

European Network of
Transmission System Operators
for Electricity

Forward Capacity Allocation Network Code

Supporting document

**A consultation document to support the
assessment of the draft network code**

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1 PURPOSE & OBJECTIVES OF THIS DOCUMENT

1.1 PURPOSE OF THE DOCUMENT

This document has been developed by the European Network of Transmission System Operators for Electricity (ENTSO-E) to accompany the draft network code on Forward Capacity Allocation and should be read in conjunction with that document.

It aims to inform responses to that document by providing interested parties with information about the rationale for approaches set out in the network code. In particular, it seeks to outline the reasons which led to particular approaches being specified in the network code and to explain the options which were considered and rejected. The document has been developed in recognition of the fact that a legally binding document inevitably cannot provide the level of explanation which some parties may desire.

1.2 STRUCTURE OF THE DOCUMENT

This document is structured as follows:

- Section 2 introduces the legal framework within which the FCA network code has been developed.
- Section 3 explains the approach which ENTSO-E has taken to developing the network code and outlines some of the challenges involved.
- Section 4 discusses how the draft network code complies with the requirements of the Framework Guideline developed by the Agency for the Coordination of Energy Regulators
- In section 5 the document focuses on the content of the FCA NC on
- Finally section 6 briefly summarises next steps.

The document contains two appendices:

- Appendix 1 includes a comprehensive list of Frequently Asked Questions, relating to each aspect of the network code. These questions provide an insight into the reasons for many of the options which are included in the network code.
- Appendix 2 contains a detailed table showing how each element of the Framework Guideline is reflected in the draft network code.

1.3 LEGAL STATUS OF THE DOCUMENT

This document accompanies the network code on Forward Capacity Allocation but is provided for information only. Therefore it has no legally binding status.

1.4 RESPONDING TO THIS CONSULTATION

Responses to the public consultation on the Forward Capacity Allocation network code are requested by 28 May 2013. All responses should be submitted electronically via the ENTSO-E consultation tool. Responses submitted via other means will not be considered. A short guide to using the consultation tool is also available at www.entsoe.eu/consultations/.

1.5 INVITATION TO WORKSHOPS

We would also like to invite interested parties to a workshop on 8 May 2013 to discuss the Forward Capacity Allocation network code. The workshop, to be held at ENTSO-E's Brussels premises, will provide an opportunity for different interested parties to raise issues and ask questions regarding the network code. Should you wish to attend the workshop please contact jana.moravcova@entsoe.eu.

A second workshop will be scheduled after the closure of the public consultation period. This will provide an opportunity to summarise responses and for ENTSO-E to discuss the steps which will need to be taken to reflect comments in a final document.

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2 PROCEDURAL ASPECTS

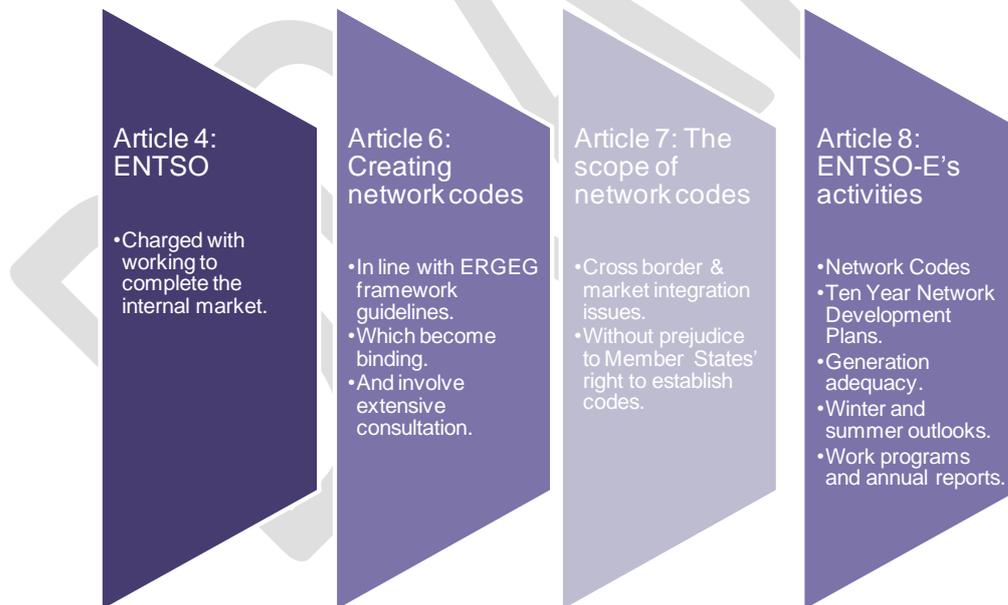
2.1 INTRODUCTION

This section provides an overview of the procedural aspects of network code development. It explains the legal framework within which network codes are developed and focuses on ENTSO-E’s role within it. It also explains the next steps in the process of developing the Forward Capacity Allocation network code. Please note that, all the references in the Forward Capacity Allocation network code to CACM refers to the version of CACM which was submitted to ACER on 27 September 2012.

2.2 THE FRAMEWORK FOR DEVELOPING NETWORK CODES

This network code has been developed in accordance with the process established within the Third Energy Package. The Regulation (EC) No 713/2009 creates ENTSO-E and the Agency for the Coordination of Energy Regulators (ACER) and gives them clear obligations in developing network codes. This is shown in the diagram below (Figure 1).

Figure 1: ENTSO-E’s legal role in network code development



Source: ENTSO-E

The internal market in electricity, which has been progressively implemented since 1999, aims to deliver real choice for all consumers in the Community, be they citizens or businesses, new business opportunities and more cross-border trade, so as to achieve efficiency gains, competitive prices and higher standards of service, and to contribute to

security of supply and sustainability. The European Council on 4 February 2011 set 2014 as a target for the completion of the Internal Energy Market (IEM). The development of network codes and guidelines is an important action to be taken in order to be able to meet this challenge as they will be the legal framework for the development, operation and monitoring of the IEM. The Third energy package has created an institutional set up for developing network codes with a view to harmonising, where necessary, the technical, operational and market rules governing the electricity and gas grids. In particular, increased cooperation and coordination among transmission system operators is required to create network codes for providing and managing effective and transparent access to the transmission networks across borders, and to ensure coordinated and sufficiently forward-looking planning and sound technical evolution of the transmission system in the European Community, including the creation of interconnection capacities, with due regard to the environment.

In order to ensure optimal management of the electricity transmission network and to allow trading and supplying electricity across borders in the European Community, a European Network of Transmission System Operators for Electricity (ENTSO-E), was established in 2009. It was tasked with developing network codes on a range of issues impacting on the internal market for electricity. Those network codes should be in line with framework guidelines, which are non-binding in nature (framework guidelines) and which are developed by the Agency for the Cooperation of Energy Regulators established by Regulation (EC) No 713/2009 of the European Parliament and of the Council of 13 July 2009. Since 2009 the European Commission together with national regulatory authorities and transmission system operators (“TSOs”) set up a planning group to ensure that the procedure foreseen under the Third Package was adhered to. Since the Third package is in force the planning group consists of the European Commission, ACER and the ENTSOs.

The general process for network codes is as follows. The European Commission, after consulting ACER, ENTSO-E and the other relevant stakeholders, establishes an annual priority list identifying the areas to be included in the development of network codes. The European Commission can then request ACER to submit to it within six months a non-binding framework guideline (framework guideline), setting out clear and objective principles, for the development of network codes relating to the areas identified in the priority list. ENTSO-E then has twelve months to draft a network code taking into account the objective principles outlined in the non-binding framework guideline. ENTSO-E then submits the draft network code to ACER for its reasoned opinion. ACER has three months to provide this reasoned opinion to ENTSO-E. As a next step ACER submits its qualified recommendation to the European Commission. The network code then enters the final stage where it goes through comitology and becomes legally binding on all member states.

The network codes will cover the following areas, taking into account, if appropriate, regional specificities:

- a) network security and reliability rules including rules for technical transmission reserve capacity for operational network security;
- b) network connection rules;
- c) third-party access rules;
- d) data exchange and settlement rules;
- e) interoperability rules;
- f) operational procedures in an emergency;
- g) capacity-allocation and congestion-management rules;
- h) rules for trading related to technical and operational provision of network access services and system balancing;
- i) transparency rules;
- j) balancing rules including network-related reserve power rules;
- k) rules regarding harmonised transmission tariff structures including locational signals and inter-transmission system operator compensation rules; and
- l) energy efficiency regarding electricity networks.

The network codes shall be developed for cross-border network issues and market integration issues and shall be without prejudice to the Member States' right to establish national network codes which do not affect cross-border trade.

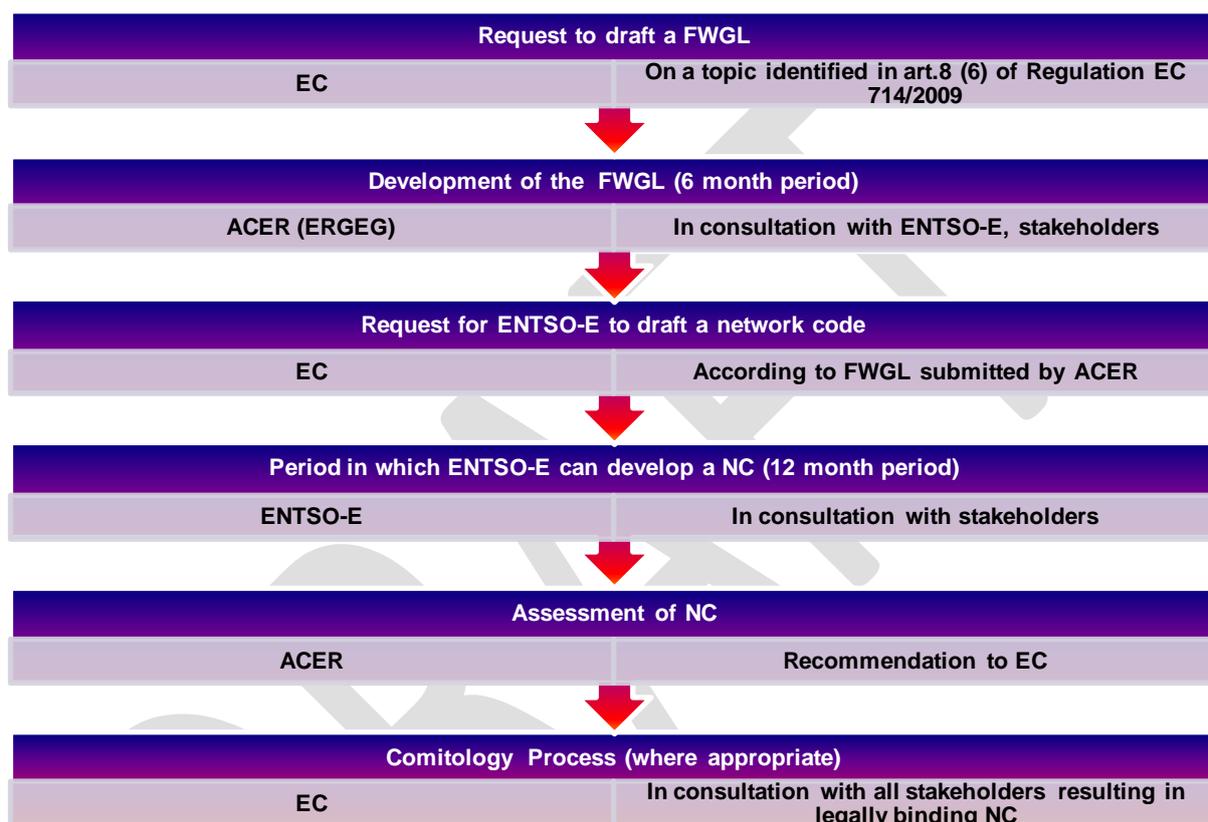
To date, the prioritised network codes across operations, system development and markets required to deliver the internal electricity market by 2014 include:

