REQUEST FOR AMENDMENT BY THE IRELAND-UK (IU) REGULATORY AUTHORITIES

OF

THE IU TSOs' PROPOSAL FOR A COMMON LONG-TERM CAPACITY CALCULATION METHODOLOGY

22 JULY 2019

I. Introduction and legal context

This document elaborates an opinion of the Regulatory Authorities within the Ireland-United Kingdom (IU), Capacity Calculation Region (CCR) agreed on 19 July 2019, on the IU Transmission System Operators' (IU TSOs') proposal for a common coordinated capacity calculation methodology (LT CCM) in accordance with Article 10 of Commission Regulation (EU) 2016/1719 of 26 September 2016 establishing a guideline on forward capacity allocation (Regulation 2016/1719).

This agreement of the IU Regulatory Authorities shall provide evidence that a decision on the LT CCM does not, at this stage, need to be adopted by the Agency for the Cooperation of Energy Regulators (ACER) pursuant to Article 4(10) of Regulation 2016/1719. This opinion is intended to constitute the basis on which the IU Regulatory Authorities will each subsequently make national decisions pursuant to Article 4(11) of Regulation 2016/1719.

The legal provisions relevant to the submission and approval of the proposals, and this IU Regulatory Authority agreement, can be found in Articles 3, 4, 10 and 16 of Regulation 2016/1719. They are set out below for reference.

Article 3 of Regulation 2016/1719***:***

This Regulation aims at:

(a) promoting effective long-term cross-zonal trade with long-term cross-zonal hedging opportunities for market participants;

(b) optimising the calculation and allocation of long-term cross-zonal capacity;

(c) providing non-discriminatory access to long-term cross-zonal capacity;

(d) ensuring fair and non-discriminatory treatment of TSOs, the Agency, regulatory authorities and market participants;

(e) respecting the need for a fair and orderly forward capacity allocation and orderly price formation;

(f) ensuring and enhancing the transparency and reliability of information on forward capacity allocation;

(g) contributing to the efficient long-term operation and development of the electricity transmission system and electricity sector in the Union.

Article 4 of Regulation 2016/1719:

Adoption of terms and conditions or methodologies

1. *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.*
2. *(…)*
3. *(…)*

4. *(…)*
5. *Each regulatory authority shall be responsible for approving the terms and conditions or methodologies referred to in paragraphs 6 and 7.*
6. *(…)*
7. *The proposals for the following terms and conditions or methodologies shall be subject to approval by all regulatory authorities of the concerned region:*

   (a) the capacity calculation methodology pursuant to Article 10;

   (b) the methodology for splitting cross-zonal capacity pursuant to Article 16;

   (…)
8. *The proposal for terms and conditions or methodologies shall include a proposed timescale for their implementation and a description of their expected impact on the objectives of this Regulation. Proposals on terms and conditions or methodologies subject to the approval by several or all regulatory authorities shall be submitted to the Agency at the same time that they are submitted to regulatory authorities. Upon request by the competent regulatory authorities, the Agency shall issue an opinion within three months on the proposals for terms and conditions or methodologies.*
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 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.*
10. *(…)*
11. (…)
12. *(…)*
13. *TSOs responsible for establishing the terms and conditions or methodologies in accordance with this Regulation shall publish them on the internet after approval by the competent regulatory authorities or, if no such approval is required, after their establishment, except where such information is considered as confidential in accordance with Article 7.*

Article 10 of Regulation 2016/1719:

Capacity calculation methodology

1. *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, all TSOs in each capacity calculation region shall submit a proposal for a common capacity calculation methodology for long-term time frames within the respective region. The proposal shall be subject to consultation in accordance with Article 6.*
2. *The approach used in the common capacity calculation methodology shall be either a coordinated net transmission capacity approach or a flow-based approach.*
3. *The capacity calculation methodology shall be compatible with the capacity calculation methodology established for the day-ahead and intraday time frames pursuant to Article 21(1) of Regulation (EU) 2015/1222.*

4. *The uncertainty associated with long-term capacity calculation time frames shall be taken into account when applying:*

   (a) *a security analysis based on multiple scenarios and using the capacity calculation inputs, the capacity calculation approach referred to in Article 21(1)(b) and the validation of cross-zonal capacity referred to in Article 21(1)(c) of Regulation (EU) 2015/1222; or*

   (b) *a statistical approach based on historical cross-zonal capacity for day-ahead or intraday time frames if it can be demonstrated that this approach may:*

      i. increase the efficiency of the capacity calculation methodology;

      ii. better take into account the uncertainties in long-term cross-zonal capacity calculation than the security analysis in accordance with paragraph 4(a);

      iii. increase economic efficiency with the same level of system security.

5. *All TSOs in each capacity calculation region may jointly apply the flow-based approach for long-term capacity calculation time frames on the following conditions:*

   (a) *the flow-based approach leads to an increase of economic efficiency in the capacity calculation region with the same level of system security;*

   (b) *the transparency and accuracy of the flow-based results have been confirmed in the capacity calculation region;*

   (c) *the TSOs provide market participants with six months to adapt their processes.*

6. *Where a security analysis based on multiple scenarios is applied for developing the capacity calculation methodology in a capacity calculation region, the requirements for the capacity calculation inputs, the capacity calculation approach and the validation of cross-zonal capacity as provided for in Article 21(1) of Regulation (EU) 2015/1222, except Article 21(1)(a)(iv) where relevant, shall apply.*

7. *When developing the capacity calculation methodology, the requirements for the fallback procedures and the requirement provided for in Article 21(3) of Regulation (EU) 2015/1222 shall be taken into account.*

II. The IU TSOs proposal

The IU TSOs have submitted a proposal for a common coordinated capacity calculation methodology (LT CCM) in accordance with Article 10 of Commission Regulation (EU) 2016/1719. This methodology proposes a common and coordinated approach within the IU CCR to promote effective and optimal calculation of long-term cross-zonal capacity. The methodology includes proposed timescales for its implementation and a description of its expected impact on the objectives of Regulation 2016/1719, in line with Article 4(8) of Regulation 2016/1719.

