulation (EC) No 714/2009. No decision has been made from NVE in time of writing, but there are no indications from NVE that there are obstacles to implementing the FCA Regulation.

In case NRAs in CCR Hansa request relevant TSOs to issue LTTRs on borders in CCR Hansa pursuant to Article 30 of the FCA Regulation, the regional design of LTTRs will be updated in accordance with Article 31 (4) of the FCA Regulation. The update has to be submitted for approval by NRAs in CCR Hansa within 6 months after the NRA request for implementation for LTTRs.

## 2. Legal requirements and interpretation

This chapter contains references to relevant articles in the FCA Regulation. Furthermore, a description is given on how these articles are interpreted in order to set the scope for this proposal.

Article 31 of the FCA Regulation provides the following:

*"1. Long-term cross-zonal capacity shall be allocated to market participants by the allocation platform in the form of physical transmission rights pursuant to the UIOSI principle or in the form of FTRs – options or FTRs – obligations."*

*"2. All TSOs issuing long-term transmission rights shall offer long-term cross-zonal capacity, through the single allocation platform, to market participants for at least annual and monthly time frames. All TSOs in each capacity calculation region may jointly propose to offer long-term cross-zonal capacity on additional time frames."*

*"3. No later than six months after the entry into force of this Regulation, TSOs in each capacity calculation region where long-term transmission rights exist shall jointly develop a proposal for the regional design of long-term transmission rights to be issued on each bidding zone border within the capacity calculation region.*

*No later than six months after the coordinated decisions of the regulatory authorities of the bidding zone border to introduce long-term transmission rights pursuant Article 30(2), TSOs of the concerned capacity calculation region, shall jointly develop a proposal for the regional design of long-term transmission rights to be issued on each bidding zone border within the concerned capacity calculation region.*

*Regulatory authorities of Member States in which the current regional design of long-term transmission rights is part of a TSO cross-border re-dispatch arrangement for the purpose of ensuring that operation remains within operational security limits may decide to maintain physical long-term transmission rights on its bidding zone borders.”*

*“4. The proposals referred to in paragraph 3 shall include a time schedule for implementation and at least the description of the following items specified in the allocation rules:*

*(a) type of long-term transmission rights;*
*(b) forward capacity allocation time frames;*
*(c) form of product (base load, peak load, off-peak load);*
*(d) the bidding zone borders covered.”*

*“5. The proposals shall be subject to consultation in accordance with Article 6. For the proposed long-term transmission rights to be issued, each TSO shall duly consider the result of the consultation.”*

*“6. The allocation of physical transmission rights and FTRs - options in parallel at the same bidding zone border is not allowed. The allocation of physical transmission rights and FTRs – obligations in parallel at the same bidding zone border is not allowed.”*

In regards to regulatory approval, Article 8 (4) of the FCA Regulation states:

*“The proposals for the following terms and conditions or methodologies shall be subject to approval by all regulatory authorities of the concerned region: […]*
*(c) the regional design of long-term transmission rights pursuant to Article 31”*

The regional design of LTTRs is therefore submitted for regulatory approval to DERA in Denmark, BNetzA in Germany, Ei in Sweden, URE in Poland, ACM in the Netherlands and NVE in Norway.

## 2.1 Interpretation and scope of the proposal

Firstly, it should be noted that the proposal shall be a regional design of LTTRs. The formulation in the FCA Regulation is broad. However, it is stated that the proposal shall cover at least a description of types of LTTRs, time frames, form of products and the bidding zones covered. It should be noted that the Article 31 of the FCA Regulation states that the proposal shall “at least” include the elements listed in Paragraph 4 of the Article. The list is only a minimum requirement and the regional design of LTTRs may include more.

Based on the above, the regional design of LTTRs is focused on a design which ensures harmonization of the allocation rules, the platform used for capacity allocation, a common description of the long-term product, time frame and the form of product. Furthermore, the design will ensure transparency by specifying in the annex the relevant borders and their specifications.

Secondly, it should be noted that Article 31(4) states that the TSOs in the CCR Hansa shall update the proposal if the NRAs request the TSOs within the CCR Hansa to issue LTTRs on borders where LTTRs did not exist at the entry into force of the FCA Regulation.

