

**REQUEST FOR AMENDMENT
BY THE REGULATORY AUTHORITIES OF THE
CHANNEL CAPACITY CALCULATION REGION**

ON

**CHANNEL TSOs' PROPOSAL OF A COMMON
CAPACITY CALCULATION METHODOLOGY FOR
THE LONG-TERM TIME FRAMES**

**IN ACCORDANCE WITH ARTICLE 10 OF THE
COMMISSION REGULATION (EU) 2016/1719 OF 26
SEPTEMBER 2016 ESTABLISHING A GUIDELINE
ON FORWARD CAPACITY ALLOCATION**

DATED 21 JANUARY 2020

29 July 2020

I. Introduction and legal context

This document elaborates an agreement of the Regulatory Authorities (CREG, OFGEM, CRE and ACM, hereafter “Channel Regulatory Authorities”) of the Channel Capacity Calculation Region (hereafter “CCR”) on the proposal of the Transmission System Operators (hereafter “TSOs”) of the Channel CCR (Elia Transmission Belgium SA/NV (hereafter “Elia”), National Grid ESO Limited (hereafter “NGESO”), Réseau de Transport d’Electricité (hereafter “RTE”) and TenneT TSO B.V. (hereafter “TenneT”)) for a common capacity calculation methodology for the long-term time frames (hereafter “LT CCM”) in accordance with Article 10 of the Commission Regulation (EU) 2016/1719 of 26 September 2016 establishing a Guideline on Forward Capacity Allocation (hereafter “FCA Regulation”).

This agreement of all Channel 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 (hereafter “ACER”) pursuant to Article 4(10) of the FCA Regulation. It is intended to constitute the basis on which all Channel Regulatory Authorities will each subsequently request an amendment to the LT CCM, pursuant to Article 4(9) of the FCA Regulation.

The legal provisions relevant to the submission and approval of the LT CCM, and this all Channel Regulatory Authorities agreed opinion on the LT CCM, can be found in Articles 3, 4 and 10 of the FCA Regulation. They are set out here for reference.

Article 3 of the FCA Regulation

Objectives of forward capacity allocation

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 the FCA Regulation

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. If TSOs fail to submit a proposal for terms and conditions or methodologies to the national regulatory authorities within the deadlines defined in this Regulation, they shall provide the

competent regulatory authorities and the Agency with the relevant drafts of the terms and conditions or methodologies, and explain what has prevented an agreement. The Agency shall inform the Commission and shall, in cooperation with the competent regulatory authorities, at the Commission's request, investigate the reasons for the failure and inform the Commission thereof. The Commission shall take the appropriate steps to make possible the adoption of the required terms and conditions or methodologies within four months from the receipt of the Agency's information.

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 the approval by all regulatory authorities of the concerned region:

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

(b) (...)

(c) (...)

(d) (...)

(e) (...)

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 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.

10. Where the regulatory authorities have not been able to reach an agreement within the period referred to in paragraph 9, or upon their joint request, the Agency shall adopt a decision concerning the submitted proposals for terms and conditions or methodologies within six months, in accordance with Article 8(1) of Regulation (EC) No 713/2009.

11. In the event that one or several regulatory authorities request an amendment to approve the terms and conditions or methodologies submitted in accordance with paragraphs 6 and 7, the relevant TSOs shall submit a proposal for amended terms and conditions or methodologies for approval within two months following the requirement from the regulatory authorities. The competent regulatory authorities shall decide on the amended terms and conditions or methodologies within two months following their submission. Where the competent regulatory authorities have not been able to reach an agreement on terms and conditions or methodologies pursuant to paragraphs 6 and 7 within the two-month deadline, or upon their joint request, the Agency shall adopt a decision concerning the amended terms and conditions or methodologies within six months, in accordance with Article 8(1) of Regulation (EC) No 713/2009. If the relevant TSOs fail to submit a proposal for amended terms and conditions or methodologies, the procedure provided for in paragraph 4 shall apply.

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 the FCA Regulation

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 Channel TSOs' proposal

a) Proceedings

No later than six months after the approval of the common capacity calculation methodology under the CACM Regulation¹, the Channel TSOs were required to submit proposals for a common capacity calculation methodology for the long-term time frames (in accordance with Article 10 of the FCA Regulation) and for a methodology for splitting long-term cross-zonal capacities (in accordance with Article 16 of the FCA Regulation, hereafter "SRM").

By the due date for the submission of both methodologies (i.e. 27 May 2019), Channel TSOs informed the Channel Regulatory Authorities and ACER that they were unable to reach a consensus on the proposal for the LT CCM.

Following the notification of the failure to submit both methodologies, ACER informed the European Commission in accordance with Article 4(4) of the FCA Regulation. After investigation of the reasons for the failure to submit the LT CCM and SRM², the Channel Regulatory Authorities, ACER and the European Commission representatives agreed, together with the Channel TSOs, on the high-level principles that should govern the LT CCM.

In accordance with Article 6 and Article 10 of the FCA Regulation, Channel TSOs organized a public consultation on the draft proposal for the LT CCM. The public consultation for the LT CCM was launched during the "escalation phase" after the failure to submit the proposal, between 13 December 2019 and 13 January 2020.

