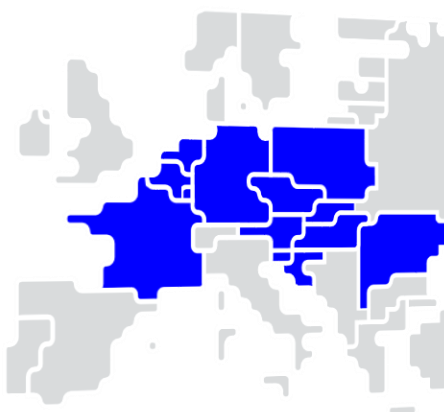




Explanatory document to the Core CCR TSOs' methodology for splitting long-term cross-zonal capacity in accordance with article 16 of the Commission Regulation (EU) 2016/1719 of 26 September 2016 establishing a guideline on forward capacity allocation

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CONTENT

1. Introduction.....	3
2. Meeting of Legal requirements	3
2.1. Meeting Market Participants Hedging Needs	3
2.2. Coherence with Capacity Calculation	4
2.3. Ensuring Non-Discrimination.....	4
3. Implementation.....	4
4. Public consultation report.....	6
4.1. Meta Information	6
4.2. Main Findings and Core TSOs' Consideration of Them	6
4.2.1. General remarks on the allocation and product design.....	6
4.2.2. Remarks on Article 2 of the consulted split rules	7
4.2.3. Remarks on Article 3 of the consulted split rules	7
4.2.4. Remarks on Article 4 of the consulted split rules	9
4.2.5. Remarks on Article 5 of the consulted split rules	9
4.2.6. Remarks on Article 6 of the consulted split rules	9
4.2.7. Remark on data publication	9
4.3. Complete Stakeholders' Contributions.....	10
ANNEX 1 - Public Consultation Version of the Core Long-Term Splitting Methodology	28

1. INTRODUCTION

In accordance with article 16 of Commission Regulation (EU) 2016/1719 of 26 September 2016 establishing a guideline on forward capacity allocation (hereinafter referred to as “FCA Regulation”), the Core TSOs developed a methodology for splitting long-term cross-zonal capacity. This methodology is hereinafter referred to as “Core TSOs’ Long-Term Splitting Methodology”.

Objective of the Core TSOs’ Long-Term Splitting Methodology is to comply with the provisions set in the FCA Regulation.

The aim of this explanatory note is to provide additional information on the Core TSOs’ Long-Term Splitting Methodology where Core TSOs deemed as necessary.

2. MEETING OF LEGAL REQUIREMENTS

With the chosen splitting approach, Core TSOs believe that they meet legal requirements. Main requirements for the Core TSOs’ Long-Term Splitting Methodology are set in article 16(2) of the FCA Regulation:

“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.”*

In the following it is explained how Core TSOs see these requirements met.

2.1. Meeting Market Participants Hedging Needs

In general it is difficult to evaluate the effective hedging needs of market participants (MPs) because the strategy of hedging for each company strongly depends on several facts and assumptions like the individual need of energy (physical need or pure trading) by a company, their own portfolio planning over time intervals (long-term and short-term), average traded volume, expected production and consumption of energy which is especially relevant for renewables, the expected grid situation and therefore available capacities and many others. Furthermore, for each trading company this is one of the key-assets to generate income and therefore providing too many details on their real hedging needs respectively bidding strategy for different time frames might disclose their market position and consequently jeopardize their income.

Assuming an effective liquid market and no exceptional incidents, it could be postulated that on average the prices at day-ahead markets shall be quite similar to the prices for LT-hedging products, because market expectations were fulfilled on day-ahead without the need of risk contingency. However, if day-ahead market is on average predominantly more expensive than a LT-product (overselling) e.g. over a period of several years, this is probably an indicator that too much capacity of such LT-product was allocated which results for the traders in a structural profit (remuneration cost by market spread is typically higher than the price of a LT-product). On the other hand if the LT-price is higher than average

price in day-ahead market, fluctuations and risks of day-ahead market seems not to be sufficiently considered by allocated LT hedging opportunities. This finally results in the fact, that from market perspective allocating all available LT-capacity as soon as possible it is not per se the optimum of hedging, as it was requested by the majority of traders. Moreover, a split of available LT capacity could be more effective to consider the hedging needs of all MPs with their very different needs (e.g. for long term portfolio trading as well as for the need to hedge against price risks e.g. for contractual short term physical delivery of energy).

Other arguments in favour of sufficient capacity also for monthly products are, that with monthly products the market has more flexibility to react on structural changes of prices than with yearly products and last but not least also MPs which were not successful in the yearly auction (or start their trading activities during a year) also need and should have the possibility for hedging against their risks. Therefore, the provision of sufficient LT-capacity by monthly products has to be assured by any proposed splitting methodology.

Further elaborations on this criterion can be found in the consultation report below.

2.2. Coherence with Capacity Calculation

Core TSOs use the result of the long-term capacity calculation in accordance to article 10 of the FCA Regulation, subject to potential day-ahead reservation, as starting point for the splitting between subsequent allocation time frames. With this process it is ensured that not more capacity is allocated to the markets by the split approach than what is considered as secure capacity based on the long-term capacity calculation outcomes. Further, in case it turns out capacity that was split to subsequent time frames is no longer available based on results of subsequent long-term capacity calculation processes, this capacity is no longer offered to the allocation processes. In other words, this means that TSOs only offer e.g. split to monthly auctions capacity, if the monthly long-term capacity calculation proves that this capacity is still available. By this approach, Core TSOs see this requirement met.

2.3. Ensuring Non-Discrimination

Core TSOs see this requirement in principle met sufficiently by the fact that the allocation of long-term transmission rights is run in a harmonised matter based on the harmonised allocation rules according to article 51 of the FCA Regulation via the Single Allocation Platform according to article 48 of the FCA Regulation. Nevertheless, Core TSOs took care that the splitting rules do not constitute asymmetric discrimination potentials due to the interaction of the Core TSOs' Long-Term Splitting Methodology and the harmonised allocation rules and all related procedures connected to them.

3. IMPLEMENTATION

The implementation of the Core TSOs' Long-Term Splitting Methodology will follow the implementation of the Core TSOs' Long-Term Capacity Calculation Methodology, elaborated in accordance with article 10 of the FCA Regulation. As Core TSOs, at the moment of the implementation of the Core TSOs' Long-Term Splitting Methodology, will only issue yearly and monthly LTTRs on their bidding zone borders, the splitting can only apply between the yearly and the monthly time frames. This means that the earliest point in time when the Core TSOs' Long-Term Splitting Methodology can be applied is once the results of the first capacity calculation for the yearly time frame following the date of approval by relevant NRAs are available. At the moment Core TSOs expect the first application of the Core TSOs'

Long-Term Splitting Methodology for the allocation time frame 2021. The proposed implementation plan of the Core TSOs' Long-Term Splitting Methodology takes into account the result of the Core TSO's Long-Term Capacity Calculation Methodology, the available long-term capacity being the starting point for the Long-Term Splitting Methodology.

4. PUBLIC CONSULTATION REPORT

4.1. Meta Information

Core TSOs thank all participants to the public consultation for their interest in the Core CCR TSOs' methodology for splitting long-term cross-zonal capacity based on Article 16 of the FCA Regulation and the valuable feedback received.

Via the ENTSO-E Consultation Platform, the public consultation document for the Core CCR TSOs' methodology for splitting long-term cross-zonal capacity was available to Core stakeholders from the 10th of June 2019 until the 10th of July 2019. By this the duration of the public consultation has met the legal requirements of article 6(1) of the FCA Regulation.

In total, 15 stakeholders submitted their responses in time. Two respondents requested for anonymised publication of their contributions. Three respondents requested that their contributions shall not be published. Core TSOs respect these requests and present all contributions that are allowed to be published to their full extend in chapter 0. Nevertheless, please note that all responses were shared with the Core National Regulatory Authorities (NRAs) in a non-anonymised manner.

4.2. Main Findings and Core TSOs' Consideration of Them

In order to structure the Core TSOs' assessment on the stakeholders' statements, main views and recurring comments have been summarized in the following.

