

APG, ELES ,RTE, Terna

Explanatory note for Italy North TSOs proposal for design of Long Term Transmission Rights in accordance with Article 31 of the Commission Regulation (EU) 2016/1719 of 26 September 2016 establishing a Guideline on Forward Capacity Allocation

Explanatory note for the common proposal developed by all Transmission System Operators within the Italy North Capacity Calculation Region regarding the design of Long Term Transmission Rights in Italy North Region, pursuant to Article 31 of Regulation (EU) 2016/1719 on Capacity Forward Allocation.

11th April 2017

1. Introduction

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;
- the establishment of a common methodology to determine long-term cross-zonal capacity;
- the establishment of a single allocation platform at European level offering long-term transmission rights, and
- the possibility to return long-term transmission rights for subsequent forward capacity allocation or transfer long-term transmission rights between market participants.

With reference to Article 31(3) of FCA Regulation, APG, ELES, RTE and Terna as the Transmission System Operators of Italy North Capacity Calculation Region (hereafter referred to as ‘ITN TSOs’), intends to define the design of Long Term Transmission Rights in Italy North Capacity Calculation Region, being understood that such design should at least contain the type of products offered, the timeframes, the form of products and time schedule for implementation. Furthermore, with reference to Article 6 of the FCA Regulation, APG, ELES, RTE and Terna intend to consult stakeholders accordingly.

2. Current Situation

On Bidding Zone borders between Austria and Italy Nord, between France and Italy Nord and between Slovenia and Italy Nord, the Long Term Transmission Rights products currently allocated are Physical Transmission Rights (hereinafter “PTR”).

The PTRs applied on these borders in both directions are PTRs base load products: this product entitles its holder to physically transfer by nominating a certain hourly volume of electricity between the two Bidding Zones of the Bidding Zone border in accordance with the applicable nomination rules. It consists in a product with a fixed amount of cross-border capacity over its delivery period.

In case the holder does not nominate its PTRs, non-nominated PTRs are available for the relevant day-ahead allocation. PTRs holder shall be remunerated for the PTRs which are reallocated to the relevant daily allocation in accordance with EU Harmonized Allocation Rules.

These products are currently traded through an allocation platform appointed by TSOs to act on their behalf as in the following specific form:

- Monthly auctions;
- Yearly auctions.

Since foreseen outages for maintenance could have a significant impact on the available capacities for this border, products allocated in these auctions may include a reduction period in order to increase the capacity offered to the market on the long term timeframes.

3. Type of long-term transmission rights

Long-term cross-zonal capacity shall be allocated to market participants by the allocation platform in the form of physical transmission rights pursuant to the Use It Or Sell It (hereinafter “UIOSI”) principle.

UIOSI means the principle according to which the underlying cross-zonal capacity of PTRs allocated in the long term timeframe and non-nominated is automatically made available for day-ahead capacity allocation and according to which the holder of these physical transmission rights receives remuneration.

A PTR gives the holder the exclusive right to use a particular interconnection in one direction to transfer a predefined quantity of energy from one market hub to the other. It is issued by TSOs or any owner of the interconnector, providing the holder the option to transport a certain volume of electricity in a certain period of time. The exercise of PTRs as options is performed through a nomination process in accordance with applicable nomination rules. The UIOSI provision ensures that non-nominated capacity is made automatically available for the day-ahead allocation. If market coupling is in place, the holder receives the difference between the day-ahead prices of the two concerned Bidding Zones in the direction of the transmission right.

The holder of PTRs UIOSI does not assume the risk of a negative price differential.

4. Forward capacity allocation time frames

As per article 31.2 of Regulation 2016/1719, long-term transmission rights shall be offered for at least annual and monthly timeframes.

Additional timeframes for long-term products may be offered in a bidding zone border, always if enough amount of capacity is available to be shared among all timeframes.

The most common timeframes, apart from annual and monthly, are quarterly and half-yearly timeframes.

The parameters taken into account to assess the timeframes offered at specific bidding zone border may be, among others, the usual maintenance periods, the timeframes of other forward products in the region or the needs expressed by market participants.

The product timeframes currently provided at Italy North borders are annual and monthly products.

5. Form of product (base load, peak load, off-peak load)

Since Long Term cross-zonal products can be used for hedging cross-border trades done on the power markets, the form of products offered shall be consistent with products exchanged on these markets. Since the baseload products are the most liquid on power hedging markets, Italy North TSOs are allocating long term cross-zonal capacities in the form of baseload to comply with hedging needs of market.

Since foreseen outages have a significant impact on the available capacities for the borders of Italy North Capacity Calculation Region, the product may include a reduction period (a period of time during which Cross Zonal Capacities with a reduced amount of capacity are offered taking into account a foreseen specific network situation) in order to increase the capacity offered to the market on the long term timeframe.

6. Time schedule for implementation

Once the proposal has been approved by relevant NRAs, Italy North TSOs are ready to implement it with immediate effect.

7. Public consultation responses and TSO reactions

Article	Consultation - Comment	Italy North TSO feedback
Art. 5	<p>(...) however, regarding the form of products, we take the chance to propose to the involved TSOs to allocate not only base load products but also peak and off-peak products.</p> <p>Thanks to their profile, peak products, with a capacity profile covering peak hours and/or peak days, and off-peak products, with a capacity profile covering off-peak hours and/or off-peak days, are form of products that could be provided by different types of plant, in particular by renewable sources, as photovoltaic and hydroelectric plants, which are characterized by variable profiles. In this way, the TSOs would provide forward hedging opportunities to a larger variety of cross-border market participants.</p> <p>It is true that the most liquid products on hedging market in the region are base load and that products in form of peak and off-peak are exchanged in the cross-border energy market in a smaller portion if compared to base load ones. Thus, we believe that the LTRs allocated on the border could be divided according to the current average proportion or similarly, e.g. in 80% base load and 20% peak/off-peak.</p>	<p>TSOs duly considered this comment, but some considerations have to be done. Base load product are currently the most actively traded products in the market, and therefore the predominant forward energy product compared to peak/off peak load products.</p> <p>In order to provide forward hedging opportunities most commonly requested by market participants and maximize at the same time the value of forward capacity, peak and off peak products have been removed over the years.</p>