On 17 February 2020, the last Channel Regulatory Authority received the proposals for the LT CCM and the SRM. This approval package contained the:

- LT CCM Proposal;
- LT CCM Explanatory Note;
- LT CCM Consultation Report;
- SRM Proposal; and
- SRM Explanatory Note.

b) LT CCM

Through the regional design of long-term transmission rights, approved by the Channel Regulatory Authorities in February 2018, Channel TSOs propose to offer long-term capacity in accordance with Article 31 of the FCA Regulation in the form of physical transmission rights pursuant to the use-it-or-sell-it principle. These products are allocated for different time frames, being the annual, seasonal, quarterly and monthly time frames. Products for these time frames are commonly offered by the Channel TSOs. Individual TSOs may also offer products with a shorter granularity than a month (such as weekly, weekend, Easter weekend, etc.).

The focus of the LT CCM is to determine, in a coordinated manner by the Channel TSOs, the amount of capacity that will be allocated to the market participants through the aforementioned products. The LT CCM consists of a coordinated net transmission capacity (hereafter "NTC") approach (in accordance with Article 10(2) of the FCA regulation) based on a first statistical calculation followed by subsequent scenario-based calculations (in accordance with Article 10(2) of the FCA regulation). The NTC profile is calculated through several steps.

First, a statistical calculation is performed in February before the delivery year under a statistical approach. The resulting NTC profile is capped at 35% of the interconnectors' transmission capacity, can include reduction periods and is subject to a validation phase.

¹ Commission Regulation (EU) 2015/1222 of 24 July 2015 establishing a guideline on capacity allocation and congestion management, Article 20(2).

² Accommodated by the submission by Channel TSOs of an "Escalation Package" on 23 May 2019 and an overview of the individual Channel TSOs' positions towards a preliminary way forward on the LT CCM on 2 September 2019.

Following the statistical calculation, three different long-term calculations under a scenario-based approach are performed in the following order:

1. an annual capacity calculation, calculating an NTC bandwidth without reduction periods before the end of September before the delivery year;
2. an annual capacity calculation, releasing the interconnector transmission capacity while using reduction periods in December before the delivery year; and
3. monthly capacity calculations using reduction periods two months before the delivery month.

These calculations are based on a Common Grid Model taking into account several parameters (scenarios, timestamp selection, critical network elements and contingencies, flow reliability margin, maximum admissible current and power flow, remedial actions, generation shift keys and technical capacity of the interconnectors) and are subject to a validation phase.

In the event that the coordinated capacity calculator is unable to produce results, fallback procedures are foreseen in the methodology.

III. The Channel Regulatory Authorities' agreement

The determination of the long term capacity calculation approach led to extensive discussions between Channel TSOs, Channel Regulatory Authorities, ACER and the European Commission. In order to satisfy the different preferences of Channel TSOs, a hybrid approach was agreed on, incorporating a statistical calculation at the beginning of the year preceding the allocation, followed by scenario-based calculations in line with the applicable processes for establishing the Common Grid Model and outages planning.

Channel Regulatory Authorities have carefully assessed the LT CCM and consider that, while the capacity calculation mechanism proposed by Channel TSOs broadly fulfils the objectives of the FCA regulation, some specific parts of the proposal need further improvement as explained in the following section.

In general, the high-level requirements agreed between all involved parties (also referred to under II.a) above) were respected by the Channel TSOs and reflected in the LT CCM.

IV. Decision

Based on the above rationale, all Channel Regulatory Authorities agree to request an amendment to the LT CCM. This amendment should address the following elements:

- In the **Whereas section**, TSOs should include the demonstration of the three requirements stipulated under Article 10(4)(b) of the FCA Regulation.
- In **Article 5**, the section starting with "Any new interconnector" should be formatted as a separate paragraph (paragraph 7 of Art. 5).
- In **Article 5(7)**, it should be specified that "the value calculated for this existing interconnector" is meant to be in percentages (and not in MW).
- In **Article 6(2)** and **Article 6(3)**, a deadline should be included for sending the justifications to the Channel Regulatory Authorities. The justifications should be sent to all Channel Regulatory Authorities and not only those of the relevant bidding zone border.
- In **Article 7(3)**, further details should be included on which timestamp takes precedence.
- In **Article 7(5)**, it should be specified that the term "long-term capacity calculation" refers to the scenario-based approach.
- In **Article 12** and/or in **Article 24**, it should be specified that a list of the offered (non-costly and costly) remedial actions will be published and also the timeline for its publication should be specified.
- In **Article 12(4)**, TSOs should include more information on assigning remedial actions to either the Channel, the Core or the IU capacity calculation regions. It should be made clear

in the methodology which remedial actions will be made available to the coordinated capacity calculator of which capacity calculation region.

- In **Article 14(2)**, further details should be included on which timestamp takes precedence and how a second granularity is selected.
- In **Article 22(3)**, the typo “is” in the first sentence should be corrected.
- In **Article 24**, TSOs should add an exhaustive list of parameters that will be published together with their associated frequency and publication constraints, along with the outlines of a general transparency framework for market participants.

This document shall form the basis on which the individual Channel Regulatory Authorities will, by 17 August 2020, issue the request for amendment to their TSOs. The Channel TSOs shall, within 2 months following the receipt of this request for amendment, submit a new proposal in line with these agreed modifications.