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South West Europe TSOs proposal for a methodology  
for splitting long-term cross-zonal capacity in  
accordance with Article 16 of Commission Regulation  
(EU) 2016/1719 of 26 September 2016 establishing a  
guideline on forward capacity allocation

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**14 January 2020**



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TSOs of the South West Europe Region, taking into account the following:

### Whereas

- (1) This document (hereafter referred to as “South West Europe methodology for splitting long-term cross-zonal capacity”) is a common proposal developed by all Transmission System Operators (hereafter referred to as “TSOs”) within the South West Europe Capacity Calculation Region (hereafter referred to as “South West Europe Region”) regarding the proposal for a methodology for splitting long-term cross-zonal capacity. This proposal is required by Article 16 of Regulation (EU) 2016/1719 on Forward Capacity Allocation (the “FCA Regulation”).
- (2) This proposal (hereafter referred to as the “LT CZC Splitting Proposal”) takes into account the general principles and goals set in Commission Regulation (EU) 2016/1719 establishing a guideline on Forward Capacity Allocation (hereafter referred to as the “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”).
- (3) Articles 51 and 52 of FCA Regulation requires all TSOs to develop a proposal for Harmonised Allocation Rules for long-term transmission rights (“HAR”). These rules were already approved by ACER on 29 October 2019. HAR contain the terms and conditions for the allocation of Long Term Transmission Rights on Bidding Zone borders in the European Union.
- (4) Article 31 of FCA Regulation requires SWE TSOs to develop a proposal for the SWE regional design of long-term transmission rights on each SWE border. All SWE Regulatory Authorities approved this proposal on 10 October 2017.
- (5) LT CZC Splitting Proposal takes into account the results of the Long Term Capacity Calculation methodology, as per article 10 of FCA Regulation, as the input for splitting that capacity between different allocation horizons.
- (6) Article 16 (1) of FCA Regulation requires SWE TSOs to develop a regional LT CZC Splitting Proposal and defines the deadline to submit the LT CZC Splitting Methodology Proposal as *no later than the submission of the capacity calculation methodology referred to in Article 10*.
- (7) Article 16 (2) of the FCA Regulation requires the LT CZC Splitting Proposal to comply with the following conditions: (a) it shall meet the hedging needs of market participants; (b) it shall be coherent with the capacity calculation methodology; (c) it shall not lead to restrictions in competition, in particular for access to long-term transmission rights.
- (8) The LT CZC Splitting Proposal contributes to and does not in any way hinder the achievement of the objectives of Article 3 of the FCA Regulation:

Article 3 (a) of the FCA Regulation aims at *promoting effective long-term cross-zonal trade with long-term cross-zonal hedging opportunities for market participants*.



The LT CZC Splitting Proposal serves the objective of promoting effective long-term cross-zonal trade with long-term cross-zonal hedging opportunities for market participants by defining an appropriate share of long-term cross-zonal capacity between different time frames adapted to market needs.

Article 3 (b) of the FCA Regulation aims at *optimising the calculation and allocation of long-term cross-zonal capacity*.

By taking into account the calculated long-term cross-zonal capacity in each time frame and offering to the market the optimised share in each time frame, the LT CZC Splitting Proposal contributes to the objective of optimising the calculation and allocation of cross-zonal capacity.

Article 3 (c) of the FCA Regulation aims at *providing non-discriminatory access to long-term cross-zonal capacity*.

The LT CZC Splitting Proposal does not discriminate the access to the long-term cross-zonal capacity by treating each timeframe in equal conditions to be able to offer enough capacity in each timeframe.

Article 3 (d) of the FCA Regulation aims at *ensuring fair and non-discriminatory treatment of TSOs, the Agency, regulatory authorities and market participants*.

The LT CZC Splitting Proposal in the region SWE look forward to treat in a non-discriminatory way all the participants involved in the calculation and allocation of the long-term cross-zonal capacity by setting regional principles for all SWE bidding zone borders.