- Capacity Allocation and Congestion Management rules for forward, day-ahead and intraday markets including the calculation of capacity across these timeframes. The forward market is the focus of this document;
- Balancing rules;
- Network Connection rules on generator grid connection, DSO and industrial load connection and HVDC;
- Operations rules for system operation, planning and scheduling, plus load-frequency control and reserves.

It is expected that harmonised rules on transparency and governance will be progressed by the European Commission and go directly through the comitology procedure during first half of 2013.

This framework creates a process for developing network codes including ACER, ENTSO-E and the European Commission. This is shown below.

Figure 2: Overview of the network code development process



Source: ENTSO-E

As discussed in detail later in this document, the Forward Capacity Allocation network code has been developed by ENTSO-E to meet the requirements of the Framework Guideline developed by ACER. ENTSO-E was formally asked to begin work on the Forward Capacity Allocation network code on 21 September 2012. The deadline for the delivery of a code to ACER is the 30 September 2013.

2.3 NEXT STEPS IN THE PROCESS

ENTSO-E is now consulting on a draft Forward Capacity Allocation network code. We encourage parties to submit comments and to provide proposals for addressing any concerns they see with the existing draft. ENTSO-E will carefully consider all comments which are provided and will update the network code in light of them. The way in which we

intend to amend the code will be outlined in the July workshop mentioned above. Following agreement and approval within ENTSO-E, the network code will be submitted to ACER on or before the 30 September 2013 deadline.

ACER will then assess the network code to ensure it complies with the Framework Guideline and will make a recommendation to the European Commission. Assuming the European Commission agrees with the recommendation, they will then begin the process of Comitology. This process will transform the network code into a regulation. The regulation will be legally binding on all parties and will have direct effect (i.e. it will not need to be transposed into national law).

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3 SCOPE, STRUCTURE & APPROACH TO DRAFTING THE FCA NETWORK CODE

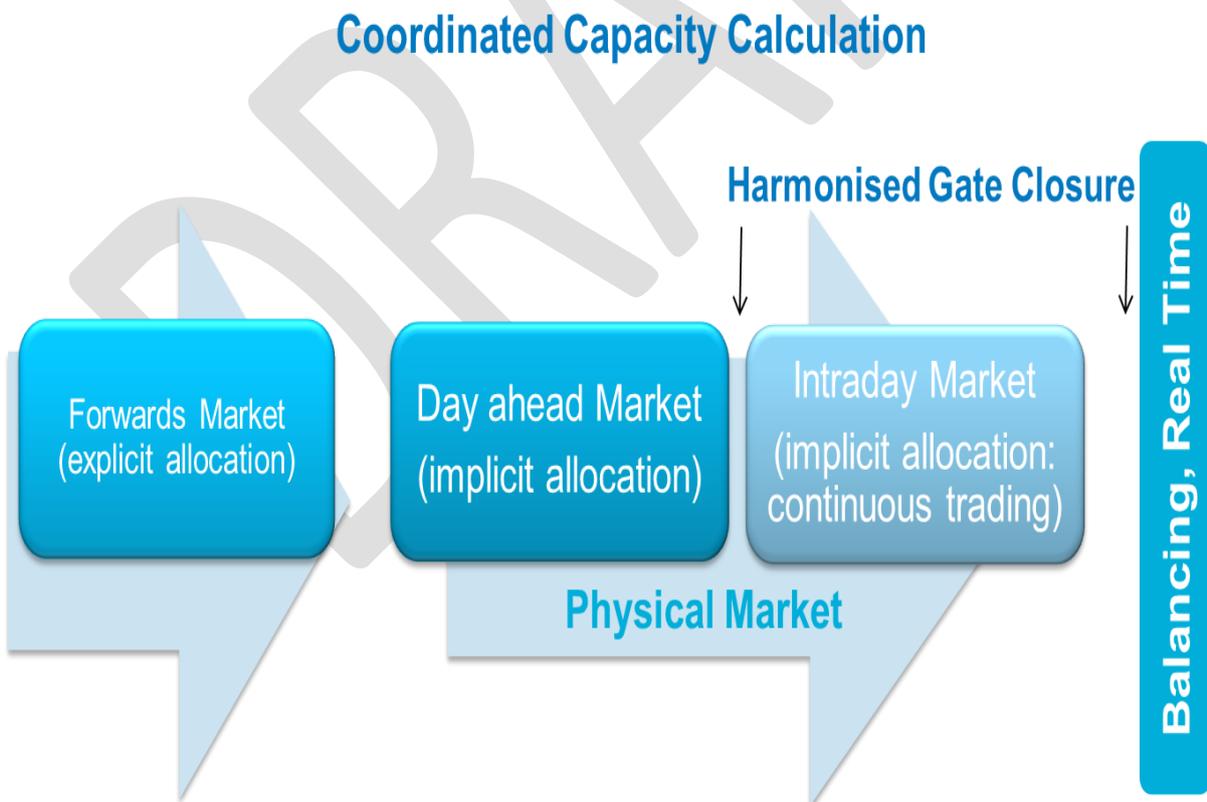
3.1 INTRODUCTION

In this section the EU Target Model for Market Integration, the scope of the Forward Capacity Allocation network code, the approach which ENTSO-E has taken to drafting the network code are presented.

3.2 THE EU TARGET MODEL FOR MARKET INTEGRATION

In many ways the Forward Capacity Allocation network code represents the culmination of a long period of work involving the European Commission, ACER, TSOs, national regulators and stakeholders to develop a single market model for Europe. The so-called EU Target Model proposes a market design for each timeframe (i.e. forward markets, day ahead and intraday markets) and a coordinated approach to capacity calculation. Consensus around this model has been achieved through extensive discussions among policy makers and stakeholders (e.g. via the Project Coordination Group¹).

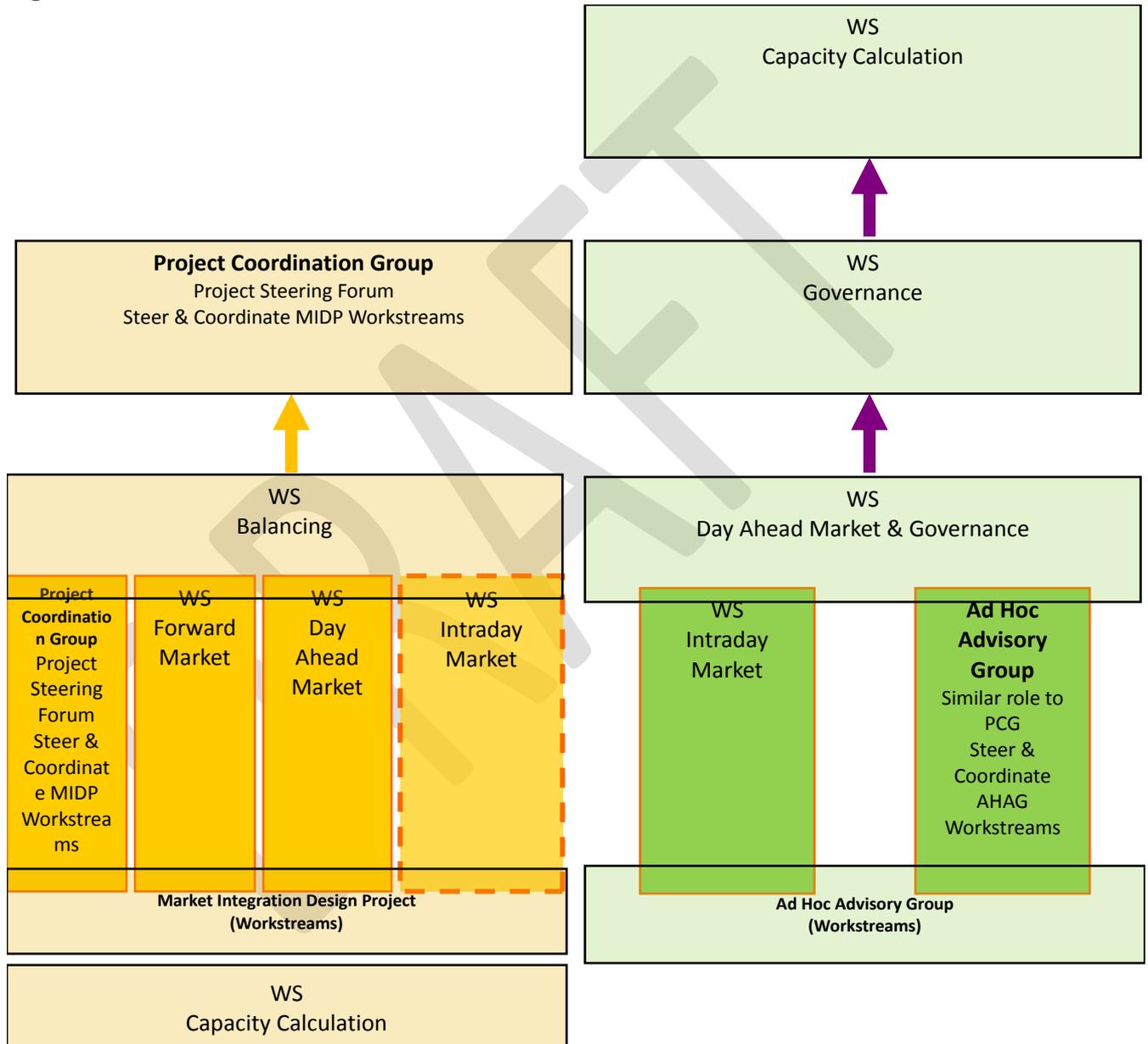
Figure 3: The EU Target Model



¹ In 2008, ERGEG established a Project Coordination Group of experts, with participants from EC, Regulators, ETSO, Europex, EURELECTRIC, and EFET with the tasks of developing a practical model to harmonise interregional and then EU-wide coordinated congestion management.

