



# Forward capacity allocation network code Harmonised Auction Rules

European Market Design Working Group  
May 31<sup>st</sup> 2013



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- **General Purpose and Contents of the FCA NC**
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## The FCA NC drafting/approval process

## The stages of the FCA NC development (done)

### Step 1- Scoping

- Identify a structure
- Discuss key issues
- Ensure a common understanding

### Step 2 – Drafting

- Draft text to meet the structure
- Discuss & refine
- Share with stakeholders & listen & incorporate views
- Develop supporting material

### Step 3 – Internal Approvals

- Get comments from Committees & WGs
- Prepare Code for Committee approval
- Seek Assembly approval to consult

### Step 4 – Public Consultation

- 2 month consultation
- Listen to views (national and at EU level)
- Get ready for next steps

Involve stakeholders, EC & ACER throughout

*We are here Public Consultation (finished 28/05)*

## The stages of the FCA NC development (to come)

### Step 5- Analysis of responses

- Review comments & listen to views
- Balanced consideration of all comments
- Identify key issues

### Step 6 – Updated Drafting

- Update the text to reflect comments
- Develop supporting material
- Achieve a balanced drafting

### Step 7 – Internal Approvals

- Get comments from Committees & WGs
- Prepare Committee approval
- Seek Assembly approval

### Step 8 – Final Submission

- Submit supporting documents and Code to the Assembly
- Submit approved code to ACER



Involve stakeholders, EC & ACER throughout

# High Level Project Plan (done)



Stakeholder involvement is KEY all along the process...

2012 | 2013

(cont.)

DT Kick-Off

Stakeholder Group Meeting

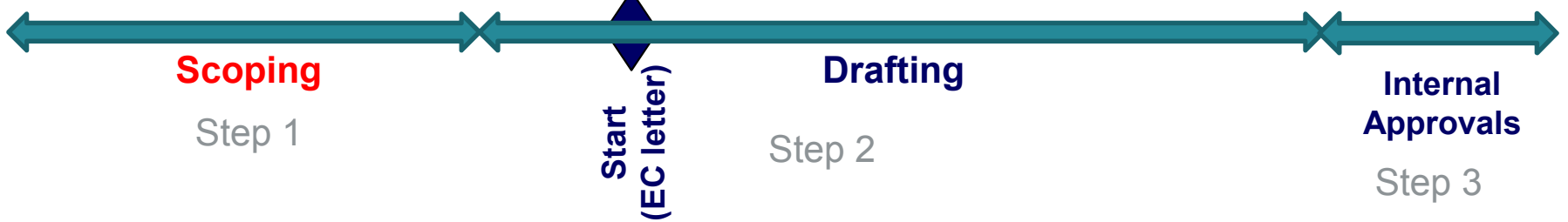
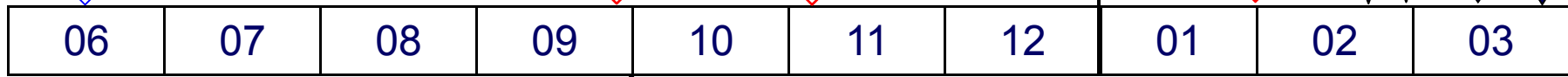
Stakeholder Group Meeting

