
**Explanatory document for Capacity Calculation Region Nordics’
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**

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 (hereinafter “**LTTRs**”) that can be allocated via explicit auction, and the way holders of LTTRs 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 possibilities 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 Nordic have developed a regional design of LTTRs.

Through discussions between ENTSO-E, ACER and the European Commission it has been decided that CCRs that do not have LTTRs on all of their borders when the FCA Regulation enters into force should await the decisions from the relevant national regulatory authorities (Hereinafter “**NRAs**”) according to Article 30 of the FCA Regulation and then submit the Regional design of LTTRs according to the later deadline in Article 31(3). Because the approval of the CCRs was delayed, the deadline for submitting the regional design was extended by one month from the FCA Regulation entered into force. The Regional design of LTTRs for CCR Nordic shall therefore be submitted for approval by the NRAs no later than on November 17, 2017.

This document contains an explanation of the Regional design of LTTRs to be applied in the CCR Nordic. The terms used in this document follow the definitions of Article 2 of the Regional design of LTTRs.

Since the NRAs have decided not to issue LTTRs on the bidding-zone borders in Finland and Sweden the Finnish TSO, Fingrid, and the Swedish TSO, Svenska kraftnät, according to article 30(7) of the FCA Regulation are exempted from article 31 and do not have to submit this Regional design of LTTRs. In regards to Norway, the FCA Regulation is not yet implemented as Norwegian law due to delay in implementing 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. The Regional design of LTTRs is therefore only submitted for regulatory approval to DERA in Denmark.

In case NRAs in CCR Nordic requests relevant TSOs to issue LTTRs on borders in CCR Nordic in pursuant to Article 30(8) of the FCA Regulation the Regional design of LTTRs will be updated in accordance to Article 31(4) of the FCA Regulation. The update has to be submitted for approval by the relevant TSOs to the relevant NRAs in CCR Nordic within 6 month after the NRAs request for implementation of 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 the Regional design of LTTRs.

Article 30(8) of the FCA Regulation provides the following:

“Upon a joint request of the TSOs on a bidding zone border or at their own initiative, and at least every 4 years, the competent regulatory authorities of the bidding zone border shall perform, in corporation with the Agency, an assessment pursuant to paragraph 3 to 5.”

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”

2.1 Interpretation and scope of the Regional design of LTTRs

Firstly, it should be noted that the wording in Article 31 of the FCA Regulation is broad. However it is stated that the design shall cover at least a description of type of LTTRs, time frames, form of products and the bidding-zone covered. It should be noted that the Article 31 of the FCA Regulation states that the Regional design of LTTRs 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 and 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 in case the NRAs request TSOs to issue LTTRs pursuant to Article 30(8) in the FCA Regulation the TSOs in the CCR Nordic shall update the Regional design of LTTRs.

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

The following is not part of this Regional design of LTTRs, but should be applied from such a time these have been approved and implemented:

- Transparency requirements. This is not seen as directly relating to the regional design.
- Single Allocation Platform (hereinafter “**SAP**”) requirements, according to Article 49 of the FCA Regulation.
- Harmonised allocation rules (hereinafter “**EU HAR**”), according to Article 51 of the FCA Regulation.
- Nomination rules, according to Article 36 of the FCA Regulation, require separate approval by relevant NRAs.
- Methodology for splitting long-term cross-zonal capacity, according to Article 16 of the FCA Regulation, require separate NRA approval on CCR level
- Methodology for capacity calculation for long-term timeframes, according to Article 10 of the FCA regulation, require separate NRA approval on CCR level.

3. Present design

At the entry into force of the FCA Regulation, LTTRs were in use on the interconnector between West Denmark (DK1) and East Denmark (DK2) (hereinafter referred as “**Great-belt interconnector**”) in CCR Nordic.

The capacity is allocated through the Joint Allocation Office S.A. (Hereinafter referred as “**JAO**”). JAO is a joint-venture owned solely by TSOs, constitutes a vehicle of cooperation which is the result of the merger of two former joint-ventures: on the one hand, the Capacity Allocation Service Company (“**CASC**”) and the Centrale Allocation Office (“**CAO**”). Those two companies were both regional platforms set up and operated by the 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 long-term capacity is sold as a base Physical transmission rights pursuant to the UIOSI principle (Hereinafter “**PTR**”) on a 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 as regards to force majeure and liability for the LTTRs on the Geat-belt interconnector is given in the EU HAR for 2017. The EU HAR for 2017 has been established by all TSOs as an early implementation project and 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 Nordic CCR. The HAR was 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 SAP which is to be established by all TSO pursuant to Article 49 in the FCA Regulation. The SAP shall be operational 12 month after the approval of the proposal for the establishment of the SAP. The proposal for the establishment shall be submitted to the NRAs within 6 month 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. The proposal for the establishment of the SAP according to Article 49 of the FCA Regulation has been approved by all NRAs on September, 18 2017 with a national approval to be made no later than December, 15 2017.