Based on this, the regional design of LTTRs must be flexible to additional borders. This legal document on the regional design of LTTRs is a common proposal by all TSOs in CCR Hansa thereby ensuring that the arrangements are flexible to additional borders. At the same time, the design is flexible to more TSOs, should additional TSOs be included in the CCR Hansa at a later stage.

The following is <u>not</u> part of this regional design of LTTRs:

- Transparency requirements. This is not seen as directly related to the regional design.

- Single allocation platform requirements, according to Article 48 of the FCA Regulation, requiring a separate all NRAs approval.
- Harmonised allocation rules, according to Article 51 of the FCA Regulation, requiring a separate all NRAs approval.
- Nomination rules, according to Article 36 of the FCA Regulation, requiring a separate approval by relevant NRAs.
- Methodology for splitting long-term cross-zonal capacity, according to Article 16 of the FCA Regulation, requiring a separate NRA approval on CCR level
- Methodology for capacity calculation for long-term timeframes, according to Article 10 of the FCA regulation, requiring a separate NRA approval on CCR level.

## 3. Present design

At the entry into force of the FCA Regulation, LTTRs were in use on the interconnectors between West Denmark (DK1) and Germany (DE) as well as East Denmark (DK2) and Germany (DE) in CCR Hansa.

The capacity is allocated though the Joint Allocation Office S.A. (hereinafter referred as "**JAO**"). JAO is a joint-venture owned solely by TSOs, and constitutes a vehicle of cooperation which is the result of the merger of two former joint-ventures: namely the Capacity Allocation Service Company EU.SA ("CASC") and the Centrale Allocation Office GmbH ("CAO"). Those two companies were both regional platforms set up and operated by TSOs themselves (notably in application of Article 6 of the Directive 2009/72/EC) in order to implement forward capacity allocation in two different regions (Central West Europe and Central East Europe).

The capacity is sold as base physical transmission rights on a yearly and/or monthly basis. The allocation process/procedure, the requirements for participation, financial matters, nomination rules, curtailment and compensation rules, rules for market participants in case they are transferring their LTTRs, and rules in regards to force majeure and liability for the LTTRs biddingzone borders, are all given in the European Harmonised Allocation Rules (hereafter referred to as "**EU HAR**") for 2017. The EU HAR were established by all TSOs as an early implementation project and were approved by all NRAs in 2016.

## 4. Proposed future design

The current design will remain in its overall shape. This means that the EU HAR will continue as Harmonised Allocation Rules (hereafter referred to as "HAR") in accordance with Article 51 of FCA Regulation to set the rules in regards to allocation of LTTRs in the Hansa CCR. The HAR were approved by ACER (decision No. 03-2017) on 2 October 2017 and will enter into force as of 2018.

Furthermore, the FCA Regulation requires that the LTTRs shall be offered through the single allocation platform (hereafter referred to as "SAP"), which is to be established by all TSOs pursuant to Article 48 in the FCA Regulation. The SAP shall be operational within 12 months after the approval of the proposal for the establishment of the SAP. The proposal for the establishment shall be submitted by all TSOs to all NRAs within 6 months after the FCA Regulation enters into force. The period for the TSOs to ensure that the SAP is operational, can be extended by the NRAs on request from the TSOs.

Given that JAO, including the IT tools operated by JAO to perform long-term capacity allocation, meets the criteria set out in the FCA Regulation, and also taking the experience of JAO in allocation of long-term capacity, the efficiency and the cost into consideration, the Hansa TSOs will offer the LTTRs in the CCR Hansa through JAO until the SAP is operational.

This allows the market participants and TSOs to continue to use an already existing IT Tool that complies with the technical requirements set out by the FCA Regulation and ensures the transparency requirements given in the FCA Regulation until the permanent solution is established and operational.