In December 2009 the Electricity Regulatory Forum (also known as "Florence Forum"), chaired by the European Commission and composed of all member states and relevant stakeholders, endorsed the establishment of the European Target Model for congestion management in the electricity market. This work, continued in 2010 through the Ad-Hoc Advisory Group to ERGEG, has constituted the main basis for the Framework Guidelines on Capacity Calculation and Congestion Management.

Figure 4: Overview of the PCG and AHAG



For day ahead and intraday timeframes flow based or coordinated NTC Capacity Calculation approaches are allowable by the target model. However, for the Forward Capacity Allocation timeframe the coordinated NTC approach is preferable, although the flow based approach is acceptable provided there is evidence that it can deliver higher efficiency.

Regarding the Forward market, which refers to timeframes prior to day-ahead (e.g. monthly, quarterly, yearly, multi-yearly periods), the target model generally prescribes that transmission capacity should be allocated in explicit auctions via Physical Transmission Rights (PTRs) with the "use-it-or-sell-it" principle or via Financial Transmission Rights (FTRs).

The target model for the Day Ahead market is based on implicit auctions, which means that cross-zonal capacity is allocated implicitly with the matching of the most competitive energy bids and offers. This process is commonly known as Market Coupling. More in detail, it was agreed that the target model should be based on a single price coupling EU algorithm.

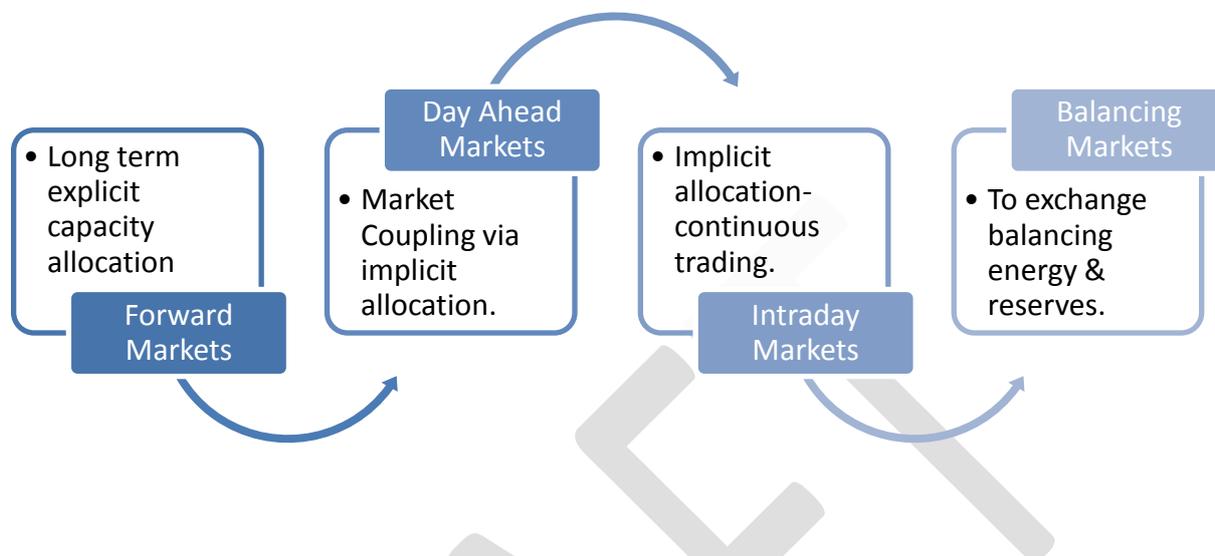
In the Intraday market, where market participants trade energy to adjust their positions after the day-ahead market phase and before the balancing market, the target model also prescribes implicit allocation of capacity. However, unlike the day-ahead market, this should be based on continuous trading rather than auctions. Reliable pricing of scarce capacity complements the target model, while regional auctions can be implemented where appropriate.

In respect of the Balancing market, while the long term solution foresees a TSO-TSO model with a common merit order, its features and interim models are still part of the ongoing discussions around the Framework Guidelines on Balancing, published by ACER on 20 September 2012.

3.3 SCOPE OF THE FORWARD CAPACITY ALLOCATION NETWORK CODE

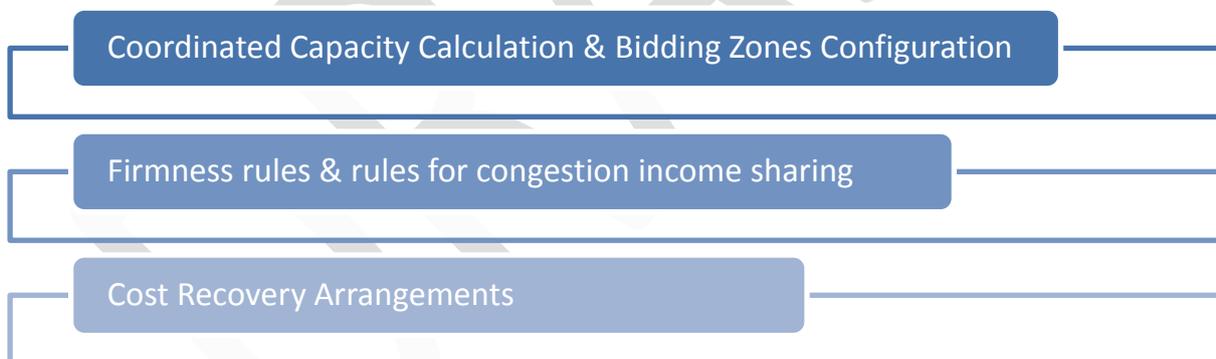
As mentioned above, the pan-European market which ENTSO-E, the European Commission and stakeholders are working to create will involve markets across timeframes. This will begin with forward and end with cross-border balancing markets, as shown below.

Figure 5: Scope of network codes in the market areas



There are a series of general issues which will underpin the efficient operation of the markets. This is shown below.

Figure 6: general issues

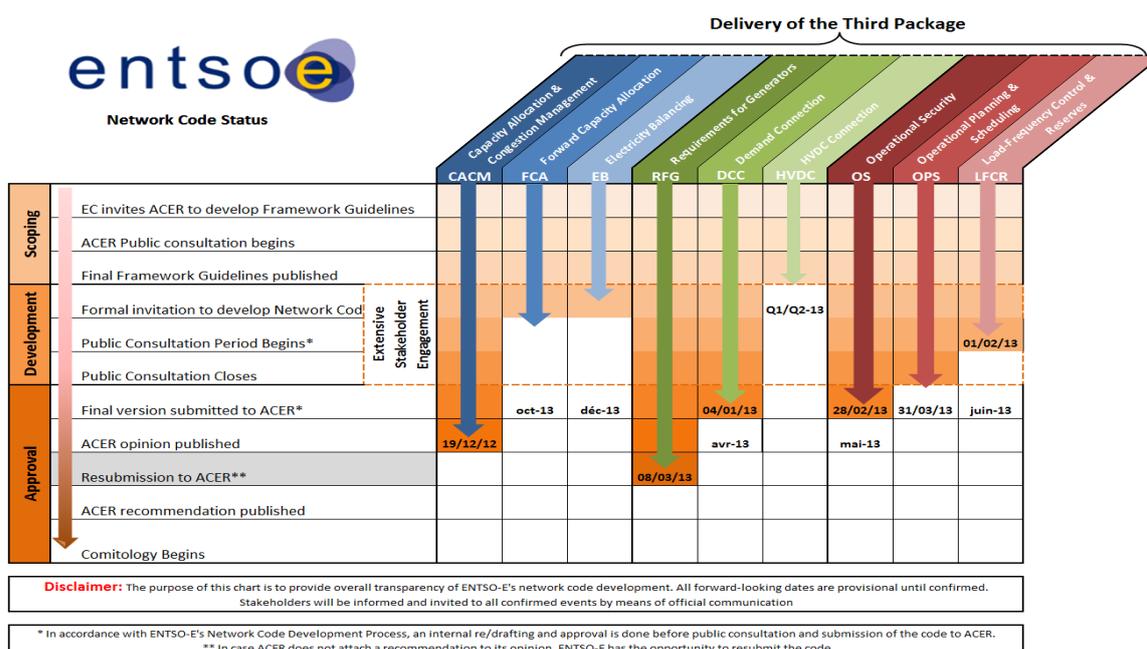


The Forward Capacity Allocation network code covers:

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

The CACM network code was sent to ACER on 30 September 2012 as it can be seen below. ACER provided its Reasoned Opinion on the CACM network code on 19 December 2012. The Balancing network code is the last of the market network codes to be developed and is expected to be sent to ACER by end 2013. These network codes complement each other and provide a single set of pan-European market rules covering all timeframes. The goal is to have these rules in place by 2014.

Figure 6: Status of network codes being developed by ENTSO-E



3.4 INTERACTION WITH NETWORK CODE ON CAPACITY ALLOCATION AND CONGESTION MANAGEMENT

The network code on Capacity Allocation and Congestion Management (CACM) – The framework guideline on CACM covers day-ahead and intraday markets in addition to forward markets. CACM network code has very strong links with the Forward Capacity Allocation network code. The text highlighted in grey in the NC FCA submitted to consultation is identical to the Network Code on Capacity Allocation and Congestion Management (NC CACM) as submitted to ACER on the 27 September 2012. While drafted in the framework of the NC CACM development process, this text has been included in the NC FCA as it is applicable to all Capacity Allocation timeframes, including Forward Capacity Allocation. As requested by some stakeholders, we highlighted this text to ease readability and to facilitate the understanding of how the two Network Codes interact. As part of this NC FCA public

consultation, comments submitted on the text highlighted in grey shall exclusively refer to the applicability of this text to the Forward Capacity Allocation timeframe. ENTSO-E reserves its right not to consider comments specifically related to the Day Ahead and Intraday timeframe as these should have been addressed within the scope of the NC CACM development process. In addition, it shall be noted that on 14 March 2013 ACER issued a Recommendation to the European Commission to adopt the NC CACM. As a result of this recommendation and of the on-going adoption process by the EC, the final version of the NC CACM may be subject to amendments. Consequently, such amendments will eventually also affect the relevant parts of the FCA NC now highlighted in grey.

