

REQUEST FOR AMENDMENT

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

ON

SOUTH WEST EUROPE TSOS PROPOSALS

FOR

**A METHODOLOGY OF SPLITTING LONG-TERM
CROSS-ZONAL CAPACITY IN ACCORDANCE WITH
ARTICLE 16, AND FOR A METHODOLOGY OF
COMMON LONG-TERM CAPACITY CALCULATION IN
ACCORDANCE WITH ARTICLE 10 OF COMMISSION
REGULATION (EU) 2016/1719 OF 26 SEPTEMBER
2016 ESTABLISHING A GUIDELINE ON FORWARD
CAPACITY ALLOCATION**

14 Nov 2019

I. Introduction and legal context

This document elaborates an agreement of the South-west Europe (SWE) Regulatory Authorities on the SWE Transmission System Operators (TSOs) proposals for

- a methodology of 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
- a methodology of common long-term capacity calculation in accordance with article 10 of Commission Regulation (EU) 2016/1719 of 26 September 2016 establishing a guideline on forward capacity allocation

This agreement constitute the basis on which SWE Regulatory Authorities request an amendment to the proposals for SWE splitting long-term cross-zonal capacity methodology and for SWE common long-term capacity calculation methodology, pursuant to Articles 10 and 16 of Regulation 2016/1719. This agreement of the SWE Regulatory Authorities provides evidence that a decision does not need at this stage to be adopted by the Agency for Cooperation of Energy Regulators (ACER) pursuant to Article 4(10) of the Regulation 2016/1719 ('FCA Regulation').

Article 10 of FCA Regulation requires that no later than six months after the approval of the proposal of the common coordinated capacity calculation methodology for day-ahead and intraday timeframes, referred to in Article 9(7) of Regulation (EU) 2015/1222 ('CACM Regulation'), all TSOs in each capacity calculation region shall submit a proposal for a common capacity calculation methodology for long-term time frames in their region.

The above-mentioned article proposes a NTC approach unless a flow-based alternative is proved to be more efficient and keeps the level of transparency, accuracy and security.

This article also states that a security analysis based on scenarios should be used to deal with uncertainties unless a statistical approach is proved to be more efficient with the same level of security. When setting the security analysis, the requirements for the capacity calculation inputs, the capacity calculation approach and the validation of cross-zonal capacity calculation required in Article 21(1) of 'CACM Regulation' shall apply (except Article 21(1)(a)(iv)).

Article 16 of FCA Regulation requires that no later than the submission of the capacity calculation methodology referred to in Article 10, 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.

This article also 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.

In line with Article 6 of the FCA Regulation, all SWE TSOs launched public consultations for both methodologies:

- SWE long-term capacity splitting methodology was subject to a consultation process

performed from 1st April until 30th April 2019 on ENTSO-E consultation hub.

- SWE long-term capacity calculation methodology was subject to a consultation process performed from March 15th till April 15th 2019

The proposals for long term capacity splitting methodology and long-term capacity calculation methodology, developed by the SWE TSOs, dated on May 2019, was received by the last SWE NRA on the 15th of May 2019.

Both proposals are now subject to a request for amendment by the SWE NRAs according to Article 4(9) of the Regulation 2016/1719.

II. The SWE TSOs' Proposal

The SWE TSOs proposal package for long-term capacity calculation methodology dated May 2019 contains three documents:

- a) South West Europe TSOs proposal for a common long-term capacity calculation in accordance with Article 10 of Commission Regulation (EU) 2016/1719 of 26 September 2016 establishing a guideline on forward capacity allocation
- b) An explanatory note to the South West Europe TSOs proposal for a common long-term capacity calculation, which incorporates further and more in-depth explanations of the calculation methodology.
- c) SWE TSOs assessment of public consultation responses on SWE long-term capacity calculation methodology proposal

The SWE TSOs proposal package for long-term capacity splitting methodology dated May 2019 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 the SWE TSOS methodologies proposals for a common long-term capacity calculation and for splitting long term cross zonal capacity were formally submitted to SWE NRAs for approval, the other documents were sent to SWE NRAs for information.

III. SWE Regulatory Authorities' position

1. General comments

It is the view of SWE Regulatory Authorities that both proposals are not compliant with the terms of the Article 11 and 16 of FCA regulation in their current state and lack transparency and precision. The current proposals rely too much on complementary details provided in the explanatory notes, which are non-bidding. All the key information related to processes, calculation formulas, levels of thresholds for parameters or amounts of capacity allocated to different timeframes should be included in the main body of the methodology. Specific parameters, such as GLSK and splitting percentages, should be justified in a technical annex submitted for approval to NRAs.