The FCA regulation allows for the LTTRs to be offered in the form of 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 cross-zonal interconnector is not allowed, and that the allocation of both PTR and FTR – obligations at the same cross-zonal interconnector is not allowed. The regional design for the Nordic CCR will allow for either PTRs or one or both of the FTR products to be allocated at a cross-zonal interconnector but not allow for allocation of PTRs and any of the FTR products at the same cross-zonal interconnector. The definitions of PTR, FTR – options and FTR – obligations is harmonized for all borders and is given in the EU HAR that is to be used in the CCR Nordic.

Further, 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 a minimum LTTRs in the Nordic CCR will be offered on a yearly and monthly timeframe.

The yearly and monthly timeframe will be organised as it is defined in the EU HAR. The auctions will follow the auction calendar published on the website of the SAP no later than the 1st of December of the preceding year. 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 at the last day of the calendar year and the monthly timeframe will start on the first day of the calendar month and end at 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 Nordic TSOs have defined these for the CCR Nordic:

- 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.

There are no peak and off-peak products traded on the power exchange in the Nordic area. The definitions above therefore build on the general definition of peak and off-peak products sold in Germany and Netherlands at Nasdaq OMX.

To ensure transparency for the market participants the Regional Design of LTTRs will include an annex stating the product specification for the cross-zonal interconnectors where LTTRs are issued. The tables will include the binding zone border and responsible TSOs, the type of LTTRs, the timeframes and the product. For the Great-belt interconnector this will be:

Bidding-zone border and responsible TSOs		Type of LTTRs	Timeframe	Product
Denmark (DK1) Energinet.dk	<> Denmark (DK2) Energinet.dk	PTRs pursuant to UIOSI principle in both directions	Yearly & Monthly	Base

4.1 Implementation

The implementation of the Regional design of LTTRs shall coincide with the auction calendar as coordinated and published by the SAP.

- a) The implementation of auctions with a yearly timeframe on all bidding-zone borders covered by this Regional design of LTTRs will be completed no later than for the next yearly auction after the approval, in accordance with the auction calendar as coordinated and published by the SAP.
- b) The implementation of the auction with monthly timeframe on all bidding-zone borders covered by this Regional design of LTTRs will be completed no later than for the next monthly auction following the month after the approval, in accordance with the auction calendar as coordinated and published by the SAP.

The implementation of the Regional design of LTTRs in the CCR Nordic shall coincide with the auction calendar. The implementation of the yearly product will therefore be completed no later than the next yearly auction after the approval of the Regional design of LTTRs. The implementation for the Great-belt interconnector will therefore be completed for the yearly auction for 2019.

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

5. Consultation responses

In the consultation period from 30th of June 2017 to 28th of August 2017, CCR Nordic received two consultation responses.

Question 4: Do you agree with the approach taken in the proposal with a flexible approach to the design?

Participant	Comments	CCR Nordic response
Danske Commodities	<p>We agree with the flexible approach if it concerns the timeframes made available for the auctions (weekly, monthly, quarterly, yearly). Danske Commodities encourages to look at weekly auctions on the LTPM between DK1-DK2.</p> <p>We do not agree with the flexible approach, if it gives the impression that it is not necessary to implement PTR/FTR between the different price regions. We think this proposal should encourage to implement PTR/FTR between regions where it is needed. Especially in the regions where the forward market does not offer sufficient hedging opportunities. The relevant regions would be DK1, DK2, SE4, and Finland</p>	<p>The TSOs in CCR Nordic appreciate the view from the market participant.</p> <p>To accommodate the suggestion for weekly products the relevant 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 relevant TSOs will invite the market participants to this work. If the TSOs identify the benefits of implementing additional products this will be subject for NRA approval in an updated Regional design of LTTRs.</p> <p>The TSOs in CCR Nordic would like to highlight that the purpose of the regional design is not to evaluate the sufficiency of the forward market and the need for introduction of measures to ensure the liquidity. The objective of the Regional design is to state the layout of LTTRs - on the borders where it is decided to issue LTTRs - and through this ensure a harmonised long-term capacity market and a fair and non-discriminatory treatment of all affected parties as defined in the FCA Regulation.</p> <p>The TSOs would like emphasize that the flexible approach are not meant to limit or promote the introduction of LTTRs between bidding-zones. The decision to issue LTTRs or not and/or to take other measures are handled</p>

