
**Explanatory document for Capacity Calculation Region Hansa’
regional design of long-term transmission rights in accordance with
Article 31 of the Commission Regulation (EU) 2016/1719 of 26
September 2016 establishing a guideline on forward capacity
allocation**

17th of November 2017

1. Introduction

The Commission Regulation (EU) 2016/1719 of 26 September 2016 establishing a guideline on forward capacity allocation (hereinafter “**FCA Regulation**”) sets out rules regarding the type of long-term transmission rights that can be allocated via explicit auctions, and the way holders of transmission rights are compensated in case their rights are curtailed. The overarching goal is to promote the development of liquid and competitive forward markets in a coordinated way across Europe, and provide market participants with the ability to hedge their risk associated with cross-border electricity trading. In order to deliver these objectives, a number of steps are required.

One of these steps is to propose a regional design of long-term transmission rights (hereinafter “**regional design of LTTRs**”) within the Capacity Calculation Regions (hereinafter “**CCRs**”). This regional design of LTTRs should contribute to a transparent and non-discriminatory allocation of LTTRs.

Pursuant to Article 31 of the FCA Regulation, all Transmission System Operators (hereinafter “**TSOs**”) in the CCR Hansa have developed a regional design of LTTRs. This document provides additional information to the regional design of LTTRs.

This document is meant to ease the approval process of the regional design of LTTRs by all National Regulatory Authorities (hereinafter “**NRAs**”) in the CCR Hansa. The terms used in this document follow the definitions of Article 2 of the regional design of LTTRs.

In regards to Norway, the FCA Regulation is not yet implemented as Norwegian law, due to delay in ratifying the Regulation (EC) No 714/2009. No decision has been made from NVE in time of writing, but there are no indications from NVE that there are obstacles to implementing the FCA Regulation.

In case NRAs in CCR Hansa request relevant TSOs to issue LTTRs on borders in CCR Hansa pursuant to Article 30 of the FCA Regulation, the regional design of LTTRs will be updated in accordance with Article 31 (4) of the FCA Regulation. The update has to be submitted for approval by NRAs in CCR Hansa within 6 months after the NRA request for implementation for LTTRs.

2. Legal requirements and interpretation

This chapter contains references to relevant articles in the FCA Regulation. Furthermore, a description is given on how these articles are interpreted in order to set the scope for this proposal.

Article 31 of the FCA Regulation provides the following:

“1. Long-term cross-zonal capacity shall be allocated to market participants by the allocation platform in the form of physical transmission rights pursuant to the UIOSI principle or in the form of FTRs – options or FTRs – obligations.”

“2. All TSOs issuing long-term transmission rights shall offer long-term cross-zonal capacity, through the single allocation platform, to market participants for at least annual and monthly time frames. All TSOs in each capacity calculation region may jointly propose to offer long-term cross-zonal capacity on additional time frames.”

“3. No later than six months after the entry into force of this Regulation, TSOs in each capacity calculation region where long-term transmission rights exist shall jointly develop a proposal for the regional design of long-term transmission rights to be issued on each bidding zone border within the capacity calculation region.”

No later than six months after the coordinated decisions of the regulatory authorities of the bidding zone border to introduce long-term transmission rights pursuant Article 30(2), TSOs of the concerned capacity calculation region, shall jointly develop a proposal for the regional design of long-term transmission rights to be issued on each bidding zone border within the concerned capacity calculation region.

Regulatory authorities of Member States in which the current regional design of long-term transmission rights is part of a TSO cross-border re-dispatch arrangement for the purpose of ensuring that operation remains within operational security limits may decide to maintain physical long-term transmission rights on its bidding zone borders.”

“4. The proposals referred to in paragraph 3 shall include a time schedule for implementation and at least the description of the following items specified in the allocation rules:

- (a) type of long-term transmission rights;*
- (b) forward capacity allocation time frames;*
- (c) form of product (base load, peak load, off-peak load);*
- (d) the bidding zone borders covered.”*

“5. The proposals shall be subject to consultation in accordance with Article 6. For the proposed long-term transmission rights to be issued, each TSO shall duly consider the result of the consultation.”

“6. The allocation of physical transmission rights and FTRs - options in parallel at the same bidding zone border is not allowed. The allocation of physical transmission rights and FTRs – obligations in parallel at the same bidding zone border is not allowed.”

In regards to regulatory approval, Article 8 (4) of the FCA Regulation states:

“The proposals for the following terms and conditions or methodologies shall be subject to approval by all regulatory authorities of the concerned region: [...]

(c) the regional design of long-term transmission rights pursuant to Article 31”

The regional design of LTTRs is therefore submitted for regulatory approval to DERA in Denmark, BNetzA in Germany, Ei in Sweden, URE in Poland, ACM in the Netherlands and NVE in Norway.

