



SWE TSOs Assessment of public consultation responses on SWE long term  
cross zonal capacity splitting methodology

May 2019

## 1. Introduction

This document is the SWE TSOs assessment of SWE LT CZC splitting methodology consultation responses performed from 1<sup>st</sup> April until 30<sup>th</sup> April 2019 on ENTSO-E consultation hub.

Four participants have submitted responses to the public consultation. Due to a configuration issue in the ENTSO-E website, all participants marked their responses as anonymous even if they do prefer to mark them as public. SWE TSOs will only mention the owner of the responses when it has been explicitly demanded through email to TSOs.

## 2. Assessment of responses from participants

The responses received have been classified into several topics and in case of similar responses, they have been written only once. After each topic, the response of SWE TSOs is presented either it is taken into consideration for the final proposal or not.

### 2.1. Volume of offered capacity

We disagree with the concept of capping forward capacity allocation to specific percentages for each time horizon within the forward timeframe (yearly, quarterly for the ES-PT border, and monthly). We also oppose any reservation of capacity for the day-ahead timeframe. TSOs should make available to the market the maximum capacity they can as far in advance of real time as possible. All the capacity calculated as available at the SWE borders by the capacity calculation process year ahead should be made available to the market at that stage by way of transmission rights (i.e. 100% of the calculated capacity year-ahead). Further release of capacity at shorter time horizons in the forward timeframe (quarterly where applicable, and monthly) should be the result of capacity recalculations, or gradual release of the margins and constraints initially applied by the TSOs for year-ahead allocations as uncertainties reduce with real time getting nearer. Hence, we oppose the use the percentages of capacity to be allocated at each time horizon within the forward timeframe.

#### **And**

- *Article 3.2: Additionally, the value of calculated capacity, in average, should be shared among the different timeframes including short term timeframes. The total value of long term offered capacity should not be high enough to put in financial risk the SWE TSOs.*

We strongly disagree with this concept. For market participants, hedging is about assessing and covering their positions against a variety of risks: price risk, volume risk, regulatory risk, etc. The further away from real time, the greater the uncertainty and therefore the greater the interest and importance for market participants to cover those risks, including across borders. It is therefore vital that TSOs make available to the market the maximum capacity they can as far in advance of real time as possible. All the capacity calculated as available by the capacity calculation process year ahead should be made available to the market at that stage by way of transmission rights. Further release of capacity at shorter time horizons in the forward timeframe (quarterly for the ES-PT border and monthly for both SWE borders) should be the result of capacity recalculations, or gradual release of the margins and constraints initially applied by the TSOs for year-ahead allocations as uncertainties reduce with real time getting nearer.

Capacity calculation year-ahead takes account of historic and security factors, and foresees significant margins and constraints to adapt to variations of capacity availability as time passes. Capacity is then re-calculated to adjust to these changes. Therefore, we disagree with the principle of sharing capacity as of the year-ahead capacity calculation and reserving part of the capacity calculated at that point in time for quarterly (where applicable), monthly and day-ahead allocation.

Hence, we request the deletion of article 3.2.

**And**

We agree with maintain granularity (annual, monthly and, in the case of Spain-Portugal, quarterly), and we considered this criterion can be compatible with the previous one (100% available capacity auctioned annually). The TSOs shall recalculate the available capacity that can be allocated during each quarterly and monthly auction in addition to the capacity allocated at the yearly auction.

Hence, articles 6.1, 6.3, 7.1, and 7.3 should be modified to include 100% of available capacity in the annual allocation.

**And**

Article 16 of FCA Regulation states that “the methodology for splitting long-term cross-zonal capacity shall 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”.

EDF notes that, in the current proposal, SWE TSOs merely extend the existing splitting rules of the SWE region (with slight adaptations), but do not give any justification about this choice and its compliance with the aforementioned objectives, neither in the methodology itself, nor in the explanatory note. EDF reminds that market participants should be able to reduce to the maximum possible extent their exposure to volatility of short-term prices. Therefore, it is essential that TSOs make available to the market the maximum capacity they can offer as far in advance of real time as possible, as per their calculation at that time.

EDF therefore disagrees with both:

- the reservation of a share of capacity for short-term timeframes, as foreseen in Articles 3, 6 and 7. Usual arguments in favor of such a reservation, notably regarding the liquidity of short-term markets, are not relevant here, since LTTRs are offered in the form of FTRs on the Spain-Portugal border, and recent historical data shows that the majority of PTRs at the France-Spain border are not nominated, and thus used as FTRs. Besides, EDF notes that Article 16 of FCA Regulation only requires to split “long-term cross-zonal capacity [...] between different long-term time frames”, suggesting that no reservation for short-term timeframes is allowed;
- the percentages proposed in Articles 6 and 7 for long-term timeframes, which lead to an unjustified withholding of a part of the calculated capacity. In this respect, EDF wants to underline that the splitting rules are not meant to deal with the uncertainty of the long-term capacity calculation, which is to be handled through an appropriate calculation of the reliability

margin pursuant to Article 11 of FCA Regulation.

EDF considers that all available capacity resulting from a given long-term capacity calculation should be offered to market participants in the corresponding timeframe, and further release of capacity at shorter time horizons in the forward timeframe (monthly and, for the Portugal-Spain border, quarterly) should be the result of capacity recalculations, which may increase the forecasted NTC thanks to the progressive reduction in uncertainty as real time approaches.

First of all, the coordination between SWE LT CZC Splitting Methodology and the SWE LT CCM is crucial for giving coherence to the amounts of capacity calculated and offered at the LT auctions. In the SWE LT CCM the annual and subsequent calculations makes use of the day-ahead methodology that implies the annual capacity calculated is close to be equal than the real value in short-term timeframe. Thus, offering 100% of calculated annual capacity at annual auction will discriminate the rest of horizons, even the day-ahead one.

