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# **Explanatory Document to Core CCR TSOs’ proposal for the regional design of long-term transmission rights in accordance with Article 31 of Commission Regulation (EU) 2016/1719**

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13 April 2017

**DISCLAIMER**

This document is submitted by all Core transmission system operators (TSOs) to all Core NRAs for information purposes only accompanying the Core TSOs’ proposal for regional design of long-term transmission rights in accordance with Article 31 of Commission Regulation (EU) No 2016/1719 of 26 September 2016 establishing a Guideline on Forward Capacity Allocation (“FCA Regulation”).

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## 1. Introduction

This explanatory note is written to provide information and clarification in the choices made in the "Core CCR TSOs' proposal for the regional design of long-term transmission rights in accordance with Article 31 of Commission Regulation (EU) 2016/1719" (hereafter "the Core CCR TSOs' LTR proposal").

This explanatory note is published to support the consultation of the Core CCR TSOs' LTR proposal and it is submitted to the relevant regulatory authorities.

In case of discrepancies between the explanatory note and the Core CCR TSOs' LTR proposal, the Core CCR TSOs' LTR proposal shall prevail.

Terms used in this document are understood as defined in (i) the FCA Regulation, 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 ("Regulation (EC) No 714/2009") and (ii) CACM Regulation, Regulation (EC) No 714/2009 of the European Parliament and Commission Regulation (EU) No 543/2013 of 14 June 2013 on submission and publication of data in electricity markets and amending Annex I to Regulation (EC) No 714/2009 of the European Parliament and of the Council.

## 2. Relation of Core CCR TSOs' LTR proposal to the harmonized allocation rules

The FCA Regulation requires a *description* of the type of long-term transmission rights on each bidding zone border in the provisions of the Core CCR TSO's LTR proposal for the regional design of long-term transmission rights (Article 31) and in the provisions for the harmonized allocation rules (Article 52).

This leads to the question where the applied type of long-term transmission rights should be specified; in the CCR TSO's LTR proposal or in the harmonized allocation rules.

This Core CCR TSO's LTR proposal is written in a way that it includes a specification of the applied type of the long-term transmission right on each bidding zone border (see Article 5 of the Core CCR TSO LTR proposal). This decision is based on the understanding that the FCA Regulation requires regionally coordinated decisions on the design of long-term transmission rights as Article 31 requires a *CCR TSOs' proposal* and not an *all TSOs'*

*proposal*. In this understanding the harmonized allocation rules determine the way *how* long-term transmission rights (physical transmission rights and financial transmission rights) are allocated and not e.g. *what* type of long-term transmission rights are allocated on each border.

This decision is also in line with ACERs shadow opinion from 23 February 2017 regarding the all TSOs' proposal on harmonized allocation rules (Section 3.1):

*„The type of LTTR to be allocated per border is part of the proposals on the regional design of LTTRs to be developed by each CCR. The information should be deleted from the HAR as this may pre-empt future decisions on regional design of LTTRs”*

FCA Regulation Article 31-3:

*"[...] TSOs in each 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 capacity calculation region.[...]"*

FCA Regulation, Article 31-4:

*"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."*

FCA Regulation, Article 52-2:

*"The harmonised allocation rules for long-term transmission rights shall follow the principles of non-discrimination and transparency and at least contain the following general requirements:[...]*

- d) a description of the types of long-term transmission rights which are offered, including the remuneration principles pursuant to Article 35; [...]"*

FCA Regulation, Article 52-3:

*"The harmonised allocation rules may also contain regional or bidding zone border specific requirements in particular for, but without limitation to: [...]*

- a) the description of the type of long-term transmission rights which are offered on each bidding zone border within the capacity calculation region pursuant to Article 31; [...]"*

### **3. Explanation on changing type of long-term transmission rights**

To change the type of long-term transmission rights on a bidding zone border as specified in Article 5 of this Core CCR TSOs' LTR proposal the amendment provisions of Article 4-12 of the FCA Regulation apply. This means that TSOs and NRAs may propose changes in the LTR design, but all Core CCR NRAs need to approve the proposed change within six months (FCA Regulation Article 4-7c and 9) from the submission of the amendment proposal.

This amendment procedure is relevant as e.g. the type of long-term transmission rights on the Belgium borders recently changed from physical transmission rights to FTR Options and TSOs assessing the possibility to change also on other borders. As all Core CCR NRAs are required to approve any amendments, including changes on specific bidding zone borders, good and fast coordination of the amendment process is important to allow for progressive changes of the design of long-term transmission rights in the Core CCR, in accordance with local market needs.