Stakeholder Group Meeting

Legal Secretariat review  
LRG Assessment

MC approval

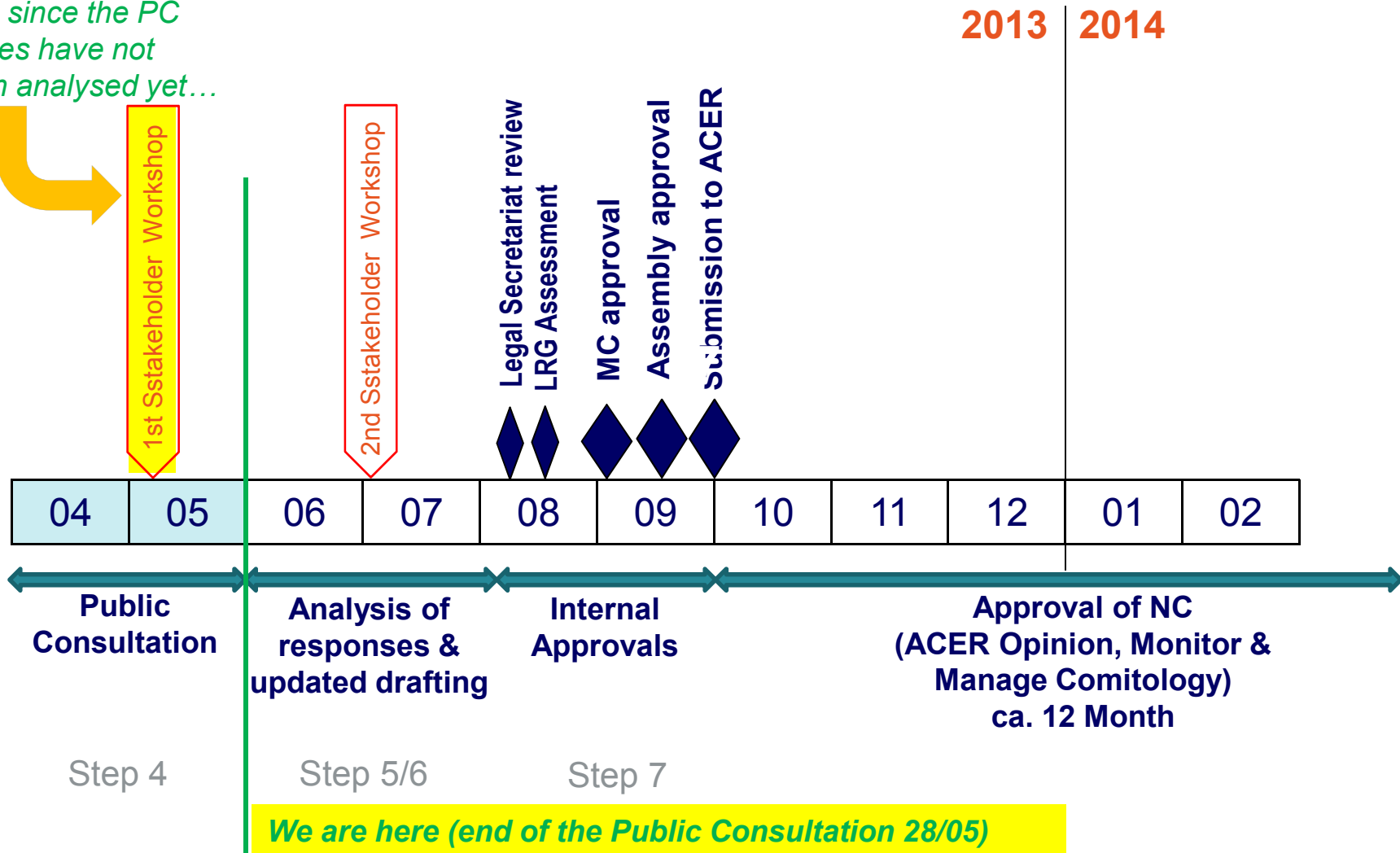
Assembly approval



# High Level Project Plan (in progress)



We will comment the topics of this one, since the PC replies have not been analysed yet...



We are here (end of the Public Consultation 28/05)

