

Supporting document for the Danish TSO, Energinet, of the Nordic Capacity Calculation Region proposal for splitting long-term cross-zonal capacity methodology in accordance with Article 16(1) of Commission Regulation (EU) 2016/1719 of 26 September 2016 establishing a guideline on forward capacity allocation.

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## 1. Introduction and executive summary

This document is the supporting document for the Nordic methodology for splitting long-term cross-zonal capacity (hereafter “MSR”). The document describes the MSR for the long term time frame for the Nordic Capacity Calculation Region (CCR). The intention of this document is to provide an explanation, background and motivation for the proposed legal text of the MSR. In the time of writing Energinet is the only TSO within CCR Nordic that is issuing transmission rights, which is why the MSR will only be submitted to the Danish National Regulatory Authority (NRA). The other TSOs within CCR Nordic have exemptions from the MSR in accordance with Article 30 (7) of the Commission Regulation (EU) 2016/1719 establishing a guideline on forward capacity allocation (FCA Regulation). Even though only Energinet in CCR Nordic will submit a proposal for approval with their NRA, the proposal has been presented to the other Nordic TSOs. Energinet has not received any objection to the proposal.

### 1.1 Proposal for the Splitting rule

With regard to the FCA Regulation Article 16, Energinet is proposing to introduce the MSR for capacity allocated to the long term timeframe. In accordance with Article 16 (2) the MSR shall

- meet the hedging needs of the market,
- be coherent with the capacity calculation methodology, and
- it shall not lead to restrictions in competition, in particular for access to the long-term transmission rights.

## 2. Motivation for the articles in the Splitting Rule proposal

This chapter presents explanations for the proposed MSR articles. The aim of the chapter is to provide an explanation and motivation for the content of each article.

### 2.1 Article 3 “Applying of capacity calculated for the long-term time frame”

This article ensures that the MSR proposal lives up to one of the requirements stated in Article 16 (2). Article 16 (2) states that the MSR proposal shall be coherent with the capacity calculation methodology. In article 3 this coherence is ensured, by taking the point of departure in the capacities calculated for the long term timeframe, applying the FCA CCM. Moreover, this article ensures coherence with the methodology developed under Article 31(2) of the FCA stating that the time frames shall at least be monthly and yearly.

The proposal works for different CCMs, thus it works for the intermediate LT CCM, ATC and the permanent CCM, flow based. For the ATC methodology the amount of capacity that be allocated is equal to LT ATC (year, month), where for flow based, the amount of capacity that can be allocated is equal to LT RAM. For flow based, the capacity to be allocated cannot be  $F_{max}$  (or close to) as this potentially would lead to a significant financial loss for the TSO as  $F_{max}$  in most cases are above the expected DA congestion rent that shall cover the cost of LTTR compensation. However, for a radial DC connection as Storebælt we will expect that the actual amount of LTTRs to be allocated, will not differ much between ATC and flow based.

### 2.2 Methodology for splitting long-term cross zonal capacity

The MSR methodology is created to allocated LTTR that in the best possible manner provides the sufficient hedging opportunities in the Danish biddings zone included in the Nordic CCR. Since the LT CCM for the Nordic CCR is applied the MSR will allocate the MW and products needed for sufficient hedging by the market participants.

### 2.3 Article 5 “Rules for avoiding undue discrimination of access to purchase of long term transmission rights”

The approach is firstly to establish an understand of what kind of service or good that is under consideration when talking about undue discrimination. Within the CACM CCM the service is “access to physical grid capacity”, hence it is about calculation of capacity up for allocation, where no undue discrimination between internal and external flows shall be avoided. On the other hand, within the splitting rule methodology, the service under consideration are LTTRs, hence the focus is on rules for avoiding undue discrimination of access to purchase of LTTRs.

Article 6 has been included in the legal text to explicitly ensure that no undue restriction in access to purchase takes place when Energinet sells the LTTRs. In accordance with the FCA Article 51 and 52 Harmonized Allocation Rules (HAR) is established for LTTRs. These rules describe that all market participants need to follow in order to be able to buy LTTRs, how to submit bids for LTTRs, how the allocation of LTTRs is done and how LTTRs are settled. These rules have been approved by All NRAs subject to the FCA. One of the requirements to the HAR is that the HAR should be non-discriminatory and be applicable for both physical and financial transmission rights. Since the HAR has been approved by all NRAs and Energinet in article 6 of the MSR refers to HAR the access to LTTRs is non-discriminatory and thus MSR lives up to the requirements in accordance with Article 16 (2).

## 3. Impact assessment

The impact of the MSR is difficult to quantitatively assess, as a quantitative assessment requires data regarding consumers hedging activity that is not available. However, the impact assessment of the MSR will be conducted in accordance with the FCA guidelines 30(8) in order to sufficient meet obligations of the Nordic CCR splitting rules.

The methodology primarily ensures a transparent way to split capacity between long term timeframes. This ensures that the market can better forecast the volumes allocated in the different auctions, and thus better prepare their hedging and bidding strategy.

## 4. Timeline

In Article 8 of the Splitting Rule methodology the time line is mentioned. It is the view of Energinet that the implementation of the MSR should follow the implementation of the long-term capacity calculation methodology. This is due to the fact that the point of departure for the MSR is the long-term capacity calculation methodology, and as such the MSR does not make sense to implement before the long-term capacity calculation methodology has been implemented.

## 5. Consultation

The proposal was in consultation on the ENTSOE consultation hub from 16 November 2018 until 17 December 2018. Energinet did not receive any consultation replies, which we interpret as the proposal fulfilling the market need for hedging.