



**APPROVAL BY THE SOUTH-WEST EUROPE
REGULATORY AUTHORITIES AGREED AT THE
SOUTH- WEST EUROPE ENERGY REGULATORS'
REGIONAL FORUM**

**OF
THE SOUTH-WEST EUROPE TSOs' PROPOSAL**

**FOR
THE 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**

28 Feb 2020

I. Introduction and legal context

This document elaborates an agreement of the South West Europe (SWE) Regulatory Authorities on the SWE transmission system operators' (TSO) proposal for a methodology for splitting long-term cross-zonal capacity in a coordinated manner in accordance with Article 16 of Commission Regulation (EU) 2016/1719 of 26 September 2016 establishing a guideline on forward capacity allocation (hereinafter referred to as "FCA Regulation").

Article 16 of FCA Regulation, requires that no later than six months after the approval of the common coordinated capacity calculation methodology referred to in Article 9(7) of Regulation (EU) 2015/1222, the TSOs of each capacity calculation region shall jointly develop a proposal for a methodology for splitting long-term cross-zonal capacity in a coordinated manner between different long-term timeframes within the respective region (hereinafter referred to as "SWE long-term capacity splitting methodology").

This agreement is intended to constitute the basis on which SWE Regulatory Authorities will each subsequently make national decisions to approve the common capacity calculation methodology for the long-term timeframe in accordance with Article 4(7)b of FCA Regulation. Article 4(1) requires that *"TSOs shall develop the terms and conditions or methodologies required by this Regulation and submit them for approval to the competent regulatory authorities within the respective deadlines set out in this Regulation. Where a proposal for terms and conditions or methodologies pursuant to this Regulation needs to be developed and agreed by more than one TSO, the participating TSOs shall closely cooperate. TSOs, with the assistance of ENTSO for Electricity, shall regularly inform the competent regulatory authorities and the Agency about the progress of the development of these terms and conditions or methodologies"*.

In accordance with article 4 (5), *"Each regulatory authority shall be responsible for approving the terms and conditions or methodologies referred to in paragraphs 6 and 7"*. As stated in article 4 (9) *"where the approval of the terms and conditions or methodologies requires a decision by more than one regulatory authority, the competent regulatory authorities shall consult and closely cooperate and coordinate with each other in order to reach an agreement. Where applicable, the competent regulatory authorities shall take into account the opinion of the Agency. Regulatory authorities shall take decisions concerning the submitted terms and conditions or methodologies in accordance with paragraphs 6 and 7 within six months following the receipt of the terms and conditions or methodologies by the regulatory authority or, where applicable, by the last regulatory authority concerned."*

Article 16 of FCA Regulation requires that the methodology for splitting long-term cross-zonal capacity methodology:

- shall meet the hedging needs of market participants
- shall be coherent with the capacity calculation methodology

- shall not lead to restrictions in competition, in particular for access to long-term transmission rights.

This document elaborates an agreement for the approval of the SWE Regulatory Authorities on the SWE TSOs proposal for SWE long-term capacity splitting methodology in accordance with Article 16 of FCA Regulation.

In accordance with article 4(8) of FCA Regulation the proposal for terms and conditions or methodologies shall include a timescale for their implementation and a description of their expected impact on the objectives of this Regulation.

After approval by the competent regulatory authorities, the TSOs responsible for establishing the terms and conditions or methodologies in accordance with this Regulation shall publish them on the internet as requested by Article 4(13) of FCA Regulation.

II. The SWE TSOs' Proposal

In line with Article 6 of FCA Regulation, the SWE long-term capacity splitting methodology was subject to a consultation process performed from 1 April 2019 until 30 April 2019 on ENTSO-E consultation hub.

A first proposal of the methodology for splitting long-term cross-zonal capacity was received by the last SWE Regulatory Authority on 15 May 2019, respecting the above mentioned deadline of 6 months after D-2 Capacity calculation methodology approved in November 2018.

After a thorough analysis, SWE Regulatory Authorities agreed on 14 November 2019 to issue a request for amendment on the proposed methodology.

The requested amendments were the following:

- New splitting rules should be proposed, with a better consideration of market players' needs, as the former splitting rules were designed in order to cover the risks that were not taken into account by the former reliability margin in the long term capacity calculation.
- The adequacy of these splitting rules should be justified in a technical annex and provisions should be added for future regular assessment of potential modifications of the splitting percentages.
- Improvements and clarifications should be added in the splitting calculation process and formulas, including on the conditions for reducing long-term products.

SWE TSOs submitted an amended version two months after the amendments were required. This second version was received by the last SWE Regulatory Authority on the 14 January 2020.

After the assessment of this second version, SWE NRAs welcomed the significant

improvements adopted by SWE TSOs.

The SWE TSOs proposal package received in January 2020 contains three documents:

- a) *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*
- b) *And explanatory note to the South West Europe TSOs proposal for a methodology for splitting long-term cross-zonal capacity, which incorporates further and more in-depth explanations of the calculation methodology.*
- c) *SWE TSOs Assessment of public consultation responses on SWE long term cross zonal capacity splitting methodology*

Only SWE TSOs methodology proposal for splitting long-term cross-zonal capacity was formally submitted to SWE NRAs for approval, the other documents were sent to SWE NRAs for information.

I. SWE Regulatory Authorities' position on SWE Methodology for splitting long-term cross-zonal capacity

The SWE Regulatory Authorities acknowledge that the final SWE methodology proposal for splitting long-term cross-zonal capacity has been significantly improved upon and can be approved as it meets the requirements of FCA Regulation.

In particular, SWE Regulatory Authorities note positively the changes introduced in the splitting percentages, which are not anymore related to the transmission reliability margin of the capacity calculation. SWE Regulatory Authorities also acknowledge progress in the clarity of the overall document.

Furthermore, SWE Regulatory Authorities take note of the first elements of analysis on the needs of market players provided by the TSOs. SWE NRAs request SWE TSOs to provide a more detailed analysis with additional indicators on market players' needs, in the coming months. This detailed analysis shall be led in the framework of the future reassessment of the methodology foreseen in Article 4(7) of the methodology.

II. Actions / conclusion

SWE Regulatory Authorities welcome the submitted SWE methodology for splitting long-term cross-zonal capacity and the significant improvements adopted by SWE TSOs.

All Regulatory Authorities have assessed, consulted and closely cooperated and coordinated to reach an agreement before 14 March 2020, about the submitted SWE methodology for splitting long-term cross-zonal capacity. This methodology meets the requirements of Article 16 of FCA Regulation and as such can be approved by SWE Regulatory Authorities.

SWE Regulatory Authorities will therefore issue their national decisions, on the basis of this agreement.

Following national decisions by SWE Regulatory Authorities, SWE TSOs will be required to publish the submitted SWE methodology for splitting long-term cross-zonal capacity on the internet in line with Article 4(13) of FCA Regulation, and must meet the implementation deadlines required by Article 8(2) of SWE methodology for splitting long-term cross-zonal capacity.