Finnish, Estonian and Latvian TSOs of Baltic CCR TSOs' Common Methodology for Splitting Long-Term Cross-Zonal Capacity in Accordance with Article 16 of Commission Regulation (EU) 2016/1719 of 26 September 2016 Establishing a Guideline on Forward Capacity Allocation

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for public consultation

Finnish, Estonian and Latvian TSOs of Baltic CCR TSOs, taking into account the following:

Whereas

(1) This document by Finnish, Estonian and Latvian Transmission System Operators of Baltic Capacity Calculation Region (hereafter referred to as "Baltic CCR") as defined in accordance with Article 15 of Commission Regulation (EU) 2015/1222 establishing a guideline on Capacity Allocation and Congestion Management (hereafter referred to as the "CACM Regulation") describes a common Methodology for Splitting Long-Term Cross-Zonal Capacity (hereafter referred to as the "LTCS") in accordance with Article 16 of the Commission Regulation 2016/1719 (hereafter referred to as the "FCA Regulation).

(2) This LTCS takes into account the general principles, goals and other methodologies set in the FCA Regulation, CACM Regulation, Commission Regulation (EU) 2017/1485 of 2 August 2017 establishing a Guideline on Electricity Transmission System Operation (hereafter referred to as "SO Regulation"), and Regulation 2019/943 of the European Parliament and of the Council of 5 June 2019 on the internal market for electricity (hereafter referred to as "Regulation No 2019/943").

(3) The goal of the FCA Regulation is the coordination and harmonisation of cross-zonal capacity calculation and capacity allocation in the forward markets, and it sets requirements for the TSOs to cooperate on the level of capacity calculation regions (hereinafter referred to as "CCRs"), on a pan-European level and across bidding zone borders. The FCA Regulation also sets rules for establishing capacity calculation methodologies based either on the coordinated net transmission capacity approach (hereafter referred to as "CNTC approach") or on the flow-based approach (hereafter referred to as "FB approach"). In case of the TSO(s) allocating long term transmissions rights (hereinafter referred to as "LTTRs"), the FCA Regulation also sets rules for establishing a methodology for the splitting of long term capacity on different time frames, e.g. month and year.

(4) This LTCS fulfills the requirement of Article 16(2)(a) of the FCA Regulation as it ensures the availability of LTTRs for market participants at least for the yearly and monthly timeframes, thereby meeting the hedging needs of market participants.

(5) This LTCS fulfills the requirement of Artice 16(2)(b) by taking into account the Capacity Calculation Methodology developed in accordance with Article 10 of the Regulation FCA (hereinafter „Long-term CCM"), thereby being coherent with the said methodology.

(6) This LTCS fulfills the requirement of Article 16(2)(c) as it ensures that yearly capacity shall not be allocated for the entire volume in the yearly auction in order to allow market participants to cover their hedging needs at least on yearly and monthly timeframes and thus allowing the market participant to access hedging opportunities in both timeframes. Further, this LTCS does not lead to restrictions in competition, in particular for access to long-term transmission rights, as the splitted long-term cross-zonal capacity is allocated in public auctions.

(7) Article 4(8) of the FCA Regulation requires that the expected impact of the LTCS on the objectives of the FCA Regulation is described. The impact is presented below (points (8) to (12) of this Whereas Section).

(8) The LTCS contributes to and does not in any way hamper the achievement of the objectives of Article 3 of the FCA Regulation. In particular, the LTCS serves the objectives of optimising the calculation and allocation of long-term transmission rights (Article 3(b) of the FCA Regulation), providing non-discriminatory access to long-term transmission rights (Article 3(c) of the FCA Regulation), respecting the need for a fair and orderly forward capacity allocation and orderly price formation (Article 3(e) of the FCA Regulation), ensuring and enhancing the transparency and reliability

of information on forward capacity allocation (Article 3(f) of the FCA Regulation) and contributing to the efficient long-term operation and development of the electricity transmission system and electricity sector in the Union (Article 3(g) of the FCA Regulation).

(9) The LTCS serves the objective of optimising the calculation and allocation of long-term transmission rights in accordance with Article 3(b) of the FCA Regulation since the LTCS is using an efficient approach balancing the risk of underselling with the need for heeding of the market.