Article 3 (e) of the FCA Regulation aims at *respecting the need for a fair and orderly forward capacity allocation and orderly price formation*.

The LT CZC Splitting Proposal contributes to fair and orderly forward capacity allocation and price formation by offering enough liquidity in each time frame allocation.

Article 3 (f) of the FCA Regulation aims at *ensuring and enhancing the transparency and reliability of information on forward capacity allocation*.

The LT CZC Splitting Proposal looks forward to set an objective and public methodology of splitting the allocated capacity.

Article 3 (g) of the FCA Regulation aims at *contributing to the efficient long term operation and development of the electricity transmission system and electricity sector in the Union*.

By setting valuable long-term cross-zonal capacity products to the market, the LT CZC Splitting Proposal contributes to the efficient operation and development of the electricity transmission system and electricity sector in the Union.

**SUBMIT THE FOLLOWING LT CZC SPLITTING PROPOSAL TO THE NATIONAL REGULATORY AUTHORITIES OF THE SWE REGION:**



## **Article 1**

### **Subject matter and scope**

The South West Europe methodology for splitting long-term cross-zonal capacity as determined in this LT CZC Splitting Proposal is the common proposal of all South West Europe TSOs in accordance with Article 16 of the FCA Regulation.

## **Article 2**

### **Definitions and interpretation**

1. For the purposes of the LT CZC Splitting Proposal, the terms used shall have the meaning given to them in Article 2 of Regulation (EC) 714/2009, Article 2 of Regulation (EC) 2013/543, Article 2 of Regulation (EC) 2015/1222 and Article 2 of Regulation (EC) 2016/1719.
2. In addition, the following definitions shall apply:
  - a) ‘LT’ means long-term;
  - b) ‘CZC’ means cross zonal capacity;
  - c) ‘Split Rules’ means the former methodologies agreed bilaterally between system operators;
  - d) ‘Reduction Periods’ means particular days without offered capacity in a capacity product.
3. In this LT CZC Splitting Proposal, unless the context requires otherwise:
  - a) the singular indicates the plural and vice versa;
  - b) headings are inserted for convenience only and do not affect the interpretation of this proposal; and
  - c) 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**

### **Objectives of the methodology**

1. The allocation of base load products requires, for a specific timeframe and direction, a methodology that obtains a single value of offered capacity from a set of values coming from the capacity calculation methodology for that timeframe and direction.
2. Additionally, the value of calculated capacity, in average, should be shared among the different timeframes including short term timeframes.
3. SWE LT CZC Splitting Methodology intends to deal simultaneously with these objectives.



## Article 4 Regional principles

For the SWE region the following principles are observed:

1. For a specific timeframe and direction, to obtain a single value from a source of information that has several values for that timeframe and direction, the average value shall be used;
2. The average value shall be calculated by considering only the minimum value of capacity among the ones calculated per each day for that timeframe and direction.
3. The single value of final offered capacity shall never be higher than the calculated capacity for a particular timestamp in the same timeframe and direction;
4. Reduction Periods shall be used in case the computed offered capacity value is still higher than the calculated capacity in any period in the same timeframe and direction;
5. Each Bidding Zone Border in the region shall comply with its percentage of long term offered capacity with respect to the average of calculated capacity, in order to allocate that percentage of capacity after all long term allocations have been performed;
6. The sharing of calculated long term capacity average among the different timeframes are specific for each Bidding Zone Border taking into account the timeframes defined in the “Proposal for the design of Long Term Transmission Rights on SWE”;
7. The splitting of calculated long term capacity at different timeframes defined in this methodology shall be reassessed every year based on a one-year study submitted by the TSOs to the NRAs evaluating whether evolutions should be made on the splitting percentages to better address market needs. Any revision of the splitting percentages will be submitted to public consultation and result in a new request for approval towards the SWE Regulatory Authorities.

