

**REQUEST FOR AMENDMENT BY THE GREECE-ITALY
REGULATORY AUTHORITIES**

OF

**THE GREECE-ITALY TSOs PROPOSAL FOR SPLITTING
LONG-TERM CROSS-ZONAL CAPACITY IN
ACCORDANCE WITH ARTICLE 16 OF THE
COMMISSION REGULATION (EU) 2016/1719 OF 26
SEPTEMBER 2016 ESTABLISHING A GUIDELINE ON
FORWARD CAPACITY ALLOCATION**

29 July 2019

I. Introduction and legal context

This document elaborates an agreement of the Greece-Italy Regulatory Authorities (in the following: GRIT NRAs), agreed on 29 July 2019 at Greece-Italy Energy Regulators' Regional forum, on the Greece-Italy TSOs (in the following: GRIT TSOs) proposal for splitting long-term cross-zonal capacity (in the following: GRIT splitting), submitted as required by Article 16(1) of Commission Regulation (EU) 2016/1719 of 26 September 2016 establishing a guideline on forward capacity allocation (in the following: FCA).

This agreement of the GRIT NRAs shall provide evidence that a decision on the GRIT splitting does not, at this stage, need to be adopted by ACER pursuant to Article 4(10) of FCA. It is intended to constitute the basis on which the GRIT NRAs will each subsequently request an amendment to the GRIT FCA CCM pursuant to Article 4(11) of FCA.

The legal provisions that lie at the basis of the GRIT splitting, and this GRIT NRAs agreement on the above mentioned methodology, can be found in Articles 3, 4, 16, 23, 24 and 30 of FCA and in Article 5 of Commission Regulation (EU) 2019/942 of 5 June 2019 establishing a European Union Agency for the Cooperation of Energy Regulators (recast) (in the following: ACER Regulation (recast)). . They are set out here for reference.

Article 3 of FCA

Objectives of forward capacity allocation

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) (...)*
- (e) (...)*
- (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 FCA

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.
[...]*
- 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:
(...);
b. the methodology for splitting cross-zonal capacity pursuant to Article 16; [...]*

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. *Where the regulatory authorities have not been able to reach an agreement within the period referred to in paragraph 9, or upon their joint request, the Agency shall adopt a decision concerning the submitted proposals for terms and conditions or methodologies within six months, in accordance with Article 8(1) of Regulation (EC) No 713/2009.*
11. *In the event that one or several regulatory authorities request an amendment to approve the terms and conditions or methodologies submitted in accordance with paragraphs 6 and 7, the relevant TSOs shall submit a proposal for amended terms and conditions or methodologies for approval within two months following the requirement from the regulatory authorities. The competent regulatory authorities shall decide on the amended terms and conditions or methodologies within two months following their submission. Where the competent regulatory authorities have not been able to reach an agreement on terms and conditions or methodologies pursuant to paragraphs 6 and 7 within the two-month deadline, or upon their joint request, the Agency shall adopt a decision concerning the amended terms and conditions or methodologies within six months, in accordance with Article 8(1) of Regulation (EC) No 713/2009. (...)*
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 16 of FCA

Methodology for splitting long-term cross-zonal capacity

1. *No later than the submission of the capacity calculation methodology referred to in Article 10, the TSOs of each capacity calculation region shall jointly develop a proposal for a methodology for splitting long-term cross-zonal capacity in a coordinated manner between different long-term time frames within the respective region. The proposal shall be subject to consultation in accordance with Article 6.*
2. *The methodology for splitting long-term cross-zonal capacity shall comply with the following conditions:*
 - (a) *it shall meet the hedging needs of market participants;*
 - (b) *it shall be coherent with the capacity calculation methodology;*
 - (c) *it shall not lead to restrictions in competition, in particular for access to long-term transmission rights.*

Article 23 of FCA

Regional calculations of long-term cross-zonal capacity

[...]

3. *Each coordinated capacity calculator 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 Article 16.*
4. *Each coordinated capacity calculator shall submit (...) and the splitting of long-term cross-zonal capacity for validation to each TSO within the relevant capacity calculation region pursuant to Article 24.*

Article 24 of FCA

Validation and delivery of cross-zonal capacity and split cross-zonal capacity

[...]

2. *Each TSO shall validate the results of the calculation for splitting of long-term cross-zonal capacity on its bidding zone borders or critical network elements pursuant to Article 16.*
3. *Each TSO shall send its capacity validation and validated splitting of this capacity for each forward capacity allocation to the relevant coordinated capacity calculators and to the other TSOs of the relevant capacity calculation regions.*
4. *Validated splitting of long-term cross-zonal capacity shall be provided by each coordinated capacity calculator for the execution of forward capacity allocation pursuant to Article 29.*

[...]

