

3rd amendment of the Core CCR TSOs' regional design of long-term transmission rights based on article 4(12) of Commission Regulation (EU) 2016/1719

20th February 2020

Purpose:	<input type="checkbox"/> methodology draft	<input type="checkbox"/> for public consultation
NRA approval:	<input checked="" type="checkbox"/> outstanding	<input type="checkbox"/> approved

TSOs of the Core CCR (“Core TSOs”), taking into account the following,

Whereas

- (1) This document sets out a third amendment based on article 4(12) of Commission Regulation (EU) 2016/1719 (FCA Regulation) to the Core CCR TSOs’ methodology for the regional design of long-term transmission rights in accordance with article 31 FCA Regulation (Core TSOs’ LTTR Design).
- (2) On 14 October 2017 the CCR Core national regulatory authorities approved the Core CCR TSOs’ methodology for the Core TSOs’ LTTR Design.
- (3) On 19 July 2018, the Core national regulatory authorities approved the first amendment to the Core LTTR Design that introduced long-term transmission rights at the CZ-SK and DE/LU-AT bidding zone borders.
- (4) On 30 October 2019 the European Union Agency for the Cooperation of Energy Regulators (ACER) with its decision No 15/2019 approved the second amendment to the Core TSOs’ LTTR Design that introduced the implementation of financial transmission rights options (FTRs) at the bidding zone borders AT-CZ, AT-HU, DE/LU-BE, DE/LU-FR and DE/LU-NL.
- (5) This third amendment to the Core TSOs’ LTTR Design introduces the switch from physical transmission rights with use-it-or-sell-it principle (PTRs) to FTRs on the bidding zone borders AT-SI, CZ-DE/LU, CZ-SK, HU-SK, HU-RO, HR-HU, PL-CZ, PL-DE/LU, PL-SK and SI-HU.
- (6) Core TSOs respect that due to an interstate agreement between SI and HR there is no introduction of FTRs possible at the SI-HR bidding zone border yet. Core TSOs will monitor the situation on SI-HR border and other Core CCR internal bidding zone borders in the day-ahead market. If necessary for avoidance of distortive effects on the relevant markets, Core TSOs will apply for an amendment to this proposal, and the Croatian and Slovenian TSOs shall assess whether the implementation of FTRs on the SI-HR bidding zone border may be performed via a modification or annulation of the interstate agreement.
- (7) This third amendment to the Core TSOs’ LTTR Design does not change the impact of the previously approved Core TSOs’ LTTR Design on the objectives of the FCA Regulation. The evaluation of the impact on the objectives of the FCA Regulation contained in the already approved Core TSOs’ LTTR Design is therefore also valid for this amendment.

agreed on the following third amendment of the Core TSOs’ LTTR Design:

Article 1 §
Type of long-term transmission rights §

- (1) Table II of Article 5 of the Core TSOs' LTTR Design shall be amended for the AT-SI, CZ-DE/LU, CZ-SK, HU-SK, HU-RO, HR-HU, PL-CZ, PL-DE/LU, PL-SK and SI-HU bidding zone borders as follows:

Table I: Long-term transmission rights type of Core bidding zone borders

Core CCR borders	Type of long term transmission rights
NL-BE	FTR Options
NL-DE/LU	FTR Options
BE-FR	FTR Options
BE-DE/LU	FTR Options
FR-DE/LU	FTR Options
PL-DE/LU	FTR Options
PL-CZ	FTR Options
CZ-DE/LU	FTR Options
PL-SK	FTR Options
AT-DE/LU	FTR Options
AT-CZ	FTR Options
AT-SI	FTR Options
SI-HR	Physical transmission rights pursuant to UIOSI principle
HR-HU	FTR Options
AT-HU	FTR Options
HU-SK	FTR Options
HU-RO	FTR Options
CZ-SK	FTR Options
SI-HU ¹	FTR Options

- (2) A paragraph (5) shall be added to Article 8 of the Core TSOs' LTTR Design as follows:

- (5) The change of the long-term transmission right type, i.e. from physical transmission rights pursuant to UIOSI principle to FTR Options, on the AT-SI, CZ-DE/LU, CZ-SK, HU-SK, HU-RO, HR-HU, PL-CZ, PL-DE/LU, PL-SK and SI-HU bidding zone borders shall be effective at the date on which the first provisional auction specifications for long-term transmission rights auction, following the implementation of the Core Flow-Based Day-Ahead Market Coupling Project, are published. The change of the type of the long-term transmission rights shall not apply to already allocated transmission rights.