In turn, the explanatory note shall focus more on definitions and justifications in order to foster transparency for the stakeholders. Furthermore, SWE NRAs observe that the wording should sometimes be improved for the sake of clarity.

2. On the proposal for a common long-term capacity calculation in accordance with article 10 of commission regulation (EU) 2016/1719

The SWE Regulatory Authorities consider that some specific parts of the proposal for a common long-term capacity calculation may be object of a further improvement as explained in this section.

In article 5, a specific transmission reliability margin (TRM) adequately covering the risks described in Article 5.2 for the long-term timeframes should be set in the methodology in accordance with Article 11 of FCA Regulation. The level of the reliability margin should be indicated in the methodology, provided that the details of its calculation are presented in the explanatory note. It should be clarified whether a transitional TRM is still needed when an adequate long term TRM will be calculated. The provisions set up at Article 5(4) enabling a review of the TRM level after a one-year study should be kept in the amended version.

In article 6.2: “For the capacity calculation, the TSOs of SWE Region shall only monitor the operational security limits and contingencies on network elements significantly influenced by cross-zonal power exchanges”, the term “significantly” should be defined in the methodology. The conditions of selection and consideration of critical network elements, and their associated threshold levels should be specified and detailed in the methodology.

In article 7, the generation load shift keys level should be specified in the methodology and justified in a technical annex submitted for approval to the NRAs. In their assessment of public consultation responses, SWE TSOs accepted to replace “forecast of market behavior” by “forecast of load and generation profiles” but this change was not included in the methodology. SWE NRAs request the inclusion of this change.

In article 9.5, in addition to the existing provisions, a public version of the three-month report on reductions should be made available for market players for transparency sake. Potential sensitive information regarding critical network elements should be protected if need be according to national legal frameworks. SWE NRAs would welcome further initiative from the TSOs to ensure transparency on the capacity calculation.

In article 10, the integration of outage planning in capacity calculation should be clarified in the methodology.

3. On the proposal for a common long-term capacity splitting methodology in accordance with article 16 of commission regulation (EU) 2016/1719 of 26 September 2016 establishing a guideline on forward capacity allocation

The proposed long-term capacity splitting methodology seems to have been implicitly designed to provide hedging for TSOs against the risks that were not taken into account in the transmission reliability margin (TRM) of the current version of the long-term capacity calculation methodology, as SWE TSOs did not calculate a specific reliability margin covering adequately risks associated with long term timeframes.

As such, the proposed splitting rules are not compliant with Article 16 of the FCA regulation as they are not designed according to market needs.

Thus, SWE NRAs request SWE TSOs to propose new splitting rules consistent with

- (i) the new TRM that will be calculated for the long-term timeframe and
- (ii) the hedging needs of market players.

The adequacy of these splitting rules should be justified in a technical annex, attached to the methodology. In addition, provisions should be added for potential modifications of the splitting percentages if deemed necessary after a one-year study that will be communicated to the NRAs.

It should be clarified that the monthly recalculations will be done in consistency with Article 28 of the Harmonized Allocation Rules (HAR), implying that monthly capacity will be offered every month.

The splitting calculation process and formulas shall be described precisely within the methodology and not in an explanatory note, including the conditions for reducing long-term products.

At the point 3.1.2 of the explanatory note (to be integrated in the methodology): “Each forecast of the Net Transfer Capacity can be revised at the initiative of one TSO and then coordinated, in case of an unpredicted event or under a significant deviation in some of the parameters with influence in the NTC calculation, with regard to their previous forecast.” TSOs should specify what could be considered as “significant deviation”.

Finally SWE NRAs would like to highlight that case 2.2 of the explanatory note: “the number of days of yearly allocated product is lower than the number of days of monthly product” is not clear enough, SWE NRAs request it to be rephrased and explained. Furthermore, the graph 2.2 does not seem adequate and should be modified in the explanatory note (the offered capacity on the annual timeframe is lower as from the 22nd than until the 14th).

IV. Actions / conclusion

Based on the above-explained rationale, SWE Regulatory Authorities, pursuant to Article 4(9) of the Regulation 2016/1719, agree to request an amendment to the proposals for splitting long-term cross-zonal capacity methodology and for a common long-term capacity calculation methodology, pursuant to Article 16 and 10 respectively of Commission Regulation (EU) 2016/1719.