The FCA regulation allows for the LTTRs to be offered in the form of physical transmission rights (hereinafter "**PTR**"), financial transmission rights – options (hereinafter "**FTR – options**") or financial transmission rights – obligations (hereafter "**FTR – obligations**"). The FCA Regulation further states that the allocation of both PTR and FTR – options at the same bidding zone border is not allowed, which also goes for allocation of both PTR and FTR – obligations at the same bidding zone border. The regional design for the CCR Hansa will therefore allow for one of the three products to be allocated at a bidding zone border, and the allocation of FTR-options and FTR-options on the same border, however not PTR or any FTR products together. The definitions of PTR, FTR – options and FTR – obligations is harmonized for all borders and is given in the EU HAR respectively the HAR that is to be used in the CCR Hansa.

Furthermore, the FCA Regulation states that the allocation of LTTRs shall be offered for at least yearly and monthly timeframes. Other timeframes may be introduced, but as minimum LTTRs in the Hansa CCR will be offered on yearly and monthly timeframes.

The yearly and monthly timeframes will be organised as it is defined in the EU HAR respectively the HAR. The auctions will follow the auction calendar published on the website of JAO or the SAP no later than the 1st of December of the preceding year. JAO or the SAP will organise one auction per year for the yearly timeframe and one auction per month for the monthly timeframe. The yearly timeframe will start on the first day of the calendar year and end on the last day of the calendar year, and the monthly timeframe will start on the first day of the calendar month and end on the last day of the calendar month.

Based on the FCA Regulation allowing for the TSOs to issue LTTRs in the form of base, peak or off-peak products, the Hansa TSOs have defined these for the CCR Hansa:

a) Base load: a fixed amount of MW is allocated throughout the hours 00:00 – 23:59 CET of all relevant days of the period subject to announced reduction periods; or
b) Peak load: a fixed amount of MW is allocated throughout the hours 08:00 – 19:59 CET of all relevant weekdays of the period subject to announced reduction periods; or
c) Off-peak load: a fixed amount of MW is allocated throughout the hours 00:00 – 07:59 and 20:00 – 23:59 CET of all relevant weekdays and the hours 00:00-23:59 CET of all relevant Saturdays and Sundays of the period subject to announced reduction periods.

To ensure transparency for the market participants, the document on the regional design of LTTRs will include an annex stating the product specification for the bidding zone borders where LTTRs are issued. The table will include the binding zone borders and responsible TSOs, the type of LTTRs, the timeframes and the product. For the CCR Hansa this will be:

| CCR Hansa bidding zone border | | | Type of LTTRs | Timeframe | Product |
|---|---|---|---|---|---|
| **Denmark (DK1)** | **-** | **Germany/Luxembourg (DE/LU)** | FTR – options | Yearly & Monthly | Base |
| **Denmark (DK2)** | **-** | **Germany/Luxembourg (DE/LU)** | FTR – options | Yearly & Monthly | Base |

## 4.1 Implementation

The regional design of LTTRs shall be implemented on bidding zone borders where LTTRs are issued by no later than for the next yearly auction after approval, in accordance with the auction calendar as coordinated and published by the SAP.

As written in the above, in case the SAP is not in operation, the Hansa TSOs will offer the LTTRs in the CCR Hansa through JAO, and it is therefore possible to meet the implementation deadline with the yearly auctions for 2019.

Until the implementation of the regional design of LTTRs, the TSOs in CCR Hansa will continue with current practices.

## 5. Consultation responses

In the consultation period from 14th of June 2017 to 30th of July 2017, CCR Hansa received one consultaiton response.

| Participant | Comments | CCR Hansa response |
|---|---|---|
| Danske Commodities | We are happy to see that the proposal is open for other time periods than monthly and yearly auctions. Danske Commodities suggests also considering weekly auctions.For some years the southbound auction between DK1 and Germany has been cancelled due to the very low allocated capacity on the interconnector. This year the TSO's in Denmark and Germany has agreed to implement a minimum capacity on the interconnector of 700 MW. This means that there is no issue with having firm capacity on the dayahead market. So Danske Commodities expect that the auction between DK1 and Germany is reopened as a consequence of this change in capacity and in accordance with CCR Hansa regional design of long-term transmission rigths. | The TSOs in CCR Hansa appreciate the view from the market participant.<br><br>To accommondate the suggestion for weekly products the TSOs will take this oppertunity and initiate a work to identify possible benefits and risks in liquidity by implementing weekly and/or other products besides the monthly and yearly auction.<br>The TSOs will invite the market participants to this work.<br>If the TSOs identify the benefits of implementing additional products, the regional design of LTTRs will be updated accordingly and subject to approval by all Nras in CCR Hansa.<br><br>The southbound auctions between DK1 and DE have, as rightfully stated, been cancelled due to very low allocation capacity on the interconnector.<br>The agreement reached between the Danish and German ministries, and implemented by TenneT TSO and Energinet, however is not related to the FCA Regulation, and therefore out of scope of this proposal. However, the Hansa TSOs thouroughly took |