Article 2 §
Entry into force §

¹ Reference to SI-HU bidding zone border will become effective in accordance with Article 5(4) of the Determination of CCRs established by ACER Decision No 06/2016.

Article 1 of this third amendment shall enter into force with the approval by the relevant national regulatory authorities in accordance with the procedure laid down in Article 4 of the FCA Regulation, but earliest for the first auction for the time frame 2021.

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Core CCR TSO's regional design of long-
term transmission rights based on Article
4(12) of Commission Regulation (EU) !
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GLOSSARY

All definitions and abbreviations of the Core CCR TSOs regional design on long-term transmission rights apply accordingly.

1. INTRODUCTION

This document is the consultation report for 3rd amendment of the Core CCR TSO's regional design of long-term transmission rights. The 3rd amendment of the Core CCR TSO's regional design of long-term transmission rights is based on Article 4(12) of Commission Regulation (EU) 2016/1719.

Core TSOs would like to thank all parties involved in the public consultation for their interest in the 3rd amendment of the Core CCR TSO's regional design of long-term transmission rights. Core TSOs welcome the feedback received as it is valuable for the further development and detailing of the Core CCR TSO's regional design of long-term transmission rights.

Via the ENTSO-E Consultation Platform, the public consultation document for the 3rd amendment of the Core CCR TSO's regional design of long-term transmission rights was available to Core stakeholders from the 18th of December 2019 until the 26th of January 2020. In total, six stakeholders submitted their responses in time.

Despite the answers that can be found below, three respondents required not to disclose their company identities and two respondents required not to disclose their contributions in this consultation report. Therefore these information are not provided in the assessment below. Please note that all responses were, however, shared with the Core National Regulatory Authorities (NRAs) for their regulatory assessment.

Main views and recurring comments have been summarized in this report. The Core TSOs wish to clarify that the content of this document is intended to summarize the results obtained in the public consultation. The Core TSOs did their best to reply to all comments and concerns.

2. 3RD AMENDMENT OF THE CORE CCR TSO'S REGIONAL DESIGN OF LONG-TERM TRANSMISSION RIGHTS – CONSULTATION FEEDBACK

2.1. General

In this chapter, a summary is provided of all stakeholder responses received via the ENTSO-E Consultation Platform. All contributions that are released for disclosure can be found in the Annex.

2.2. Methodology

Article 1(1)

Four out of six respondents have directly reacted on the introduction proposal of FTR Options at the bidding zone borders AT-SI, CZ-DE/LU, CZ-SK, HU-SK, HU-RO, HR-HU, PL-CZ, PL-DE/LU, PL-SK and SI-HU to FTR Options. One respondent welcomes the FTR introduction. One respondent doesn't support it and two others remain neutral on the introduction of FTR options; these respondents formulated potential constraints to be considered for the introduction of FTR Options and ask for TSOs' motivation to switch to FTRs. One respondent comments aspects not related to the LTTR Design and the last respondent focuses on the specific situation on the HR-SI bidding zone border.

On the motivation to introduce FTRs on all Core CCR bidding zone borders, Core TSOs want to repeat their argumentation already brought forward in recent Core LTTR Design amendment. Core TSOs' intention is also supported by ACER Decision 15/2019¹ (cf. recital 41).

FROM TSOs' PERSPECTIVE THROUGH THE INTRODUCTION OF FTRs WE ACHIEVE A WIN-WIN SITUATION:

- Market parties can be given the total NTC in LT auctions for hedging purpose.
- Due to no possibility to nominate LTRs the total NTC is available for market coupling in the day-ahead timeframe and raise the welfare benefits.

DIFFERENCE BETWEEN PTRs AND FTRs

PTRs with UIOSI entitle the rights holder to nominate parts or all of its PTRs at the TSO for physical delivery beyond the particular border. If PTR holders do not nominate their rights (or part of it) before the defined nomination deadline, they obtain a remuneration which is defined as the positive day-ahead market spread (if any) in the direction of the long-term transmission right on the particular border.