Secondly, offering 100% of an average value of the calculated capacity will lead to offer either capacity that does not exists in some periods of the year, subject to reductions; or offering a discontinuous product which is less attractive to hedge risks' participants.

Finally, the allocation of a certain percentage of the calculated capacity to short-term horizons looks forward to do not discriminate those horizons with respect to long-term horizons, and is supported by the Annex I of Regulation 714/2009, "Guidelines on the Management and Allocation of Available Transfer Capacity of Interconnections between National Systems", that establishes in its article 2.6:

*"TSOs shall define an appropriate structure for the allocation of capacity between different timeframes. This may include an option for reserving a minimum percentage of interconnection capacity for daily or intra-daily allocation."*

SWE TSOs consider the split of total LT capacity at less than 100% for LT horizons to be completely coherent with article 16, 1) of FCA Regulation.

• *Article 5.1: For each timeframe, after the calculation capacity process has provided its results, an average value per direction is obtained.*

It is not fully clear from the wording of article 5.1 whether or not there is a binding obligation on the TSOs to recalculate capacity for each quarterly and monthly auction following the initial year-ahead calculation. The text seems to hint in that direction but is prone to different interpretations. We suggest making article 5.1 more explicit and amending it as follows: "The results of the capacity calculation process, repeated for each timeframe, provides an average value per direction."

This obligation is already included in the SWE LT CCM, article 4. Nevertheless, SWE TSOs will improve somehow the wording of SWE LT CZC Splitting Methodology to clarify this obligation.

## 2.2. Secondary market of capacity rights

Market participants should afterwards be able to rely on a secondary market for forward transmission rights if further needs arise or previous needs disappear. This also advocates for the development of an organized and liquid secondary market, which does not exist today, as only OTC transfers or returns to the issuing TSOs are possible (for instance, this task could possibly be performed by the Single Allocation Platform, which already organizes the primary market).

The current returns are already managed by SAP in a centralized way. SWE TSOs consider the secondary market should be improved for all the European borders although it should not impact on the decision of sharing of the LT capacity between LT auctions.

- Article 5 Sequence of process: The consideration of returned capacity is missing in the definition of the offered capacity.

The inclusion of returned capacity in the final value offered at the auction is performed by the SAP instead of the SWE TSOs. However, this comment is taken into account for additional transparency and it will be included in the methodology.

## 2.3. Modification of the methodology

- *Article 4.7: The sharing of calculated long term capacity may be revised at initiative of any of the SWE TSOs upon agreement of all SWE TSOs to fit better the market needs or derived from adaptations of any Regulation. This would result in a new request for approval towards the SWE regulatory authorities.*

We would welcome a clarification by the TSOs that any change request on this methodology would not only be submitted to regulatory approval but also be consulted with market participants beforehand, as per the provisions of articles 5 and 6 of the FCA GL.

### **And**

- Article 4 Regional principles: paragraph 7. Any revision of the calculated long term capacity should be submitted to public consultation. Reference to a public consultation is missing in the proposal.

SWE TSOs agree with this comment and an amendment will be included in article 4.7 to comply with article 6 of FCA Regulation.

## 2.4. Additional comments

### Intraday Capacity

The “Explanatory Note for SWE LT CZC Splitting Methodology”, in item 3.1.2 (ES-FR) and 3.2.2 (ES-PT), says “No specific transfer capacity is reserved for intraday auctions, only non-used

capacity and capacity". We agree with this statement, and we propose to include it in an article of the Proposal, as the explanatory Note is not a binding document.

SWE TSOs consider this addition irrelevant for this methodology as the process of allocation of capacity at daily and intraday horizon is managed under CACM Regulation. The sharing of capacity between daily and intraday horizon is out of the scope of this methodology.

The current wording ("may" in both the explanatory note and Article 4 of the methodology) suggests that TSOs are not obliged to offer discontinuous products in case of planned outages. EDF wonders whether this is to be understood as a possibility for TSOs not to offer any volume for the concerned timeframe in this case, which would not be acceptable in EDF's view. EDF would favor an alternative possibility consisting in allocating the whole continuous product in case the foreseen reductions are of limited magnitude in duration and in volume (this could be handled through a limited volume of remedial actions triggered by TSOs), or in allocating two products for the concerned timeframe (one continuous with a lower volume, and one discontinuous, as is currently done on the France-Italy border in the annual timeframe);

The intention of SWE TSOs is to not impact the value of capacity offered in LT auctions due to certain short periods with low values of calculated capacity. The application of discontinuous products is not only a possibility but an efficient tool. Therefore, the wording of this article will be improved to reflect this intention.

Regarding the possibility of offering two products for the same timeframe, with different forms of products, is something out of the scope of this methodology and should be discussed in the Article 5 of Design of LTTR on SWE proposal, already approved by SWE NRAs.

Should SWE TSOs nevertheless keep allocating less than 100% of the calculated capacity to the market in each long-term timeframe, the way the calculation of the splitting is performed should be more detailed in the methodology. Indeed, most of the details are currently given in the explanatory note, which is not legally binding, and the current proposed methodology is not sufficient by itself to precisely determine how the splitting rules are established; therefore, most of the provisions currently described in the explanatory note should be transferred to the methodology.

The LT CZC Splitting Methodology contains the core of the calculation itself and is considered detailed enough to explain the splitting of the capacity. The Explanatory Note contains the former bilateral Split Rules that are not written in form of legal document.