#### **4. Implementation timeline**

In the Core CCR a few bidding zone borders exist where no long-term transmission rights exist. Therefore Article 30-2 and Article 31-3 second sentence of the FCA Regulation apply.

FCA regulation Article 30-2:

*"Where long-term transmission rights do not exist on a bidding zone border at the entry into force of this Regulation, the competent regulatory authorities of the bidding zone border shall adopt coordinated decisions on the introduction of long-term transmission rights no later than six months after the entry into force of this Regulation."*

FCA regulation Article 31-3, second sentence:

*"[...] 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.[...]"*

The proposed implementation timeline of the Core CCR TSOs' LTRs proposal Article 8 takes into account the decisions of competent regulatory authorities to issue long-term transmission rights in accordance with Article 30(1) of the FCA Regulation on respective borders. In case of new bidding zone borders such as BE-DE/LU, AT-DE/LU, CZ-SK, SI-HU the Core CCR TSOs LTR proposal needs to be amended accordingly and the implementation timeline is to be decided.

#### **5. Assessment of stakeholders' comments**

In accordance with Article 31 of Commission Regulation (EU) 2016/1719 Core TSOs have elaborated on a LTR proposal which was then consulted upon between 10 March and 10 April 2017. Seven comments from two respondents were received and duly considered by the TSOs. Apart from the consultation, the Core CCR TSOs also received comments from the Core CCR NRAs on the Core CCR TSOs' LTR proposal.

This chapter provides an overview of the received comments, the TSO's assessment of these comments and whether or how the relevant parts of the Core CCR TSOs' LTR proposal were amended based on these comments. The full list of comments received is also attached to this document.

### **General comments**

One general comment was raised, welcoming the Core CCR TSOs' LTR proposal but suggesting for having FTR-options and FTR-obligations as a combined long-term product. Since Core CCR TSOs do not foresee to allocate FTR-obligations at their bidding zone borders, no change was introduced to the proposal.

### **Article 4**

Regarding Article 4 of the Core CCR TSOs' LTR proposal, a paragraph was added to clearly state that the proposal shall be amended if new bidding zone borders are introduced or in case of the deletion of bidding zone borders within the Core CCR in accordance with Article 4(12) of the FCA Regulation. This modification has been introduced by Core CCR TSOs in coordination with the Core CCR NRAs.

### **Article 5**

With regards to Table I in Article 5, a respondent proposed the deletion of the bidding zone border AT-DE/LU from the list. In the proposal Core CCR TSOs took the ACER decision No 06/2016 on the determination of CCRs into account where the bidding zone border AT-DE/LU was assigned to the Core CCR. For this reason, Core CCR TSOs decided to keep the bidding zone border AT-DE/LU in the LTR proposal and to add a footnote indicating, that this border will become effective according to the ACER decision.

For Article 5.1 a request was raised for defining requirements for the introduction of FTR - options. Core CCR TSOs consider that such an addition falls out of the scope of the Core CCR TSOs' LTR proposal and thus cannot be accommodated.

### **Article 6**

Regarding the indicated long-term product time frames in Article 6, it should be specified that only yearly and monthly time frames shall be issued within Core CCR. No other time frames are considered to be implemented at the moment.

One respondent suggested to be more precise on the frequency of auctions as well as on the split of available cross-zonal capacity along different long-term time frames. According to Article 28.2 of the HAR, the Allocation Platform shall organise at least one auction per timeframe. If needed additional auctions for long-term cross-zonal capacity can be organised on short notice. Furthermore, a methodology for splitting long-term cross-zonal capacity is required by Article 16 of the FCA Regulation and is therefore not in the scope of this proposal. For the mentioned reasons, Core CCR TSOs decided to introduce no change in the Article.

In addition, one of the respondents suggested having capacity products for up to six years in the future. Since the capacity calculation even for one year ahead is challenging for the TSOs, long-term cross-zonal capacity cannot be offered for longer time frames ahead.

### **Article 7**

A comment was raised on Article 7.1, suggesting to introduce additional peak products. Core CCR TSOs offer baseload products since it is the most liquid product in power derivatives

market and thus covers most of the hedging needs of market parties. Offering peakload products could only be relevant where a capacity calculation is performed for peakload, offpeak hours separately, and where the available capacity is significantly different in both periods. So far, this is not foreseen by Core CCR TSOs.

One respondent commented on Article 7.2, asking for the adaptation of reduction periods according to common calendar products like weekends, week, months or years. Since the definition of reduction period in the Core CCR TSOs' LTR proposal is in line with the definition in Article 2.2 of the HAR, Core CCR TSOs decided to introduce no change in the Article.

