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**Italy North 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**

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## Contents

<b>WHEREAS</b> .....	<b>3</b>
<b>GENERAL PROVISIONS</b> .....	<b>5</b>
ARTICLE 1 : SUBJECT MATTER AND SCOPE .....	5
ARTICLE 2 : DEFINITIONS .....	5
<b>METHODOLOGY FOR SPLITTING LONG-TERM CROSS-ZONAL CAPACITY</b> .....	<b>6</b>
ARTICLE 3 : DEFINITION OF LONG-TERM PRODUCTS .....	6
ARTICLE 4 : CRITERIA FOR DEFINING THE PRODUCTS .....	7
ARTICLE 5 : DATA REPORTING .....	7
<b>FINAL PROVISIONS</b> .....	<b>8</b>
ARTICLE 6 : DURATION AND AMENDMENT .....	8
ARTICLE 7 : PUBLICATION AND IMPLEMENTATION .....	8
ARTICLE 8 : LANGUAGE .....	8



TSOs of Italy North, taking into account the following:

## WHEREAS

1. The Regulation (EU) 2016/1719 of 26 September 2016 establishing a guideline on forward capacity allocation (hereinafter “the FCA Regulation”) lays down detailed rules on cross-zonal capacity allocation in the forward markets, on the establishment of a common methodology to determine long-term cross-zonal capacity, on the splitting of long-term cross-zonal capacity, on the establishment of a single allocation platform at European level offering long-term transmission rights and on the possibility to return long-term transmission rights for subsequent forward capacity allocation or transfer long-term transmission rights between market participants.
2. This document (hereafter referred to as “Italy North Borders Long Term Splitting Methodology”, or “Proposal”) is a common proposal developed by all Transmission System Operators (hereafter referred to as “TSOs”) within the Italy North Capacity Calculation Region (hereafter referred to as “Italy North Region”), as defined in accordance with Article 15 of Commission Regulation (EU) 2015/1222 of 24 July 2015 establishing a guideline on capacity allocation and congestion management (hereafter referred to as “the CACM Regulation”), regarding a methodology for splitting long-term cross-zonal capacity in a coordinated manner between different time frames within Italy North Region. This proposal is required by Article 16 of the FCA Regulation.
3. According to Article 16(1) of the FCA Regulation, the Proposal should be developed no later than the submission of the capacity calculation methodology referred to in Article 10 of the FCA Regulation. Furthermore, the Proposal should be subject to consultation, in accordance with Article 6 of the FCA Regulation, and to approval by all regulatory authorities of the Italy North Region, according to Article 4 of the FCA Regulation.
4. According to Article 16(2) of the FCA Regulation, the Italy North Borders Long Term Splitting Methodology 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 restriction in competition, in particular for access to long-term transmission rights.
5. According to Article 4(8) of the FCA Regulation, the Italy North Borders Long Term Splitting Methodology shall include a proposed timescale for the implementation and a description of the expected impact on the objective of the FCA Regulation. The timescale for the implementation is included in Article 7. The impact on the objective of the FCA Regulation is described in point (6) of Whereas section.
6. The proposed Italy North Borders Long Term Splitting Methodology contributes to and does not in anyway hinder the achievement of the objectives of Article 3 of the FCA Regulation.
  - Article 3(a) of the FCA Regulation aims at promoting effective long-term cross-zonal trade with long-term cross-zonal hedging opportunities for market participants.

This Proposal aims to guarantee both yearly and monthly capacities to be offered to the market, ensuring a fair distribution among the different time frames, promoting in this manner effective long-term cross-zonal trade for market participants.
  - Article 3(b) of the FCA Regulation aims at optimising the calculation and allocation of long-term cross-zonal capacity.

This Proposal aims to optimize the offered capacity by ensuring an adequate level of firmness and hedging opportunity of market participants in all time frames. Moreover, the Splitting Rules are defined in relation to the output of the capacity calculation and taking into account market requirements.



- Article 3(c) of the FCA Regulation aims at providing non-discriminatory access to long-term cross-zonal capacity.

This Proposal, subject to capacity availability, guarantees at least one yearly and one monthly product giving the market participants the possibility to access the long-term capacity in both time frames. That contributes to creating the same level playing field for all market participants willing to access forward markets.

