

**Public Consultation Report for:**

**Channel TSOs proposal for a methodology for splitting long-term cross-zonal capacity in accordance with Article 16 of the Commission Regulation (EU) 2016/1719 of 26 September 2016 establishing a Guideline on Forward Capacity Allocation**

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20 January 2020

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### 1. Introduction

Article 16 of the Commission Regulation 2016/1719 establishing a guideline on Forward Capacity Allocation (hereinafter referred to as “FCA Regulation”) requires TSOs of the CCR Channel (hereinafter referred to as “Channel TSOs”) to jointly develop a proposal for a methodology for splitting long-term cross-zonal capacity in a coordinated manner between different long-term time frames within the respective region (hereinafter referred to as “Channel Splitting Rules Methodology”).

Article 16(1) of the FCA Regulation states that the proposal shall be subject to consultation in accordance with Article 6 of the FCA Regulation.

Channel TSOs held a public consultation on the Channel Splitting Rules Methodology from 15 March 2019 until 15 April 2019 on the ENTSO-E public consultation website<sup>1</sup>.

Channel TSOs received officially only one response from one stakeholder (hereafter referred to as “the Respondent”) during the consultation period.

### 2. Assessment of Respondent’s comments

In its consultation report, the Respondent reminds that “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”.

The Respondent then develops these 3 points:

- a) *The main hedging need of market participants is to reduce 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 (at least one year), as per their calculation at that time, by means of issuing forward transmission 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 SAP, which already organizes the primary market.)*

Channel TSOs take note of the remark about a secondary market, but this is not within the scope of the Channel Splitting Rules Methodology. For the other point, the Respondent would like that the maximum capacity should be offered as far in advance as possible.

Channel TSOs agree with the Respondent in principle, although this should take into account the long-term capacity calculation and coordinated outage planning. Hence, this point is more relevant to the long-term capacity calculation methodology Channel TSOs developed in accordance with FCA Regulation Article 10 than to the Channel Splitting Rules Methodology.

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<sup>1</sup> <https://consultations.entsoe.eu/markets/channel-splitting-rules-in-accordance-fca-art16/>

b) *We therefore strongly disagree with the notion of capping the forward capacity allocation to a “maximum long-term quantity” in the forward timeframe. All available capacity resulting from the capacity calculation should be offered to market participants and further release of capacity at shorter time horizons in the forward timeframe (seasonal, quarterly, monthly, weekly, week-end) should be the result of capacity recalculations (which may increase the forecasted NTC thanks to the progressive reduction in uncertainty as real time approaches). “Minimum Long-Term Quantity” should always be 100% of the capacity calculated as available to the market at each time horizon in the forward timeframe. This means 100% of the capacity calculated year ahead should be released for the yearly auction. (The Respondent) is not favourable to the use of the percentage thresholds for maximum capacity allocation at each time horizon within the forward timeframe as presented in Annex 1.*

In summary, Channel TSOs understood that the Respondent wishes that all capacity resulting from the long-term capacity calculation should be made available to the long-term timeframe.

Channel Interconnector TSOs currently reserve capacity for the day-ahead auctions to ensure that there is capacity available for these auctions as only Physical Transmission Rights are offered in the long-term timeframe. If all capacity was offered in long-term auctions and if the day-ahead capacity calculation does not provide additional capacity than what long-term capacity calculation provided, there is a possibility that all the interconnector capacity could be nominated ahead of the day-ahead auction. This would result in no capacity for the value direction of the day-ahead auction. The Channel Splitting Rules Methodology prevents this possibility. However, it is worth clarifying that a significant majority of interconnector long-term capacity (90%) is offered in long-term products.

Channel TSOs understand also that the Respondent would like that all capacity calculated year-ahead should be offered for allocation in a single yearly auction. Channel TSOs do not believe that this approach would deliver the aims of the FCA Regulation and would de facto render the utility of a splitting rule methodology useless.