2.1 Interpretation and scope of the proposal

Firstly, it should be noted that the proposal shall be a regional design of LTTRs. The formulation in the FCA Regulation is broad. However, it is stated that the proposal shall cover at least a description of types of LTTRs, time frames, form of products and the bidding zones covered. It should be noted that the Article 31 of the FCA Regulation states that the proposal shall “at least” include the elements listed in Paragraph 4 of the Article. The list is only a minimum requirement and the regional design of LTTRs may include more.

Based on the above, the regional design of LTTRs is focused on a design which ensures harmonization of the allocation rules, the platform used for capacity allocation, a common description of the long-term product, time frame and the form of product. Furthermore, the design will ensure transparency by specifying in the annex the relevant borders and their specifications.

Secondly, it should be noted that Article 31(4) states that the TSOs in the CCR Hansa shall update the proposal if the NRAs request the TSOs within the CCR Hansa to issue LTTRs on borders where LTTRs did not exist at the entry into force of the FCA Regulation.

Based on this, the regional design of LTTRs must be flexible to additional borders. This legal document on the regional design of LTTRs is a common proposal by all TSOs in CCR Hansa thereby ensuring that the arrangements are flexible to additional borders. At the same time, the design is flexible to more TSOs, should additional TSOs be included in the CCR Hansa at a later stage.

The following is not part of this regional design of LTTRs:

- Transparency requirements. This is not seen as directly related to the regional design.

- Single allocation platform requirements, according to Article 48 of the FCA Regulation, requiring a separate all NRAs approval.
- Harmonised allocation rules, according to Article 51 of the FCA Regulation, requiring a separate all NRAs approval.
- Nomination rules, according to Article 36 of the FCA Regulation, requiring a separate approval by relevant NRAs.
- Methodology for splitting long-term cross-zonal capacity, according to Article 16 of the FCA Regulation, requiring a separate NRA approval on CCR level
- Methodology for capacity calculation for long-term timeframes, according to Article 10 of the FCA regulation, requiring a separate NRA approval on CCR level.

3. Present design

At the entry into force of the FCA Regulation, LTTRs were in use on the interconnectors between West Denmark (DK1) and Germany (DE) as well as East Denmark (DK2) and Germany (DE) in CCR Hansa.

The capacity is allocated through the Joint Allocation Office S.A. (hereinafter referred to as “**JAO**”). JAO is a joint-venture owned solely by TSOs, and constitutes a vehicle of cooperation which is the result of the merger of two former joint-ventures: namely the Capacity Allocation Service Company EU.SA (“**CASC**”) and the Centrale Allocation Office GmbH (“**CAO**”). Those two companies were both regional platforms set up and operated by TSOs themselves (notably in application of Article 6 of the Directive 2009/72/EC) in order to implement forward capacity allocation in two different regions (Central West Europe and Central East Europe).

The capacity is sold as base physical transmission rights on a yearly and/or monthly basis. The allocation process/procedure, the requirements for participation, financial matters, nomination rules, curtailment and compensation rules, rules for market participants in case they are transferring their LTTRs, and rules in regards to force majeure and liability for the LTTRs biddingzone borders, are all given in the European Harmonised Allocation Rules (hereafter referred to as “**EU HAR**”) for 2017. The EU HAR were established by all TSOs as an early implementation project and were approved by all NRAs in 2016.

4. Proposed future design

The current design will remain in its overall shape. This means that the EU HAR will continue as Harmonised Allocation Rules (hereafter referred to as “**HAR**”) in accordance with Article 51 of FCA Regulation to set the rules in regards to allocation of LTTRs in the Hansa CCR. The HAR were approved by ACER (decision No. 03-2017) on 2 October 2017 and will enter into force as of 2018.

Furthermore, the FCA Regulation requires that the LTTRs shall be offered through the single allocation platform (hereafter referred to as “**SAP**”), which is to be established by all TSOs pursuant to Article 48 in the FCA Regulation. The SAP shall be operational within 12 months after the approval of the proposal for the establishment of the SAP. The proposal for the establishment shall be submitted by all TSOs to all NRAs within 6 months after the FCA Regulation enters into force. The period for the TSOs to ensure that the SAP is operational, can be extended by the NRAs on request from the TSOs.

Given that JAO, including the IT tools operated by JAO to perform long-term capacity allocation, meets the criteria set out in the FCA Regulation, and also taking the experience of JAO in allocation of long-term capacity, the efficiency and the cost into consideration, the Hansa TSOs will offer the LTTRs in the CCR Hansa through JAO until the SAP is operational.

This allows the market participants and TSOs to continue to use an already existing IT Tool that complies with the technical requirements set out by the FCA Regulation and ensures the transparency requirements given in the FCA Regulation until the permanent solution is established and operational.

The FCA regulation allows for the LTTRs to be offered in the form of physical transmission rights (hereinafter “**PTR**”), financial transmission rights – options (hereinafter “**FTR – options**”) or financial transmission rights – obligations (hereafter “**FTR – obligations**”). The FCA Regulation further states that the allocation of both PTR and FTR – options at the same bidding zone border is not allowed, which also goes for allocation of both PTR and FTR – obligations at the same bidding zone border. The regional design for the CCR Hansa will therefore allow for one of the three products to be allocated at a bidding zone border, and the allocation of FTR-options and FTR-obligations on the same border, however not PTR or any FTR products together. The definitions of PTR, FTR – options and FTR – obligations is harmonized for all borders and is given in the EU HAR respectively the HAR that is to be used in the CCR Hansa.