| | | |
|---|---|---|
| | | the wish for more long-term transmission capacity between DK1 and DE into account. In order to meet the requirements of the market, TenneT TSO and Energinet decided to implement FTR - options on the respective bidding zone border as of 2019. With FTR - options, the TSOs are confident in being able to offer more long-term transmission capacity since it has no physical impact.<br>Further 50 Hertz Transmission and Energinet have decided to also change the product on the bidding zone border DK2 – DE from PTR to FTR – options to align the products in CCR Hansa. |

# Addendum to

# the explanatory document for Capacity Calculation Region Hansa regional design of long-term transmission rights in accordance with Article 31 of the Commission Regulation (EU) 2016/1719 of 26 September 2016 establishing a guideline on forward capacity allocation

**1st of March 2018**



MEMO

## 1. Introduction

On request by CCR Hansa NRAs, the TSOs of CCR Hansa have prepared this addendum to the explanatory document for Capacity Calculation Region Hansa regional design of long-term transmission rights in accordance with Article 31 of the Commission Regulation (EU) 2016/1719 of 26 September 2016 establishing a guideline on forward capacity allocation (FCA GL), which was submitted on the $17^{th}$ of November 2017.

In the following sections, the TSOs of CCR Hansa elaborate on the positive effect on available long-term-transmission capacity by issuing FTR-options.

The TSOs propose to implement the Long Term Transmission Rights (LTTRs) as FTR-options after a consultation response to the CCR Hansa regional design of LTTRs following article 31 of the FCA GL asking for more capacity on the border between DK1 and DE/LU. The Hansa TSOs believe that they are able to fulfil this requirement from the market if the LTTRs are implemented as FTR-options instead of PTRs.

## 2. FTRs-options versus PTRs

The difference between FTR-options and PTRs is the ability to nominate physical power. However, as the borders in CCR Hansa are subject to market coupling, there is no reason for the market participant to nominate the PTR, as this would not give a better market outcome, as illustrated in section 3.

This is also seen by the fact that the PTRs on the Danish-German borders have not been nominated in 2016 or 2017.

From the TSOs' perspective, nominated PTRs can interfere with security of supply. Nominations from a PTR will have to be handled by the TSO, who might have to countertrade the power if the grid for some reason is not intact and the nominations risk overloading the grid (especially after the PTR nomination deadline). This physical risk is removed if the LTTRs are implemented as FTR-options, without the market participants being financially affected by the shift from PTRs to FTR-options.

The remaining risk for the TSOs when issuing a FTR-option will be a financial risk, namely the FTR-options were auctioned for less than the market spread to be paid back to the market participants, or lessthan the costs of curtailment.

Since PTRs and FTR-options do not differ in the benefits for the market participants and since TSOs can improve their processes and security of supply, the TSOs of CCR Hansa suggested the change from PTRs to FTR-options.

For the TSOs, the avoidance of the physical risk of nominated PTRs can potentially increase the available LTTR capacity on the borders in CCR Hansa.

### 2.1 Changes in financial regulation

PTRs have historically been chosen by the CCR Hansa TSOs due to financial regulation.

Previously, there was uncertainty about whether or not FTR-options would be governed by the financial regulation of EMIR and MiFID[1], while PTRs were considered to be exempted. Financial reporting following EMIR and MiFID has previously been assessed to be relatively costly, and especially Danish market participants have also mentioned that the financial regulation would be a deterrent to buying the FTR-options. It would especially be the smaller market participants who would not trade FTR-options due to financial regulation.