Article 30 of FCA

Decision on cross-zonal risk hedging opportunities

[...]

7. *Where regulatory authorities decide that long-term transmission rights shall not be issued by the respective TSOs or that other long-term cross-zonal hedging products shall be made available by the respective TSOs, Articles 16, 28, 29, 31 to 57, 59 and 61 shall not apply to the TSOs of the bidding zone borders.*

Article 5 of ACER Regulation (recast)

Tasks of ACER as regards the development and implementation of network codes and guidelines

[...]

1. *Where one of the following legal acts provides for the development of proposals for terms and conditions or methodologies for the implementation of network codes and guidelines which require the approval of all the regulatory authorities of the region concerned, those regulatory authorities shall agree unanimously on the common terms and conditions or methodologies to be approved by each of those regulatory authorities:*
 - (a) a legislative act of the Union adopted under the ordinary legislative procedure;*
 - (b) network codes and guidelines that were adopted before 4 July 2019 and subsequent revisions of those network codes and guidelines; or*
 - (c) network codes and guidelines adopted as implementing acts pursuant to Article 5 of Regulation (EU) No 182/2011.*

The proposals referred to in the first subparagraph shall be notified to ACER within one week of their submission to those regulatory authorities. The regulatory authorities may refer the proposals to ACER for approval pursuant to point (b) of the second subparagraph of Article 6(10) and shall do so pursuant to point (a) of the second subparagraph of Article 6(10) where there is no unanimous agreement as referred to in the first subparagraph.

The Director or the Board of Regulators, acting on its own initiative or on a proposal from one or more of its members, may require the regulatory authorities of the region concerned to refer the proposal to ACER for approval. Such a request shall be limited to cases in which the regionally agreed proposal would have a tangible impact on the internal energy market or on security of supply beyond the region.

[...]

II. The Greece-Italy TSOs proposals

The GRIT splitting was consulted by the GRIT TSOs through ENTSO-E for one month from 18 December 2018 to 17 January 2019, in line with Article 10 and Article 6 of FCA¹. The GRIT splitting proposal was received by the last Regulatory Authority of the Greece-Italy Capacity Calculation Region on 29 January 2019.

Article 4(9) of FCA requires GRIT NRAs to consult and closely cooperate and coordinate with each other in order to reach an agreement and make decisions within six months following receipt of submissions of the last Regulatory Authority concerned. A decision is therefore required by 29 July 2019.

The GRIT splitting proposal defines the volumes of yearly and monthly products for Italy Sud – Greece border (the only border belonging to GRIT CCR where long term transmission rights pursuant to FCA are offered).

Notably, for each direction yearly product:

- a) is in principle assumed equal to the 5^o percentile of the historical distribution of the day-ahead and intraday cross-zonal capacity on the given direction in the past two years; the TSOs don't intend to use the yearly capacity as set according to the long term capacity calculation proposal (usually 50^o percentile of the historical distribution), because such value is not firm and, thus, doesn't match the hedging needs for market participants²;
- b) is capped at 50% of the yearly capacity: the cap aims to avoid that all the yearly capacity is allocated in the yearly auctions; in such a way at least 50% of the yearly capacity remains available for monthly products;
- c) is floored at 10% of the yearly capacity: the floor aims to guarantee a minimum amount of yearly product, in case the 5^o percentile value results too low because of significant outages in the past two years.

Monthly product is based on a daily profile, equal to the difference between the daily profile of the monthly capacity as computed according to the long-term capacity calculation proposal and the already allocated yearly product.

The proposal includes a timescale for the implementation (aligned with the implementation of the long-term capacity calculation) and a description of the expected impact on the objectives of FCA, in line with Article 4(8) of FCA.

III. The Greece-Italy Regulatory Authorities position

Greece-Italy CCR, as amended by ACER Decision 04/2019, includes the Greece-Italy SUD border (DC border composed by a single DC interconnector) plus all the Italian internal bidding zone borders that can be further divided into:

- a) AC bidding zone borders (Italy NORD – Italy CNOR; Italy CNOR – Italy CSUD; Italy CSUD – Italy SUD; Italy SUD – Italy ROSN; Italy SICI – Italy ROSN);
- b) DC bidding zone borders based on a single DC line (Italy SARD – Italy CSUD; Italy SARD – Italy CNOR);

Long term transmission rights pursuant to FCA are auctioned only on the Greece – Italy SUD border; for all the Italian internal bidding zone borders, instead, a specific hedging product is preferred, as stated by Arera in the Resolution 333/2017.