4.2.1. General remarks on the allocation and product design

One of the main observations on the received contributions by Core TSOs is, that a vast majority of respondents focused their argumentation on the LTTR product design and the allocation schemes rather than on the split ratios themselves. So come, five out of 15 respondents solely concentrated on the LTTR product and allocation design and not on any split ratio or methodology. The majority of respondents claim for additional and earlier auctions with more products or combined auctions with the possibility of "block bids". Both market participants (MPs) who only want to buy specific months and MPs who want to buy a full year or other combinations, like seasonal profiles, can do so. Further they claim for more liquid secondary markets, that could for instance be organised by the Joint Allocation Office (JAO S.A.). Additional monthly capacity can be released closer to real time, at the monthly auctions, following capacity (re)calculation process and gradual easing of TSOs constraints as real time gets closer.

Even though not explicitly mentioned by all respondents arguing into this direction, Core TSOs understand, that the respondents strive towards a long-term allocation regime and product design, that does not split available long-term capacity ex-ante based on a defined by TSOs split ratio, but as result of the auctions run at the yearly time frame. In their opinion the allocation and product design should ensure that the market itself would decide on the split, based on rules and auction design agreed between the TSOs and NRAs. They argue that such an approach would best meet their hedging needs. Core TSOs will elaborate on how far these proposals can be taken into account for the future. Should such changes be assessed as being feasible, implementing them would in some parts mean to change several methods (e.g. like the Core LTTR Product Design, the Harmonised Allocation Rules and the LT

Splitting methods) fundamentally and the establishment of numerous additional processes for all stakeholders, JAO and TSOs, and finally increased costs for TSOs and thus for the grid tariff payers. Taking inter alia the above into account, Core TSOs came to the conclusion that it is not feasible to implement such an approach sufficiently in time before the Core LT CCM is in place and thus decided not to implement such a long-term allocation regime and product design in combination with the LT splitting rules methodology.

Further some respondents highlight that in their opinion secondary trading of FTRs is subject to meet disproportionately high requirements of financial market regulation (FTRs traded on the secondary markets are financial instruments according to MiFID). For this reason, there is no easily accessible market place for secondary trading of FTRs that continuously shows their market price developments. Therefore respondents advocate for the development of an organized and liquid secondary market, which does not exist today, as only OTC transfers or returns to the issuing TSOs are possible. Core TSOs take note of these remarks, but will not take them into account for the actual splitting method.

4.2.2. Remarks on Article 2 of the consulted split rules

Seven respondents explicitly do not agree with long-term cross-border capacity reduction due to reservations for further time frames. One respondent could explicitly accept such reductions. Especially reservations for day-ahead time frame before splitting long-term capacities is opposed. One respondent claims that the legal basis for day-ahead reservation is missing and one respondent claims that Article 2(2) of the consulted split rules still allows for day-ahead reservation in case FTRs are issued on a bidding zone border. Only one respondent prefers possible capacity reservation for other time frames (daily basis). By this also the concept of the “Initial Long-Term Capacity” is challenged.

Core TSOs want to point out, that the reservation of capacity for short term time frames is out of scope of the splitting methodology based on article 16 of the FCA Regulation. The legal basis for such reservation is different. By this Core TSOs acknowledge, that indeed the article 2.6 of Annex 1 to Regulation (EC) 714/2009 is deleted by the Regulation (EU) 2019/943 of the European Parliament and of the Council of 5 June 2019 on the internal market for electricity (hereafter: Regulation (EU) 2019/943) and that this article cannot be used as a legal basis for any day-ahead reservation any longer. Nevertheless, Core TSOs consider that a specific disposition allowing for day-ahead reservation has been kept in the Article 17(2) of the Regulation (EU) 2019/943, which mentions explicitly the day-ahead time frame. Core TSOs have striven to be transparent on this towards the market and therefore proposed to use the concept of the “Initial Long-Term Capacity”.

However, also taking into account additional requirements brought forward by Core NRAs during the public consultation phase on the process and description of a day-ahead reservation, Core TSOs decided to abandon the concept of the “Initial Long-Term Capacity” and leave any mentioning of reservations for short term time frames out of the LT splitting methodology. Thus also the definition of “Initial Long-Term Capacity” was deleted in the final methodology proposal and article 2 has been adjusted accordingly.

4.2.3. Remarks on Article 3 of the consulted split rules

Almost all respondents repeated the feedback received by Core TSOs from the Stakeholders during the preparation phase of the splitting methodology, as majority of respondents (here all associations)

asked for the allocation of all available long-term capacity at the yearly timeframe, i.e. not to split part of the capacity for the monthly time frames, and a limited number of traders asked for other ratios. Two respondents advocated for ratios of 80 % for yearly and quarterly products and 20 % for monthly products and one respondent advocated for an equal split approach between the yearly and the monthly time frame.

As made public in several sessions with stakeholders before and also during the public consultation, Core TSOs cannot offer 100 % of long-term capacity available at the year ahead time frame to the yearly auctions, as by this they cannot ensure being compliant with the FCA Regulation and other methodologies. Article 31(2) FCA Regulation states that all TSOs issuing long-term transmission rights shall offer long-term cross-zonal capacity, through the single allocation platform, to market participants for at least annual and monthly time frames. Further article 28(2) of the HAR states that the Single Allocation Platform shall organise by default one auction per month for the monthly timeframe. Most Core TSOs and all Core NRAs are of the opinion that this means that long-term capacity should be allocated every month and that a splitting rules methodology should be designed in such a way that it maximizes the probability that monthly capacities will be offered. Thus they have the opinion, that offering 100 % of long-term capacity available at the year ahead time frame to the yearly auctions is not in line with the spirit of the FCA Regulation. Despite this also the claims of some market participants explicitly asking for splitting capacities to the monthly auctions needs to be taken into account in order to avoid discrimination and to meet best market participants hedging needs. Therefore Core TSOs cannot offer 100 % of long-term capacity available at the year ahead time frame to the yearly auctions.

Based on this consideration, a split ratio had to be defined, that lies in the continuum between a 100:0 and a 50:50 ratio. Core TSOs considered an equal split between yearly and monthly auctions as the floor for a splitting ratio for the monthly auctions, as any ratio below 50 % for yearly auctions would give a too strong preference for the monthly time frame. Taking this continuum into account, Core TSOs elaborated, if dynamic split ratios based on indicators like past allocated capacities, ratios between them, number of reductions periods, historic price deltas between long-term and short-term allocations or using prices from forward markets can be applied to define split ratios. Despite of that the statistical basis for such considerations would have faced structural inadequacies, not only the LT CCM, but also the day-ahead and intraday capacity allocation change fundamentally as of the go-live of the long-term split rules (i.e. Core flow-based market coupling), such ideas were fundamentally rejected by market participants in a survey that Core TSOs conducted in December 2018.

The argument that forced Core TSOs to compromise on an equal split approach like presented during the public consultation was, that by such an approach, equal treatment of time-frames would have been ensured. This was the decisive argument for an equal split approach against others.

Nevertheless, based on the public consultation outcome, Core TSOs acknowledge, that an equal split approach might not sufficiently meet the hedging needs of the majority of market participants and therefore assessed their argumentation on the equal split approach. As result, Core TSOs decided to orientate the split ratio on the indications provided by respondents to the public consultation and compromised to change the split ratio to the proposed ratio of 80:20 between the yearly and the monthly auctions. Further Core TSOs decided to stick to the approach of a fixed ratio for all Core CCR bidding zone borders, as on the one hand there is no criterion available based on which a differentiation can be

made, that is accepted by the market and on the other hand it was not requested by the market participants to have dynamic tailored split ratios for different bidding zone borders.

Taking the legal restrictions and requests by a minority of market participants into account, Core TSOs are of the opinion of having determined a ratio that sufficiently meets the requirements of Article 16 (2a-2c) of the FCA Regulation now.

Further Core TSOs decided to delete any reference to the articles 23 and 24 of the FCA regulation, as they only refer to applicable law and do not constitute any additional value for the splitting rules.

4.2.4. Remarks on Article 4 of the consulted split rules

One respondent asks for the deletion of Article 4 and asks that there shall be no different treatment of AC and DC interconnectors. Core TSOs acknowledge this request, but keep Article 4 for the following reasons.

Due to the different security risks of DC interconnectors, the Core TSOs see the need to keep a separate article for DC interconnectors for the methodology for splitting long-term cross-zonal capacity.

Core TSOs would like to stress that also in the EU HAR a distinction is made between the interconnector types, since different security factors have to be taken in account. Article 59 of the EU HAR annex I distinguishes two articles for the applicability of a cap on compensation for curtailment on AC and DC interconnectors (paragraph 59.2 and 59.3).

Furthermore, a transition period will be implemented in order to handle the temporary potential issues linked to the operation of this new asset.