From January 1st 2018, MiFID II replaced MiFID, and MiFID II exempts all LTTRs in the primary market from financial regulation (cf. Whereas (35) and Article 2 1(n) in MiFID II). This means that LTTRs bought directly on the TSO auctions performed by the Joint Allocation Office (JAO) will not require EMIR reporting. This removes any possible discrimination against smaller market participants when selling FTR-options instead of PTRs. The Hansa TSOs see this exemption in the financial regulation as a new situation, which means that PTRs no longer have a benefit of less costly reporting over FTR-options.

However, the secondary market, i.e. purchase of FTR-options among market participants, is not covered by this exemption which means that any FTR-options

1 MiFID Directive 2004/39/EC, MiFID II Directive 2014/65/EU and EMIR 648/2012

traded between markets participants have to be reported under EMIR by the market participants themselves.

## 3. Illustration of PTR nomination vs. FTR-option

To illustrate the fact that nominations do not give a better outcome for PTRs with UIOSI when market coupling exists, please see the following examples.

The examples consider a thermal power plant in area A with a customer in area B. For the power plant, a marginal cost of 10 EUR/MWh is assumed, and the price for the customer is assumed to be 21 EUR/MWh.
The profit of the power plant depends on whether or not it nominates its PTR or not.

There can be three different scenarios

1. Price in area B < Price in area A
2. Price in area B = Price in area A
3. Price in area B > Price in area A

**Scenario 1**

Assumption: Day-ahead price in area B = 12 EUR/MWh < day-ahead price in area A = 15 EUR/MWh

<u>Nomination of PTR with UIOSI:</u>

Price for customer − marginal cost of power plant = 21-10 = 11 EUR/MWh

<u>No nomination of PTR with UIOSI:</u>

Day-ahead price in area A − marginal cost of power plant + price for customer − day-ahead price in area B + cashflow of PTR with UIOSI[2] = 15-10+21-12+0 = 14 EUR/MWh

➔ The optimal decision is not to nominate the PTR

2 Cashflow from PTR with UIOSI is zero as market flow is in opposite direction than the PTR

**Scenario 2**

Assumption: Day-ahead price in area B = day-ahead price in area A = 15 EUR/MWh

Nomination of PTR with UIOSI:

Price for customer − marginal cost of power plant = 21-10 = 11 EUR/MWh

No nomination of PTR with UIOSI:

Day-ahead price in area A − marginal cost of power plant + price for customer − day-ahead price in area B + cash flow of PTR with UIOSI[3] = 15-10+21-15+0=11 EUR/MWh

- ➔ Nominating PTR does not result in added value for the power plant.

**Scenario 3**

Assumption: Day-ahead price in area B = 12 EUR/MWh > day-ahead price in area A = 4 EUR/MWh

Nomination of PTR with UIOSI:

Price for customer − marginal cost of power plant = 21-10 = 11 EUR/MWh

No nomination of PTR with UIOSI:

Price for customer − day-ahead price in area B + cash flow of PTR with UIOSI[4] = 21-12+(12-4) = 17 EUR/MWh

- ➔ The optimal decision is not to nominate the PTR

As seen from the examples above, a PTR with UIOSI and markets with market coupling do not have an effect on the production decision, and it will never be an advantage to nominate the PTR with UIOSI. In this way the PTR works in the same way as an FTR-option from the market participant's perspective.

[3] Cashflow from PTR with UIOSI is zero as the price difference between the areas is zero

[4] Cashflow from PTR with UIOSI is 8 as the power plant owns a PTR with UIOSI from area A to Area B, and the day-ahead price in area B is 12 while the day-ahead price in area A is 4.

# Second addendum to

# the explanatory document for Capacity Calculation Region Hansa’ regional design of long-term transmission rights in accordance with Article 31 of the Commission Regulation (EU) 2016/1719 of 26 September 2016 establishing a guideline on forward capacity allocation

**14th of August 2019**

## 1. Introduction

As a result of ACER decision 04/2019, the bidding zone border DK1-NL, which is created due to the construction of the COBRAcable, will be (temporarily) added to CCR Hansa. As a consequence, this also introduces the Dutch TSO (TenneT TSO B.V.) and the Dutch NRA (Autoriteit Consument en Markt, ACM) as official parties within CCR Hansa.

