

**AGREEMENT ON APPROVAL BY THE IRELAND-UK (IU)
REGULATORY AUTHORITIES**

OF

**THE IU TSOs' PROPOSAL FOR THE
COMMON LONG-TERM CAPACITY CALCULATION
METHODOLOGY**

8 April 2020

I. Introduction and legal context

This document elaborates an agreement of the Regulatory Authorities of the Ireland-United Kingdom (IU) Capacity Calculation Region (CCR) for approving the IU Transmission System Operators' (IU TSOs) amended proposal for a common coordinated capacity calculation methodology (LT CCM) in accordance with Article 10 of Commission Regulation (EU) 2016/1719 of 26 September 2016 establishing a guideline on forward capacity allocation (Regulation 2016/1719).

This agreement of the IU Regulatory Authorities shall provide evidence that a decision on the LT CCM does not, at this stage, need to be adopted by the Agency for the Cooperation of Energy Regulators (ACER) pursuant to Article 4(11) of Regulation 2016/1719.

It is intended to constitute the basis on which the IU Regulatory Authorities will each subsequently make national decisions pursuant to Article 4(11) of Regulation 2016/1719 to approve the LT CCM proposal, submitted by TSOs in line with Article 4(11) of Regulation 2016/1719.

The legal provisions relevant to the submission and approval of the proposal, and this IU Regulatory Authority agreement, can be found in Articles 3, 4 and 10 of Regulation 2016/1719. They are set out below for reference.

Article 3 of Regulation 2016/1719:

This Regulation aims at:

- (a) *promoting effective long-term cross-zonal trade with long-term cross-zonal hedging opportunities for market participants;*
- (b) *optimising the calculation and allocation of long-term cross-zonal capacity;*
- (c) *providing non-discriminatory access to long-term cross-zonal capacity;*
- (d) *ensuring fair and non-discriminatory treatment of TSOs, the Agency, regulatory authorities and market participants;*
- (e) *respecting the need for a fair and orderly forward capacity allocation and orderly price formation;*
- (f) *ensuring and enhancing the transparency and reliability of information on forward capacity allocation;*
- (g) *contributing to the efficient long-term operation and development of the electricity transmission system and electricity sector in the Union.*

Article 4 of Regulation 2016/1719:

Adoption of terms and conditions or methodologies

1. *TSOs shall develop the terms and conditions or methodologies required by this Regulation and submit them for approval to the competent regulatory authorities within the respective deadlines set out in this Regulation. Where a proposal for terms and conditions or methodologies pursuant to this Regulation needs to be developed and agreed by more than one TSO, the participating TSOs shall closely cooperate. TSOs, with the assistance of ENTSO for Electricity, shall regularly inform the competent regulatory authorities and the Agency about the progress of the development of these terms and conditions or methodologies.*

2. (...)
3. (...)
4. (...)
5. *Each regulatory authority shall be responsible for approving the terms and conditions or methodologies referred to in paragraphs 6 and 7.*
6. (...)
7. *The proposals for the following terms and conditions or methodologies shall be subject to approval by all regulatory authorities of the concerned region:*
 - (a) *the capacity calculation methodology pursuant to Article 10;*
 - (...)
8. *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. Proposals on terms and conditions or methodologies subject to the approval by several or all regulatory authorities shall be submitted to the Agency at the same time that they are submitted to regulatory authorities. Upon request by the competent regulatory authorities, the Agency shall issue an opinion within three months on the proposals for terms and conditions or methodologies.*
9. *Where the approval of the terms and conditions or methodologies requires a decision by more than one regulatory authority, the competent regulatory authorities shall consult and closely cooperate and coordinate with each other in order reach an agreement. Where applicable, the competent regulatory authorities shall take into account the opinion of the Agency. Regulatory authorities shall take decisions concerning the submitted terms and conditions or methodologies in accordance with paragraphs 6 and 7 within six months following the receipt of the terms and conditions or methodologies by the regulatory authority or, where applicable, by the last regulatory authority concerned.*
10. (...)
11. (...)
12. (...)
13. *TSOs responsible for establishing the terms and conditions or methodologies in accordance with this Regulation shall publish them on the internet after approval by the competent regulatory authorities or, if no such approval is required, after their establishment, except where such information is considered as confidential in accordance with Article 7.*

Article 10 of Regulation 2016/1719:

Capacity calculation methodology

1. *No later than six months after the approval of the common coordinated capacity calculation methodology referred to in Article 9(7) of Regulation (EU) 2015/1222, all TSOs in each capacity calculation region shall submit a proposal for a common capacity calculation methodology for long-term time frames within the respective region. The proposal shall be subject to consultation in accordance with Article 6.*
2. *The approach used in the common capacity calculation methodology shall be either a coordinated net transmission capacity approach or a flow-based approach.*
3. *The capacity calculation methodology shall be compatible with the capacity calculation methodology established for the day-ahead and intraday time frames pursuant to Article 21(1) of Regulation (EU) 2015/1222.*

4. *The uncertainty associated with long-term capacity calculation time frames shall be taken into account when applying:*
 - (a) *a security analysis based on multiple scenarios and using the capacity calculation inputs, the capacity calculation approach referred to in Article 21(1)(b) and the validation of cross-zonal capacity referred to in Article 21(1)(c) of Regulation (EU) 2015/1222; or*
 - (b) *a statistical approach based on historical cross-zonal capacity for day-ahead or intraday time frames if it can be demonstrated that this approach may:*
 - i. *increase the efficiency of the capacity calculation methodology;*
 - ii. *better take into account the uncertainties in long-term cross-zonal capacity calculation than the security analysis in accordance with paragraph 4(a);*
 - iii. *increase economic efficiency with the same level of system security.*
5. *All TSOs in each capacity calculation region may jointly apply the flow-based approach for long-term capacity calculation time frames on the following conditions:*
 - (a) *the flow-based approach leads to an increase of economic efficiency in the capacity calculation region with the same level of system security;*
 - (b) *the transparency and accuracy of the flow-based results have been confirmed in the capacity calculation region;*
 - (c) *the TSOs provide market participants with six months to adapt their processes.*
6. *Where a security analysis based on multiple scenarios is applied for developing the capacity calculation methodology in a capacity calculation region, the requirements for the capacity calculation inputs, the capacity calculation approach and the validation of cross-zonal capacity as provided for in Article 21(1) of Regulation (EU) 2015/1222, except Article 21(1)(a)(iv) where relevant, shall apply.*
7. *When developing the capacity calculation methodology, the requirements for the fallback procedures and the requirement provided for in Article 21(3) of Regulation (EU) 2015/1222 shall be taken into account.*

II. The IU TSOs proposal

Background

The IU TSOs submitted on 5 February 2020 an amended proposal for the LT CCM in accordance with Article 10 of Regulation 2016/1719. The amended proposal follows a request for amendment issued by the IU Regulatory Authorities on 22 July 2019 with regard to the initial LT CCM proposal submitted by the IU TSOs on 23 January 2019.

Under Article 4(11) of Regulation 2016/1719, the TSOs were requested to make the amendments necessary to address the points set out in the IU Regulatory Authorities' request within two months of the Decision, however this submission was delayed due to ongoing negotiations regarding the amended methodology between the IU TSOs. The RAs requested updates from the TSOs on progress towards reaching an agreement and as they were comfortable that the TSOs would reach an agreement on a revised proposal, the RAs agreed that there was no need to consider that the TSOs had failed to reach an agreement.

Article 4(9) and (11) of Regulation 2016/1719, requires Regulatory Authorities of the IU CCR to consult, closely cooperate and coordinate with each other in order to reach an agreement, and make a decision within two months following the receipt of the amended methodology. A decision on this methodology is therefore required by each relevant Regulatory Authority by 5 April 2020.

Overview of LT CCM

This methodology proposes a common and coordinated approach within the IU CCR to promote effective and optimal calculation of long-term cross-zonal capacity in accordance with Article 10 of Regulation 2016/1719. The LT CCM aims to promote effective long term cross-zonal trade and provide long-term cross-zonal hedging opportunities for market participants, aiming to minimise planned reductions in cross-zonal capacity and making participants aware of any reductions.

As per the IU Day-Ahead and Intraday Capacity Calculation Methodology which was approved on 23 July 2018 pursuant to Article 21(1) of Regulation (EU) 2015/1222, the methodology uses a coordinated net transmission capacity approach in line with Article 10(2) of Regulation 2016/1719. The methodology also considers the fallback procedures and the requirement provided for in Article 21(3) of the CACM Regulation.

According to Article 10 (4) of the Regulation 2016/1719, the uncertainty associated with long-term capacity calculation time frames shall be considered when applying a security analysis or statistical approach based on historical cross-zonal capacity. The methodology uses both a statistical approach and a security analysis approach to release capacity at different times during the capacity release process.