4.2.5. Remarks on Article 5 of the consulted split rules

No remarks were received on this article.

4.2.6. Remarks on Article 6 of the consulted split rules

No remarks were received on this article.

4.2.7. Remark on data publication

With regards to one respondents' request to have stipulations on the publication of auction inputs and results Core TSOs do not see the necessity to include any further detail into the splitting rules on this as it would be redundant. All the aspects of publications are entirely specified within the EU HAR Article 29 (Auction Specification) and Article 36 (Notification of provisional Auction results). In line with the indicated articles the Single Allocation Platform publishes a provisional version and a final version of the Auction Specification that describes all the relevant conditions of the particular capacity allocation. After the particular cross border capacity allocation has been conducted all the public result data is also published on the website of the Single Allocation Platform.

Core TSOs have striven to be transparent and clear on their decision making and hope to have coped with all stakeholders concerns with this document.

4.3. Complete Stakeholders' Contributions

Anonymized respondent 1

We would prefer numerous more auction to take place, to get conformant to futures-trading:

- More products: at least 3 front years, at least the next 3 front quarters, at least the next three months.
- more single auctions: there should be an auction for all mentioned products above taking place each month.

--> This would allow market participants to auction Transport rights parallel to the trading activities in the futures market, to react quickly on market changes and to hedge customer orders directly on the market.

Energie AG Oberoesterreich Trading GmbH

We welcome the invitation to comment on Core CCR TSOs' methodology for splitting long-term cross-zonal capacity.

We want to state that the current way of managing long term cross-border capacities is very much oriented towards the needs and convenience of the TSOs. Market participants needs have been taken into account only marginally. Hence, we demand future developments going beyond discussions of which ratio to be applied between yearly and monthly long term capacities. Instead, we want to point out that the requirements of trading companies and their major customers are best met by the following adaptations:

1. Earlier auctions: all periods should be auctioned sufficiently long before the start of delivery, in the best case as soon as their availability is foreseeable. Auctions in the middle of the month before delivery are too late to meet any hedging needs.
2. More products: there should be annual, quarterly and monthly products. Even better, auctioning all available volumes in monthly granularity but with the possibility to define "block bids" for quarters and years would be an innovative approach removing the need for a pre-defined split ration between different products, offering high flexibility to market participants and increasing market efficiency.
3. More auctions: auctions should take place at several points in time, in order to provide clearer and more usable price signals. These are not provided by the transmission rights secondary markets: FTRs traded on the secondary markets are financial instruments according to MiFID II connected to the disproportionately high requirements of financial market regulation (whereby the primary auction by JAO does not yet trigger any treatment according to financial market regulation).

While the reasoning on market participants' hedging needs given in the Explanatory Document is not fully conclusive to us, we rather refer to the Memo "Are Financial Transmission Rights, as currently being auctioned by the Joint Allocation Office, a suitable hedging instrument for energy companies?" by Oesterreichs Energie which we fully support.

HEP d.d.

We at HEP d.d. strongly support the suggested idea that split ratio between yearly and monthly (daily) capacity is AT LEAST 50:50 (yearly vs. monthly/daily) . We believe that at least 50 percentage OR PREFERABLY MORE of total capacity should maintain on monthly and daily basis. If more capacity is allocated on long term auction flexibility of optimization is highly reduced and could also jeopardize security of supply.

Oesterreichs Energie

Summary

Customers and suppliers/traders require a reference price that is continuously available for the relevant procurement periods for their long-term hedging. Since the separation of the bidding zones at the border AT-DE, the remaining AT futures market does not provide a reliable reference price due to a lack of liquidity. FTR (Financial Transmission Rights) products settled against the AT-DE price spread that are currently offered combined with liquid DE futures as a reference price are largely unusable in terms of maturity and granularity for hedging by an energy company and its customers and are more suitable for speculative trading.

Like Austria also other neighbouring markets often show (significantly) lower liquidity and could therefore be improved by strengthening the mechanisms how FTRs are being auctioned. FTRs cannot be a replacement for liquid futures markets but they can complement the latter and even support the reliability of price signals from less liquid markets by providing additional cross-zonal capacities at several points in time.

Rapid further development with the aim of aligning FTR products with procurement requirements or the futures market is urgently needed. In other words:

- Earlier auctions: all periods should be auctioned sufficiently long before the start of delivery
- More products: there should be annual, quarterly and monthly products
- More auctions for the same time periods: auctions should take place at several points in time, as continuously as possible and sufficiently long before the start of delivery in order to provide clearer and more usable price signals

Current allocation of long-term capacity by the example of the border AT-DE

Since the introduction of congestion management at the Austrian-German border on 1 October 2018, long-term transmission rights of 4.900 MW have been allocated as Financial Transmission Rights. The Joint Allocation Office (JAO, seated in Luxembourg) owned by transmission system operators awards rights for cross-border capacity by auctioning 60 per-cent of the transmission rights (2,940 MW) as annual products a few months before the year of delivery and 40 percent of the rights (1,960 MW) as monthly products a few weeks before the month of delivery. These FTRs are financial products that compensate the holder for the difference of the Austrian compared to the German spot market price to the extent of FTRs awarded in an auction. A financially hedged "electricity import" for a fixed price from DE to AT requires, on the one hand, the acquisition of the relevant FTR product in an auction and, on the other hand, the simultaneous purchase of the position opened in the hedging process on the DE futures (PX) or forward (OTC) market. During the physical delivery in AT the necessary quantities have to be bought on the spot market in AT and – in case of a physical position in German – the same quantities have to be sold on the spot market in DE simultaneously including all the necessary physical and financial settlement processes of the transaction. The use of FTRs as hedging instruments for physical deliveries in Austria therefore can lead to additional, otherwise unnecessary, double exchange fees.

FTRs are financial instruments according to the Markets in Financial Instruments Directive (MiFID II), whereby the primary auction by JAO - analogous to emission certificates - does not yet trigger any treatment according to financial market regulation. Secondary trading of FTRs is however subject to the disproportionately high requirements of financial market regulation. For this reason, there is no easily accessible market place for secondary trading of FTRs that continuously shows their market price developments.

The need for hedging for energy companies and their customers

Long-term hedging for producers or suppliers against volatile spot market prices mitigates the magnitude of price risks, which can be dealt with eventually in contractual arrangements and by provisions in the balance sheet. This requires that long-term, reliable reference prices can be displayed to customers at an early stage of negotiations and on an ongoing basis, on the one hand for standard products and on the other hand based on the HPFC (Hourly Price Forward Curve) for the calculation of prices for customer load profiles.

Example: A major consumer would like to obtain offers from energy suppliers at a date of his choice, for example in early autumn of the year x, in order to procure his energy quantities for the years Y+1 and Y+2 as cheaply as possible and to be able to realistically plan his energy costs for these years Y+1 and Y+2. A reliable, neutral reference price is used for the calculation of an offer and also for its evaluation. This reference value indicates the price at which the supplier could purchase the supply quantities that the customer wants to purchase in the following years at the time the contract is concluded. The forward market gives supplier and customer a neutral reference point and the advantage that the market price risk can be

limited, i.e. can be calculated. The existing risks of a price change during the holding period can be taken into account through a transparent corridor around wholesale prices. This usual procedure for financial hedging of physical deliveries requires a credible reference price. The customer and the supplier will only consider this valid if it was formed on a tradeable and visible market with sufficiently high liquidity and market depth.

As a fact, the German futures market has the highest liquidity throughout Europe whereas other neighbouring markets often show (significantly) lower liquidity and could therefore be improved by strengthening the mechanisms how FTRs are being auctioned. FTRs cannot be a replacement for liquid futures markets but they can complement the latter and even support the reliability of price signals from less liquid markets by providing additional cross-zonal capacities at several points in time.

In cases of futures markets with especially low liquidity, like the Austrian market after the split of the German/Austrian bidding zone, sensibly auctioned FTRs play a crucial role in determining reliable price signals.

In light of the 70% target level for cross-zonal capacities stipulated in the CEP the then increased tradeable capacity and an enhanced allocation mechanism for FTRs will help to increase cross-border competition and enhance liquidity and therefore supports the goal of a truly integrated European market.

Requirements for Financial Transmission Rights

In general, the needs of major industrial customers cannot be met with FTR products. Neither do the products have the necessary maturity (number/times of auctions at JAO) nor the granularity (product offered at JAO do not have a seasonal structure and quarterly products, respectively). Consequently, procurement requests or the procurement behaviors of customers are not synchronized with the "rigid" auction times at JAO.

