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| **Explanatory document for the Baltic Capacity Calculation Region’s amendment of 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**  |
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# Introduction

The [Commission Regulation (EU) 2016/1719 of 26 September 2016 establishing a guideline on forward capacity allocation](http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv:OJ.L_.2016.259.01.0042.01.ENG&toc=OJ:L:2016:259:TOC) (hereinafter “**FCA Regulation**”) sets out rules regarding the type of long-term transmission rights (hereinafter “**LTTRs**”) that can be allocated via 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.

Pursuant to FCA Regulation the National Regulatory Authorities (NRAs) of Finland (Energy Authority/ Energiavirasto (EA)) and Estonian (Estonian Competition Authority/Konkurentsiamet (ECA)) taking into account Articles 30(1), 30(2), 30(3) and 30(5) of the FCA Regulation, agreed as a coordinated decision on cross-zonal risk hedging opportunities of the Finnish –Estonian (FI-EE) bidding zone border and requested the respective TSOs Fingrid and Elering to issue LTTRs on the FI-EE bidding zone border.

One of these steps to offer LTTRs is to propose an amendment to current regional design of long-term transmission rights (hereinafter “**Regional design of LTTRs**”) within the Baltic Capacity Calculation Region (hereinafter “**CCR**”). This regional design of LTTRs should contribute to a transparent and non-discriminatory allocation of LTTRs.

This document contains an explanation of the amendment for the regional design of LTTRs to be applied in the Baltic CCR. The terms used in this document follow the definitions of Article 2 of the Amendment for regional design of LTTRs.

Since the NRAs have decided not to issue LTTRs on the bidding zone borders of Lithuania the Poland TSO, PSE, the Swedish TSO, Svenska kraftnät, and Lithuanian TSO, Litgrid according to article 30(7) of the FCA Regulation are exempted from article 31 and do not have to submit this Amendment for regional design of LTTRs. The amendment is therefore only submitted for regulatory approval in Latvia, Estonia and Finland.

In case NRAs in Baltic CCR requests relevant TSOs to issue LTTRs on borders in Baltic CCR in pursuant to Article 30(5) of the FCA Regulation the Amendment for 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 the relevant TSOs to the relevant NRAs in Baltic CCR within 6 months after the NRAs request for implementation of LTTRs.

# 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 amendment.

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 4 (7) 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”.*

In regards to implementation of the amendment of regional design of LTTRs, Article 4 (8) of the FCA Regulation states:

*”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. […]”*

Proposing the implementation timeline of the amendment of regional design of LTTRs the Baltic CCR takes into account the Opinion No 03/2022 of the European Union Agency for the Cooperation of Energy Regulators of 8 March 2022 relating to the implementation of long-term transmission rights on the FI-EE bidding zone border according to which “*FCA Regulation does not expressly condition the allocation of LTTRs on the use of a specific capacity calculation methodology*” and “*cross-zonal capacity may be split according to a methodology bilaterally agreed by the relevant TSOs, subject to regulatory oversight, until the splitting methodology according to Article 16 of the FCA Regulation has been implemented*”.

## Interpretation and scope of the amendment

Firstly, it should be noted that the amendment shall be a regional design of LTTRs. The wording in Article 31 of the FCA Regulation is broad. However, it is stated that the amendment 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 amendment shall “at least” include the elements listed in Paragraph 4 of the Article. The list is only a minimum requirement and the Amendment for regional design of LTTRs may include more.

Based on the above, the amendment 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(5) in the FCA Regulation the TSOs in the Baltic CCR shall update the amendment.

Based on this the amendment must be flexible to additional borders. This amendment for design is a common amendment by all TSOs in Baltic CCR 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 Baltic CCR at a later stage.

The following is not part of this amendment, 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 requirements, according to Article 48 of the FCA Regulation, require separate all NRA approval.
* Harmonised allocation rules (hereinafter “**EU HAR**”), according to Article 51 of the FCA Regulation, require separate all NRA approval.
* 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.

# Present design

Until 2022 the LTTRs were in use on the interconnector between Estonia and Latvia (hereinafter referred as “**EE-LV border**”) in Baltic CCR only.

On the EE-LV border the LTTRs are allocated through the Single Allocation Platform (hereinafter referred as “**SAP**”) in line with FCA Regulation Article 59. The SAP is operated by Joint Allocation Office (hereinafter referred as “**JAO**”). JAO is a joint-venture owned solely by TSOs.

