



***Public consultation for the design of Long Term
Transmission Rights on SWE (South West Europe)***

Date

DISCLAIMER

This document is released on behalf of RTE, REE and REN only for the purposes of the public consultation on the proposal for the design of Long Term Transmission Rights in accordance with the EU Regulation n°2016/1719, of 26 September 2016, establishing a guideline on forward capacity allocation. This proposal covers the design of Long Term Transmission Rights for the South West Europe Region and does not in any case represent a firm, binding or definitive TSOs' position on the content.

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0 Framework

The EU Regulation n°2016/1719, of 26 September 2016, establishing a guideline on forward capacity allocation ("Regulation FCA"), lays down detailed rules on:

- cross-zonal capacity allocation in the forward markets,
- the establishment of a common methodology to determine long-term cross-zonal capacity,
- the establishment of a single allocation platform at European level offering long-term transmission rights, and
- the possibility to return long-term transmission rights for subsequent forward capacity allocation or transfer long-term transmission rights between market participants.

With reference to Article 31, no. 3 of Regulation FCA , RTE, REE and REN, as the Transmission System Operators of South West European Region (hereafter referred to as SWE TSOs), intend to define the design of Long Term Transmission Rights in SWE, being understood that such design should at least contain the type of products offered, the time frames, the form of products and time schedule for implementation. Furthermore, with reference to Article 6 of the same Regulation, RTE, REE and REN intend to consult stakeholders accordingly.

1 Current Situation

In the Portuguese – Spanish border the Long Term Transmission Rights products currently in place are Financial Transmission Rights Options (FTR).

The FTR applied in this border in both directions are:

- FTR E-P Base Load Contracts: The underlying asset of FTR E-P Base Contracts is the difference, if positive, between the hourly marginal price formed on the daily Spot Market managed by OMIE, for the Spanish bidding zone and the Portuguese bidding zone of MIBEL.
- FTR P-E Base Load Contracts: The underlying asset of FTR P-E Base Contracts is the difference, if positive, between the hourly marginal price formed on the daily Spot Market managed by OMIE, for the Portuguese bidding zone and the Spanish bidding zone of MIBEL.

These contracts are traded as follows:

- Quarterly auctions.
- Annual auctions.

In the French – Spanish border the Long Term Transmission Rights products currently in place are Physical Transmission Rights (PTR).

The PTR applied in this border in both directions are:

- PTR E-F Base Load Contracts: This product entitles its holder to physically transfer the energy, by nominating a certain hourly volume of electricity between two Bidding Zones from Spain to France in accordance with the applicable nomination rules. In

case the holder does not nominate its PTRs, the related capacity to those non-nominated PTRs is available for the day-ahead market coupling. PTRs holder shall be remunerated for the non-nominated PTRs, in accordance with EU Harmonized Allocation Rules ("HAR").

- PTR F-E Base Load Contracts: This product entitles its holder to physically transfer the energy by nominating a certain hourly volume of electricity between two Bidding Zones from France to Spain in accordance with the applicable nomination rules. In case the holder does not nominate its PTRs, the related capacity to those non-nominated PTRs is available for the day-ahead market coupling. PTRs holder shall be remunerated for the non-nominated PTRs in accordance with EU Harmonized Allocation Rules ("HAR").

These contracts are traded through an allocation platform appointed by TSOs to act on their behalf as follows:

- Monthly auctions;
- Annual auctions.

Since foreseen outages for maintenance could have a significant impact on the available capacities for this border, the contracts may include reduction periods in order to increase the capacity offered to the market on the long term time frame.

For a matter of clarification, Base Load contract means a constant band, excluding reduction period, covering all the hours of the day.

2 Type of long-term transmission rights

Long-term cross-zonal capacity shall be allocated to market participants by the allocation platform in the form of PTRs pursuant to the use-it-or-sell-it (UIOSI) principle or in the form of FTRs – Options or FTRs – Obligations.

According to Article 31.6 of Regulation FCA, the allocation of PTRs and FTRs – Options or FTRs – Obligations in parallel at the same bidding zone border is not allowed.

A PTR gives the holder the exclusive right to use a particular interconnection in one direction to transfer a predefined quantity of energy from one market hub to the other. It is issued by TSOs, and it provides the holder with the option to transport a certain volume of electricity in a certain period of time. The exercise of PTRs as options is performed through a nomination process in accordance with applicable nomination rules. The UIOSI provision ensures that non-nominated capacity is made automatically available for the day-ahead allocation. The PTRs holder receives the difference between the day-ahead prices of the two concerned bidding zones in the direction of the transmission right.

FTRs - Options and FTRs - Obligations give respectively the holder the right to or the obligation to assume the actual value of the amount of capacity he is holding. The underlying condition for FTRs is the introduction of a functioning day-ahead market coupling. They are issued by TSOs.

Unlike FTR - Obligations, the holder of PTRs UIOSI or FTR - Options does not assume the risk of a negative price differential.

FTRs - Options entitle their holders to receive a financial compensation equal to the positive market spread between two bidding zones during a specified time period in the specific direction of the FTR. With FTR - Options, the entire available cross-zonal transmission capacity is available to the day-ahead market coupling.