In addition, the FTR product generates an additional risk position due to its baseload characteristic and thus additional costs if it is used or must be used to hedge load profiles. This means that FTR products are currently not or only partially compatible with customer requirements.

By means of their procurement strategies, companies and customers pursue the goal of minimizing the risk of price swings or unfavorable prices by means of a higher number of procurement times, since the higher number of hedging transactions leads to an averaging effect. Also here the FTR products cannot create remedy due to the auctioning frequency (only once per month only for the following month, only once per year only and even quite late for the following year).

Therefore, the product portfolio of the FTRs must be adapted as quickly as possible in such a way that it correlates with the existing portfolio in the electricity sector in terms of maturity and granularity and that trading can take place as continuously as possible.

After the initial auctions, FTR products should be auctioned continuously at more times and further into the future (several years, quarters and months in advance) in order to be better suited as a hedging instrument. The general idea would be to proportionally auction cross-border capacity according to the open interest in the different maturities at the EEX.

More auctions that take place sufficiently long before the start of delivery can provide clearer and more useful price signals.

There should be annual, quarterly and monthly products with the following auction calendar:

- Annual products: First auction six quarters (18 months) prior to the start of delivery and one auction per quarter of parts of the respective rest of the annual product (this results in six price signals for the year of delivery Y, two out of six in Y-2 auctions and four in Y-1 auctions)
- Quarterly products: First auction four quarters (12 months) before the start of delivery and one auction of the quarterly product per quarter (this results in four auctions for the respective quarter of delivery).
- Monthly products: First auction two months before the start of delivery and one auction of the monthly product per month (this results in two auctions for the respective month of delivery).

The following breakdown is proposed for the product categories as shares of the total capacity: annual products (60%), quarterly products (20%), monthly products (20%).

For cross-zonal capacities that are too low to justify the suggested allocation scheme, the auction frequency could be adjusted and reduced accordingly. Hence, a certain minimum capacity can then be auctioned and would therefore not increase administrative costs too much in the process. Nevertheless, an earlier auction date than today would greatly support market participants' hedging needs.

Anonymized respondent 2

We suggest annual, quarterly and monthly products with the following auction calendar:

- Annual products: First auction six quarters (18 months) prior to the start of delivery and one auction per quarter of parts of the respective rest of the annual product (this results in six price signals for the year of delivery Y, two out of six in Y-2 auctions and four in Y-1 auctions)
- Quarterly products: First auction four quarters (12 months) before the start of delivery and one auction of the quarterly product per quarter (this results in four auctions for the respective quarter of delivery).

- Monthly products: First auction two months before the start of delivery and one auction of the monthly product per month (this results in two auctions for the respective month of delivery).

The following breakdown is proposed for the product categories as shares of the total capacity: annual products (60%), quarterly products (20%), monthly products (20%).

For cross-zonal capacities that are too low to justify the suggested allocation scheme, the auction frequency could be adjusted and reduced accordingly. Hence, a certain minimum capacity can then be auctioned and would therefore not increase administrative costs too much in the process. Nevertheless, an earlier auction date than today would greatly support market participants' hedging needs.

GK PGE

We are glad that works on long-term allocation are developing as long-term wholesale market is one of the most common and most efficient ways of electricity price hedging, it is also a key to ensure proper portfolio creation possibilities and proper market functioning.

FCA provides sufficient framework for long-term allocation development however it is crucial to focus on the spirit of the regulation to fully understand the intention of the legislator and not to concentrate on the literal wording of a Regulation. Based on art. 3 of FCA we can conclude that one of the main purposes of FCA is to give market participants the broadest hedging possibilities in the most efficient way which in our opinion should be understood as the market-based way. The key to reach this purpose is proper calculation of cross-zonal capacities for long-term timeframes and the efficient long-term capacity splitting methodology.

Unfortunately, splitting methodology presented by Core TSOs does not fulfill this goal. Presented approach is based on fixed 50% volume factor reducing yearly NTC, that is intended to be reserved for month-ahead allocation. Both proposed methodology and explanatory note do not provide enough justification for such splitting method.

First of all: the volume to be treated as a stable band for year-ahead time frame is based on a presumption that the only year-ahead product will be a stable, annual band. From the market participants' point of view, during the year-ahead allocation there should be yearly stable band products available, however we also see a necessity to implement monthly products during YA allocation. Such approach would enable the CCCs to not use reduction periods, as the available capacity would be separately calculated and allocated for each month of the year. It would also ensure that hedging needs of market participants are satisfied as there would be a possibility to conclude a contract for a given month, if necessary, and it would be up to the decision of a given market participant (so it would be market-based).

Second of all we would like to emphasize that in our understanding art. 16 par. 1 of FCA indicates that the task of the TSOs is to propose a methodology for splitting long-term cross-zonal capacity – in our opinion it should be understood as providing general principles to be used during YA calculations (eg. Calculating formula) rather than setting inflexible factor used in the same way for every annual allocation. However, if such factor is applied it should not be 50/50 split, but rather 100/0 as further described below.

Third, proposed approach may significantly reduce the summarily capacity volume allocated in long-term timeframes as the capacity "reserved" during the split for month-ahead allocation may be found not

available during month-ahead capacity calculation. What is more, summarily capacities offered to the market would be even further reduced as using only yearly stable band YA products based on the lowest monthly volume will set initial level of capacity to be allocated on a lower level than resulting from YA capacity calculation. In our opinion it may suggest that presented splitting rules are more advantageous for the TSOs rather than for market participants as errors in year-ahead capacity calculation would not result in the TSOs' obligation to remunerate for curtailed capacities (such situation would happen if full calculated capacity is allocated year-ahead and there is a need for a curtailment). If however, TSOs use proposed splitting rules, the volume of capacities allocated during YA allocation would be significantly lower, mitigating a risk for TSOs rather than for market participants.

Fourth, it is crucial that the TSOs should in general create framework for efficient market functioning and ensuring system security, but all the other decisions should be made independently by market participants, which in this case means to let them decide on which market they would like to participate. Therefore the capacity calculation and allocation should be performed on a month-ahead market, however, it should be a sole result of a market if there are any capacities remaining after year-ahead allocation.

Consequently, if the Core TSOs propose to set a fixed splitting rate our position is that 100% calculated available cross-zonal capacities should be made available for year-ahead market and if market participants do not see a need for such year ahead products the capacities would become available after the recalculation for month-ahead time frame. Only such approach would be reflecting market parties hedging needs, proper functioning of a secondary market and a market-based price formation, where current proposal secures the interests of the TSOs rather than market participants, is not market-based and its provision might be deemed questionable.

The approach proposed by the TSOs does also not seem to result from legal provisions of FCA. Art. 9 of FCA provides that long-term cross-zonal capacity should be calculated for at least annual and monthly time frames. It indicates that TSOs should provide necessary framework for allocation at least in these two time frames, but does not mean that allocation should be ensured for each of these time frames if there are no available capacities. As previously indicated, art. 16 of FCA provides the general rules for splitting: par. 1 provides that the task of the TSOs is to propose a methodology for splitting long-term cross-zonal capacity – in our opinion it should be understood as providing general principles to be used during YA calculations (eg. formula) rather than setting inflexible factor. However, if such factor is applied it should not be 50/50 split, but 100/0 as described above. According to art. 16 par. 2 letter (a) of FCA splitting methodology shall meet the hedging needs of market participants. As described above, from our perspective as market participants this condition is not fulfilled.

As indicated by the Core TSOs during information exchange with market participants one of the major arguments for providing such splitting rules was the interpretation that according to art. 31 par. 2 of FCA it is an FCA requirement to ensure that at least some capacities will be offered both on year-ahead and month-ahead market. However, in our opinion such interpretation is not justified as the second sentence of art. 31 par. 2 of FCA presents that the reasoning behind provision of art. 31 par. 2 is the obligation for TSOs to make a framework for at least year-ahead and month-ahead capacity allocation but also additional time frames may be jointly proposed. Hence, the valid interpretation of this provision is that long-term allocation should be performed at least on year-ahead and month-ahead time frames and not imposing the obligation to make available capacities on both these time frames. Other interpretation (such as presented by the TSOs) would lead to a conclusion that in every time (even if the capacities are

not available) the capacities should be offered both on year-ahead and month-ahead market. In our opinion in this context “offer” should mean that if the capacities are available they should not be artificially reduced, however in some cases there would be no available capacities. In other words: if there are no available transmission capacity offering 0 MW for a given timeframe also fulfils the obligation to offer capacities.