(10) The LTCS provides non-discriminatory access to LTTRS (Article
3(c) of the FCA Regulation) as there are no barriers for access to the auction of LTTRs if the conditions, cf. the Harmonised Allocations Rules, are fulfilled. Moreover it ensures fair and nondiscriminatory treatment of TSOs, the Agency, regulatory authorities and market participants (Article 3(d) of the FCA Regulation) as the rules provide no undue discrimination for market participants and allows for access to data by the Agency regulatory authorities and market participants.

(11) The LTCS contributes to the objective of respecting the need for a fair and orderly forward capacity allocation and price formation (Article 3(e) of the FCA Regulation) by making available in due time the cross-zonal capacity to be released in the long-term time frame and forward markets, where appropriate.

(12) The LTCS serves the objective of transparency and reliability of information (Article 3(f) of the FCA Regulation) as the LTCS determines the main principles and main processes for allocating LTTRs. The LTCS enables Baltic CCR TSOs to provide market participants with the same reliable information on cross-zonal capacities and allocation constraints for long-term allocation and forecasting purposes in a transparent way. To facilitate transparency, Baltic CCR TSOs will publish data to the market on a regular basis to help market participants to evaluate the LTTR process and long-term capacity forecasts. Baltic CCR TSOs will engage stakeholders in dialogue to specify necessary hedging needs to this effect.

(13) The LTCS does not hinder an efficient long-term operation in Baltic CCR and adjacent CCRs, and the development of the transmission system in the European Union (Article 3(g) of the FCA Regulation). The LTCS will support efficient pricing in the forward markets, providing the right signals from a long-term perspective.

(14) In conclusion, the methodology for splitting rules contributes to the general objectives of the FCA Regulation to the benefit of market participants and electricity end consumers.

SUBMIT THE FOLLOWING METHODOLOGY FOR SPLITTING RULES TO THE FINNISH, ESTONIAN AND LATVIAN BALTIC CCR REGULATORY AUTHORITIES:

TITLE I

General

Article 1

Subject matter and scope

1. The LTCS is the methodology of Baltic CCR in accordance with Article 16(2) of the FCA Regulation.

2. This LTCS applies solely to the bidding zones borders:

   a. Finland – Estonia

   b. Estonia - Latvia

3. This LTCS covers the methodology for balancing the risk of underselling against the benefit, in terms of hedging, of allocating LTTRs to the market.

4. This LTCS covers the methodology for splitting capacity calculated as long-term cross-zonal capacity for the long-term time frame, for which the LTTRs are foreseen in the regional design of long-term transmission rights pursuant to Article 31 of FCA Regulation.

5. Splitted long-term cross-zonal capacity according to this methodology shall be auctioned as financial transmission rights only. No long-term physical transmission rights auctioning and allocation is foreseen.

Article 2

Definitions and interpretation

1. For the purposes of the Proposal, the terms used shall have the meaning given to them in Article 2 of Regulation 2019/943 , Article 2 of the FCA Regulation, Article 2 of the CACM Regulation, Article 2 of the Harmonised Allocation Rules for long‑term transmissioon rights in accordance with Article 51 of FCA Regulation (EU) and Article 2 of Commission Regulation (EU) No 543/2013 of 14 June 2013 on submission and publication of data in electricity markets and amending Annex I to Regulation (EC) No 714/2009 of the European Parliament and of the Council (hereafter referred to as "Transparency Regulation") and Article 2 of capacity calculation methodology developed in Baltic CCR in accordance with Article 20(2) of the CACM Regulation.

2. In addition, in this LTCS, the following terms shall have the meaning below:

   a. "LTTR" means a Physical or a Financial Long Term Transmission Rights;

   b. "HAR" means Harmonised Allocation Rules;

   c. "SAP" means Single Allocation Platform;

   d. "FCA Regulation" means guideline on Forward Capacity Allocation;

   e. "Long-term CCM " means the Capacity Calculation Methodology in accordance with Article 10 of the FCA Regulation.

3. In this LTCS, unless the context requires otherwise:

   a. the singular indicates the plural and vice versa;

   b. headings are inserted for convenience only and do not affect the interpretation of this LTCS; and

c. any reference to legislation, regulations, directives, orders, instruments, codes or any other enactment shall include any modification, extension or re-enactment of it when in force.