To integrate the DK1-NL bidding zone border in CCR Hansa all existing methodologies of CCR Hansa have to be approved by ACM. Additionally, some methodologies have to be amended to account for additional border specific information stated within the methodologies.

The Regional Design for long-term transmission rights methodology, in accordance with Article 31 of the Commission Regulation (EU) 2016/1719 of 26 September 2016 establishing a guideline on forward capacity allocation (FCA), is one of the methodologies that need amendment. The long-term product choice has to be stated border specifically in the methodology.

The amendment to the methodology is in accordance with FCA Article 4(12) of FCA and is consulted on in accordance with Article 6 of FCA[1]. The response of this consultation, and CCR Hansa TSOs answers, are given in this addendum.

## 2. Consultation responses and answers

In the consultation period from the 10th of April 2019 to the 12th of May 2019, CCR Hansa received one consultation response. Please find the consultation response and CCR Hansa replies below.

[1] https://consultations.entsoe.eu/markets/lttr_for_cc_hansa_ccr/

| Comment number | Reviewer (organisation) | Comment received | CCR Hansa TSOs reply |
|---|---|---|---|
| 1. | European Federation of Energy Traders - EFET | Views:<br>The European Federation of Energy Traders (EFET) thanks the Hansa TSOs for the opportunity to comment on the proposed amendments to the Hansa CCR methodology on the design of long-term transmission rights.<br>Risk management through (cross-border) hedging is a key element in sourcing and providing electricity to customers competitively, as it allows market participants to avoid exposure to short-term price volatility and imbalance costs. Allocation of long-term rights to market participants also provides long-term signals to the TSOs regarding potential congestion on certain cross-border elements. This provides an indication to the TSOs regarding forward market activities and could potentially help in forecasting additional congestion revenues that TSOs receive as a congestion income. | We agree |
| 2. | European Federation of Energy Traders - EFET | Article 4.2: CCR Hansa TSOs' LTTR proposal does not apply to bidding zone borders for which the competent regulatory authorities have adopted coordinated decisions not to issue LTTRs in accordance with Article 30(1) of the FCA Regulation.<br>We still oppose the 2017 decision of the Swedish and Polish regulators to wave the obligation on TSOs to issue forward transmission rights on the SwePol cable. We believe that the voice of market participants was not listened to appropriately in the assessment leading to this decision. We refer to our response to the URE consultation on the subject for more details (https://efet.org/Files/Documents/Downloads/EFET-response-to-URE-consultation-no72017.pdf), and request that the decision of the regulators be reviewed. | Noted, but not applicable for the proposed addition of COBRAcable to Annex 1. |

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| 3. | European Federation of Energy Traders - EFET | Article 5.3: The type of LTTRs that shall be applied on each bidding zone border covered by this CCR Hansa TSOs' LTTR proposal is defined in Annex 1.<br>The main change proposed in this methodology, laid out in annex 1, concerns the introduction of FTR options at the NL-DK1 border (Cobra cable). We are in principle neutral to the issuance of either PTRs or FTR options by the TSOs. EFET supports the issuance by TSOs of forward transmission rights<br>(PTRs or FTR options) at all bidding zone borders in Europe and in all directions, to the full amount that the underlying infrastructure can offer for each timeframe, as calculated according to the relevant capacity calculation methodology. However, the main difference between PTRs and FTR options is the capacity of market participants to nominate PTRs, and this option to nominate PTRs has, as such, a value. We would hence like to highlight a few concerns regarding the exclusive use of FTR options: | On the Hansa borders PTRs have never been nominated, and therefore they have practically worked as FTR. It is an operational burden for the control centres to facilitate physical nominations. The low percentages of nomination weighed against the additional operational efforts have resulted in a decision to only offer FTRs. |
| 4. | European Federation of Energy Traders - EFET | The exclusive use of FTR options would tie market participants to power exchanges, as no physical hedging instrument will be able to back OTC cross-border forward transactions. This restricts market participants' ability to weigh the benefits and drawbacks – in financial terms and practical arrangements – of using OTC platforms or power exchanges for their physical cross-border transactions. In practical terms, market participants will have to close their physical positions on the day-ahead market on both sides of the border, increasing the administrative and financial burden – such as mandatory membership to the power exchange, clearing fees, reporting, etc. | As nominations has hardly ever happened on the DK1-DE/LU bidding zone borders and not on the DK1-DK2 bidding zone border it is not likely that the PTRs on COBRAcable would be nominated often. As indicated in answer #3, this resulted in a choice to offer FTRs. |
| 5. | European Federation of Energy Traders - EFET | In case of partial clearing, the outcome will be different than with PTRs due to a potential remaining imbalance at BRP side. However, first, market participants should still be able to rely on cross-border capacities to balance their portfolio, as the case might be. The switch from PTRs to | See answer #4 |