Therefore we believe that the efficient splitting methodology should be market-based and not resulting from inflexible factors, which may reduce the summarily capacity volume allocated in long-term timeframes. In our opinion the acceptable fixed rate is 100% capacities resulting from YA calculation offered to the market and month-ahead allocation should only be performed if there are available leftovers from YA allocation increased by returns and additional capacities resulting from recalculations, similarly to intra-day market case.

RWE Supply & Trading GmbH

RWE Supply & Trading GmbH (RWEST) welcomes the opportunity to contribute to the consultation on the methodology for splitting long-term cross-zonal capacity of the Core CCR TSOs. In doing so, we would like to highlight that forward capacity allocation is important to allow market participants to hedge their long-term positions across borders and thus reduce the exposure to short-term price volatility and potential imbalance costs.

In their proposal, CORE CCR TSOs propose the splitting of long-term cross-zonal capacity following the year-ahead capacity calculation process while taking account of reservations of capacity for the day-ahead time frame.

RWEST disagrees with the concept of reserving available capacity for later time-frames through TSOs. Instead, we urge TSOs that all the available capacity calculated as available on a year-ahead basis should be made available to the market as soon as calculated without any specific reservations for monthly auctions or the day-ahead timeframe. Additional release of capacity at shorter time horizons in the forward timeframe (such as monthly, day-ahead or other) should solely be the result of capacity recalculations or the gradual release of margins and constraints initially applied by the TSOs for the year-ahead allocations as uncertainties reduce closer to real-time.

Instead of analysing market prices to determine and reduce capacity allocated to the market, TSOs' allocation of capacity should purely be based on the technical capacity and grid requirements. TSOs should not analyse market data or conduct price forecasting such as the marginal price of LTTRs in order to maximise their benefits from the forward capacity allocation.

Instead of reserving 50% of the calculated capacity year-ahead, RWEST proposes that TSOs should make all, i.e. 100%, of the calculated capacity year-ahead available to the market in order to correctly address the hedging needs of market participants. We would like to note that the further away from real-time, the greater the uncertainty and therefore the greater the interest and importance for market participants to cover those risks.

Given that market participants may only wish to purchase capacity for certain quarters, months or seasons, a single yearly product would not give market participants sufficient flexibility to act. TSOs should therefore allocate the 100% of calculated capacity year-ahead via 12 monthly products and allow

market participants to bundle monthly blocks in the yearly auction. Such distinction between the timing of the auctions and the granularity of the products offered by the TSOs would allow market participants to essentially perform the splitting of capacity between yearly and monthly capacity in the most economically efficient manner.

EFET - European Federation of Energy Traders

This answer was drafted together with the Market Parties Platform (MPP).

The European Federation of Energy Traders (EFET) and the Market Parties Platform (MPP) welcome the opportunity to provide comments on the ENTSO-E consultation on splitting rules for forward capacity allocation in the CORE capacity calculation region. Forward capacity allocation is critical to allow market participants to hedge their long-term positions across borders and make sure that they are not exposed to short-term price volatility and imbalance costs.

Comments on individual articles

- Article 2.2: In this Core TSOs' Long-Term Splitting Methodology, the following definitions shall apply:

- o a. "Initial Long-Term Capacity" means the capacity on a bidding zone border in a given direction resulting from the year ahead long-term capacity calculation based on the methodology in accordance with article 10 of the FCA Regulation, possibly reduced by reservations for the day-ahead time frame before splitting long-term capacities for bidding zone borders where physical transmission rights are allocated in the long-term time frames, that could be done based on article 2.6 of Annex 1 of Regulation (EC) No 714/2009.

The CORE LTSR methodology presents a new concept which is absent from all other LTSR methodologies in other capacity calculation regions (CCRs): "Initial Long-Term Capacity". It is a key element used in subsequent articles, that sets the starting point to for the splitting methodology itself.

If our understanding is correct, the TSOs propose that splitting of capacity happens based on this concept of "Initial Long-Term Capacity", i.e. after the year-ahead capacity calculation process and taking account of reservations of capacity for the day-ahead time frame. We strongly disagree with the concept of "Initial Long-Term Capacity", as it is a way to limit the allocation of 100% of the available capacity right after calculation.

We reiterate what EFET mentioned in other positions on LTSR methodology proposals for other CCRs (EFET responses to the TSOs consultation on Channel, SWE and Hansa CCRs Splitting Rules for forward capacity allocation, dated respectively 15 April, 30 April and 27 May 2019, and available at: https://efet.org/Files/Documents/Downloads/EFET_ENTSO-E%20consult%20Channel%20Splitting%20Rules_15042019.pdf, https://efet.org/Files/Documents/Downloads/EFET_SWE%20Splitting%20Rules_16042019.pdf and https://efet.org/Files/Documents/Downloads/EFET_Hansa%20Splitting%20Rules_27052019.pdf), that all the available capacity calculated as available year ahead should be made available to the market as soon as calculated, without specific reservations for monthly auctions or the day-ahead timeframe. Further release of capacity at shorter time horizons in the forward timeframe (monthly or other) should be the result of capacity recalculations, or gradual release of the margins and constraints initially applied

by the TSOs for year-ahead allocations when uncertainties reduce as real time gets nearer – more explanation and details on our approach and concrete proposals in our comments to article 3.1

The justification given at point 3 of the Explanatory Document to support a reservation of capacity for the day-ahead timeframe is insufficient and weak. First, the Explanatory Document makes a distinction between PTR and FTR options, hinting implicitly at the fact that reservation of capacity for the day-ahead timeframe in case FTR options are allocated by the TSOs makes no sense. However, article 2.2 still opens the possibility to reserve capacity for the day-ahead timeframe even in case FTR options are allocated. Second, and more fundamentally, the argument on a possibility for TSOs of “underselling” forward transmission rights does not properly understand hedging practices from market participants. The comparison of the forward transmission rights price and the day-ahead market spread between two bidding zones does not take account of the risk premiums included by market participants in their hedging strategies. The same mistake is made in point 5.1 of the Explanatory Document to justify a reservation of capacity from the yearly to the monthly auctions. Besides the weakness of the TSO analysis on this matter (see our comments on article 3.1 for more details), we do not agree with giving a role to TSOs of analysing market prices to determine capacity allocated to the market. The TSOs allocation of capacity should solely be based on the technical capacity and requirements of the grid. It is not the place of system operators to analyse market data or forecast prices such as the marginal price of LTTRs in order to maximise their benefits from forward capacity allocation. We remind the TSOs that by owning the interconnectors, they de facto sit on a free hedge that can and should be made available to the market as much and as early as possible. Retaining this hedge opportunity from the market based on expectation of evolutions of market prices could be considered market manipulation.

- Article 3.1: In case of AC interconnectors, one half of the Initial Long-Term Capacity will be offered to the subsequent yearly capacity allocation session at the Single Allocation Platform

We believe that all the capacity calculated by the capacity calculation process year ahead should be made available to the market (i.e. 100% of the calculated capacity year-ahead), not one-half. Further release of capacity at shorter time horizons in the forward timeframe (monthly) should be the result of capacity recalculations, or gradual

release of the margins and constraints initially applied by the TSOs for year-ahead allocations as uncertainties reduce with real time getting nearer.

For avoidance of doubt, and bearing in mind that certain market participants may only wish to purchase capacity for months and may be reluctant to re-trade purchased yearly forward transmission rights on the secondary market, the TSOs may choose to allocate the 100% of calculated capacity year-ahead not only via yearly products but also via monthly products (but a year in advance). For example, the TSOs could make sole use of monthly products in the year-ahead and monthly auctions, which could be bundled into multi-month or yearly blocks in the yearly auction. This distinction between the timing of the auctions and the granularity of the products offered by the TSOs allows the market itself to perform the splitting of capacity between yearly and monthly capacity in the most economically efficient manner.

To recall, for market participants hedging is about assessing and covering their positions against a variety of risks: price risk, volume risk, regulatory risk, etc. The further away from real time, the greater the uncertainty and therefore the greater the interest and importance for market participants to cover those

risks, including across borders. It is therefore vital that TSOs make available to the market the maximum capacity they can as far in advance of real time as possible. We believe that the solution mentioned in the paragraph above is the best solution to reach the objective of the FCA Regulation in general, and its article 16 in particular, i.e. meeting the hedging needs of market participants. In the manner described above, it will be the market itself adjusting the split of capacity to the hedging needs of its participants at each auction.