4. For the sake of clarity this LTCS does not affect TSOs' right to delegate all or part of their task in accordance with the Article 62 of the FCA Regulation. In this LTCS "TSO" shall refer to Transmission System Operator or to a third party whom the TSO has delegated task(s) to in accordance with the FCA Regulation, where applicable. However, the delegating TSO shall remain responsible for ensuring compliance with the obligations under the FCA Regulation and under the HAR.

TITLE 2

Applying of capacity calculated for long-term time frame

Article 3

Applying of capacity calculated for long-term time frame

1. The Baltic CCR TSOs shall apply the long term capacity calculated by the methodology set out by the Long-term CCM for each long term time frame as a point of departure for calculating the amount of LTTRs for the different time frames. This methodology applies to all time frames foreseen in the regional design of long-term transmission rights in accordance with Article 31(2) of the FCA Regulation.

2. The Baltic CCR TSOs shall apply the following procedure when splitting and issuing the amount of LTTRs for each different time frames:

a. A week prior to the yearly allocation, the amount of yearly LTTRs for the upcoming yearly allocation shall be published to the market.

b. If relevant, once a quarter and no later than two (2) Working Days prior to the quarterly allocation, the amount of quarterly LTTRs shall be publish to the market.

c. Once a month and no later than two (2) Working Days prior to the monthly allocation, the amount of LTTRs with a monthly time frame shall be published to the market.

d. In case other time frames than year, quarter and month are introduced, the amount of LTTRs within that time frame shall be published to the market no later than two working days prior to the allocation in the month before the time frame of where the LTTRs apply.

Article 4

Methodology for splitting long-term cross-zonal capacity

1. The relevant TSOs shall split the calculated long-term cross-zonal capacity for each forward capacity allocation by applying the methodology for splitting cross-zonal capacity pursuant to point 3 in this Article 4.

2. The relevant TSOs may delegate the splitting of long-term cross-zonal capacity to the coordinated capacity calculator prior to which they shall evaluate the effectivness of long-term capacity splitting fuction performed by coordinated capacity calculator according to article 62(1) of FCA Regulation. In order to avoid uneffectivness in calculation and coordination process, TSOs may proceed fulfilling the long-term capacity splitting function under TSO-TSO coordination.

3. The calculation of amount of LTTRs for each timeframe shall be done in the following way:

a. The long-term cross-zonal capacity (hereinafter referred to as LTCZC) for respective timeframe and respective border shall be calculated according to the Long-term CCM of Baltic CCR, as stated in FCA Regulation Article 10.

b. The following splitting shares of long-term cross-zonal capacity for EE-LV border shall be applied when allocating yearly, quarterly and montly shares of LTTRs capacity (in MW). When allocating shares of LTTR capacity, the limiting factor is the forecast value of LTCZC. For EE-LV border up to 50% of LTCZC can be allocated as LTTR, due to potential reserving of cross-zonal capacity for balancing reserves sharing and exchange as set in the Methodology for the market-based allocation process of cross-zonal capacity for the exchange of balancing capacity for the Baltic CCR in accordance with Article 41(1) of the Commission Regulation (EU) 2017/2195 of 23 November 2017 establishing a guideline on electricity balancing:

$$LTTR_{Y(n)} = \min (0.5*minLTCZC_{Y(n)};\ Y;\ 200\ )$$

$$LTTR_{Q(n)} = \min (0.5*minLTCZC_{Q(n)} - LTTR_{Y(n)};\ Q\ ;\ 50)$$

$$LTTR_{M(n)} = \min (0.5*minLTCZC_{M(n)} - LTTR_{Y(n)} - LTTR_{Q(n)}\ ;\ M;\ 150)$$

Where:

$LTTR_{Y(n)}$ – 	LTTRs capacity offered in yearly timeframe for year n in MW;

$LTTR_{Q(n)}$ – 	LTTRs capacity offered in relevant quarterly timeframe for year n in MW;

$LTTR_{M(n)}$ – 	LTTRs capacity offered in relevant monthly timeframe for year n in MW;