3.5 INTERACTIONS WITH OTHER NETWORK CODES

The Forward Capacity Allocation network code is one of several codes being developed by ENTSO-E. There are interactions between the Forward Capacity Allocation network code and a number of these documents:

- *The network code on balancing* – Balancing was not described in detail in the EU Target Model but is an important aspect of creating a well-functioning pan-European market.
- *The network code on operational security* – The network code on operational security will set out the technical basis for operating the European power system. The requirements of this network code will have a significant bearing on the way capacity is calculated (for example the calculation of the reliability margin).

As a result of these interactions, the issue of change management is critical. While ACER is working on this issue, changes will need to be made using the established Comitology processes. Upon public consultation and prior to finalising the code, changes might be necessary to align the code with requirements set by other network codes if deemed necessary.

3.6 CHALLENGES IN DEVELOPING THE FCA CODE

The Forward Capacity Allocation network code is the 7th network code to be developed by ENTSO-E.

The process of developing a network code is challenging for many reasons:

- There is little or no precedent for setting out a single set of electricity market rules. This means there are challenges in developing the right approach to drafting and

engaging with stakeholders, as well as in getting the detail right. There is however now some experience in this regard following the process followed for the Requirements for Generators, Demand Connection and CACM network codes.

- The detail and level of development of existing approaches to capacity allocation and congestion management differ markedly between countries and regions of Europe. The code needs to facilitate ongoing projects where they exist and provide momentum to develop markets where none exist.
- The pace of change in the sector is rapid. The network code must facilitate and promote market integration and avoid the risk that it has unintended consequences (particularly as change processes are lengthy) or constrains progress at regional level.
- The network code covers many detailed aspects of market rules, including having a significant impact on the activities of players in the sector and on existing market rules.

In light of these challenges, ENTSO-E needed to develop a proportionate approach to developing the Forward Capacity Allocation network code.

3.7 APPROACH TO DRAFTING

An immediate challenge for the code involved the appropriate approach to drafting. This challenge can be summarised as follows:

- If the code is overly detailed and prescriptive it could constrain present or future developments at regional level or create issues if a particular element of the code needs to be amended.
- If it is too general then there is a risk that the overarching objective of promoting the completion of the European market would not be given the boost the codes are intended to deliver.
- As the Framework Guideline does not cover this issue, ENTSO-E needed to determine an approach which was appropriate in each area. This involved making trade-offs between the issues raised above – which we have sought to do in each area in light of precedents which exist, the scope for further change in the area and the importance of the subject.

3.8 DEVELOPMENT OF THE CODE WITHIN ENTSO-E

The development of the network code within ENTSO-E has been led by the Forward Capacity Allocation network code drafting team. This team has been tasked with the responsibility of developing the detailed sections relating to Capacity Calculation and Forward Capacity Allocation, Allocation Rules, Single platform for Allocation and Secondary Trading. The team has sought to work together to ensure consistency and ENTSO-E's Market Integration Working Group and Market Committee have provided an overseeing role

while the Legal and Regulatory Group has provided legal expertise. Ultimately, the ENTSO-E Assembly, which represents all TSOs, has approved the publication of the attached draft network code for consultation.

3.9 WORKING WITH STAKEHOLDERS

The legally binding nature of network codes means that they can have a fundamental bearing on market participant's businesses. As such, ENTSO-E has sought to engage with stakeholders at an early stage.

Our approach to stakeholder engagement has involved the following:

- creating a stakeholder advisory group comprising a series of pan-European organisations which could advise on the network code and communicate progress to members;
- providing regular updates and publishing relevant information via the ENTSO-E website;
- holding bilateral meetings with interested parties and providing information via conferences and presentations; and
- asking each ENTSO-E member TSO to engage with stakeholders at a national level to provide information about the Forward Capacity Allocation network code.

We would like to thank representatives from Europex, EURELECTRIC, IFIEC, EFET and merchant interconnectors as well as representatives from ACER, CEER (and the individual national regulators) and the European Commission, who have been participating in the stakeholder advisory group. The group has provided a valuable critique or proposals and suggested alternative solutions in many cases. Discussion with the stakeholder group will continue after the launch of the public consultation.

As mentioned in the introduction, we will be holding two open workshops to allow interested parties to raise questions and clarifications during the public consultation and to provide information on next steps once the consultation has closed.

4 RELATIONSHIP BETWEEN THE NETWORK CODE & FRAMEWORK GUIDELINE

4.1 INTRODUCTION

Parties are aware that the Framework Guideline on Capacity Allocation and Congestion Management² provides the guideline based on which the network code has been developed. This section demonstrates how the various elements of the network code relate to particular areas of the framework guideline. It also highlights the very small number of cases in which a part of the FG has not been transposed into the network code and explains the reasons for this.

4.2 RELATIONSHIP BETWEEN THE NETWORK CODE AND FRAMEWORK GUIDELINES

In developing the Forward Capacity Allocation network code, ENTSO-E has sought to comply with the requirements of the Framework Guideline. The table in Annex 2 provides a detailed assessment of the extent to which the draft CACM code meets each of the requirements of the framework guideline.

There are a limited number of areas in the network code where a specific approach has been chosen, due to the reasons provided below:

- **Firmness:** the overarching principle that the NC is trying to achieve is that Long Term Transmission Rights should be firm as long as the total amount of the compensation payments does not exceed the income that TSOs have received from the allocation of Long Term Transmission Rights for a fix period of time. This is reflected in paragraph 4 of Article 67. In this respect, the NC is broadly in line with the Framework Guidelines. The provisions on Firmness (articles 67 to 69), try to articulate this concept in a more specific way in order to establish an optimal risk-hedging balance among all stakeholders. For this purpose we considered the optional introduction of a Long Term Firmness Deadline which aims at further aligning the Firmness Regime with the capacity calculation processes of System Operators. In particular, the Long Term Firmness Deadline allows an increased step-wise firmness degree, as transmission capacity goes confirmed along these latter processes. The end objective being to make sure that all transmission capacity released has been confirmed by System Operators (so as to minimise curtailments) and also that System Operators will always be able to compensate Long Term Transmission Right holders, in case

² Framework Guidelines on Capacity Allocation and Congestion Management for Electricity – 29 July 2011. Available at: [http://www.acer.europa.eu/portal/page/portal/ACER_HOME/Public_Docs/Acts%20of%20the%20Agency/Framework%20Guideline/Framework_Guidelines_on_Capacity_Allocation_and_Congestion_M/FG-2011-E-002%20\(Final\).pdf](http://www.acer.europa.eu/portal/page/portal/ACER_HOME/Public_Docs/Acts%20of%20the%20Agency/Framework%20Guideline/Framework_Guidelines_on_Capacity_Allocation_and_Congestion_M/FG-2011-E-002%20(Final).pdf)

curtailments do eventually happen. For the same reasons, the application of initial price paid reimbursement and caps allows to ensure a balance between legitimate compensation needs and avoid that frequent curtailments under extreme conditions result in discriminatory treatment of market parties, as further explained in paragraph 5.8. This latter would guarantee that risk from the commercial activities carried out by traders and producers does not get shifted directly to end-customers through potentially unlimited compensations higher than the congestion income collected by System Operators for redistribution.

- **NRA approval of volume of capacity:** The CACM Framework Guideline requests that NRAs shall review and approve the principles for sharing capacity between the different timeframes, as well as the volume of yearly capacity rights. While ENTSO-E agrees with the general principle, we believe that the regulatory approval of the methodology and of the splitting between the different timeframes is sufficient to ensure that the yearly volumes are calculated correctly and appropriate level of transmission capacity, considering all relevant constraints, is offered to the market. This would imply that NRAs have to bear the risk and consequences related to their decision (or otherwise agree that TSOs can charge costs of risk – i.e. firmness costs - in the tariffs which otherwise could be avoided with a more cautious capacity calculation).
- **The distribution of congestion income:** the framework guideline does not specify that provisions for allocating this income between TSOs should be included in the network code. However, recognising that stakeholders, including the European Commission, have called for such arrangements to be considered, ENTSO-E has proposed a process and set of principles for developing congestion income sharing arrangements in future. We have not, however, set out a detailed methodology or sharing key in the network code and consider that this will require significant work to develop.
- **Cost recovery:** the framework guideline does not include the issue of how costs related to the forward capacity allocation should be covered. For the sake of consistency, this Network Code aligns with CACM network code in this issue and contains a section on cost recovery. We consider that this is important in providing clarity to various parties on how costs will be treated, without constraining the existing powers of National Regulatory Authorities to make decisions consistent with the regulatory regime in the country in which they operate.
- **Revenue Adequacy:** is a concept introduced to ensure that the end consumer is protected from costs when the congestion income resulting from Day Ahead allocation does not cover the total payment to Long Term Transmission Right holders. This mismatch between income received and payments made can happen in a number of ways, for example where capacity is redistributed across borders differently between timeframes (Forward/Day Ahead) or where some types of allocation constraints are activated (e.g. ramping constraints). Further information can be found in section 5.5.2

- Transitional measures: even though the Framework Guidelines allow only Regional Allocation Platform(s) as a transitional measure the drafting team has proposed to introduce provisions for Regional Allocation Rules as well. It is necessary since the operation of the Regional Allocation Platform is required because of regional specificities which have to be reflected in a Regional Allocation Rules.
- Harmonised Allocation Rules: the Framework Guidelines require a harmonised set of rules where PTRs are applied and a harmonised set of rules for borders where FTRs are applied. This network code goes beyond this requirement and stipulates that Allocation Rules for PTRs and Allocation Rules for FTRs should be based on the same principles and uses the same wording unless the product characteristics require it differently.

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5 CONTENT OF THE FORWARDS CAPACITY ALLOCATION NC

5.1 GOVERNANCE

As for the CACM, a functional approach has been used in this chapter: a set of functions (roles) is identified and then assigned to a specific entity. However, for the forward capacity allocation, all the identified roles and responsibilities are assigned to the TSOs. TSOs can delegate roles to third parties: this would typically be the case for the Platform for Allocation and the Platform for Secondary Trading. In this case the delegation of roles is explained by the fact that these entities will perform their activity over the bidding zones of several TSOs. Already now the role of allocation platform is covered by third party companies (controlled by the TSOs), such as CASC and CAO.

Furthermore, a Stakeholder Committee will be established. This Committee will have an advice role concerning the operations and the developments of the forward capacity allocation.