FTR Options entitle its holders a remuneration defined as the positive day-ahead market spread (if any) in the direction of the long-term transmission right on the particular border (as for non-nominated PTRs with UIOSI) but cannot be nominated for physical delivery.

Hence with FTR Options the entire available cross-zonal transmission capacity is available to the day-ahead market coupling, whereas with PTRs with UIOSI nominated long-term rights already use part of the available capacity prior to day-ahead market coupling.

CONSEQUENCES OF USING FTR OPTIONS INSTEAD OF PTRs WITH UIOSI

¹https://acer.europa.eu/Official_documents/Acts_of_the_Agency/Individual%20decisions/ACER%20Decision%2015-2019%20on%20the%20Core%20CCR%20TSOs%20proposal%20for%20LTTR.pdf

Under FTR Options no nomination of long-term rights are possible anymore. On the one hand, the degree of flexibility for long-term right holders to effect deliveries of electricity on a long-term basis would be reduced compared to a situation with PTRs. Nevertheless, more cross zonal capacity would be made available for the day-ahead market coupling to all market participants.

With FTR Options, operation tasks and systems as well as business processes and reporting requirements will ease (e.g. IT systems, contracts, resources) because the PTR nominations are no longer needed for long-term nominations for the concerned borders.

This additional day-ahead capacity in the market coupling in combination with the fact that cross-border trades are only executed via the market coupling (and not bilaterally any more) would increase - or at least ensure a certain level of - liquidity on the coupled day-ahead market (while decreasing bilateral OTC trades).

As such FTR Options contribute to a consistent and reliable price formation on the day-ahead market (especially for cases where after nomination of PTRs only limited cross-zonal capacity would be left for the day-ahead market coupling). The improvement of the day-ahead market price formation is beneficial for the wholesale market as the spot price is increasingly used as a reference price in supply contracts, bringing more transparency for consumers.

The volume of LTTRs to be allocated is not dependent on the choice between FTR Options or PTRs with UIOSI and must in general reflect the underlying physical available cross-zonal capacity for the different long-term time frames. In general, seen from an economic and technical point of view, the capacity given to the market should not exceed the physically available capacity. Otherwise, market price signals would be inefficient and TSOs would be exposed to a significant financial and/or technical risk.

Another consequence of FTR Options is that all capacity is allocated in the day-ahead market timeframe in an implicit way and as such ensures a level-playing field among market parties. Under PTRs long-term nominations for physical delivery might be more difficult to conclude for new market participants (entry barrier), e.g. not having physical positions in different countries.

At borders with direct nominations via one company (A-A), neither PTR with UIOSI (unless they are nominated) nor FTR Options require LTR holders to have a BRP contract. As such the entrance barrier for new participants for FTR Options and PTR with UIOSI are the same. Nevertheless, a BRP contract and the possibility to have physical positions in Core CCR markets are required in order to nominate PTRs with UIOSI. As such FTR Options ensure a more equal level of playing field between all market parties regardless whether they are able to have physical positions in all Core markets (the use of PTRs with UIOSI could differ between players with and without BRP contract).

Moreover, the omission of nominations would have the advantage that the harmonization of nomination rules within Core CCR becomes obsolete, as required by the FCA (Art 36.3). This would save costs for some TSOs, market parties and society.

CONCLUSION !

The results of the public consultation did not give a clear conclusion against the introduction of FTR options, nor provide clear support to introduction of FTR options. !

Given that,

- with FTR Options all cross zonal capacity would be implicitly allocated in the day-ahead market (as the capacity from LT auctions is made available to its full amount to the day-ahead market coupling) contributing to a day-ahead market price formation;
- the actual use of PTRs with UIOSI indicates that market parties use PTRs with UIOSI in the majority of the cases like FTR options as such no need to maintain the functionality; On the other hand, as mentioned by two respondents in the public consultation, on some BZBs, e.g. SK/CZ, SK/HU BZBs, considerable parts of PTRs are nominated, which means that nomination option as such is seen as value for at least these respondents in case of partial clearing in the day-ahead market.
- FTR Options result in operational simplification for market parties and TSOs; and lower system and operational costs, because harmonization of nomination rules is obsolete and subsequent system or operational changes for all parties involved can be avoided. However, this simplification is not very significant, as the nomination rules are not changed often, so these changes do not require significant costs, especially for market participants. In addition, market participants who do not wish to use the PTR nomination option, do not need nomination tools, as non-nominated PTRs have FTR options properties.