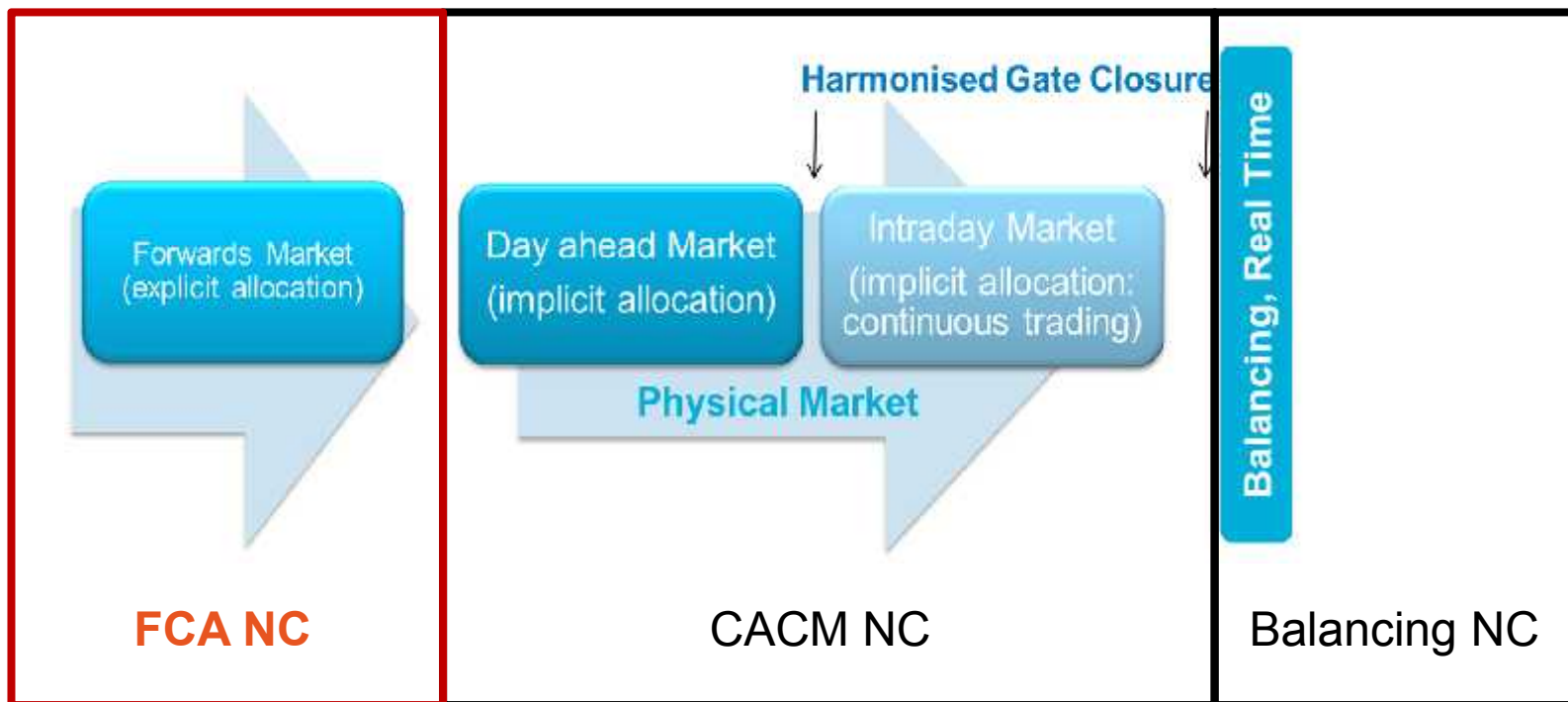
# General Purpose and Main Contents of the FCA NC



## The FCA NC

The FCA NC is an important piece towards the achievement of the **EU Target Model** and one of the **multiple NC projects** on which ENTSOE-ACER are collaborating according to the process established for the 3<sup>rd</sup> Energy Package (Reg. EC 713/2009)...

### Coordinated Capacity Calculation



## **General Purpose/Scope of the FCA NC**

**The FCA Network Code establishes common rules for Forward Capacity Allocation including the establishment of common methodology for determining the volumes of capacity simultaneously available between Bidding Zones. Within the FCA Network Code Capacity Allocation shall refer to Explicit Allocation unless stated otherwise.**