The LT CCM was consulted on by the IU TSOs through ENTSO-E between 5 December 2018 and 7 January 2019, in line with Article 6 of Regulation 2016/1719[1].

Following consultation, the LT CCM was submitted for approval and was received by the last IU Regulatory Authority on 23 January 2019. Article 4(9) of Regulation 2016/1719, requires Regulatory Authorities of the IU CCR to consult, closely cooperate and coordinate with each other in order to reach an agreement, and make a decision within six months following the receipt of the methodology. A decision on this methodology is therefore required by each relevant Regulatory Authority by 23 July 2019.

III. The IU Regulatory Authorities' position

While the IU Regulatory Authorities are broadly satisfied with the contents of the LT CCM, a number of specific Articles of the methodology require amendments and on this basis the IU Regulatory Authorities request IU TSOs to amend the LT CCM pursuant to Article 4(11) of Regulation 2016/1719. The details of the request for amendment are explained in this section, followed by a summary of the requested actions.

Regulatory Authorities are satisfied that the LT CCM is compatible with the IU Day-Ahead and Intraday (DA/ID) Capacity Calculation Methodology which was approved on 23 July 2018[2]. Both methodologies use the coordinated net transmission capacity approach to calculate cross-border capacity, therefore harmonizing the process for the different timeframes. Furthermore, the LT CCM includes provisions to enable available cross-border capacity to be increased in the Day Ahead capacity calculation to provide sufficient flexibility, following for example a change in the timing of a planned outage.

Article 4(2) of the LT CCM states '*LTCZC may be increased for shorter timeframes via the day-ahead and intraday cross-zonal capacity calculations outlined in IU TSOs common capacity calculation methodology for the day ahead and intraday market timeframe in accordance with Article 21 of Commission Regulation (EU) 2015/1222*'. IU Regulatory Authorities understand that Article 4(2) of the LT CCM refers to cross-zonal capacity (CZC) and not long-term cross-zonal capacities (LTCZC) and request that this text is amended for clarity. It is the IU Regulatory Authorities' understanding that the LTCZC values for the IU CCR should be definitive once the last LT capacity calculation is finalised. The available cross-border capacity can be refined during the DA and ID capacity calculation, but the LTCZC will not change at these stages.

The proposed compensation regime for an interconnectors' loss of income resulting from a TSO requesting a reduction in the final agreed LTCZC is detailed in Article 6, stating in 6(2) that '*The concerned TSO on the bidding zone border where cross-zonal capacity has been reduced shall*

[1] The consultation is available on the ENTSO-E website: https://consultations.entsoe.eu/markets/iu-long-term-capacity-calculation/

[2] The IU CCM for day-ahead and intraday timeframes is available on the National Grid ESO website: https://www.nationalgrideso.com/document/125881/download

compensate the interconnector owner for any resultant lost income and/or costs', which the IU Regulatory Authorities understand to mean that the concerned TSO will ensure that IC owners are kept whole (without being subject to financial loss or gain) should the TSO curtail Long Term Transmission Rights.

Article 6 (2) further states '*This will include, but not be limited to, where long-term transmission rights have been curtailed, compensating the interconnector owner with the loss-adjusted Day Ahead market spread multiplied by the reduction in cross-zonal capacity.'*

Article 53(2) of Regulation 2016/1719 states that where long term transmission rights have been curtailed, the concerned TSOs shall compensate the holders of curtailed long-term transmission rights with the market spread. Article 56(3) of Regulation 2016/1719 states that in the event of curtailment due to *force majeure*, compensation shall be equal to the amount initially paid for the concerned long-term transmission right during the forward allocation process. In the IU Regulatory Authorities' view, Article 6 does not separately describe the compensation regime for curtailment due to *force majeure* and does not clearly distinguish between the requirements of Article 53 and Article 56 of Regulation 2016/1719.

IU Regulatory Authorities ask IU TSOs to make this distinction in their amended proposal by clearly setting out the compensation due by the relevant parties in each applicable scenario.

Article 12(2) states that the LT CCM will be implemented for the capacity calculation for Single Electricity Market (SEM) electricity year 2019-2020 to be undertaken in Q2 2019. As this date has passed we ask IU TSOs to revise and update the implementation date.

IV. Actions

The IU Regulatory Authorities have assessed, consulted, closely cooperated and coordinated to reach an agreement in relation to the IU LT CCM. For the reasons described above, IU Regulatory Authorities request an amendment of the IU TSOs' proposal on the LT CCM based on their agreement on 19 July 2019. This amendment should contain the following elements;

1. Article 4(2) should be amended to clarify that cross zonal capacity may be increased for shorter timeframes rather than LTCZC.

2. Article 6 should be amended to reflect both Article 53 and Article 56(3) of Regulation 2016/1719 and distinguish between different potential scenarios for curtailment. The methodology should clearly set out the compensation due by the relevant parties in each applicable scenario.

3. The implementation date proposed in Article 12(2) of the methodology has passed. IU TSOs should revise and update the implementation date.