ASSESSMENT OF FURTHER CONCERNS

Fees for power exchanges due to obligation to close positions on both sides of the borders:

By introduction of FTRs on respective BZBs market participants are enforced to realize their trades via day-ahead market and as such born respective fees of PXs (NEMOs). In contrast to other hedging options (especially future markets) LTTRs are allocated and settled up via JAO without any fee for market participants. The possibility of alternatives to power exchanges ensures competitive fees which are more likely to fall as a result of MNA implementation.

Risk of partial clearing and high imbalance prices:

This is a very theoretical risk which never happened since the start of market coupling. Further the risk is independent of the LTTR design since it would apply (more likely) after [PX] gate closure and this is much later than today deadlines for physical nomination. Further Core TSOs follow and support ACER's argumentation on this risk in their decision 15/2019, cf. recitals 42-44, that this issue is based on missing harmonisation of min and max prices across all timeframes across Europa and can thus not be tackled in the Core TSOs LTTR Design.

HAR Art. 56 curtailment:

The risk is independent of the LTTR design since anyway all already allocated capacities, meaning day-ahead and intraday as well, would be curtailed pro-rata. Since compensation is market spread (different remuneration due to Force Majeure is not criticized by any of the respondents) the FTR holder does not even notice that he was curtailed.

Article 1 (2), related to added paragraph 8(5):

Three respondents challenge the proposed implementation approach and would like to have processed the introduction of FTRs as of the first yearly auction after the Go-Live of the Core Day-Ahead Flow Based Market Coupling. Nevertheless, given the aspects as described before, Core TSOs will remain to their initial implementation approach, as this principle has been accepted and thus been set as default with ACER decision 15/2019 already.

ANNEX I

VERBUND Trading GmbH	Core TSOs' response
<p>The LT capacity calculation and allocation should be based only on technical aspects. For the market participants it is very important that LT FTRs are firm in the CORE region. Since the EUPHEMIA mechanisms and critical branch limitations provide enough security for the TSOs, any planned reductions and potential curtailments to be factored in when deciding about the firm quantities one year ahead, thus providing stability to the market. TSOs shouldn't have the arbitrary role in changing how much of the already announced LT capacity will be actually offered to the market in different timeframes.</p>	<p>The contribution brought forward is not related to the actual Core LTTR design and is therefore assessed as not to be considered for this Core LTTR Design methodology amendment. Nevertheless, Core TSOs noticed this contribution for the further development of the relevant long-term capacity calculation and allocation design.</p>
HEP d.d.	
<ul style="list-style-type: none"> • There is an Agreement between the Government of Republic of Croatia and the Government of the Republic of Slovenia on regulation of status and other legal relations regarding the investment, use and dismantling of Nuclear power plant Krško – based on the European Energy Charter. The Contracting Parties agree that NE Krško is a significant electric power resource for the electric power systems of both countries, and the Contracting Parties are extremely interested in the safe operation of this power plant. • The Contracting Parties agree that the Company shall deliver the produced power and electricity to the Shareholders in equal proportions, half to each Shareholder, until the end of the regular useful life of the nuclear power plant. <p>It is of utmost importance to maintain the physical allocation of long- term capacity on Croatian-Slovenian border (Slovenia-Croatia direction) due to the withdrawal of electricity from the Krško NPP (Slovenia) to HEP d.d. (Croatia) in order to ensure sufficient quantities of electricity for Croatia customers – long-term security of supply.</p>	<p>Respective CORE TSOs are aware of the specificities related to HR-SI border therefore an exemption is proposed for HR-SI border where for the time being LT capacity allocation in the form of PTRs will remain. This position was also supported by the CORE NRAs in their Shadow Opinion, based on precondition that CORE TSOs will closely monitor the situation and act accordingly, if market distortion would be identified due to such arrangement.</p>
RWE Supply & Trading GmbH	
<p>RWE Supply & Trading supports the introduction of FTR Options on the proposed bidding zone borders. We also support the introduction to be completed as early as possible.</p>	<p>Core TSOs take note of this statement.</p>
EDF TRADING	
<p>EDFT sees no beneficial effects in introducing FTR options on the borders mentioned in the current consultation.</p>	<p>Cf. Core TSOs' response in chapter 2 above.</p>

There is neither proper explanation/justification from CORE TSOs of the reasons for this switch, nor an assessment of its benefits from a global social welfare perspective.