The LTTRs are sold as a base load financial transmission rights- options (hereinafter “**FTR- options**”) on a yearly, quarterly and 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 LV-EE border is given in the EU HAR according to FCA Regulation Article 51.

# Proposed future design

## The type of LTTRs

The FCA regulation allows for the LTTRs to be offered as of PTR, FTR – options or Financial transmission rights – obligations (hereinafter “**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. According to the data in the ENTSO-E Market Report 2021 only PTRs and FTR-options are used on EU interconnectors in 2022. Moreover, regarding the PTRs, only a 12,3% of PTRs were physically nominated in 2020. The rest, an 87,7% resulted non-nominated and followed the Use-It-Or-Sell-It principle. Therefore, it seems that LTTRs markets are moving away from physical towards financial products.

**Considering the current TSOs experience with FTR-options on the EE-LV border and the overall tendency on LTTRs market, the Baltic CCR will propose only FTR-options to be used in the Baltic CCR.**

## Offered product timeframes of LTTRs

The FCA regulation states that the allocation of LTTRs shall be offered for at least yearly and monthly timeframes. It should be noted that other timeframes may be introduced if requested by market participants and approved by NRAs. The present regional design of Baltic CCR lists also quarterly product timeframe and this timeframe is offered on the EE-LV border.

However, it should be considered that each product timeframe auction will increase the allocation costs for the TSO via SAP fees and will decrease the liquidity of other timeframes.

The product timeframe(s) will be organised as it is defined in the EU HAR. The SAP operator JAO will organise one auction per year for the yearly timeframe, four auctions for the quarterly timeframe and one auction per month for the monthly timeframe.

**The TSOs do not propose to remove or add any new timeframes to Baltic CCR regional design. Based on the minimum requirements and on the novelty of the LTTRs on the FI-EE border the Baltic CCR as a start will be offering on FI-EE border LTTRs on a yearly and monthly timeframe.**

## The form of LTTRs

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

1. 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
2. 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
3. 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 Baltic or 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.

**Considering the Baltic CCR day-ahead market set-up the Baltic CCR regional design will foresee only base load form LTTRs.**

## The bidding zone borders and directions covered

Estonian NRA 10th June 2021 decision nr 7-26/2021-001 pursuant to FCA Regulation Article 30 summarises also the results of the public consultation which was carried out in the procedure of the decision. It reveals that there is a difference for market participants in which direction LTTRs are offered. If in direction from Finland to Estonia the market showed high need for hedging instruments, then in the direction from Estonia to Finland, market participants showed no interest, as there is practically no congestion in that directions.

**Considering market interest, the Baltic CCR regional design foresees LTTRs only in the direction where on the day-ahead market congestion occur: on Estonia-Latvia border in direction from Estonia to Latvia and on Finland Estonia border only in direction from Finland to Estonia.**

To ensure transparency for the market participants the amendment 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.

**The current design on the EE-LV border will remain as it is.**

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| **Bidding zone border and responsible TSOs** | **Type of LTTRs** | **Timeframe** | **Product** |
| **Estonia (EE)**Elering | -> | **Latvia (LV)**AST | FTR-option | Yearly Quarterly Monthly | Base |
| **Finland (FI)**Fingrid | -> | **Estonia (EE)**Elering | FTR-option | YearlyMonthly | Base |

# Implementation

The implementation of the amendment for regional design of LTTRs shall coincide with the auction calendar as coordinated and published by the SAP operator JAO. The auctions pf Baltic CCR LTTRs will follow the auction calendar published on the website of the JAO.

1. The implementation of auctions with a yearly timeframe on all bidding zone borders covered by this Amendment for 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 JAO.
2. The implementation of the auction with quarterly timeframe on all bidding zone borders covered by this Amendment for regional design of LTTRs will be completed no later than for the next quarterly auction after the approval, in accordance with the auction calendar as coordinated and published by JAO.
3. The implementation of the auction with monthly timeframe on all bidding zone borders covered by this Amendment for 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 JAO.

The implementation of the amendment for regional design of LTTRs in the Baltic CCR 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 amendment for regional design of LTTRs if the approval will be published before the auction calendar. If approval of the amendment of Baltic CCR regional design is given after the next year (2023) auction calendar is published, the implementation for the FI-EE border yearly auctions can be completed for the yearly auction for 2024.