FTRs - Obligations entitle their holders to receive or oblige them to pay the hourly market price difference between two bidding zones during a specified time period in a specified direction. The product entails the obligation for holders to pay the respective market price differential if this is negative in the direction of the FTR – Obligation.

The development of currently unknown future methodologies and concepts for the use of cross-zonal capacity (e.g. for balancing or reserve exchange purposes) may require SWE TSOs to adapt their position accordingly.

3 Forward capacity allocation time frames

As per article 31.2 of Regulation FCA, long-term transmission rights shall be offered for at least annual and monthly time frames.

Additional time frames for long-term products may be offered in a bidding zone border, always if enough amount of capacity is available to be shared among all time frames.

The most common time frames, apart from annual and monthly, are quarterly and half-yearly time frames.

The parameters taken into account to assess the time frames offered at specific bidding zone border may be, among others, the usual maintenance periods, the time frames of other forward products in the region or the needs expressed by market participants.

4 Form of product (base load, peak load, off-peak load)

Base load products make capacity available for all the hourly periods of the time frame, while peak and off-peak load product offer the capacity products partially along the day.

Since Long Term cross-zonal products can be used for hedging cross-border trades done on the power markets, the form of products offered shall be consistent with products exchanged on these markets. Baseload products are the most liquid on power markets, and therefore long term cross-zonal capacities in the form of baseload are the most suitable to comply with hedging needs of market.

In some cases, due to foreseen outages for maintenance with significant impact on available cross-zonal capacity, the base load product may include reduction periods in order to keep the amount of capacity product offered to the market during the periods without foreseen outages.

Annex

Draft Proposal for Design of Long Term Transmission Rights on SWE

Whereas

1. This document is a common proposal developed by RTE, REE and REN as the Transmission System Operators of South West Europe Region (hereafter referred to as SWE TSOs), which intend to ensure efficient, transparent and non-discriminatory Long Term Transmission Rights on SWE.
2. The Long Term Transmission Rights design proposal complies the general principles, goals and other methodologies reflected in Regulation FCA, establishing a guideline on forward capacity allocation.
3. According to Article 31 of Regulation FCA, the design proposal 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.

RTE, REE and REN therefore hereby agree as follows:

Article 1 - Subject matter and scope

1. The Long Term Transmission Rights design, as determined in this design proposal, shall be considered as the SWE TSOs common proposal of the regional design of long-term transmission rights. The Long Term Transmission Rights design proposal shall cover the following:
 - a) Long Term Transmission Rights in FR-ES interconnection; and
 - b) Long Term Transmission Rights in PT-ES interconnection.
2. The scope of the Long Term Transmission Rights design does not extend to the assignment of roles and responsibilities to specific parties. Neither does the scope attempt to provide a governance framework for specific roles or responsibilities. These aspects will be defined by the SWE TSOs in accordance with Regulation FCA.

Article 2 - Definitions and interpretation

For the purposes of this Design Proposal, terms used shall have the meaning of the definitions included in Article 2 of Regulation FCA and Article 2 of EU Harmonisation of long term Allocation Rules in their latest applicable version.

1. In this Design Proposal, unless the context requires otherwise:
 - a) the singular indicates the plural and vice versa;
 - b) the table of contents and headings are inserted for convenience only and do not affect the interpretation of this proposal; and

- c) any reference to legislation, regulations, directive, order, instrument, code or any other enactment shall include any modification, extension or re-enactment of it then in force.

Article 3 - Type of long-term transmission rights

The Long Term Transmission Rights products proposed within SWE are:

- a) Financial Transmission Rights Options for the Portuguese – Spanish border;
- b) Physical Transmission Right for the French – Spanish border.

Article 4 – Forward capacity allocation time frames

For the Capacity Calculation Region of South-West Europe, the allocation time frames per bidding zone border are:

- a) For the Portuguese – Spanish bidding zone border, the long-term transmission rights shall be offered at annual, quarterly and monthly time frames.
- b) For the French – Spanish bidding zone border, the long-term transmission rights shall be offered at annual and monthly time frames.

Article 5 – Form of product (base load, peak load, off-peak load)

For the Capacity Calculation Region of South-West Europe, the form of products per bidding zone border are:

- a) For the Portuguese – Spanish bidding zone border, the long-term transmission rights shall be offered in the form of base load products that may include reduction periods.
- b) For the French – Spanish bidding zone border, the long-term transmission rights shall be offered in the form of base load products that may include reduction periods.

Article 6 – Timeline for implementation

The arrangements described in Articles 3 to 5 shall be implemented with immediate effect after SWE NRAs approval of this design proposal and any regulation related with it.

In case of implementation of monthly products for the Portuguese – Spanish border, such implementation will occur after the migration of the auctions to the Single Allocation Platform.

Article 7 - Language

The reference language for the Design of Long Term Transmission Rights on SWE shall be English. For the avoidance of doubt, where TSOs need to translate the Design of Long Term Transmission Rights on SWE into their national language(s), in the event of inconsistencies between the English version published by SWE TSOs in accordance with Article 4(13) of the Regulation FCA and any version in another language, the relevant TSOs shall be obliged to dispel any inconsistencies by providing a revised translation of the Design of Long Term Transmission Rights on SWE to their relevant national regulatory authorities.