The methodology includes proposed timescales for its implementation for the 2021 calendar year and provides a description of its expected impact on the objectives of Regulation 2016/1719, in line with Article 4(8) of Regulation 2016/1719.

III. The IU Regulatory Authorities' position

The IU Regulatory Authorities have reviewed the methodology submitted by the IU TSOs and are satisfied that the contents of the LT CCM meet the requirements set out in Commission Regulation (EU) 2016/1719. The IU Regulatory Authorities are satisfied that the LT CCM is compatible with the IU Day-Ahead and Intraday (DA/ID) Capacity Calculation Methodology. Both methodologies use the coordinated net transmission capacity approach to calculate cross-border capacity, therefore harmonizing the process for the different timeframes.

In their request for amendments on 22 July 2019, the IU Regulatory Authorities asked the IU TSOs to amend a number of specific Articles of the LT CCM pursuant to Article 4(11) of Regulation 2016/1719. An overview of each request for amendment is provided here along with how it has been addressed in the amended methodology.

1. Article 4(2) of the initial methodology submitted by the IU TSOs stated; *'LTCZC may be increased for shorter timeframes via the day-ahead and intraday cross-zonal capacity calculations outlined in IU TSOs common capacity calculation methodology for the day ahead and intraday market timeframe in accordance with Article 21 of Commission Regulation (EU) 2015/1222'*.

The IU Regulatory Authorities understanding was that Article 4(2) should refer to cross-zonal capacity (CZC) and not long-term cross-zonal capacities (LTCZC) and requested that this text was amended for clarity, as LTCZC values for the IU CCR should be definitive once the last LT capacity calculation is finalised.

Article 4(d) of the amended methodology now states; *'This methodology only applies to the long-term timeframe, and cross-zonal capacity may be increased for shorter timeframes in accordance with relevant methodologies including the capacity calculation methodology established for the day-ahead and intraday time frames pursuant to Article 21(1) of Regulation (EU) 2015/1222.'*

2. Article 6(2) of the initial methodology set out the proposed compensation regime for an interconnector's loss of income resulting from a TSO requesting a reduction in the final agreed LTCZC. Article 6(2) stated *'This will include, but not be limited to, where long-term transmission rights have been curtailed, compensating the interconnector owner with the loss-adjusted Day Ahead market spread multiplied by the reduction in cross-zonal capacity.'*

Article 53(2) of Regulation 2016/1719 states that where long term transmission rights have been curtailed, the concerned TSOs shall compensate the holders of curtailed long-term transmission rights with the market spread. However, Article 56(3) of Regulation 2016/1719 states that in the event of curtailment due to *force majeure*, compensation shall be equal to the amount initially paid for the concerned long-term transmission right during the forward allocation process. In the IU Regulatory Authorities' view, Article 6 did not separately describe the compensation regime for curtailment due to *force majeure* and did not clearly distinguish between the requirements of Article 53 and Article 56 of Regulation 2016/1719. The IU TSOs were requested to make this distinction in their amended proposal.

Article 27 of the amended methodology sets out the principles for compensation for reductions of already allocated long-term cross-zonal capacity, stating under Article 21(b)(i) that where curtailment is due to *force majeure*; *'the compensation due to the interconnector owner in respect of such curtailment shall equal the amount initially paid for the concerned long-term transmission rights already allocated during the forward allocation process.'*

The IU RAs are satisfied that the amended proposal for the LT CCM submitted by the IU TSOs complies with the request for amendments. The IU RAs also note the further improvements to the methodology which have been incorporated by the TSOs, in particular to improve the alignment of the methodology with Article 10 (4) (a) and (b) of Regulation 2016/1719.

The IU RAs note that the amended methodology submitted by the TSOs incorrectly refers to 'Harmonised Access Rules' rather than 'Harmonised Allocation Rules'. The TSOs are requested to address this as part of the publication of the approved methodology.

IV. Actions

The IU Regulatory Authorities have assessed, consulted, closely cooperated and coordinated to reach the agreement that the LT CCM meets the requirements of Regulation 2016/1719 and as such can be approved by each of the IU Regulatory Authorities.

The IU Regulatory Authorities must therefore make their decisions, on the basis of this agreement, by 8 April 2020. The LT CCM proposal should therefore be adopted by 8 April 2020.

Following decisions by the IU Regulatory Authorities, IU TSOs shall publish the LT CCM on the internet in line with Article 4(13) of Regulation 2016/1719 and must meet the implementation deadlines required by Article 31 of the LT CCM for the 2021 calendar year.