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| | | FTR options does not change the interconnection capacity available to the market. As a result, this implementation should not result in a regression in the functioning of the market, most particularly in terms of cross-border transmission capacity made available to the market as far in advance of real time as possible.<br>Second, the introduction of FTR options should not come with a risk of paying high imbalances that would not have been there if market participants decided to nominate their PTRs. Therefore, a mechanism should be in place to cover any risk related to unserved energy in the concerned bidding zones. As an example, this risk has been acknowledged by CREG when the switch from PTR to FTR options was implemented at the Belgian borders (cf. CREG decision B1446, paragraph 76). This risk can be particularly high at borders connecting bidding zones with low liquidity. For this proposal, the AT-CZ and AT-HU borders would be most at risk of failing to see the day-ahead market clear. | |
| 6. | European Federation of Energy Traders - EFET | As noted in our responses to the various CCRs' surveys and consultations on splitting long-term cross-zonal capacity (EFET response to the Core TSOs survey on splitting long-term cross zonal capacity, dated 17 December 2018, available at: https://efet.org/Files/Documents/Downloads/EFET_Core%20TSOs%20survey%20LT%20capacity%20splitting_17122018.pdf.<br>EFET response to the SWE TSOs consultation on splitting rules, dated 30 April 2019, available at: https://efet.org/Files/Documents/Downloads/EFET_SWE%20Splitting%20Rules_16042019.pdf), all the capacity available (as the output of the long term capacity calculation process) should be allocated in forward time frame as far in advance as possible. TSOs should update their computation throughout the year and offer the additional released capacity (if any) in subsequent auctions. | Noted, but not applicable for the proposed addition of COBRAcable to Annex 1. |

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| | | This is true for PTRs, but even more so for FTR options: there should be no reservation for day-ahead, as no physical event linked to operational security or emergency situation may affect FTR options. We therefore hope that no capacity will be reserved ex-ante for the day-ahead or balancing markets. | |
| 7. | European Federation of Energy Traders - EFET | As a final note, we remind the Hansa TSOs that we have serious concerns regarding article 56.3 of EU HAR for the case of FTR options. Article 56.3 lays down the rules for curtailment of allocated rights, i.e. one of the elements of the firmness of long-term transmission rights which is of course of utmost important for market participants. EFET does not agree with the possibility for TSOs to curtail allocated FTR options for reasons of system security: since FTR options cannot be nominated, their allocation cannot have any impact on the state of the system, hence TSOs bear no physical risk. Therefore, we do not see any reason to apply a curtailment for system security reasons to FTR options. Only curtailments in case of Force Majeure should be applicable for FTR options. We therefore suggest that TSOs themselves request a review of this article, especially given the increasing number of borders that will use FTR options going forward. | Noted, but not applicable for the proposed addition of COBRAcable to Annex 1. |
| 8. | European Federation of Energy Traders - EFET | In short, before the introduction of FTR options at the NL-DK1 border, we request:<br>- Cross-border transmission capacity allocation maximised to 100% of the available capacity at the time of calculation (system security reservations should not be tolerated for FTR options);<br>- Full financial firmness of FTRs, and impossibility to curtail for any other reason than Force Majeure (system security justifications should not be tolerated for FTR options);<br>- No additional exposure for the market, e.g. in case day-ahead markets do not clear. | Noted, but not applicable for the proposed addition of COBRAcable to Annex 1. |