We also believe that this approach is in line with article 9 and 16 of the FCA Regulation. Indeed:

- Article 9 states that “All TSOs in each capacity calculation region shall ensure that long-term cross-zonal capacity is calculated for each forward capacity allocation and at least on annual and monthly time frames” – Our proposal still foresees a calculation of capacity year-ahead and each month.

- Article 16 states that “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 article does not mandate TSOs to decide on a split, but to design a methodology for splitting capacity; with our proposal, the market would decide on the split, based on rules and auction design agreed between the TSOs and NRAs.

The TSOs should not hide behind a supposed obligation hidden somewhere in article 16 to issue capacity at the yearly and monthly auctions:

- First, there is no such obligation in the FCA Regulation. The obligation is to calculate and offer capacity for the yearly and monthly timeframes (i.e. the products), but not necessarily at each auction. With our proposal, there may indeed be occurrences of monthly auctions without capacity available – though with monthly recalculation and relaxation of TSO constraints, this should happen rather rarely. However there will not be occurrences of market participants not being proposed monthly or yearly products – and those will be subscribed exactly in the amount and proportion that is most economically efficient.

- Second, the proposal of the TSOs does not guarantee that the 50% of the “initial long-term capacity” withheld for monthly auctions will actually be allocated at the monthly auctions. Indeed, there may be occurrences where the monthly recalculation of capacity will result in an assessment by the TSOs that they cannot release the 50% of the initial capacity that they withheld. So with the TSO proposal, there is actually no guarantee that market participants will always have access to either yearly or monthly hedging products in the proportion they need.

Once again we’d like to point the weakness of the analysis of the TSOs in point 5.1 of the explanatory document on MPs hedging needs. Firstly, we like to think that MPs know best what their hedging needs are, and when “[a] majority of traders”, including EFET and MPP, request this capacity maximisation as early as possible in all consultations on the subject since the drafting of the FCA Regulation, that should probably be an indication that the status quo proposal of the TSOs shall not meet those hedging needs. Secondly, for the TSOs to make market analysis based on historical and forecasted prices is beyond their mandate. The TSOs allocation of capacity should solely be based on the technical capacity and requirements of the grid. It is not the place of system operators to analyse market data or forecast prices such as the marginal price of LTTRs in order to maximise their benefits from forward capacity allocation. Finally, on a technical level, the analysis in this subchapter does not understand market fundamentals. There can never be “too much capacity of such LT-product” allocated; the opportunity for market participants to purchase capacity at a specific price and volume is for them to decide, not for TSOs. We remind the TSOs that by owning the interconnectors, they de facto sit on a free hedge that can and should be made available to the market as much and as early as possible. Retaining this hedge

opportunity from the market based on expectation of evolutions of market prices – including and possibly to inflate the price of transmission rights – could be considered market manipulation.

To conclude, we have fundamental objections with the overall approach proposed by the TSOs in this draft methodology. We believe that TSOs go beyond their mandate in trying to impose to the market what TSOs consider market participants' hedging needs are. The practical solution we propose has the added value of maximising capacity allocation as far away from real time as possible while securing capacity for the yearly and monthly timeframes, with a split decided by the market itself. It is also in line with the FCA Regulation's spirit and letter.

Should TSOs decide to stick to their initial proposal, we request that the submission of the methodology that they will submit to the NRAs be accompanied by a full justification why they dismissed our practical proposal.

- Article 4.1: In case of DC interconnectors, the Initial Long-Term Capacity is split into two equal fractions.

Our comments to article 3.1 apply equally to article 4.1.

Additional comments

There is no provision on the publication of capacity allocation data by the TSOs, as it is the case in certain LTSR methodologies for other CCRs. For instance the Hansa and Baltic LTSR proposal foresees the publication of the marginal auction price and the demand curve for LTTRs for each time frame.

When deciding on the specification of transmission rights auctions, TSOs should make sure that the auctions are organised sufficiently in advance of the period covered by the transmission rights to fit the hedging needs of market participants.

Last but not least, we call on the TSOs to support the development of secondary markets for the exchange of forward transmission rights at all bidding zones borders in Europe. Such markets are part of market participants' hedging needs and will further improve the economic efficiency of hedging practices in the market, allowing easier access to transmission rights even after the initial auctions.

Market Parties Platform (MPP)

The European Federation of Energy Traders (EFET) and the Market Parties Platform (MPP) welcome the opportunity to provide comments on the ENTSO-E consultation on splitting rules for forward capacity allocation in the CORE capacity calculation region. Forward capacity allocation is critical to allow market participants to hedge their long-term positions across borders and make sure that they are not exposed to short-term price volatility and imbalance costs.

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Last but not least, we call on the TSOs to support the development of secondary markets for the exchange of forward transmission rights at all bidding zones borders in Europe. Such markets are part of market participants' hedging needs and will further improve the economic efficiency of hedging practices in the market, allowing easier access to transmission rights even after the initial auctions.

TIWAG - Tiroler Wasserkraft AG

Customers and suppliers/traders require a reference price that is continuously available for the relevant procurement periods for their long-term hedging. Since the separation of the bidding zones at the border AT-DE, the remaining AT market does not provide a reliable reference price due to a lack of liquidity. FTR (Financial Transmission Rights) products settled against the AT-DE price-spread that are currently offered combined with liquid DE products as a reference price are largely unusable in terms of maturity and granularity for hedging by an energy company and its customers and are more suitable for speculative trading. Like Austria, also other neighbouring markets to Germany often show (significantly) lower liquidity and could therefore be improved by strengthening the mechanisms how FTRs are being auctioned. FTRs cannot be a replacement for liquid futures markets but they can complement the latter and even support the reliability of price signals from less liquid markets by providing additional cross-zonal capacities at several points in time.

Rapid further development with the aim of aligning FTR products with procurement and hedging requirements of the market is urgently needed. In other words:

- Earlier auctions: all periods should be auctioned sufficiently long before the start of delivery.
- More products: there should be annual, quarterly and monthly products.
- More auctions for the same time periods: auctions should take place at several points in time, as continuously as possible and sufficiently long before the start of delivery in order to provide clearer and more usable price signals.

As a fact, the German power market has the highest liquidity throughout Europe whereas other neighbouring markets often show (significantly) lower liquidity and could therefore be improved by strengthening the mechanisms how FTRs are being auctioned. FTRs cannot be a replacement for liquid futures markets but they can complement the latter and even support the reliability of price signals from less liquid markets by providing additional cross-zonal capacities at several points in time.

Companies and customers pursue the goal of minimizing the risk of price swings or unfavourable prices by means of a higher number of procurement times, since the higher number of hedging transactions leads to an averaging effect. Here, the FTR products cannot create remedy due to the auctioning

frequency (only once per month only for the following month, only once per year only and even quite late for the following year).

After the initial auctions, FTR products should be auctioned continuously at more times and further into the future (several years, quarters and months in advance) in order to be better suited as a hedging instrument.

More auctions that take place sufficiently long before the start of delivery can provide clearer and more useful price signals.

There should be annual, quarterly and monthly products with the following auction calendar:

- Annual products: First auction six quarters (18 months) prior to the start of delivery and one auction per quarter of parts of the respective rest of the annual product (this results in six price signals for the year of delivery Y, two out of six in Y-2 auctions and four in Y-1 auctions)
- Quarterly products: First auction four quarters (12 months) before the start of delivery and one auction of the quarterly product per quarter (this results in four auctions for the respective quarter of delivery).
- Monthly products: First auction two months before the start of delivery and one auction of the monthly product per month (this results in two auctions for the respective month of delivery).

The following breakdown is proposed for the product categories as shares of the total capacity: annual products (60%), quarterly products (20%), monthly products (20%).

For cross-zonal capacities that are too low to justify the suggested allocation scheme, the auction frequency could be adjusted and reduced accordingly. Hence, a certain minimum capacity can then be auctioned and would therefore not increase administrative costs too much in the process. Nevertheless, an earlier auction date than today would greatly support market participants' hedging needs.

IFIEC Europe

IFIEC Europe response to the Core CCR TSOs' methodology for splitting long-term cross-zonal capacity

IFIEC Europe welcomes the opportunity to provide comments on the ENTSO-E consultation on splitting rules for forward capacity allocation in the CORE capacity calculation region. Forward capacity allocation is critical to allow market participants to hedge their long-term positions also across borders.