Core CCR TSOs would like to note, that a paragraph was added to Article 7 to state that the details of reduction period are defined in the respective auction specification. It is also worth noting, that relevant information on the reasons for reduction periods is also made available in other sources e.g. in the Transparency Platform.

### Article 8

Furthermore, the wording in Article 8.1 was amended with the explanatory term “no later than for the first auction of the time frame 2019” to be more precise. This modification has been introduced by Core TSOs in coordination with the Core CCR NRAs.

One comment was raised regarding Article 8.2, requesting for a coordinated and binding time frame for the introduction of long-term transmission rights. The decision of introducing long-term transmission rights in accordance with Article 30.2 of the FCA Regulation is up to the respective competent regulatory authorities. Therefore, Core CCR TSOs assume that a time frame for introducing long-term transmission rights on the respective bidding zone borders will be contained in such a decision. For this reason, no changes are introduced in Article 8.2.

### Article 9

Core CCR TSOs would like to note that Article 9 was added to the proposal in coordination with Core CCR NRAs.

### Full list of comments

Below is the full list of comments received via the public consultation.

Article	Comment	Respondent's Organisation
General	Looking from the point of view as a member of HEP group (electricity generation, trading, supply, distribution, heating, gas and other activities), we fully support this proposal for Regional Design of Long Term Transmission Rights within Core CCR hoping that it will help us in having more efficient and transparent path towards liquid markets in the CORE region. Hopefully this design will help in overcoming differences between CWE and CEE regions and provide stronger connection and less market price difference. Any suggestion or solution that provides more available capacity and its better usage is strongly supported from our side. Croatian borders are usually not congested but our neighbouring countries have such an issue that then has an cascading effect on us. From our point of view PTR with Uiosi solution is the most	HEP

	<p>convenient and efficient considering we most easily can hedge our long term positions and control financial flows. On the other hand lack of capacity on daily level can create great volatility in prices and expose to financial risk. This is why we strongly support article 10 in EU 2016/1719 which states that Tsos can more occasionally calculate the capacity margins in order to maintain stable spread between neighbouring markets. Although the directive states that ftr obligations and options can not go together, combination of these mechanisms (obligations on shorter time scale) might discourage speculative trading behavior. That is why at this stage we wouldn't vote out this solutions. At this stage we can only encourage TSOs and Entsoe to provide case study examples from which we can see the effect of certain measures. Same things we would mention for flow base cross border capacity calculation. It is essential to have at least some kind of practical example (calculation) in order that we can have more detail insight on process and firm opinion.</p>	
<b>5</b>	<p>Table 1: The bidding zone DE/LU/AT should not be stated as a border. A reconfiguration of bidding zones requires the completion of the process according to Art 32 (EU) 2015/1222.</p>	<b>TIWAG</b>
<b>5.1</b>	<p>Financial transmission rights should only be introduced if the following requirements are met:</p> <p>(i) A robust market that serves as a strong underlying. A robust market cannot evolve without an estimate for the available and stable long term transmission, as this is the case in the dispute over the DE/LU-AT bidding zone splitting.</p> <p>(ii) Before introducing FTRs their status as non-“financial instruments” (MiFID/MiFID II) has to be undoubtedly clear.</p> <p>To avoid these obstacles above we suggest the introduction of physical transmission rights as this serves the market participants purposefully.</p>	<b>TIWAG</b>
<b>6</b>	<p>The issuance of the time frames month and year should be more precise concerning the frequency of auctions and the break down of the available border capacity along the auction timeline. We suggest to have also capacity available for up to six years into the future (like it is the case for the Future market for commodities at EEX).</p>	<b>TIWAG</b>
<b>7.1</b>	<p>We argue for the introduction of an additional peak product. Generally a single product “base” does not satisfy a power market structure with a cascade of marginal costs and renewable generation and does not respect the needs of the market to hedge price volatility like it is foreseen in the GL FCA.</p>	<b>TIWAG</b>
<b>7.2</b>	<p>We argue for the adaptation of capacity cuts to the common calendar products like weekends, weeks, months, years. Otherwise the useful pricing of a product with notches or dents relies on a strong market or underlying.</p>	<b>TIWAG</b>
<b>8.2</b>	<p>Generally but especially in the dispute over the DE/LU-AT bidding zone splitting a coordinated and binding time frame for the introduction of long-term transmission rights is needed.</p>	<b>TIWAG</b>