Furthermore, the FCA Regulation states that the allocation of LTTRs shall be offered for at least yearly and monthly timeframes. Other timeframes may be introduced, but as minimum LTTRs in the Hansa CCR will be offered on yearly and monthly timeframes.

The yearly and monthly timeframes will be organised as it is defined in the EU HAR respectively the HAR. The auctions will follow the auction calendar published on the website of JAO or the SAP no later than the 1st of December of the preceding year. JAO or the SAP will organise one auction per year for the yearly timeframe and one auction per month for the monthly timeframe. The yearly timeframe will start on the first day of the calendar year and end on the last day of the calendar year, and the monthly timeframe will start on the first day of the calendar month and end on the last day of the calendar month.

Based on the FCA Regulation allowing for the TSOs to issue LTTRs in the form of base, peak or off-peak products, the Hansa TSOs have defined these for the CCR Hansa:

- a) Base load: a fixed amount of MW is allocated throughout the hours 00:00 – 23:59 CET of all relevant days of the period subject to announced reduction periods; or
- b) Peak load: a fixed amount of MW is allocated throughout the hours 08:00 – 19:59 CET of all relevant weekdays of the period subject to announced reduction periods; or
- c) Off-peak load: a fixed amount of MW is allocated throughout the hours 00:00 – 07:59 and 20:00 – 23:59 CET of all relevant weekdays and the hours 00:00-23:59 CET of all relevant Saturdays and Sundays of the period subject to announced reduction periods.

To ensure transparency for the market participants, the document on the regional design of LTTRs will include an annex stating the product specification for the bidding zone borders where LTTRs are issued. The table will include the binding zone borders and responsible TSOs, the type of LTTRs, the timeframes and the product. For the CCR Hansa this will be:

CCR Hansa bidding zone border	Type of LTTRs	Timeframe	Product
Denmark (DK1) - Germany/Luxembourg (DE/LU)	FTR – options	Yearly & Monthly	Base
Denmark (DK2) - Germany/Luxembourg (DE/LU)	FTR – options	Yearly & Monthly	Base

4.1 Implementation

The regional design of LTTRs shall be implemented on bidding zone borders where LTTRs are issued by no later than for the next yearly auction after approval, in accordance with the auction calendar as coordinated and published by the SAP.

As written in the above, in case the SAP is not in operation, the Hansa TSOs will offer the LTTRs in the CCR Hansa through JAO, and it is therefore possible to meet the implementation deadline with the yearly auctions for 2019.

Until the implementation of the regional design of LTTRs, the TSOs in CCR Hansa will continue with current practices.

5. Consultation responses

In the consultation period from 14th of June 2017 to 30th of July 2017, CCR Hansa received one consultation response.

Participant	Comments	CCR Hansa response
Danske Commodities	<p>We are happy to see that the proposal is open for other time periods than monthly and yearly auctions. Danske Commodities suggests also considering weekly auctions. For some years the southbound auction between DK1 and Germany has been cancelled due to the very low allocated capacity on the interconnector. This year the TSO's in Denmark and Germany has agreed to implement a minimum capacity on the interconnector of 700 MW. This means that there is no issue with having firm capacity on the dayahead market. So Danske Commodities expect that the auction between DK1 and Germany is reopened as a consequence of this change in capacity and in accordance with CCR Hansa regional design of long-term transmission rights.</p>	<p>The TSOs in CCR Hansa appreciate the view from the market participant.</p> <p>To accommodate the suggestion for weekly products the TSOs will take this opportunity and initiate a work to identify possible benefits and risks in liquidity by implementing weekly and/or other products besides the monthly and yearly auction. The TSOs will invite the market participants to this work. If the TSOs identify the benefits of implementing additional products, the regional design of LTTRs will be updated accordingly and subject to approval by all Nras in CCR Hansa.</p> <p>The southbound auctions between DK1 and DE have, as rightfully stated, been cancelled due to very low allocation capacity on the interconnector. The agreement reached between the Danish and German ministries, and implemented by TenneT TSO and Energinet, however is not related to the FCA Regulation, and therefore out of scope of this proposal. However, the Hansa TSOs thoroughly took</p>

		<p>the wish for more long-term transmission capacity between DK1 and DE into account. In order to meet the requirements of the market, TenneT TSO and Energinet decided to implement FTR - options on the respective bidding zone border as of 2019. With FTR - options, the TSOs are confident in being able to offer more long-term transmission capacity since it has no physical impact.</p> <p>Further 50 Hertz Transmission and Energinet have decided to also change the product on the bidding zone border DK2 – DE from PTR to FTR – options to align the products in CCR Hansa.</p>
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