5.2 CAPACITY CALCULATION

Capacity Calculation for the long term timeframes is principally same as for Day Ahead and Intraday timeframes and has been described in more detail in supporting document of CACM Network Code. Only the specific issues of the long term timeframes such as the higher level of uncertainties has to be considered and the code has been modified accordingly.

5.2.1 WHAT EXISTS TODAY?

Presently coordination for the long term Capacity Calculation exists only up to a certain level in Europe. Usually this coordination is only bilateral (i.e. with neighbouring TSOs) and regional coordination is not well developed, e.g. due to the additional complexity related to high uncertainties of long term frame compared to D-2 timeframe. The capacity calculation usually applies the NTC approach. Bidding zones are the same as the ones used for the day-ahead market. The split of capacity for different timeframes is done with different methodologies for each interconnection.

5.2.2 THE PROCESS

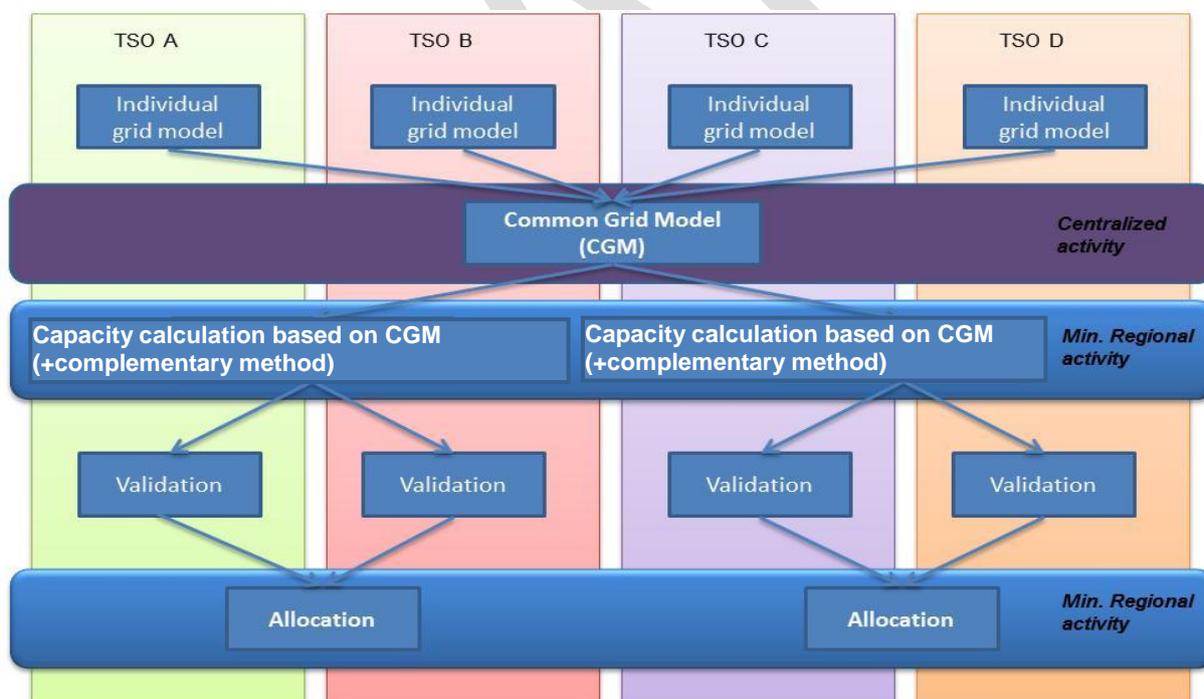
The process of Capacity Calculation will take place at least on a yearly and monthly basis, within each Capacity Calculation Region.

The methodology for the provision of generation and load data will define the necessary inputs from generation and load units to System Operators beyond information needed for Day Ahead and Intraday timeframe. Information is needed from new generation and load units commissioned in the following year. Furthermore, availability data (i.e. planned

maintenance, new infrastructures...) of existing generation and load units for the annual timeframe is needed in capacity calculation.

As for the short term timeframes, a Common Grid Model (CGM) obtained by merging several Individual Grid Models will be developed for the long term timeframes as well. However, the content of the long term CGMs will be different from the short term ones. The CGM methodology will determine the scenarios, the Individual Grid Models and the process for merging them in a single CGM. Building the CGM for long term capacity calculation is in principle a similar process to the one illustrated for Day Ahead timeframe, but in this case data are characterized by higher uncertainties. Uncertainties affecting the long term capacity calculation process have to be managed by TSOs through the joint and coordinated selection of scenarios leading to multiple base cases concerning the expected features of the TSOs' relevant grid.

In this approach there is a risk that the amount of scenarios required to perform the long term capacity calculation could be very high and the efficiency and feasibility of this approach might be questionable. The approach may thus be complemented to ensure efficiency in capacity calculation by using e.g. a statistical analysis of the historical cross zonal capacity data of the previous year(s), adjusted by the main impacting parameters (planned outages, new infrastructures...), and having a distribution of NTC/FB domains for the upcoming year/month.



5.2.3 THE METHODOLOGY

The Capacity Calculation methodology will be developed at a regional level, having as objectives the coherence with the allocation method and the management of uncertainties through a coordinated approach.

The methodology shall define the inputs and the used approach. Concerning the approaches, both an NTC and a flow-based approach will be allowed, as long as compatibility with the Day-ahead and Intraday timeframes is ensured. More details about these two approaches have been given in the supporting document of the CACM network code.

5.3 BIDDING ZONES

Secure power system operation requires that network congestion is handled in the short term and, preferably, involves defining bidding zones to align with these congestions. A process to review bidding zone configuration and establish a biennial report on bidding zone configuration for the long term timeframes is same as for short term allocation described in Capacity Allocation and Congestion Management Network Code. This implies also that bidding zones will be same for all allocation timeframes, i.e. Long Term, Day Ahead and Intraday timeframes.

The review of bidding zone configuration may result in a modification of the current bidding zones by splitting, merging or adjusting zone borders. Potentially this modification has effect on already allocated Long Term Transmission Rights, in case implementation of bidding zone modification occurs in shorter time frame compared to duration of Long Term Transmission Rights. In this case the holders of Long Term Transmission Right will have the right for reimbursement. This reimbursement should be based on the initial price paid for the Long Term Transmission Right for the Long Term Transmission Right, where change in Bidding Zone configuration affects already allocated Long Term Transmission Rights.

More details about bidding zones are provided in the supporting document of the CACM network code.

5.4 SPLITTING OF CROSS ZONAL CAPACITY

Before calculated and validated Long Term Cross Zonal Capacities can be allocated as Long Term Transmission Rights, TSOs have to decide in which timeframe they will be selling these rights. Dividing validated Long Term Cross Zonal Capacity to different long term allocation timeframes is called splitting of Cross Zonal Capacity. Splitting is needed in cases where several capacity allocation timeframes exist for Long Term Cross Zonal Capacities.

Presently Long Term Cross Zonal Capacity has been allocated on weekly, monthly or yearly timeframes. Furthermore, some Cross Zonal Capacity may be reserved for Day-Ahead and Balancing timeframes.

TSOs of each Capacity Calculation Region will develop a methodology in a coordinated manner, where they describe how they will split Long Term Cross Zonal Capacity to different timeframes consistent with Forward Allocation timeframes. In defining this methodology TSOs shall take into account market needs as well as the inherent uncertainty existing in Long Term Capacity Calculation. This might mean e.g. that amount of Cross Zonal Capacity of total validated Long Term Cross Zonal Capacity given to yearly Forward Allocation would be less than the Cross Zonal Capacity given for weekly or monthly Forward Allocation.

5.5 THE FORWARD CAPACITY ALLOCATION

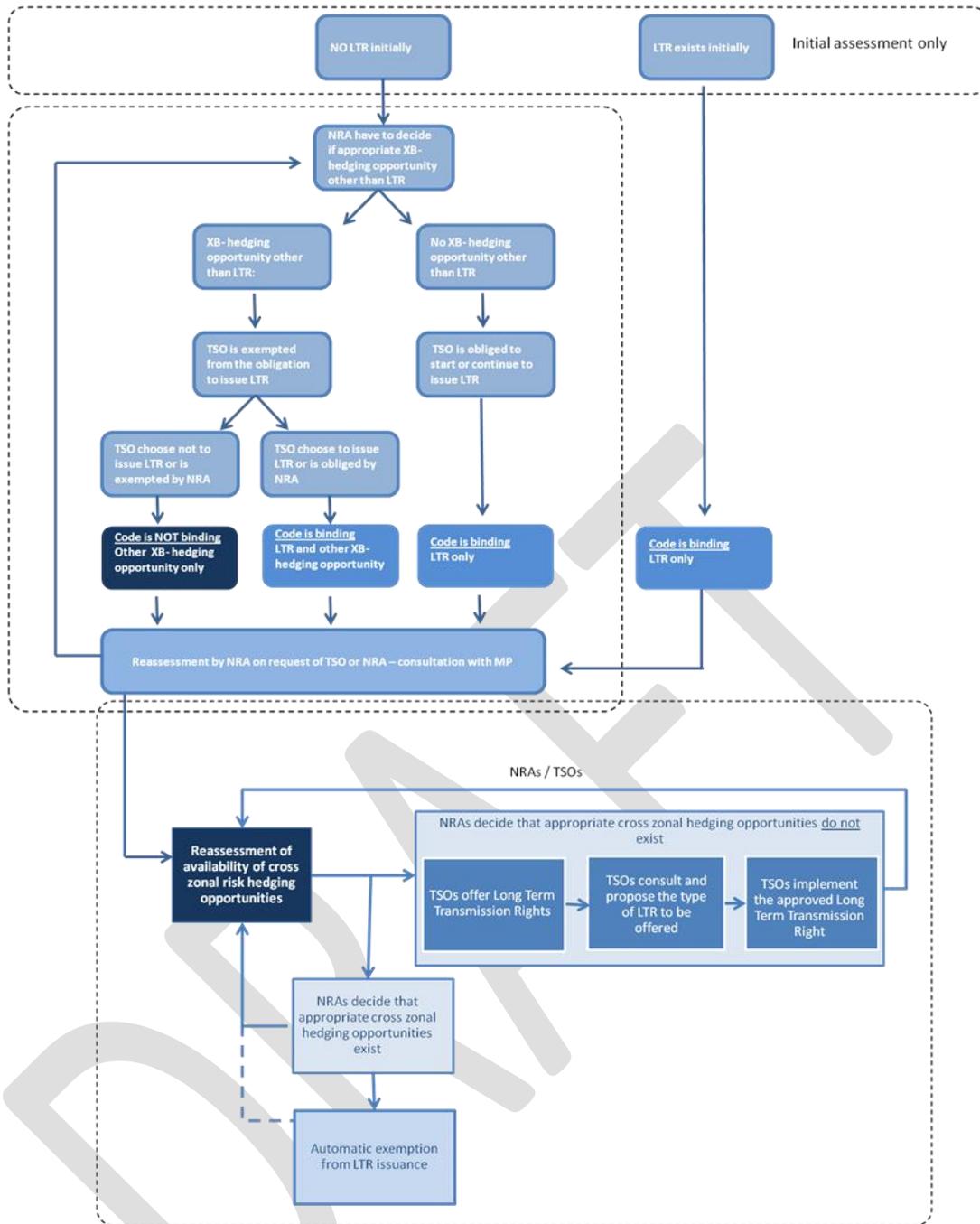
5.5.1 GENERAL PROVISIONS

The allocation of forward capacity in the form of Long Term Transmission Rights seeks on the one hand to enable long term cross zonal trade and on the other hand, to provide with cross zonal risk hedging opportunities to Market Participants.