- Article 3(d) of the FCA Regulation aims at ensuring fair and non-discriminatory treatment of TSOs, the Agency, regulatory authorities and market participants.

This Proposal relies on transparent and auditable data accessible by the regulatory authorities and market participants. Moreover, the same parameters and data are applied on each Bidding Zone Border within the Italy North Capacity Calculation Region.

- Article 3(e) of the FCA Regulation aims at respecting the need for a fair and orderly forward capacity allocation and price formation.

The Italy North Borders Long Term Splitting Methodology 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.

- Article 3(f) of the FCA Regulation aims at ensuring and enhancing the transparency and reliability of information on forward capacity allocation.

This Proposal relies on transparent and auditable data accessible by the regulatory authorities and market participants.

- Article 3(g) of the FCA Regulation aims at contributing to the efficient long-term operation and development of the electricity transmission system and electricity sector in the Union.

The Italy North Borders Long Term Splitting Methodology does not hinder an efficient long-term operation in the Italy North region and adjacent Capacity Calculation Regions and the development of the transmission system in the European Union. The Italy North Borders Long Term Splitting Methodology will support efficient pricing in the forward markets, providing the right signal from a long-term perspective.

7. This Proposal considers the split of capacity between yearly and monthly time frames, in accordance with the approved design of long term products, in the Italy North Region (Article 31 of the FCA Regulation).
8. This Proposal is coherent with the Italy North TSOs proposal for common capacity calculation methodology for the long-term market time frame, in accordance with Article 10 of the FCA Regulation.
9. This Proposal is compatible with the Harmonised Allocation Rules (hereinafter “EU HAR”) for long-term transmission rights.

**SUBMIT THE FOLLOWING SPLITTING LONG-TERM CAPACITY METHODOLOGY PROPOSAL TO THE NATIONAL REGULATORY AUTHORITIES OF THE ITALY NORTH REGION:**



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## GENERAL PROVISIONS

### Article 1 :

#### Subject matter and scope

1. As required under Article 16 of the FCA Regulation, the TSOs of Italy North capacity calculation region shall jointly develop a methodology for splitting long-term cross-zonal capacity in a coordinated manner between different time frames within the respective region.
2. The splitting methodology, as determined in this Proposal, shall be considered as the common proposal of Italy North Region TSOs for splitting long-term transmission cross-zonal capacity in a coordinated manner between different time frames within the respective region. The proposal shall cover the following bidding zone borders:
  - a. Italy Nord-France bidding zone border;
  - b. Italy Nord-Austria bidding zone border;
  - c. Italy Nord-Slovenia bidding zone border.
3. This proposal shall apply to all long-term capacities calculated by the methodology developed in accordance with Article 10 of the FCA Regulation.

### Article 2 :

#### Definitions

1. For the purpose of this proposal, the definitions in Article 2 of the FCA Regulation and Article 2 of EU HAR shall apply.
2. 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.



## METHODOLOGY FOR SPLITTING LONG-TERM CROSS-ZONAL CAPACITY

### Article 3 :

#### Definition of long-term products

1. For each time frame TSOs will offer to the market the maximum volume of capacity  $V$  defined as below:

$$(1) \quad V = \sum_{h=1}^n OC_h$$

where:

- $OC_h$  : the offered capacity in the hour  $h$ ;
- $h$  : hour within the product period;
- $n$  : number of the hours contained in the product period.

In order to define the maximum volume of capacity  $V$  for each time frame, the following criteria shall be satisfied:

- a. the offered capacity shall not exceed, in each market time unit, the available capacity calculated as the difference between the capacity resulting from the long-term capacity calculation, according to Article 10 of the FCA Regulation, and the capacity allocated in the previous time frame;
- b. the product validity criteria, as defined in Article 4, shall be respected;
- c. the offered capacity in import direction of Italy on the yearly time frame shall not exceed 85% of the average capacity resulting from the yearly capacity calculation according to Article 10 of the FCA Regulation;
- d. on Italy-France border, the offered capacity in export direction of Italy on the yearly time frame shall not exceed 85% of the average capacity resulting from the yearly capacity calculation according to Article 10 of the FCA Regulation
- e. for Italy-Slovenian and Italy-Austria borders, the offered capacity in the export direction of Italy on the yearly time frame shall not exceed 20% of the average capacity resulting from the yearly capacity calculation according to Article 10 of the FCA Regulation;
- f. for Italy-Slovenian and Italy-Austria borders, the offered capacity in the export direction of Italy on the monthly time frame and already allocated capacities on yearly timeframe shall not exceed 50% of the average capacity resulting from the monthly capacity calculation according to Article 10 of the FCA Regulation.
- g. the offered capacity in the monthly time frame shall include capacity returned from the yearly time frame to the respective month according to the provisions of EU HAR.