$minLTCZC_{Y(n)}$ – the minimum forecasted monthly NTC value in MW of the long-term cross-zonal capacity for respective border and respective year (n) calculated according to the Long-term CCM of Baltic CCR, as stated in FCA Regulation Article 10;

$minLTCZC_{Q(n)}$ – the minimum forecasted monthly NTC value in MW of the long-term cross-zonal capacity for respective border and respective year (n) or quarter (n) calculated according to the Long-term CCM of Baltic CCR, as stated in FCA Regulation Article 10;

$minLTCZC_{M(n)}$ – the minimum forecasted daily NTC value in MW of the long-term cross-zonal capacity for respective border and respective month n calculated according to the Long-term CCM of Baltic CCR, as stated in FCA Regulation Article 10;

Y – yealy LTTR breakeven volume in MW for the yearly auction run where auction result would equal price difference of previous 3 years for auctioned yearly product;

Q – quarterly LTTR breakeven volume in MW for the quaterly auction run where auction result would equal price difference of previous 3 years for the same quarter auctioned quarterly product;

M – monthly LTTR breakeven volume in MW for the monthly auction run where auction result would equal price difference of previous 3 years for the same month auctioned monthly product.

c. The following splitting shares of long-term cross-zonal capacity for FI-EE border shall be applied when allocating yearly and montly shares of LTTRs capacity (in MW):

$$LTTR_{Y(n)} = \min (minLTCZC_{Y(n)};\ Y;\ 350)$$

LTTR$_{M(n)}$ = min (minLTCZC$_{M(n)}$– LTTR$_{Y(n)}$; M; 300)

Where:

LTTR$_{Y(n)}$ – LTTRs capacity offered in yearly timeframe for year n in MW;

LTTR$_{M(n)}$ – LTTRs capacity offered in relevant monthly timeframe for year n in MW;

minLTCZC$_{Y(n)}$ – the minimum forecasted monthly NTC value in MW of the long-term cross-zonal capacity for respective border and respective year (n) calculated according to the Long-term CCM of Baltic CCR, as stated in FCA Regulation Article 10;

minLTCZC$_{M(n)}$ – the minimum forecasted daily NTC value in MW of the long-term cross-zonal capacity for respective border and respective month n calculated according to the Long-term CCM of Baltic CCR, as stated in FCA Regulation Article 10;

Y – yealy LTTR breakeven volume in MW for the yearly auction run where auction result would equal price difference of previous 3 years for auctioned yearly product;

M – monthly LTTR breakeven volume in MW for the monthly auction run where auction result would equal price difference of previous 3 years for the same month auctioned monthly product.

4. Breakeven volume is calculated annually for the upcoming year´s auctions prior to the yearly auction. The breakeven volume shall be calculated considering the historical bidding curves of LTTR auctions for the same product over the full previous 36 months from the point of the auction volume calculation, and the actual average monthly price differences between the relevant bidding zones for the same timeframe. The breakeven volume equals the total capacity for all months in the relevant period that would have been allocated in accordance with the bidding curves if the auction price had equaled the actual monthly average price difference between the bidding zones.

The breakeven volume for the yearly timeframe Y is calculated as problem involving two equations. The Y value is rounded to the closest integer value:

$$\left\{ \begin{matrix} \sum_{m=1}^{36} (h_m * C_{rp.m} * Y - h_m * C_{apY.m} * Y) = 0 \\ C_{apY.m} = f(Y, m) \end{matrix} \right\}$$

Where:

Y – yealy LTTR breakeaven volume in MW
m – auction month in reference period
h_m hours in a set month
$C_{rp.m}$ – is the real (actual) price difference in a set month in EUR/MW
$C_{apY.m}$ – is auction price in a set month that is a function of auction volume Y and is found according to historical yearly auction curve for 36 previous months. For a calendar year each month auction price is the same in EUR/MW

The breakeven volume for the quarterly timeframe Q is calculated as problem involving two equations. The Q value is rounded to the closest integer value:

$$\left\{ \begin{array}{c} \sum_{m=1}^{36}(h_m * C_{rp.m} * Q - h_m * C_{apQ.m} * Q) = 0 \\ C_{apQ.m} = f(Q, m) \end{array} \right\}$$

Where:

Q – quaterly LTTR breakeaven volume in MW

m – auction month in reference period

h_m hours in a set month

$C_{rp.m}$ – is the real (actual) price difference in a set month in EUR/MW

$C_{apQ.m}$ – is auction price in a set month that is a function of auction volume Q and is found according to historical relevant quarterly auction curve for 36 previous months. For a calendar quater each month auction price is same in EUR/MW.