## Article 5 Sequence of process

1. For each timeframe, after the capacity calculation process performed for this timeframe has provided its results, an average value per direction is obtained.

$$NTC_{average} = \frac{\sum NTC_{minimum\ of\ each\ day}}{Number\ of\ days\ for\ auction}$$

2. For the first timeframe to be allocated, usually annual timeframe, the computed offered capacity is the result of the application of the annual percentage to the average capacity, rounded up to the closest multiple of 10 MW.

$$Offered\ Capacity_{Annual} = Round\ up\ to\ 10\ MW\ of\ (NTC_{Average} \times Percentage_{Annual})$$

3. In the subsequent timeframes, the computed offered capacity is the result of the application of the sum of current and previous timeframes percentages to the updated average capacity, minus the total allocated capacity in the previous timeframes, rounded up to the closest multiple of 10 MW.

$$\begin{aligned} Offered\ Capacity_x &= Round\ up\ to\ 10\ MW\ of\ (NTC_{Average} \times (Percentage_{Previous} + Percentage_x) \\ &\quad - Allocated\ Capacity_{Previous}) \end{aligned}$$



4. In those cases where the application of the timeframe percentage to the average value results in a value higher than the value of calculated capacity in any period of the timeframe, Reduction Periods shall be included in the capacity product.
5. When Reduction Periods shall be applied, a new average value of calculated capacity shall be computed not taking into consideration the days where the condition of point 4 is met.

$$NTC_{average} = \frac{\sum NTC_{minimum\ of\ each\ available\ day}}{Number\ of\ days\ with\ available\ product\ for\ the\ timeframe}$$

6. After obtained this new average value of capacity, the TSOs apply the points 2 or 3 again.
7. In case of returns of previously allocated capacity in any of the timeframes, those returns shall be summed by the Single Allocation Platform to the value obtained by TSOs in the previous point 3.

### **Article 6** **Portuguese – Spanish bidding zone border**

1. The percentage of long term offered capacity with respect to the calculated long term capacity average for Portuguese – Spanish bidding zone border is set at 65%.
2. The forward capacity allocation timeframes for Portuguese – Spanish bidding zone border established in the “Proposal for the design of Long Term Transmission Rights on SWE” are annual, quarterly and monthly.
3. The sharing of calculated long term capacity average among the three different timeframes is established at 20% in annual timeframe, 22,5% in quarterly timeframe and 22,5% in monthly timeframe.

### **Article 7** **French – Spanish bidding zone border**

1. The percentage of long term offered capacity with respect to the calculated long term capacity average for French – Spanish bidding zone border is set at 80%.
2. The forward capacity allocation timeframes for French – Spanish bidding zone border established in the “Proposal for the design of Long Term Transmission Rights on SWE” are annual and monthly.
3. The sharing of calculated long term capacity average between the two different timeframes is established equally at 40% in each timeframe.



## **Article 8**

### **Publication and Implementation of the LT CZC Splitting Proposal**

1. The TSOs of SWE Region shall publish the LT CZC Splitting Proposal without undue delay after all National Regulatory Authorities have approved the proposed methodology or a decision has been taken by the Agency for the Cooperation of Energy Regulators in accordance with Article 4 (9), Article 4 (10) and 4 (11) of the FCA Regulation.
2. The TSOs of SWE Region shall implement the LT CZC Splitting Proposal for products applicable to 2022 on.

## **Article 9**

### **Language**

1. The reference language for this LT CZC Splitting Proposal shall be English.
2. For the avoidance of doubt, where TSOs need to translate this LT CZC Splitting Proposal into their national language(s), in the event of inconsistencies between the English version published by TSOs in accordance with Article 4(13) of the FCA Regulation and any version in another language, the relevant TSOs shall be obliged to dispel any inconsistencies by providing a revised translation of this LT CZC Splitting Proposal to their relevant National Regulatory Authorities.