#### **Article 4 :**

##### **Criteria for defining the products**

1. The products offered to the market in the yearly and monthly time frames may include a Reduction Period in accordance with EU HAR and with the approved Regional design of long-term transmission rights according to Article 31 of the FCA Regulation.
2. Product Validity Percentage (hereinafter “PVP”) represents the percentage of hours in which the product is available compared to all possible hours of the period.
3. The PVP of the products offered in the yearly and monthly time frames shall be at least 80%.
4. The Reduction Periods shall be defined on a daily resolution.
5. A product offered in the yearly time frame shall not include more than 25 Reduction Periods.
6. A product offered in the monthly time frame shall not include more than 5 Reduction Periods.
7. If the product calculated according to above mentioned criteria has an offered capacity lower than 10 MW, TSOs check if reducing PVP till 50% would increase the volume V of the product. In this case, the used PVP percentage is the one that gives the maximum volume of capacity in the period of the product. In case the reduction of PVP does not lead to any increase of the overall volume, then the calculated initial product will be allocated.

#### **Article 5 :**

##### **Data reporting**

1. Following information will be published by TSOs on the Single Allocation Platform website before each long term auction:
  - a. for yearly auctions, the amount of the yearly product that will be allocated, including information on the reduction periods and the estimation of the volume of monthly products for the delivery year;
  - b. for monthly auctions, a comparison between the hourly NTC profile computed in the yearly time frame and the updated NTC profile computed in the monthly time frame; for monthly auctions only, the amount of the monthly products with the reduction periods and a comparison between this effective product and the one estimated before the yearly auction;
  - c. In the eventuality of extraordinary events hampering the availability of monthly product(s) for a specific month, IN TSOs shall duly report and justify the reasons for which monthly capacity has not been offered for that specific border(s).



## **FINAL PROVISIONS**

### **Article 6 :**

#### **Duration and amendment**

1. The Long-term Splitting Methodology is of indefinite duration. Reassessment of the methodology and suitability of offered long-term products is needed every two years after methodology implementation. In case reassessment shows the need for amendment the Long-Term splitting Methodology shall be amended accordingly and pursuant to the Article 4(12) of the FCA Regulation.
2. The amendment shall apply at the date and time specified in the amendment notice.
3. An analysis and report (duly consulted with market participants) shall be prepared every second year by IN TSOs and submitted to Italy North NRAs with the proposal to keep or change relevant parameters. In this process:
  - a. market data of the past two years shall be considered,
  - b. TSOs will present major conclusions from the assessment of the data,
  - c. TSOs shall make a proposal if the methodology has to be updated according to the conclusions.

The first edition of the report will be submitted to Italy North NRAs in the second year after methodology enter into force by 30/6.

### **Article 7 :**

#### **Publication and Implementation**

1. The TSOs of Italy North region shall publish the Long-term Splitting Methodology after relevant national regulatory authorities have approved the proposed methodology or a decision has been taken by the Agency for the Cooperation of Energy Regulators in accordance with Article 4(9), Articles 4(10) and Article 4(11) of the FCA Regulation.
2. This methodology will be implemented as soon as the following prerequisites are met:
  - a. Regulatory approval of this Proposal in accordance with Article 4 of the FCA Regulation;
  - b. Regulatory approval of Capacity Calculation Methodology required by Article 10 of the FCA Regulation in accordance with Article 4 of the FCA Regulation and its subsequent implementation.

### **Article 8 :**

#### **Language**

The reference language for this Proposal shall be English. For the avoidance of doubt, where TSOs need to translate this Proposal 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, in accordance with national legislation, provide the relevant national regulatory authorities with an updated translation of this Proposal.