The CORE LTSR methodology presents a new concept of "Initial Long-Term Capacity". Supposedly, the TSOs propose that splitting of capacity happens based on this concept of "Initial Long-Term Capacity", i.e. after the year-ahead capacity calculation process and taking account of reservations of capacity for the day-ahead time frame. IFIEC Europe strongly disagrees with the concept of "Initial Long-Term Capacity", as it is a way to limit the allocation of all of the available capacity right after calculation. IFIEC Europe strongly insists that all the available capacity based on the calculation should be made available to the market as soon as calculated, without specific reservations for the monthly or day-ahead timeframe. Further release of capacity at shorter time horizons in the forward timeframe (monthly or other) should be the result of capacity recalculations, or gradual release of the margins and constraints initially applied by the TSOs for year-ahead allocations when uncertainties reduce as real time gets nearer. IFIEC Europe does not agree with the justification given by the TSOs on reservation of capacity for the day-ahead or month-ahead timeframe. TSOs should not take into account (forward) market prices to determine capacity allocated to the market, the allocation of capacity should solely be based on the technical capacity and requirements of the grid, as taking into account (forward) market prices for

capacity allocation would entail direct interaction/intervention from the TSOs in the market, which goes beyond the scope of the mission of the TSOs. The purpose of the forward market is primarily to allow market actors, including consumers, to hedge their positions. As such, the largest volume that can be offered as far ahead in time as possible allows for the most hedging opportunities, especially as uncertainty is always higher further ahead in time and therefore entails greater importance for market participants to cover those risks, including across borders. IFIEC Europe thus insists that all the capacity calculated by the capacity calculation process year ahead should be made available to the market (i.e. all of the calculated capacity year-ahead), insofar the methodology takes into account the technical limits of the grid, rather than reducing this volume by half. Further release of capacity at shorter time horizons in the forward timeframe (monthly) should be the result of capacity recalculations, or gradual release of the margins and constraints initially applied by the TSOs for year-ahead allocations as uncertainties reduce with real time getting nearer. As a result, IFIEC Europe cannot agree with the proposal to withhold half of the year ahead calculated and available capacity to later (monthly) timeframes, as this would greatly reduce the ability of market players, including consumers, to hedge their risks and thus would greatly reduce the value of this capacity. Moreover, in shorter timeframes this capacity might not be needed anymore to hedge, which would then imply a loss of optionality in earlier timeframes. Moreover, IFIEC Europe understands from the proposal of the TSOs that there is not even a guarantee that the half of the “initial long-term capacity” withheld for monthly auctions will actually be allocated at the monthly auctions, meaning this capacity could even be completely lost for market actors to hedge positions in the forward markets.

Overall, IFIEC Europe insists that the TSOs allocation of capacity should solely be based on the technical capacity and requirements of the grid and that is always best to offer to market parties as much capacity as possible as far ahead in time as possible, allowing market actors to decide how much and which capacity at which price they want to use (or not) for their hedging positions. Anything not following this approach, such as retaining hedge opportunities from the market based on expectation of evolutions of market prices, could lead to an impact (inflation) of the price of transmission rights, directly (and negatively) impacting market actors, including consumers, and is as such unacceptable to IFIEC Europe.

EDF

EDF welcomes the opportunity to provide comments on the CORE TSOs’ proposal for a methodology for splitting long-term cross-zonal capacity in accordance with the Forward Capacity Allocation Regulation.

Article 16 of FCA Regulation states that “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”.

EDF notes that, in the current proposal, CORE TSOs do not give any robust justification for the splitting rules they propose and their compliance with the aforementioned objectives, neither in the methodology itself, nor in the explanatory note. Thanks to an argumentation which mainly relies on theoretical hypotheses about the hedging needs of market participants, and which dismisses the only real preferences expressed during the consultation phase (allocation of all available long-term capacity as soon as possible), TSOs come to the conclusion that “the provision of sufficient LT-capacity by monthly products has to be assured by any proposed splitting methodology”, and derive from this principle an

arbitrary 50/50 split between the yearly and the monthly timeframes, which seems to be a default choice rather than an informed one.

In order for market participants to be able to reduce their exposure to volatility of short-term prices to the maximum possible extent, EDF considers that all available capacity resulting from the yearly capacity calculation should be offered to market participants in the corresponding timeframe, without reservation for further timeframes. Market participants should afterwards be able to rely on a secondary market for forward transmission rights if new needs arise or previous needs disappear*, and further release of capacity in the monthly timeframe should then be the result of capacity recalculations, which are likely to increase the forecasted NTC thanks to the progressive reduction in uncertainty as real time approaches. EDF disagrees particularly with the possibility of reserving a share of long-term capacity for the day-ahead timeframe in case PTRs are allocated, as foreseen in the definition of the “Initial Long-Term Capacity”; EDF notes that the legal basis referred to in the proposed methodology (Article 2.6 of Annex 1 of the Regulation No 714/2009) does not apply any more since the entry into force of the Regulation No 2019/943, and that Article 16 of FCA Regulation only requires to split “long-term cross-zonal capacity [...] between different long-term time frames”, suggesting that no reservation for short-term timeframes is allowed.

Furthermore, EDF considers that the hedging needs of market participants would be better met if the long-term products offered by TSOs had a finer temporal granularity. In this respect, EDF reminds that the products allocated in the yearly timeframe do not necessarily have to be yearly products. In EDF’s view, TSOs should instead allocate 100% of the calculated capacity year-ahead via monthly products, which could be bundled in the most economically efficient manner into multi-month or yearly blocks by market participants themselves.

Finally, EDF considers that Article 4 of the proposed methodology should be deleted and that Article 3 should cover all types of interconnectors. Indeed, this methodology applies to the long-term cross-zonal capacity available on a bidding zone border regardless of the type of interconnector(s) existing on this border (and even if there is only a HVDC cable on a border, the corresponding cross-zonal capacity is not necessarily equal to its capability, since it can be limited by internal AC network elements).

(*) This also advocates for the development of an organized and liquid secondary market, which does not exist today, as only OTC transfers or returns to the issuing TSOs are possible. This task could possibly be performed by the Single Allocation Platform, which already organizes the primary market.

ANNEX 1 - PUBLIC CONSULTATION VERSION OF THE CORE LONG-TERM SPLITTING METHODOLOGY



Core CCR TSOs' methodology 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

For public consultation

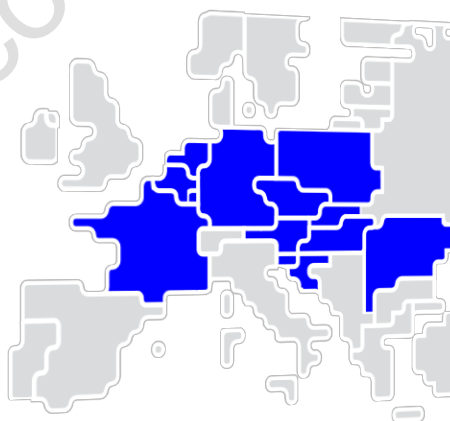


Table of Contents

WHEREAS	3
ARTICLE 1 SUBJECT MATTER AND SCOPE	5
ARTICLE 2 DEFINITIONS AND INTERPRETATION	5
ARTICLE 3 SPLITTING APPROACH FOR AC INTERCONNECTORS	5
ARTICLE 4 SPLITTING APPROACH FOR DC INTERCONNECTORS	5
ARTICLE 5 TRANSPARENCY	6
ARTICLE 6 IMPLEMENTATION PLAN	6
ARTICLE 7 LANGUAGE	6

Public consultation version

Transmission System Operators (hereafter referred to as “TSOs”) of the Core Capacity Calculation Region (hereafter referred to as “Core CCR”), taking into account