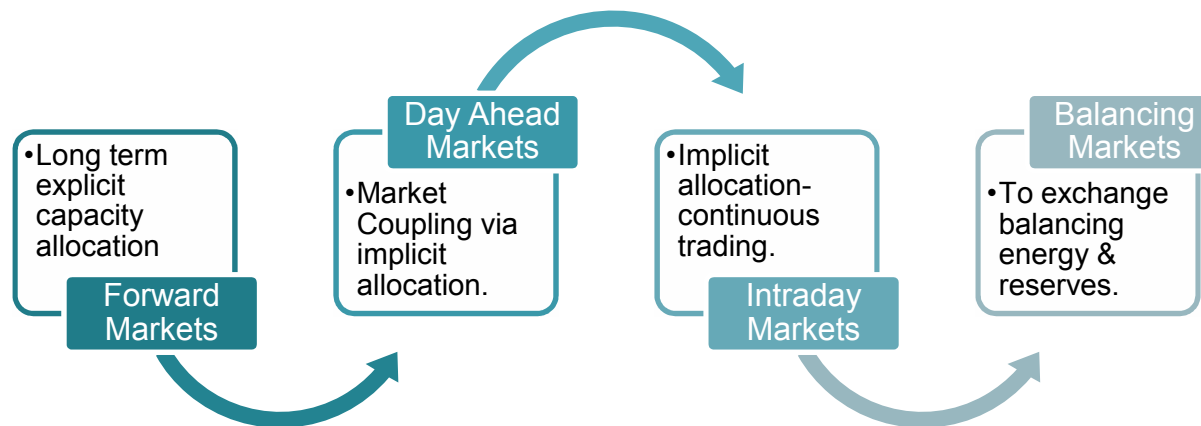
**The requirements set forth by the FCA Network Code shall apply to Transmission System Operators, National Regulatory Authorities, the Agency, Allocation Platforms, platforms for Secondary Trading and Market Participants.**

## Interactions with CACM and other NCs

Same as time-frameworks interact in the market, so do their respective NCs

The framework guideline on CACM covers day-ahead and intraday markets in addition to forward markets. Thus, the CACM NC has very strong links with the Forward Capacity Allocation network code and many provisions of the CACM NC are applicable to FCA NC too

The FCA also interacts with the NC on Balancing and the NC on Operational Security



## **Main Contents of the FCA NC**

**The Forward Capacity Allocation network code covers:**

- **Forward Capacity Allocation;**
- **Harmonised Allocation Rules;**
- **Products;**
- **Process and Operation;**
- **Single Platforms for Allocation and Secondary Trading;**
- **Coordinated Capacity Calculation;**
- **Firmness & congestion income sharing rules;**
- **Cost recovery arrangements; and**
- **Transitional arrangements.**

**Rather than covering all these Epigraphs in detail, the next Section will explain the main TOPICS treated during the 1<sup>st</sup> Stakeholder Workshop on May 8<sup>th</sup>**

**The latest FCA NC Draft and its Supporting docs are available at ENTSOE website...**

# Key challenges & issues in light of stakeholder comments

## FCA NC

### 1<sup>st</sup> Public Workshop



Reliable Sustainable Connected

# Capacity Calculation



**Coordinated capacity calculation methodology for each allocation timeframe to be developed: it must be able to treat the uncertainty related to the long-term timeframe and be compatible with day ahead and intraday capacity calculation**

**The same principles as CACM, with the option of a complementary approach based for example on a statistical method**

Coordinated calculation for each capacity calculation region, with a European Common Grid Model (CGM)

Generation & Load Data Provision Methodology to be developed

Common Grid Model methodology to be developed

Scenarios to treat uncertainty

Statistical approach to help with the management of uncertainty

# Splitting of Cross Zonal Capacity



**How to split the capacity between the different allocation timeframes (yearly, monthly, daily...)?**

**Methodology to be developed, in coherence with the capacity calculation methodology**

- Manage uncertainty
- Address market needs
- Grant market liquidity

**Currently each interconnection follows different splitting rules**

e.g. 1/3, 1/3, 1/3  
Maximise yearly allocation

# Long Term Hedging Products



## Long Term Transmission Rights

Cross zonal risk hedging products issued by TSOs and linked to the underlying physical transmission capacity. According to the European Target Model these products can be either PTR (with UIOSI) or FTRs (option or obligation).

## Product Design

The NC FCA describes the main characteristics of LTRs, gives guidance regarding the choice of LTRs and defines principles for remuneration.

PTRs with UIOSI entitle their holder to physically transfer energy. In case the holder decides not to use the capacity, it is offered to the DA allocation and the holder gets a remuneration linked to the DA market results

FTRs entitle their holder to get a remuneration linked the DA market results. In this case all capacity is offered to the DA Market Coupling.

## Decision on Risk Hedging Opportunities

LTRs are a hedging solution to be implemented on those Bidding Zone borders where deemed necessary. This necessity is determined in a process followed by NRAs and TSOs as described in the NC FCA.