5.5.2 OPTIONS FOR CROSS ZONAL TRANSMISSION RISK HEDGING

Market players may wish to hedge the relevant power market prices as part of their risk management strategy. Such risk evolves due to volatile cross border spot price differences and energy market fundamentals. Part of the risk can be managed by issuing transmissions rights so that the holder of a transmission right will not be exposed to the risk caused by volatile hourly price differences to which the transmission right is referred.

Price spread volatility between energy markets creates the need for concepts, which allow Market Participants to hedge against the market price differentials resulting from transmission congestion. According to the target model for the forward market TSOs shall issue financial transmission rights (FTRs) or physical transmission rights (PTRs + UIOSI) unless appropriate cross-border financial hedging is offered in liquid financial markets on both sides of an interconnector. In this context several decisions are to be taken in order to assess if appropriate long-term hedging solutions are provided to market participants and if not, which instrument shall be chosen. The following diagram shows a process followed by NRAs and TSOs in order to determine whether the issuance of Long Term Transmission Rights on one Bidding Zone Border is needed or not:



Long Term Transmission Rights can contribute to create markets that can limit the risk and enable market participants to manage fundamental uncertainties due to price spread volatility between energy markets. Long Term Transmission Rights can be classified in Physical Transmission Rights (PTRs) and Financial Transmission Rights (FTRs):

- a) Physical Transmission Rights (PTRs) provide the holder the option to transport a certain volume of electricity in a certain period of time between two areas in a specific direction. In this way the holder is not exposed to the risk caused by volatile hourly price differences. If the PTR holder does not nominate a transport, the use-it-or-sell-it mechanism ensures that the capacities are made available for the Day Ahead Capacity Allocation. In these cases, the holder who has not nominated the PTR will

receive a financial income based on the Day Ahead Market price differential between the two areas if positive in the direction of the resold PTR.

b) Financial Transmission Rights (FTRs), in contrast to a physical transmission right, which enables the holder to use a transmission line, give the holder the right to collect revenue generated by the amount of MW the holder is holding to hedge risk in the Day Ahead market. There are two types of FTRs foreseen, FTRs options and FTRs obligations:

- FTRs as options entitle their holders to receive a financial income based on the positive Day Ahead Market price differential between the two areas during a specified time period in a specific direction.
- FTRs as obligations entitle their holders to receive a financial income based on the positive, but also oblige holders to make a payment based on the the negative Day Ahead Market price differential between the two areas during a specified time period in a specific direction.

The principle of revenue adequacy included in article 45 of the Forward Capacity Allocation network code in relation to pay-outs for Long Term Transmission Rights may be relevant where the resulting flows from Day Ahead Market coupling/implicit allocation (giving rise to congestion rents needed for settling the Long Term Transmission Rights) differs from the volumes of respective Long Term Transmission Rights allocated since a coordinated DA allocation allocates capacity to borders which have the highest value in that timeframe, taking into account a more complex set of constraints than in Long Term Allocation. Consequently, the income from DA allocation may not cover the total payout. In this sense, the revenue adequacy criteria aims at ensuring that the settlement of the allocated Long Term Transmission Rights does not exceed the congestion rents derived from the Day Ahead capacity allocation.

- Adverse flows

Adverse flows will create a negative congestion income for TSOs on the respective border. As the pay-outs of FTRs or PTRs UIOSI are based on the price difference and not on the direction of the flow resulting from the DA MC, there might be situations where the income from DA MC is not sufficient to pay out LTR holders.

- Losses on interconnectors

Losses on interconnectors may on some borders be incorporated into the day-ahead price coupling algorithm when the costs of losses on the interconnector are significant. If pay-outs are represented by the price-difference not adjusted for losses then there could be a financial impact for TSOs. This should be easily avoided by an adequate product payout redesign.

5.5.3 NOMINATION PROCEDURES FOR PTRS

The network code deals with issues related to the Nomination Procedures for PTRs.

Where PTRs are issued, PTR Holders and/or a third party acting on their behalf will send their exchange schedule to the relevant System Operator, expressing in MW what they wish to use for certain period of time.

System Operators will define Nomination Rules, which will describe the nomination processes and requirements among the participating System Operators.

Presently there are some regions in Europe (e.g. CEE Region), where the nomination rules have already been harmonized.

Adaptation and harmonisation of the nomination processes will be defined in the Nomination Rules, using state of the art technology and best business practices.

Nomination Rules will provide general description of the functionalities of the nomination process and will contain the following minimum information:

- entitlement to nominate, describing who is entitled to send the nomination to the System Operators;
- minimum technical requirements to nominate, describing what is needed to nominate;
- description of the nomination process, in order to have a clear description of the whole business process;
- nomination timings, consisting the exact deadlines for the nomination;
- format of the nomination and communication between market parties and System Operators will be determined by the System Operators depending on its communications infrastructure; and
- contractual framework with the Market Participants.,

System Operators will publish the Nomination Rules after the Regulatory Approval.

5.5.4 PROCESSES AND OPERATION

This section describes the process sequence that shall be respected by System Operators, Allocation Platform(s) and Market Participants during the forward capacity allocation:

1. The Allocation Platform(s) will publish a document containing all necessary information for the execution of each forward capacity auction with sufficient time in advance for the Market Participants to prepare their participation.
2. Market Participants will make their offers during the time specified in the auction specification.
3. The Allocation Platform will allocate the capacity in the form of Transmission Rights after the gate closure of the Auction. After this, the Allocation Platform will inform Market Participants and System Operators on the results of the auction.

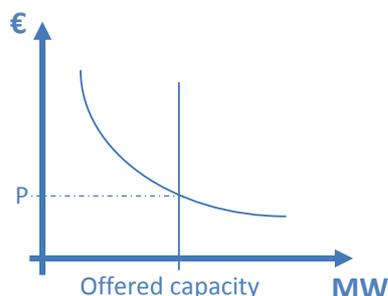


FIGURE 1 - EXAMPLE OF NTC FORWARD CAPACITY ALLOCATION

4. Once a market Participant holds a Long Term Transmission Right there are three possibilities of usage:
- I. Keep it until the moment of maturity: the rest of the process (PTRs nomination, LTRs settlement, compensations in case of curtailment...) is explained in the corresponding chapters and sections of the Network Code.
 - II. Return it to a subsequent Forward Capacity Allocation: a Long Term Transmission Right holder willing to return its LTR shall communicate it to the Allocation Platform who will take this into consideration when defining the available capacity to be offered in the subsequent Auction. In this case, the Market Participant will get paid based on the price resulting from the capacity allocation where the capacity was reallocated.
 - III. Transfer it to another Market Participant in the Secondary Market: a Long Term Transmission holder will also be entitled to transfer its LTR to a Market Participant duly entitled to take part in the Secondary Market. When transferring its LTR, the Market Participant shall notify this transfer to the System Operator issuing the LTR and the new LTR holder shall confirm this transfer to the System Operator as well.

In the case that forward capacity allocation is unable to deliver results, the standard fallback procedure will be the postponement of the auction: as a matter of facts, for the long-term timeframe there is appropriate available time to perform an auction in the following hours or days.

All relevant information concerning the auctions will be available on the Allocation Platform website.

5.6 SINGLE PLATFORMS FOR ALLOCATION AND SECONDARY TRADING

An allocation platform is required to perform the allocation of Long Term Transmission Rights and all related tasks on operational level, based on allocation rules and predefined principles. Nowadays, this task is assumed by regional Auction Offices for multiple borders or TSOs for

individual borders. The term “secondary trading platform”, however, is currently not in use and different interpretations of such term might be made.

According to the code System Operators will be responsible for providing one Single Allocation Platform and one Single Platform for Secondary Trading. While the former will be in charge for allocating Cross Zonal Capacities, the latter shall be a facilitator for transfers of Long Term Transmission Rights among Market Participants.

The Single Allocation Platform will form the single point of contact for Market Participants interested in acquiring Long Term Transmission Rights. The main tasks of this platform are listed in the code and comprise all related operations – from registration of Market Participants to the financial settlement of allocated Long Term Transmission Rights.

The Single Platform for Secondary Trading will in practice offer a means of communication, similar to a notice board. Market Participants can use this tool to announce their willingness to sell or buy Long Term Transmission Rights to or from other Market Participants. The use of this platform is not obligatory and parties other than System Operators may also establish and operate other Secondary Trading platforms, provided the provisions on Secondary Trading in this Network Code are respected.

The process of introducing both platforms will be organized in four steps.

1. System Operators will define sets of functional requirements that have to be fulfilled by the respective platforms. These sets will serve as a transparent basis which should reflect all common expectations of System Operators in relation to the platforms.
2. NRA shall approve the sets of requirements. This shall give System Operators sufficient security for necessary investments or other financial engagement. Furthermore, it will ensure sufficient transparency and allow NRAs to cross-check the System Operators expectations with their expectations.
3. Based on the approved sets of requirements, System Operators will jointly decide on how the platforms should be implemented. The network code leaves room for different ways of implementation. A tendering procedure may precede the decision of System Operators in accordance with applicable legislation.
4. After the decision by System Operators, it has to be ensured that the platforms are implemented as required within twelve months.



In order to allow further evolution of the platforms a regulated amendment process is necessary. Such process naturally has to start with amending the set(s) of requirements. The network code foresees this possibility on an annual basis. In case System Operators decide for such an amendment, a regulatory approval is required to provide System Operators with sufficient security for further investments.

