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Dear colleague,

Approval of the amended Ireland-United Kingdom Transmission System Operators' proposal for a common Long Term Capacity Calculation Methodology

On 5 February, we¹ received an amended proposal from the Ireland-United Kingdom (IU) Transmission System Operators (TSOs) for the Long Term (LT) Capacity Calculation Methodology (CCM) for the forward market timeframe in accordance with Article 10 of the guideline on Forward Capacity Allocation (the FCA Regulation).² The amended proposal was submitted to us by the relevant TSO in line with our assignment of obligations.³

This letter sets out our decision to approve the amended IU LT CCM pursuant to Article 4(11) of the FCA Regulation. The letter also outlines the necessary next steps which must be taken.

Background

¹ The Gas and Electricity Markets Authority. Ofgem is the Office of the Authority. The terms "Ofgem" and "the Authority," "we" and "us" are used interchangeably in this letter.

² [Commission Regulation \(EU\) 2016/1719 establishing a guideline on forward capacity allocation](#). The FCA Regulation came into force 16 October 2016. It builds on the Commission Regulation (EU) 2015/122 of 24 July 2015 establishing a guideline on capacity allocation and congestion management (CACM Regulation) to maximise efficiency in cross-border electricity trading. Specifically, the FCA Regulation provides a harmonised framework for forward capacity markets to allow market participants to hedge positions before the day ahead timeframe.

³ See TSO decision letter here: <https://www.ofgem.gov.uk/publications-and-updates/decision-our-consultation-assignment-transmission-system-operator-obligations-under-requirements-generators-demand-connection-high-voltage-direct-current-and-forward-capacity-allocation-regulations-within-gb>

The LT CCM is a regional proposal developed and submitted by the relevant TSOs within each Capacity Calculation Region (CCR).⁴

The FCA Regulation requires the competent Regulatory Authorities (RAs) to consult and closely cooperate and coordinate with each other in order to reach an agreement⁵ and take decisions within two months following receipt of an amended proposal by the last RA.⁶ The last RA received the LT CCM proposal on 5 February 2020.

Long Term Capacity Calculation Methodology

The LT CCM proposes a common and coordinated methodology within the IU region for the calculation of cross-zonal capacity allocation in the forward market timeframe.

A key aim of the LT CCM is to promote the effective and optimal calculation of long-term cross-zonal capacity on interconnectors. Another key aim is to promote long-term cross-zonal trade with long-term cross-zonal hedging opportunities for market participants. This is done by ensuring capacity is calculated and released to the market sufficiently in advance of delivery.

Our Decision

In our last decision⁷, we requested some amendments to the methodology. The requested amendments aimed at:

- i. clarifying that amending Article 4(2) of the methodology to clarify that, after cross-zonal capacity calculation has taken place in the long term timeframe, there is still a possibility to increase cross-zonal capacity in the day-ahead and intraday timeframe in accordance with the requirements of Regulation (EU) 2015/1222⁸;
- ii. amending Article 6 of the methodology to take into account the requirements on firmness of both Article 53(2) and Article 56(3) of the FCA Regulation and distinguish between the cases of curtailment in emergency situation and for *force majeure*. The methodology should clearly set out the compensation due by the relevant parties in each case; and

⁴ As per Article 2(3) of the [CACM Regulation](#): A capacity calculation region means the geographic area in which coordinated capacity calculation is applied.

⁵ Article 4(9) of the FCA Regulation.

⁶ Article 4(11) of the FCA Regulation.

⁷ Decision to request an amendment to the IU TSO's proposal for the long-term capacity calculation methodology: <https://www.ofgem.gov.uk/publications-and-updates/decision-request-amendment-iu-tso-s-proposal-long-term-capacity-calculation-methodology>

⁸ Regulation EU No 2015/1222 is available here: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32015R1222>

- iii. Revising and updating the implementation date proposed in Article 12(2) of the methodology as it refers to a date in the past

The amended proposal meets these requests by clarifying that:

- i. this methodology is only in relation to the long-term timeframe. It also explains that cross-zonal capacity in the day-ahead and intraday timeframes can be increased in accordance with the relevant methodologies established pursuant to Article 21(1) of Regulation (EU) 2015/1222;
- ii. there are two cases where curtailment can take place and that they lead to different compensation outcomes in line with Article 53(2) and Article 56(3) of the FCA Regulation. In case of *force majeure*, the compensation would be equal to the amount initially paid for the concerned long-term transmission rights already allocated during the forward allocation process; and
- iii. the implementation of the IU LT CCM would start for the capacity calculation for the calendar year 2021.

The amended proposal also further aligns with the requirement of Article 10(4) of the FCA Regulation which requires to take the uncertainty of long-term capacity calculation into account by using a security analysis based approach or a statistical approach. In their amended submission, the IU TSOs have ensured that either a security analysis approach or a statistical approach is used at different time periods.

We have reviewed the proposal submitted to us in line with the requirements of the FCA Regulation, the wider objectives of the Regulation (EU) No 2019/943⁹ and our statutory duties and obligations.

As required by Article 4(9) of the FCA Regulation, we have consulted, and closely cooperated and coordinated with other IU RA in order to reach an agreement on these proposals. The IU RA agreement for LT CCM was reached on 8 April 2020. This agreement is attached as an annex to this decision letter and constitutes the reasons for our decision. In line with the IU RA agreements, we hereby approve the IU LT CCM.

Next steps

In accordance with Article 4(13) of the FCA Regulation, IU TSOs must publish the LT CCM the internet. The LT CCM will be available for the capacity calculation of the year 2021.

⁹ Regulation (EU) No 2019/943 is available here: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32019R0943>

If you have any queries regarding the information contained within this letter, or the RA agreement in the annex, please contact Graham Urquhart at Graham.Urquhart@ofgem.gov.uk.

Yours sincerely,

Kristian Marr
Interim Head of European Wholesale Markets, Wholesale Markets and Commercial