# General Principle for Firmness

**The goal of TSOs is to reach a well-balanced risk distribution among all stakeholders according to their respective roles and responsibilities**

If curtailment becomes absolutely necessary all stakeholders shall bear a part of the risk,

Reason that all stakeholders shall bear part of the risk is that many different factors influence the transmission grid which is a complex system including market participants such as generators, consumers or traders. These reasons are only partially predictable by TSOs.

## **Further reasons for ENTSO-E position**

TSOs (end consumers) bear the full risk already after the DAFD and ensure an undisturbed delivery in the DA and ID market after allocation, therefore market participants shall be involved in the risk sharing before DAFD

TSOs cannot price the costs of guaranteeing firmness as prices are established in auctions (no minimum prices)

Before DAFD MPs have time to adjust their positions. If there was full firmness there would be no incentive to make use of this option and contribute to system security.

Long-term transmission rights are backed by cross zonal capacity

# Firmness Regime in FCA NC



The firmness regime from the FCA NC guarantees a well-balanced risk distribution among all stakeholders according to their respective roles and responsibilities

	<i>Allocation</i>	<i>LTFD</i>	<i>DAFD</i>	<i>Real time</i>
FCA NC	Price Spread Capped or Initial Price Paid	Price Spread Capped or Initial Price Paid	Full Firm	

# Single Platform – Rationale for the Process

**NC FCA foresees the implementation of single platform(s)**

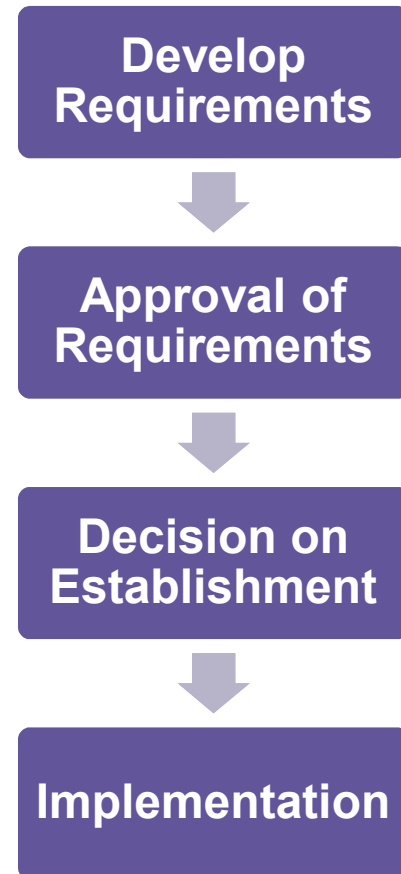
**The single platform(s) will be not only *single* for market participants, it will be also *single* for TSOs**

→ All TSOs (allocating LT TRs) have to use this platform(s)

**For a regulation-like document a shorter process is not foreseen, given the monopoly role to be established and the number of involved TSOs and NRAs.**

**However, the NC FCA does not preclude an earlier implementation on a voluntary basis.**

# Single Platforms – Process of Establishment



- Common sets agreed by TSOs reflecting the needs of all involved parties
- Transparent basis for establishment, no oversizing → cost recovery
- Security for TSOs necessary to enroll in such investments
- NRAs/ACER are able to cross-check with their own expectations
- Joint decision of all TSOs required
- Different ways of choosing a provider are possible (→ taking into account that public procurement legislation might be applicable)
- Any chosen technical, organizational and commercial solution requires time for full implementation
- Endorsement by all TSOs is a precondition

# Harmonised Allocation Rules – Background

**Allocation Rules deal with the procedures for auctioning Long Term Transmission Rights, the terms on which Market Participants may participate in Explicit Auctions and the terms for use of Cross Zonal Capacity.**

**Legal status of allocation rules: A contractual arrangement between the System Operators, Allocation Platform(s) and Market Participants.**

**Allocation rules usually evolve from year to year to reflect changes in the circumstances or interests of the relevant parties.**

→ At least for these two reasons it's not possible to include a high level of detail on allocation rules in a network code which will have a regulation-like status.