In the FCA network code it is mentioned that transitional arrangements may apply allowing the existence of regional platforms until the start of operation of the Single Allocation in case:

- a) Where System Operators of the Bidding Zone Borders have defined specific regional requirements for the Single Platform for Allocation, which deviate from the set of requirements defined and this deviation has been approved by the National Regulatory Authorities; or
- b) Bidding Zone Borders where the single price coupling on the Day Ahead timeframe has not been implemented and Explicit Allocation is still being performed in this timeframe.

5.7 ALLOCATION RULES

System Operators shall be responsible to develop harmonised European Allocation Rules. The Allocation Rules represent a contract between the System Operators (Allocation Platforms) and the Market participants.

Allocation Rules deal with the procedures for auctioning Long Term Transmission Rights, the terms on which Market Participants may participate in Explicit Auctions and the terms for use of Cross Zonal Capacity. It generally contains the description of the allocation of Long Term Transmission Rights including the minimum requirements for participation, financial matters, type of products offered in explicit auctions, nomination rules, curtailment and compensation, secondary trading, UIOSI, force majeure and liability.

Currently there are multiple sets of Allocation Rules across Europe governing the contractual arrangements for trading Cross Zonal Capacity. System Operators have already looked to harmonise the Allocation Rules on their Bidding Zone Border(s) at the regional level. However, Allocation Rules for Physical Transmission Rights and Financial Transmission Rights shall now be harmonised at the European level following a period of consultation to determine Market Participants' needs and shall be subject to regulatory approval. System Operators shall develop a set of harmonised Allocation Rules in coordination with NRAs and ACER.

As a first step System Operators shall define the general format and the structure of the harmonised European Allocation Rules. The definition of a common structure and a common process for the implementation of the harmonised Allocation Rules on all European borders shall facilitate a smooth approach to the harmonisation.

System Operators shall define requirements for the PTR and FTR Allocation rules. The requirements shall refer to the technical terms, definitions, legal, financial arrangements, and procedures, common for the PTRs and FTRs. .

The process of introducing of harmonized allocation rules shall follow several steps:

1. System Operators shall define the format, structure and sets of requirements which have to be fulfilled by the harmonised Allocation Rules.
2. System Operators shall agree on the drafting process.
3. System Operators shall draft the harmonized Allocation Rules. During the drafting process consultation with stakeholders and a relevant adaptation of the harmonized Allocation Rules is foreseen.
4. NRAs shall approve the harmonized Allocation Rules.

The network code foresees the possibility of amendment of the harmonised Allocation Rules. System Operators may propose such an amendment which is subject to approval by NRAs.

Given the contractual nature of the Allocation Rules and the likelihood that these rules will need to be amended over time to meet Market Participant needs, it is not appropriate to include the harmonised Allocation Rules in the FCA network code as any subsequent amendments would then be subject to comitology, resulting in an overcomplicated and unwieldy legislative process. Instead, the FCA network code will clearly outline the minimum harmonised principles that will need to be included in the harmonised Allocation Rules. The harmonized Allocation Rules and any amendments to said rules will be subject to consultation and regulatory approval.

As a transitional arrangement Regional Allocation rules after the approval of National Regulatory Authorities may exist in the following cases:

- a) The Regional Allocation Rules shall not hamper the improvement and harmonization process of harmonised Allocation Rules;
- b) Regional Allocation Rules shall not have an adverse impact on the liquidity of Long Term Transmission Rights on any Bidding Zone Border;
- c) System Operators and National Regulatory Authorities of the Bidding Zone Border(s) shall have consulted, at least, with the Stakeholders of the Bidding Zone Border(s).

5.8 FIRMNESS OF CAPACITY

General Firmness Provisions

There is a fundamental relationship among the firmness regime, the amount of capacity released and the cost of guaranteeing both. Consequently, the firmness regime will depend on the chosen product and the regional procedures for coordinated capacity calculation.

Prior to the Day Ahead Firmness Deadline (DAFD), System Operators shall be entitled to perform reduction of allocated Cross Zonal Capacities. In such cases, System Operators (SOs) shall be obliged to compensate the Long Term Transmission Right Holder whose underlying Cross Zonal Capacities have been curtailed.

The firmness regime (and its associated compensation scheme) is intended to establish a risk-sharing balance among all involved stakeholders. There are two key aspects to be considered. Firstly it has to be ensured that any capacity eventually released will be physically there (DAFD after operational capacity confirmation) and does not endanger system security. Secondly, it shall be guaranteed that System Operators will always have the financial resources needed to compensate MPs in case curtailment does eventually happen. The latter would guarantee that risk from the commercial activities carried out by traders and producers does not get shifted directly to end-customers through potentially unlimited compensations higher than the congestion income collected by System Operators. Caps (congestion income-based and price cap) may be used to limit the market-spread compensation in order to guarantee this. The congestion income-based cap ensures that compensations are limited by System Operators' revenues. The price-cap further guarantees that if there are several curtailments during the same month under extreme price conditions, compensation will not be exhausted within the first occurrence and all market parties suffering curtailment will be compensated. In addition, reimbursement of the initial priced paid for the long term transmission right may be also used.

The Framework Guidelines provide for the possibility of the introduction of caps on the compensation (subject to National Regulatory Authorities approval and as a derogation) in three specific cases:

1. in the case of curtailment announced before the nomination deadline;
2. in the case of curtailment announced before a reasonable lead-time defined by the concerned National Regulatory Authorities, taking into the account the liquidity of the relevant markets and the possibility for grid users to adjust their cross-border positions;
3. for curtailments of long duration.

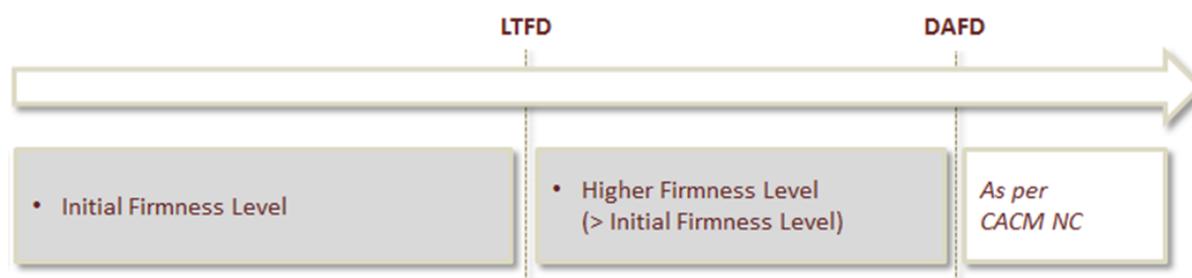
The proposed firmness approach covers all three cases by providing a special regime for curtailments potentially lasting for longer periods of time (Bullet 3), plus setting-up a step-wise firmness regime in which capacity becomes firmer the more confirmed it is by the processes of System Operators and the less time there is left for Market Parties in order to adjust their respective cross-border positions (Bullets 1 and 2). The Long Term Firmness Deadline optional feature (subject to NRA approval), which is explained below, is also linked to this very same principles.

The Long Term Firmness Deadline

The Long Term Firmness Deadline (LTFD) is an additional measure to achieve an optimal risk-sharing balance within the firmness regime. It is an optional feature, fully subject to NRAs approval at a Capacity Calculation Region-basis. The LTFD introduces an increasing step-wise firmness, as capacity undergoes further confirmation by System Operators. It aims

at further aligning firmness with information availability levels in time and capacity calculation processes.

Furthermore, a step-wise firmness regime may reflect the risk exposure of Long Term Transmission Rights holders. In case of curtailments before the LTFD they can adjust their positions within reasonable time and thus reduce possible losses. In turn, System Operators acknowledge that short notice curtailments imply a high risk for transmission rights holders and thus grant a higher firmness regime for such cases.



In case of reductions before the LTFD, a degree of firmness lower than the one in the following hours until the DAFD could be guaranteed. After LTFD, i.e. in the timeframe between LTFD and DAFD a higher-level of firmness could be guaranteed. After DAFD, capacities should be fully firm as defined in the CACM NC. The actual timeline placement of the LTFD shall be flexible, and approved by the respective National Regulatory Authorities, taking into account the timing of the processes which help System Operators better estimate the influence of changed market conditions on capacities as well as product characteristics. The same principles shall apply in case there is only one Firmness Deadline.

Compensation Rules

All System Operators of a Capacity Calculation Region shall incorporate in the Allocation Rules a set of Compensation Rules for reduced allocated Cross Zonal Capacities. Among other factors, the Compensation Rules shall specify whether a LTFD is applicable in the Capacity Calculation Region (subject to NRA approval).

When compensating, System Operators shall apply one or, if applicable, a combination of the following compensation principles: initial price paid for the long term transmission right; or capped Market Spread.

Where System Operators apply capped Market Spread compensation principles, a Congestion Income-Based Cap and/or a Price Cap shall be used. The Congestion Income-Based Cap shall limit the compensation payments to the congestion income derived from the allocation of Long Term Transmission Rights by the System Operator over a predefined period of time. The Price Cap shall be defined as a maximum market spread which is used for calculating the compensation. It has to be considered that a general sustainability principle exists, by which cumulated compensation payments by System Operators cannot exceed the congestion income derived from the allocation of Long Term Transmission

Rights, if the compensation payment itself needs to be responsibly ensured for market parties and no commercial risk is to be shifted from traders and producers to end-customers.

Specific Compensation Rules shall be proposed for outages involving infrastructure with long restoration lead-times (like HVDC, subsea cables and phase-shifter transformers). Transitional arrangements for areas not yet under market coupling shall be linked to specific compensation principles, in order to guarantee the economic sustainability of the associated compensation. For the case of Force Majeure the provisions of the CACM NC apply.

5.9 COST RECOVERY

The network code covers processes for the recovery of the different costs associated with meeting the obligations of the network code. In developing this section we have sought to identify the party which will be responsible for costs.

The issue of cost recovery is important to include in the network code because of its direct impact on the risks which System Operators face and, as a consequence, the incentives they face to make capacity available.

RESPONSES & NEXT STEPS

5.10 OVERVIEW

This chapter provides information on how to respond to the consultation on the Forward Capacity Allocation network code and provides an overview of the process which ENTSO-E intends to follow in developing a final version of the Forward Capacity Allocation network code for submission to ACER.

5.11 SUBMISSION OF RESPONSES

Responses on the FCA network code during the public consultation should be provided on or before the 28 May 2013.

In order to allow similar comments to be considered and appropriately responded to, we ask that all responses are submitted via the ENTSO-E consultation tool. This can be found at www.entsoe.eu/consultations/.