The relevant FCA Regulation aims are provided below:

- **FCA Regulation Article 3(a)** *“promoting effective long-term cross-zonal trade with long-term cross-zonal hedging opportunities for market participants”*

Channel Interconnector TSOs are financially incentivised to offer the mix of short- and long-term capacity products which market participants value the highest. By providing the most valuable product mix for market participants, Channel TSOs provide the most valuable long-term cross zonal hedge. Multiple auctions throughout the year, for a range of long-term capacity products, provides market participants with multiple opportunities for effective long-term cross-zonal hedging.

- **FCA Regulation Article 3(c)** *“providing non-discriminatory access to long-term cross-zonal capacity”*

- **FCA Regulation Article 3(d)** *“ensuring fair and non-discriminatory treatment of TSOs, the Agency, regulatory authorities and market participants”*

A single yearly auction would disproportionately favour larger market participants (such as the Respondent). For example, larger market participants are at times better placed to meet the larger collateral requirement of yearly capacity products than smaller market participants.

Generally capacity sold many months ahead of real time commands a higher premium and so Channel Interconnector TSOs are incentivised to maximise availability of long-term capacity.

*c) Finally, the Respondent underlines that the current proposed methodology allows TSOs to determine the actual splitting rules in an uncoordinated and almost completely discretionary way. Indeed, the criteria to be applied by TSOs are largely subjective, the proposed long-term quantity ranges are excessively broad, and TSOs are allowed to change the splitting rules during the year. All these elements deeply undermine markets participants' visibility about the splitting rules, although this is a crucial element in their hedging strategy*

Channel TSOs understand that the Respondent objects to the wide splitting ranges and to Channel TSOs retaining discretion over the ability to change them within year.

Channel TSOs will only revise their capacity split following a Capacity Calculation. Once the capacity split is determined and published, this should provide market parties with a clear view of the intended capacity for the upcoming year. For the reasons described above, wide splitting ranges are essential to ensure maximum flexibility and that capacity is allocated to the right products and auctioned at the right times to meet market requirements, which may vary from year to year. We cannot forecast that the capacities allocated this year are optimum also for next year. Market participants will have transparency of the actual capacity to be allocated by product when Channel Interconnector TSOs publish their auction calendars.

### 3. Full letter of the Respondent



#### **Channel TSOs' proposal for a methodology for splitting long-term cross-zonal capacity in accordance with FCA Article 16**

EDF's answer

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15 avril 2019

EDF welcomes the opportunity to provide comments on the Channel region TSOs' proposal for a methodology for splitting long-term cross-zonal capacity in compliance with the Forward Capacity Allocation Regulation.

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*".

The main hedging need of market participants is to reduce 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 (at least one year), as per their calculation at that time, by means of issuing forward transmission 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 SAP, which already organizes the primary market.)

We therefore strongly disagree with the notion of capping the forward capacity allocation to a "*maximum long-term quantity*" in the forward timeframe. All available capacity resulting from the capacity calculation should be offered to market participants and further release of capacity at shorter time horizons in the forward timeframe (seasonal, quarterly, monthly, weekly, week-end) should be the result of capacity recalculations (which may increase the forecasted NTC thanks to the progressive reduction in uncertainty as real time approaches). "*Minimum Long-Term Quantity*" should always be 100% of the capacity calculated as available to the market at each time horizon in the forward timeframe. This means 100% of the capacity calculated year ahead should be released for the yearly auction. EDF is not favorable to the use of the percentage thresholds for maximum capacity allocation at each time horizon within the forward timeframe as presented in Annex 1.

Finally, EDF underlines that the current proposed methodology allows TSOs to determine the actual splitting rules in an uncoordinated and almost completely discretionary way. Indeed, the criteria to be applied by TSOs are largely subjective, the proposed long-term quantity ranges are excessively broad, and TSOs are allowed to change the splitting rules during the year. All these elements deeply undermine markets participants' visibility about the splitting rules, although this is a crucial element in their hedging strategy.