



KONKURENTSIAMET

Elering AS
AS Augstsprieguma tīkls (AST)

Your ref: 26.07.2024 nr 2.5/2024/2831

Our ref: 29.10.2024 nr 7-25/24-0160-299-2

The letter has been sent digitally to: info@elering.ee, ast@ast.lv

Offered volumes for the financial transmission rights on the EE-LV border for the year 2025

On 26 July 2024 AS "Augstsprieguma tīkls" and Elering AS (hereinafter TSOs) have sent a letter to Estonian Competition Authority and The Public Utilities Commission of Latvia (hereinafter NRAs) to seek guidance on matters related to splitting the long-term cross-zonal capacity.

The NRAs have evaluated the justifications provided by the TSOs regarding the change of the Long Term Transmission Rights (LTTR) volumes and have also analyzed the corresponding process from a legal perspective. In this context, the NRAs, in addition to their close cooperation with each other, have consulted with the Agency for the Cooperation of Energy Regulators (hereinafter ACER). After thorough discussions, the NRAs have reached the conclusion below.

According to Article 16 (2) of Commission Regulation (EU) 2016/1719 (FCA) the methodology for splitting long-term cross-zonal capacity shall meet the hedging needs of market participants. Therefore, the LTTR volumes shall meet the hedging needs of market participants and based on discussions with ACER such hedging needs could be assessed in separate analysis. One of the perspectives for assessing the hedging needs of market participants is through evaluating the value and risk premiums of LTTRs. The TSOs have already put forward this approach, and the NRAs, in alignment with ACER, consider this method and its justification valid. High risk premiums of LTTRs (indicating undervalued LTTRs) could, therefore, serve as a legitimate basis for adjusting the volume limits of LTTRs

In 2020 the NRAs have approved Estonian and Latvian TSOs of Baltic CCR TSOs' Common
Tatari 39 / 10134 Tallinn / 667 2400 / info@konkurentsiamet.ee / Registrikood 70000303

Methodology for Splitting Long-Term Cross-Zonal Capacity (hereinafter the Splitting Methodology) and the TSOs use the Splitting Methodology for the calculation of the amount of LTTRs for each timeframe for Estonian and Latvian border.

Before issuing the LTTRs on the Finland and Estonian border on 2023, ACER issued an opinion No 03/2022¹, in which, ACER provides a view that in order to implement the Splitting Methodology in accordance with Article 16 of the FCA in the Baltic capacity calculation region, such methodology will however have to be proposed by and approved for all relevant TSOs of the Baltic capacity calculation region, i.e. the Estonian TSO, the Latvian TSO, and Finnish TSO.

According to Article 16(2)(b) of the FCA, the Splitting Methodology has to “*be coherent with the capacity calculation methodology*”, i.e. with the long-term capacity calculation methodology according to Article 10 of the FCA but in respective situation ACER decision No 27/2020² rejected the Baltic CCR TSOs’ proposal for the long-term capacity calculation methodology.

According to ACER’s view, this coherence requirement implies that the splitting methodology according to Article 16 of the FCA can only be implemented when the long-term capacity calculation methodology under Article 10 of the FCA has been implemented for the respective region.

On the other hand, according to ACER’s view, the coherence requirement does not necessarily imply that cross-zonal capacity may not be split at all without a long-term capacity calculation methodology under Article 10 of the FCA and without a splitting methodology according to Article 16 of the FCA. In fact, such splitting may be needed to continue offering LTTRs which existed on a bidding zone border at the entry into force of the FCA, i.e. before the implementation of those methodologies, or to introduce LLTRs. Indeed, Article 30 of the FCA does prescribe that LTTRs must be issued, however it does not condition their issuing on the use of the methodologies according to Articles 10 and 16 of the FCA. Nor are such conditions established by Articles 31 to 35 of the FCA, which define the regional design of LTTRs, physical transmission rights and financial transmission rights.

Therefore, according to ACER’s view, cross-zonal capacity may be split according to a methodology bilaterally agreed by the relevant TSOs, subject to regulatory oversight, until the

¹<https://acer.europa.eu/sites/default/files/documents/Publications/Opinions/ACER%20Opinion%2003-2022%20on%20LTTR%20implementation%20on%20FI-EE.pdf>

²https://www.acer.europa.eu/sites/default/files/documents/Individual%20Decisions/ACER%20Decision%2027-2020%20on%20Baltic%20LT%20CCM_0.pdf

splitting methodology according to Article 16 of the FCA has been implemented.

In light of the above and based on the discussions with ACER, the NRAs have concluded that the TSOs have two options for changing the volumes of LTTRs, while ensuring the legality of the process and compliance with EU regulations. The first option for the TSOs is to develop a proposal, together with Finnish TSO, for a Methodology for splitting long-term cross-zonal capacity in accordance with Article 16 of FCA, which also requires implementing the long-term capacity calculation methodology in accordance with Article 10 of FCA beforehand. The second option is to develop a methodology, subject to regulatory oversight, where the TSOs bilaterally agree on the splitting of the cross-zonal capacity, until the splitting methodology according to Article 16 of the FCA has been implemented.

Sincerely,

(signed digitally)

Küllli Haab

head of division-deputy director general

On behalf of

Estonian Competition Authority

The Public Utilities Commission of Latvia