¹ The public consultation is available on the ENTSO-e website:
https://consultations.entsoe.eu/markets/fca_art_16_ccr_grit/

² In general market participants prefer firm products that are not subject to curtailment. A 50^o percentile value is not acceptable because it would entail a non-negligible curtailment risk.

As stated by Article 30(7) of FCA, TSOs offering specific hedging products shall not apply a number of provisions included in FCA, including Article 16 about splitting cross-zonal capacity. Therefore, the TSOs correctly refer the splitting proposal only to the Italy SUD – Greece border.

GRIT NRAs have identified a number of issues with respect to the GRIT splitting proposal. They are illustrated in the following.

Yearly product

Capacity available on Greece-Italy SUD border in day-ahead and intraday timeframes is in principle equal to 500 MW (when the Italy Greece DC cable is in operation) or to 0 MW (when the DC cable is out of service); in very seldom cases an intermediate value is offered to take into account some limitations due to faults in some equipment.

Neglecting these very rare intermediate values, the 5° percentile thus results equal to 500 MW (when the cable was in operation for at least 95% of the hours of the two years before) or 0 MW (if an outage occurred in the past two years for more than 5% of the time). The same values apply also for the 50° percentile relevant to compute the yearly capacity according to the proposal for long-term capacity calculation. As a consequence, three different situations may occur:

- a) 5° percentile equal to 50° percentile equal to 500 MW: in such case the cap for yearly product is triggered and only 250 MW (50% of the yearly capacity) are offered in the yearly auction;
- b) 5° percentile equal to 0 and 50° percentile equal to 500 MW: in such case the floor is triggered and the minimum 50 MW quantity (10% of the yearly capacity) is offered in the yearly auction;
- c) 5° percentile equal to 50° percentile equal to 0: in such case yearly capacity is set to 50 MW (according to the relevant floor as set in the long-term capacity calculation proposal) and the yearly product to 5 MW (10% of the yearly capacity).

GRIT NRAs have some concerns about case c). In such case the relevant outages occurred in the past two years (more than 50% of the hours) will significantly reduce the yearly product to almost zero, not matching the market participants' needs (too low yearly product). Some more comments by GRIT TSOs on this specific aspect will be much appreciated.

Moreover, as stated in the request for amendment related to the proposal for long-term capacity calculation, GRIT NRAs wonder whether a simple security analysis approach can be adopted to compute yearly capacity on the single line DC borders, as Italy SUD-Greece one, avoiding implementing a complex statistical approach.

On such border, in fact, yearly capacity should be principle equal to the cable thermal capacity: prolonged planned unavailability should be taken into account by auctioning products with reduction periods (i.e. not available during the planned outages).

If the proposal for long-term capacity calculation is amended to reflect the above-mentioned approach, GRIT NRAs suggest to amend the GRIT splitting proposal accordingly. Notably, all the reference to the yearly capacity could be substituted by a reference to the cable thermal capacity, thus avoiding any possibility to incur in the case c) described above.

GRIT TSOs are asked to evaluate the above suggestion and to mention the reasons behind their choice in the methodology; if needed some further specifications may be included in a technical annex to the methodology.

Monthly product

GRIT NRAs are fine with the proposal about monthly product, relating monthly capacity and the already allocated yearly product.

If the long-term capacity calculation proposal is amended to take into account a simple security analysis approach to compute cross-zonal capacity, GRIT TSOs are only recommended to check the consistency of the GRIT FCA splitting with the new version of the long-term capacity calculation proposal.

IV. Conclusions

The GRIT NRAs have consulted and closely cooperated and coordinated to reach agreement that **they request an amendment to the GRIT splitting proposal submitted by GRIT TSOs pursuant to Article 16 of FCA**. The amended proposal shall take into account the GRIT NRAs position stated above, and it shall be submitted by TSOs no later than 2 months after the last national decision to request an amendment has been made, in accordance with Article 4(11) of FCA.

The GRIT NRAs must make their national decisions to request an amendment to the capacity calculation methodology, on the basis of this agreement.

Action points

- 1) Amend the yearly product definition to adopt a reference to the cable thermal capacity on behalf of the reference to the yearly capacity: this should be evaluated coherently with the amendments of long-term capacity calculation proposal to develop a simplified approach for DC borders;
- 2) Check consistency of the splitting proposal with long-term capacity calculation proposal in case the latter is amended.