EDFT sees a value in the nomination option embedded in PTRs, since nominating a physical flow is a means for market participants to avoid being exposed to very high costs to rebalance their perimeter in case the day-ahead auction does not clear.

Introduction of FTR options will come with a risk of paying high imbalances that would not have been there if market participants had the possibility to nominate their PTR.

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.

Therefore EDFT do not support the introduction of FTR in the borders mentioned in the current consultation.

If case FTR should be nevertheless be implemented, we strongly oppose an introduction in the course of a year. We strongly advise not to start before 2022 (due to the implementation of CORE Day Ahead Flow Base in the course of 2021).

<p>MVM Partner Ltd</p> <p>The following prerequisites would have to be met for us to support the replacement of PTR UIOSI with FTR options:</p> <ul style="list-style-type: none"> • 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); • Full financial firmness of FTRs, and impossibility to curtail for any other reason than Force Majeure (system security justifications for curtailment should not be tolerated for FTR options). <p>In addition, we fully support the proposal that the change shall not apply to already allocated transmission rights. Therefore, should the Core CCS flow-based market coupling project be delayed and implemented only in the course of 2021, the switch to FTR options should likewise be postponed to the start of the following calendar Year and the already allocated PTRs be kept in place.</p>	<p>Cf. Core TSOs' response in chapter 2 above.</p>
<p>European Federation of Energy Traders (EFET)</p> <p>In principle, we are neutral to the issuance of either PTRs or FTR options by TSOs, subject to some concerns described in more detail below. In view of these concerns, we would welcome an analysis of the expected benefits, which would justify the proposed switch.</p> <p>In line with our earlier comments to related consultations[1], in order for us to support the replacement of PTR UIOSI with FTR options by the Core TSOs on the bidding zone borders AT-SI, CZ-DE/LU, CZ-SK, HU-SK, HU-RO, HR-HU, PL-CZ, PL-DE/LU, PL-SK and SI-HU, the following prerequisites would have to be met:</p> <ul style="list-style-type: none"> • Proper justification of the reasons for this switch and an assessment of its benefits from a global social welfare perspective; • 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); • Full financial firmness of FTRs, and impossibility to curtail for any other reason than Force Majeure (system security justifications for curtailment should not be tolerated for FTR options); • No additional exposure for the market, e.g. in case day-ahead markets do not clear; <p>Furthermore, we fully support the proposal that the change shall not apply to already allocated transmission rights. This would provide certainty, in</p>	<p>Cf. Core TSOs' response in chapter 2 above.</p>

line with the principles of contract law and the requirements for firmness of transmission capacity rights embedded in the Forward Capacity Allocation (FCA) Regulation and the EU Harmonised Allocation Rules (HAR).

Regarding the timing of the switch, we understand that at the earliest this would take place at the first auction for the timeframe 2021, conditional upon the implementation of the Core flow-based market coupling project. Should the coupling project be delayed and implemented only in the course of 2021, however, the switch to FTR options should likewise be postponed to the start of the following calendar year.

While we acknowledge that the introduction of FTR options is a possibility foreseen in the FCA Regulation, it is also an important market design change. Therefore, this proposal should be accompanied by an explanation of the motivations of the Core TSOs, as well as an assessment of the expected benefits of the change in terms of overall social welfare.

EFET supports the issuance by TSOs of forward transmission rights (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:

- 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.
- In case of partial clearing, the outcome will be different than with PTRs due to a potential remaining imbalance at the 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 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. 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, such as some of the borders subject to this consultation.

- All available capacity (as the output of the long-term capacity calculation process) should be allocated in the 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. 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.

- As a final note, we remind the Core 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 should request a review of this article, especially given the increasing number of borders that will use FTR options going forward.

[1] EFET response to Core TSOs consultation on the design of long-term transmission rights:
https://efet.org/Files/Documents/Downloads/EFET_CORE%20TSOs%20consultation%20FTRs_07032019.pdf
;
EFET response to ACER Public Consultation on the amendments of the regional design of long-term transmission rights for the Core Region:
https://efet.org/Files/Documents/Downloads/EFET_ACER%20consultation%20CORE%20LTTR_30082019.pdf