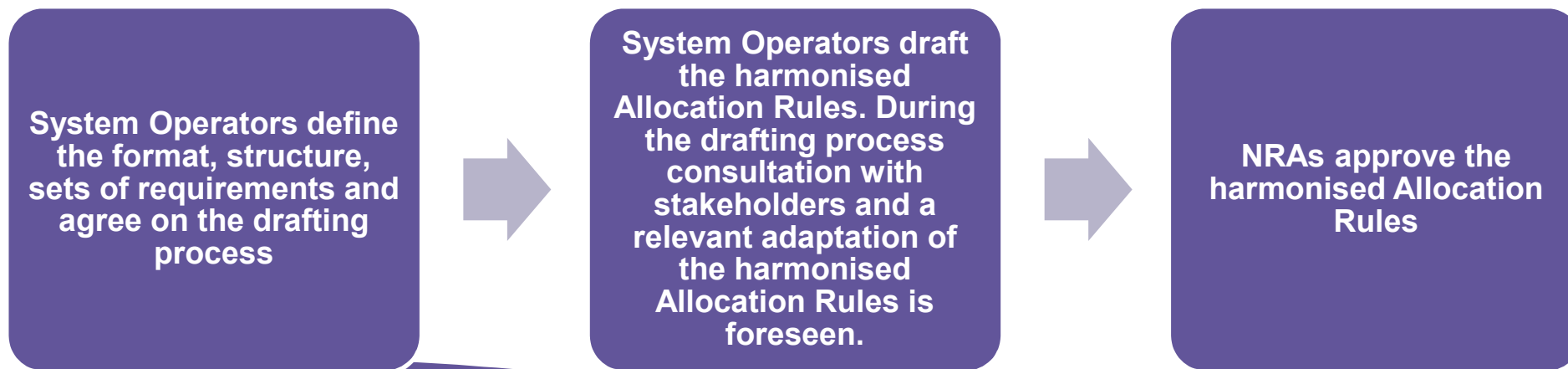
# Harmonised Allocation Rules – Content and Process

## Required content of harmonised allocation rules

the minimum requirements for participation, financial matters, type of products offered in explicit auctions, nomination rules, curtailment and compensation, secondary trading, UIOSI, force majeure and liability

The basic principles can already be found throughout the network code

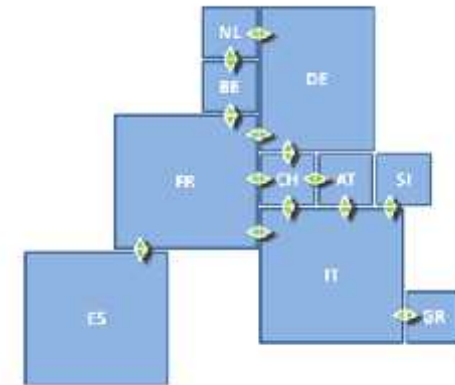
## The process of introducing of the harmonised allocation rules



## Harmonised Auction Rules

### HAR v2.0 (inclusion of France-Spain within HAR)

- Is currently in progress, expected completion during 2013
- Spanish regulatory approval process takes usually 4 months
- HAR v2.0 will include: 10 countries, 13 borders and 13 TSOs



### ACER-ENTSOE project for pan-EU Harmonised Auction Rules

- Is also running in parallel > the project entails a high complexity:
  - Number of parties involved in the project
  - Harmonisation of definitions and wording
  - Comparison and harmonisation of key principles
  - Interactions with processes, IT and rules (NCs)
- **ENTSOE expected steps for the project > during 2013**
  - Identification of quick wins and major obstacles towards harmonisation
  - On the basis of the prior list preparation of a detailed action list:
    - Quick wins to be proposed to ACER during 2013 for early 2014 implementation
    - Rest of the items to be proposed to ACER around March 2014

## Next FCA NC Important Dates

<b>29/05</b>	<b>ACER-ENTSOE Meeting</b>
<b>08/07 to 10/07</b>	<b>2<sup>nd</sup> Public Workshop</b>
<b>22/07 to 09/08</b>	<b>Bilateral Stakeholder Meetings</b>
<b>28/08</b>	<b>4<sup>th</sup> Stakeholder Advisory Group</b>
<b>End September</b>	<b>Targeting approval for delivery to ACER</b>