The breakeven volume for the monthly timeframe M is calculated as problem involving two equations. The M value is rounded to the closest integer value:

$$\left\{ \begin{array}{c} \sum_{m=1}^{36}(h_m * C_{rp.m} * M - h_m * C_{apM.m} * M) = 0 \\ C_{apM.m} = f(M, m) \end{array} \right\}$$

Where:

M – monthly LTTR breakeaven volume in MW

m – auction month in reference period

h_m hours in a set month

$C_{rp.m}$ – is the real (actual) price difference in a set month in EUR/MW

$C_{apM.m}$ – is auction price in a set month that is a function of auction volume M and is found according to historical relevant monthly auction curve for 36 previous months in EUR/MW.

5. If any historical data is considered unavailable for the relevant bidding zone border, the months without this data shall be excluded from the breakeven volume calculations. Historical data is deemed unavailable if:

a. the historical data for the relevant period shows that there has been FTRs curtailment with reason of Force Majeure;

b. the historical data for the relevant period indicates day-ahead net transfer capacity decrease due to Force Majeure.

Article 5

Rules for avoiding undue discrimination of access to purchase of long term transmissions right

1. In accordance with article 16(2c) of FCA Regulation there shall be no restrictions on the access to purchase LTTRs that lead to undue discrimination of access to purchase LTTRs or undue restrictions in competition between purchasers of LTTRs in the auctions of LTTRs.

2. All market players shall be given access to purchase LTTRs if they fulfil the general condition set out in Chapter 2 and 3 of the HAR.

Article 6

Methodology for the validation of cross-zonal capacity allocated as LTTR´s for long term time frame

Baltic CCR TSOs shall perform the validation of amount of LTTRs on its bidding zone border(s) to ensure that the results of regional calculation of LTTRs and splitting between time frames will ensure operational security. When performing the validation, the TSO shall consider operational security, taking into account new and relevant information obtained during or after the most recent capacity calculation.

TITLE 3

Miscellaneous

Article 7

Monitoring data to the national regulatory authorities

1. All technical and statistical information related to this LTCS shall be made available upon request to the NRAs in the Baltic CCR.

2. Any data requirements should be managed in line with confidentiality requirements pursuant to national legislation.

Article 8

Publication of data

1. The TSOs shall, in compliance with national legislation and in accordance with Article 3(f) of the FCA Regulation, and in addition to the data items and definitions of Transparency Regulation, publish the following on a regular basis and as soon as possible:

> a. The marginal auction price for each time frame;

> b. The demand curve for LTTRs for each time frame.

2. The publication of the following information can be done on behalf of TSOs on SAP´s web page.

Article 9

Capacity calculation process

1. Within the capacity calculation process, reduction periods may be defined in accordance with HAR Article 30. The reduction periods will not be taken into account when using the LTCS cf. Article 4.

2. When the amount of LTTRs are provided to the SAP for the auction the reduction periods will be included in the final product. This ensures that the final product allocated to the market via the SAP includes reduction periods as given by the capacity calculation process.

TITLE 4

Final provisions

Article 10

Publication and Implementation

1. Batic CCR TSOs shall publish the LTCS without undue delay after the Baltic CCR NRAs has approved the LTCS or a decision has been taken by the Agency for the Cooperation of Energy Regulators in accordance with Article 4(9), Article 4(10) and Article (11) of the FCA Regulation regarding the methodology.

2. The methodology will be implemented for the first subsequent LTTR auctionauctions after the Baltic CCR NRAs has approved the LTCS and after the implementation of the methodology for long term capacity calculation, or a decision has been taken by the Agency for the Cooperation of Energy Regulators in accordance with Article 4(9), Article 4(10) and Article (11) of the FCA Regulation regarding the methodology.

Article 12

Language

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