		separately by the relevant NRAs.
Nordenergi	<p>Mainly yes. The proposal should include a possibility for issuing EPADs / EPAD Combos as a measure to make sure that long-term cross-zonal hedging products are available to support the functioning of wholesale electricity markets.</p> <p>General comments Nordenergi thanks the Nordic TSOs for the opportunity to comment on the proposal for a Regional Design of Long Term Transmission Rights. In its current form the proposal reflects today's situation, and is not necessarily future proof. While the proposal recognizes that it doesn't apply to bidding-zone borders for which the competent regulatory authorities have adopted coordinated decisions not to issue LTTRs in accordance with Article 30(1) of the FCA Regulation, there's a possibility that the decisions are not same in the future. Would the regulators decide that there is a need to issue LTTRs in some form in the future, the design would need to be changed. Hence Nordenergi calls for amending the proposal accordingly.</p> <p>The Nordic financial market is based on futures (and forwards) with the Nordic System price as underlying and European options with the Nordic System Futures as underlying. For the market participants in most bidding-zones it is more important to hedge the SYS-AREA price difference than an AREA-AREA price difference. Hence, we call for recognizing EPADs (or EPAD Combos) (Electricity Price Area Difference) as a measure to make sure that long-term cross-zonal hedging products are available to support the functioning of wholesale electricity markets.</p> <p>Nordenergi recognizes that there are different possible platforms and market places that can host a market maker or that can organize auctions for issuing LTTRs or other long term cross-zonal hedging products. The choice should be subject to</p>	<p>The TSOs in CCR Nordic appreciate the view from Nordenergi.</p> <p>The possibility for introducing EPADs and or EPAD Combos as a measure to ensure long-term cross-zonal hedging products are not a part of this Regional design of LTTRs as defined in the FCA Regulation, but is a separate decision taken by the relevant NRAs.</p> <p>The Regional design of long-term transmission rights may need to be updated in the future in case that the NRAs decide to have the TSOs issue LTTRs on more interconnectors in the CCR Nordic, than what is the case today. The update will be done in accordance with article 4(12) of the FCA Regulation. However the approach taken in the Regional design of LTTRs is to be as flexible in the design as possible, to be able to accomodate possible new introduction of LTTRs.</p> <p>The TSOs in CCR Nordic would like to highlight that the purpose of the regional design is not to evaluate the sufficiency of the forward market and the need for introduction of measures to ensure the liquidity. The objective of this Regional design of LTTRs is to state the design of LTTRs - on the borders where NRAs have decided to issue LTTRs - and through this ensure a harmonised long-term capacity market and a fair and non-discriminatory treatment of all affected parties as defined in the FCA Regulation.</p> <p>The FCA Regulation specifies that all TSOs issuing LTTRs shall offer long-term cross-zonal capacity</p>

	how suitable a market place is for market participants, how suitable the offered instrument is and the overall costs.	though the SAP established according to Article 49. Therefore the reference to the SAP as the only platform will remain in the Regional design of LTTRs.
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Question 5. Do you agree with the proposed possibilities of base, peak and off-peak products?

Danske Commodities	Yes	-
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Question 6. Do you agree with the approach of continuing with the current setup with JAO until the Single Allocation Platform is operational?

Danske Commodities	Yes	-
Nordenergi	Mainly yes. The proposal should be amended as to recognize that “single allocation platform” is only one possible platform. The platform to be used must be chosen based on the chosen financial instrument or long term transmission right and the different platforms’ suitability for market participants	The Regional design of LTTRs are only related to the LTTRs and not to any other product available in the forward market. The FCA Regulation specifies that all TSOs issuing LTTRs shall offer long-term cross-zonal capacity though the SAP established according to Article 49. Therefore the reference to the SAP as the only platform will remain in the Regional design of LTTRs.