Whereas

- (1) This document is the methodology for the splitting of long-term cross-zonal capacity in a coordinated manner between different long-term time frames within the Core CCR in accordance with article 16 of the Commission Regulation (EU) 2016/1719 of 26 September 2016 establishing a guideline on forward capacity allocation (hereafter referred to as “FCA Regulation”). This methodology was developed by the TSOs of the Core CCR (hereinafter referred to as “Core TSOs”) as defined in accordance with article 15 of Commission Regulation (EU) 2015/1222 establishing a guideline on Capacity Allocation and Congestion Management (hereafter referred to as the “CACM Regulation”) and is hereinafter referred to as “Core TSOs’ Long-Term Splitting Methodology”.
- (2) The Core TSOs’ Long-Term Splitting Methodology takes into account the general principles and goals set by the FCA Regulation, Commission Regulation (EU) 2017/1485 of 2 August 2017 establishing a guideline on electricity transmission system operation and Regulation (EC) No 714/2009 of the European Parliament and of the Council of 13 July 2009 on conditions for access to the network for cross-border exchanges in electricity (hereinafter referred to as “Regulation (EC) No 714/2009”). 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 establishment of a single allocation platform at European level offering long-term transmission rights in a transparent and non-discriminatory way, offering the possibility to return long-term transmission rights for subsequent forward capacity allocation or transfer long-term transmission rights between market participants.
- (3) The FCA Regulation also sets rules for establishing capacity calculation methodologies based either on the coordinated net transmission capacity (hereinafter “cNTC”) approach or on a flow-based approach. The FCA Regulation also sets rules for establishing a methodology for the splitting of long-term capacity on different time frames, e.g. months, quarters and year. For the Core CCR the coordinated capacity calculation according to article 10(2) of the FCA Regulation will follow the cNTC approach.
- (4) Article 4(8) of the FCA Regulation requires that the expected impact of the Core TSOs’ Long-Term Splitting Methodology on the objectives of the FCA Regulation is described. The expected impact is assessed in the following points of this ‘Whereas’ section.
- (5) The Core TSOs’ Long-Term Splitting Methodology is a common proposal developed by Core TSOs contributing to the achievement of the conditions of article 16(2) of the FCA Regulation. In particular it contributes to and does not in any way hinder the achievement of the objectives of article 3 of the FCA Regulation.
- (6) The Core TSOs’ Long-Term Splitting Methodology serves the objective of promoting effective and non-discriminatory long-term cross-zonal trade with long-term cross-zonal hedging opportunities for market participants in accordance with article 3(a) of the FCA Regulation by providing fractions of long-term capacities to all long-term allocation time frames as defined in article 6 of the Core CCR TSOs’ regional design of long-term transmission rights in accordance with article 31 of the FCA Regulation so that market participants are equally granted access to long-term transmission rights at all long-term time frames.
- (7) The Core TSOs’ Long-Term Splitting Methodology contributes to the objective of optimising the calculation and allocation of long-term cross-zonal capacity rights in accordance with article 3(b)

of the FCA Regulation by taking into account the results of the long-term capacity calculation methodology in accordance with article 10 of the FCA Regulation, which takes duly into account the provisions and limitations related to secure system operation by applying a security analysis based on multiple scenarios, as a key technical input to the Core TSOs' Long-Term Splitting Methodology.

- (8) The Core TSOs' Long-Term Splitting Methodology contributes to the objective of providing non-discriminatory access to long-term cross-zonal capacity in accordance with article 3(c) of the FCA Regulation by not applying barriers for access to the auction of long-term transmission rights (hereinafter "LTTRs") via the Single Allocation Platform and consequently its full compliance with Harmonised Allocation Rules for long-term transmission rights.
- (9) The Core TSOs' Long-Term Splitting Methodology contributes to the objective of ensuring fair and non-discriminatory treatment of TSOs, the Agency, regulatory authorities and market participants in accordance with article 3(d) of the FCA Regulation by securing full transparency of the Core TSOs' Long-Term Splitting Methodology preparation and adoption process due to consulting with all relevant stakeholders as required by provisions of the article 6 of the FCA Regulation.
- (10) The Core TSOs' Long-Term Splitting Methodology contributes to the objective of respecting the need for a fair and orderly forward capacity allocation and orderly price formation in accordance with article 3(e) of the FCA Regulation by publishing and making available cross-zonal capacity in due time to be released in the long-term time frame for forward markets, where appropriate, taking into account hedging needs of market participants.
- (11) The Core TSOs' Long-Term Splitting Methodology contributes to the objective of ensuring and enhancing the transparency and reliability of information on forward capacity allocation in accordance with article 3(f) of the FCA Regulation by timely publication of all relevant information and inputs to Core TSOs' Long-Term Splitting Methodology i.e. results of the long-term capacity calculation methodologies, applied splitting criteria and inputs to splitting criteria enabling full auditability of the results.
- (12) The Core TSOs' Long-Term Splitting Methodology contributes to the efficient long term operation and development of the electricity transmission system and electricity sector in the Union in accordance with article 3(g) of the FCA Regulation by providing to the long-term markets the maximum possible amount of the long-term capacity supported by market participants' activities on the forward markets and enabling proper long-term price formations on electricity markets.
- (13) Further, the Core TSOs' Long-Term Splitting Methodology complies with the conditions set out as described in article 16(2) of the FCA Regulation, (a) meeting the hedging needs of market participants; (b) being coherent with the capacity calculation methodology and (c) not leading to restrictions in competition, in particular for access to long-term transmission rights.
- (14) The Core TSOs' Long-Term Splitting Methodology was publicly consulted from 10 June 2019 until 10 July 2019 in accordance with article 6 of the FCA Regulation.
- (15) Core TSOs decided to implement processes for taking into account capacity reservations for the day-ahead time frame before splitting long-term capacities for bidding zone borders where physical transmission rights are allocated in the long-term time frames, that could be done based on article 2.6 of Annex 1 of Regulation (EC) No 714/2009.

developed the following Core TSOs' Long-Term Splitting Methodology:

Article 1

Subject matter and scope

1. The Core TSOs' Long-Term Splitting Methodology covers the methodology for splitting long-term cross-zonal capacity in a coordinated manner between long-term timeframes for the Core CCR bidding zone borders in accordance with article 16 of the FCA Regulation.
2. The principles laid down in this Core TSOs' Long-Term Splitting Methodology shall be applied for splitting the Initial Long-Term Capacity between the yearly and monthly long-term time frames as defined in article 6 of the Core CCR TSOs' regional design of long-term transmission rights in accordance with article 31 of the FCA Regulation.

Article 2

Definitions and interpretation

1. For the purposes of this Core TSOs' Long-Term Splitting Methodology the terms used shall have the meaning given to them in article 2 of the FCA Regulation, in article 2 of the CACM Regulation, in article 2 of Regulation (EC) 714/2009 and in article 2 of Commission Regulation (EU) 543/2013 of June 2013 on submission and publication of data in electricity markets and amending Annex I to Regulation (EC) No 714/2009 of the European Parliament and of the Council.
2. In this Core TSOs' Long-Term Splitting Methodology, the following definitions shall apply:
 - a. "Initial Long-Term Capacity" means the capacity on a bidding zone border in a given direction resulting from the year ahead long-term capacity calculation based on the methodology in accordance with article 10 of the FCA Regulation, possibly reduced by reservations for the day-ahead time frame before splitting long-term capacities for bidding zone borders where physical transmission rights are allocated in the long-term time frames, that could be done based on article 2.6 of Annex 1 of Regulation (EC) No 714/2009.

Article 3

Splitting Approach for AC interconnectors

1. In case of AC interconnectors, one half of the Initial Long-Term Capacity will be offered to the subsequent yearly capacity allocation session at the Single Allocation Platform.
2. Long-Term capacities resulting from the monthly capacity calculations in accordance with article 10 of the FCA Regulation, reduced by those capacities already allocated to the yearly timeframe and increased by returned capacity from the yearly time-frame, are offered to the subsequent monthly capacity allocation sessions at the Single Allocation Platform.
3. The split of the calculated long-term cross-zonal capacity for each forward capacity allocation shall be executed by the responsible Coordinated Capacity Calculator in accordance with article 23(3) of the FCA Regulation.
4. The responsible Coordinated Capacity Calculator and the Core TSOs shall apply the stipulations of article 24 of the FCA Regulation for the validation of the results of the calculation for splitting of long-term cross-zonal capacity.

Article 4

Splitting Approach for DC interconnectors

In case of DC interconnectors, the Initial Long-Term Capacity is split into two equal fractions.

Article 5

Transparency

The Core TSOs' Long-Term Splitting Methodology shall be published without undue delay after the approval by all relevant regulatory authorities in accordance with article 4(13) of the FCA Regulation.

Article 6

Implementation Plan

The Core TSOs' Long-Term Splitting Methodology shall be implemented latest by the first year ahead capacity calculation based on the Core TSOs' common capacity calculation methodology for long-term time frames elaborated in accordance with article 10(1) of the FCA Regulation after the approval of relevant regulatory authorities.

Article 7

Language

The reference language for this Core TSOs' Long-Term Splitting Methodology shall be English. For the avoidance of doubt, where TSOs need to translate this Core TSOs' Long-Term Splitting Methodology 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 Core TSOs' Long-Term Splitting Methodology.