Feedback by participants of the public consultation on the Frequently Asked Questions (FAQs) included as Annex 1 to this document are very much appreciated as well. This, fairly extensive, list of questions has been put together based on the issues which have received extensive discussion during the process of approving the draft network code within ENTSO-E and in discussions with stakeholders. As such, we consider that this information may prove useful to stakeholders when considering responses. We also consider that the questions may prove beneficial in providing information on the rationale for many decisions about the content of the network code.

5.12 OPPORTUNITIES TO DISCUSS ISSUES

We appreciate that many stakeholders may wish to discuss issues raised in this document. For this reason ENTSO-E has scheduled a workshop for the 8 May 2013 at the ENTSO-E premises. We have invited a series of European stakeholders to present their views and will structure the workshop in a way which provides parties with an opportunity to provide views.

5.13 RESPONDING TO COMMENTS

ENTSO-E will carefully consider all responses received. We will seek to summarise responses and provide a view on the areas where we consider that the network code needs to be updated during a workshop after consultation has closed, probably in July. We will also produce a short document summarising comments and indicating how we have reflected those comments in the network code which will be submitted to ACER.

However, we would like to draw stakeholders' attention to the Frequently Asked Questions list annexed to this document. This document seeks to answer some of the questions which we have been asked during the process of developing the codes under Framework Guideline on CACM to date.

5.14 NEXT STEPS

As a consequence of the 12 month timescale, this is the only formal consultation by ENTSO-E on the Forward Capacity Allocation network code. We would urge parties to provide comments and views. Following the closure of the consultation ENTSO-E will begin the process of considering comments and reflecting them in text.

It will be the responsibility of the drafting team which contributed to the development of this code to process comments, provide feedback and make changes as necessary. An updated code will be subject to internal ENTSO-E approval and will be sent to ACER ahead of the 30 September deadline.

ANNEX 1– FREQUENTLY ASKED QUESTIONS

INTRODUCTION AND OVERVIEW

This Annex outlines the questions which ENTSO-E has been asked at various stages of the process of developing the Forward Capacity Allocation network code and provides answers to those questions. We have tried to be non-technical and hope that this will provide interested parties with additional information and will help inform responses. The questions and answers are structured in a format which is broadly similar to that of the network code.

GENERAL PROCESS ISSUES

1. *Why is ENTSO-E drafting the network code?*

ENTSO-E's role is defined under regulation 714/2009 (the Third Package). ENTSO-E is required to draft a network code which meets the requirements of the Framework Guideline developed by the Agency for the Cooperation of Energy Regulators (ACER). The code ultimately becomes legally binding after it has passed through the Comitology process.

2. *Does the network code meet the Framework Guideline?*

ENTSO-E has developed the code with the Framework Guideline in mind and is confident that the major requirements are met. We have discussed areas where we have chosen a specific approach and the reasons why in section 4. The table in Annex 2 provides a detailed assessment of the network code against the framework guideline.

3. *Why have you chosen this level of detail?*

We have tried to strike a balance in drafting the network code. That is being sufficiently detailed so as to be meaningful, but not being so prescriptive that the requirements quickly become obsolete or that they become impossible for affected parties to understand.

4. *How will responses be considered?*

All responses received by ENTSO-E will be reviewed by the TSOs who have developed the different sections of the network code. Where necessary, updates will be made in the final version. A document summarising responses and justifying changes will be produced to accompany the final version.

5. *How have stakeholders been involved?*

As well as each National TSO having sought to engage with stakeholders within their country, ENTSO-E has created a stakeholder advisory group, composed of European member associations covering all parts of the electricity sector value chain (Europex, EFET, EURELECTRIC, IFIEC, ACER and the European Commission). The group has met throughout the process of developing the network code and has provided useful advice on various issues.

6. *What are the next steps?*

Having received responses, ENTSO-E will produce an updated version of the network code and submit this to ACER before the 30 September 2013. ACER will then provide an opinion on the network code and, assuming this is positive, will forward the document to the European Commission. The EC will review the text and, assuming they are content with the contents, start the Comitology process at an appropriate point.

GENERAL CONTENT ISSUES

7. *Does the code apply to all parties?*

Once it has passed through Comitology the network code will have the same status as any other European Regulation. Hence it will apply to any party addressed in the network code and will not need to be directly transposed into national law.

8. *Which information will be made publically available?*

We have tried to be transparent throughout the network code. The section on information publication and transparency outlines the information to be provided.

9. *Why have you used roles/ functions?*

In developing the code we have had to be conscious with the approach taken with the CACM network code. The use of roles/ functions is an attempt to consistency with the CACM network code but also to provide flexibility within the network code.

10. What are the interactions with other network codes?

The Forward Capacity Allocation network code is one of a number of network codes which will be developed by ENTSO-E. It has interactions to several codes, particularly the CACM network code, which are discussed in section 3.4 of this document.

11. What are the interactions with other EU legislation?

In addition to the interaction with other network codes, the Forward Capacity Allocation network code also interacts with other European legislation such as the Transparency Guideline, REMIT and MiFID.

12. Will the single market be in place by 2014?

The Forward Capacity Allocation network code is one of several steps needed to deliver a single market. These include developing projects at regional level, enhancing transparency and streamlining planning processes and constructing infrastructure to relieve congestions. We expect the rules contained in the network code to be in force in 2014. However, this is dependent on a positive opinion from ACER and the Commission's timescales for Comitology and responses received during that process.

13. What is the difference between Transmission System Operator (TSO) and System Operator (SO)?

An SO is a function to deliver several tasks and operational responsibilities defined in the CACM Network Code. TSO is a legal entity established to fulfil tasks set in Article 12 of Directive 72/2009.

14. Who is responsible for supervising TSO activities?

The respective National Regulatory Authority supervises TSO activities.

GOVERNANCE

15. Why are all the roles assigned to System Operators ?

The forward capacity allocation is a process directly related to System Operators, as they own and operate the interconnection infrastructures underlying the commercial capacity being calculated and allocated. The use of the functional approach is thus not strictly necessary, but we have used it in order to be consistent with the CACM network code and because roles can be delegated, adding flexibility to the code.

16. What is the role of the Stakeholder Committee?

The goal of the stakeholders committee is to develop the market by giving suggestions and indications on how to improve its functioning.

17. Why does the code allow for a complementary method to the CGM in the Capacity Calculation Methodology?

The CGM methodology has been initially developed for the capacity calculation in the short term. The long term timeframes are characterized by a much higher level of uncertainties. The most suitable tools to manage uncertainty are might be e.g. statistical tools. Therefore the code foresees the possibility to complement the CGM methodology with as an example a statistical approach, as long as efficiency in the process is increased.

CAPACITY CALCULATION

18. Why are so many details set out in documents outside the code?

This approach ensures that the code will be valid also on an enduring basis, thus avoiding such requirements which could easily become obsolete. Especially in case of capacity calculation where many requirements included in the code has not yet been tested thoroughly in practice (e.g. FB method and related inputs) and thus may be subject to change. The code, however, addresses the common principles, which will be applied. The approach implemented in code will ensure, however, the proper treatments of such details; they will be subject to approval by National Regulatory Authorities after proposal by TSOs.

19. Why is capacity calculation only done at regional level?

Capacity calculation shall be done on a regional basis at least. Having a unique European capacity calculation for the entry into force of this code is not pragmatic.

20. What are the tasks of the Coordinated Capacity Calculators?

Coordinated Capacity Calculators have three tasks:

- Calculate capacities and split capacities for different time frames
- Managing the validation process
- Sending capacities and split of capacities for allocation

21. How can you make sure that the different Individual Grid Models are compatible for merging?

The compatibility is ensured with a single net position rule (i.e. bidding zone will be surplus, deficit or balanced as regards to power balance). All TSOs have to agree on a rule to define net positions for their individual grid models. The sum of the European net positions will always be zero.

22. Why is validation needed?

Each TSO is responsible for secure system operation within its control area. This implies that it is sole responsibility of each TSO to validate results of capacity calculation and splitting of capacities for different time frames at bidding zone borders belonging to its control area. The

validation ensures the feasibility of computed capacity levels and makes sure, that hypotheses and results are in line with the secure power system operation, taking into account also the most recent information from the power system.

23. What is cross-regional validation?

TSOs shall ensure that validation of capacity calculation results takes place also between neighbouring capacity calculation regions. For such validation TSOs belonging to neighbouring regions are responsible for exchanging relevant information and assumptions on the interdependencies between the capacity calculation regions.

24. Which activities of capacity calculation are TSO, national, regional and European level?

Merging of individual grid models from each TSO to form a Common Grid Model (CGM) takes place on the European level. Coordination and calculation of capacities is performed on the regional level, at least. Data collection from generators and loads and building of individual grid models takes place on national/TSO level.

25. Which generation and load information is needed for long term capacity calculation?

TSOs need additional information for long term capacity calculation compared to Day Ahead and Intraday timeframes. This information includes information from new generation and load installations, which will be commissioned during the long term capacity calculation timeframe. This information is not collected for Day Ahead and Intraday capacity calculation timeframes. Furthermore, information about planned outages in annual timeframe for existing generation and load units are needed as this information is not provided for Day Ahead and Intraday capacity calculation timeframes.

26. Who will perform merging function and regional capacity calculation function?

TSOs will establish arrangements for the European merging function on European level. These arrangements may include e.g. establishing a common new entity or enlarging responsibilities of existing TSO entities. TSOs will establish arrangements for regional capacity calculation function on regional level. The arrangements will define the responsibilities and organisational issues on regional level for capacity calculation.

27. How is capacity calculation fallback managed?

When a TSO cannot temporarily deliver capacity calculation input for technical reasons, (i.e. one individual grid model) the whole European capacity calculation process should not be frozen. TSOs shall agree on fallback procedures for such situations, which should remain exceptional. These fallback procedures will be developed and set out over the next months and years in order to meet both robustness and simplicity objectives of the capacity calculation.

28. How does long term capacity calculation differ from short term capacity calculation?

In general long term capacity calculation is compliant with short term capacity calculation. Capacity calculation regions and bidding zone configuration will be same for both long and short term capacity calculation. Uncertainty in modelling increases with long term capacity calculation and this has to be taken into account in capacity calculation methodology and in building Common Grid Model.

29. Why does the code allow for complementing the Common Grid Model (CGM) with additional elements?

The CGM methodology has been initially developed for the short term capacity calculation (day-ahead, intraday). The long term timeframes are characterized by a higher level of uncertainties and there is a risk that the CGM methodology alone could lead to too low values of capacities. Statistical tool may be used to manage the uncertainty and therefore the code foresees the possibility to complement the CGM methodology with additional elements such as statistical approach, as long as efficiency in the process is increased. Such approach, based for example on the statistical analysis of past observed values of capacities, should improve the reliability and the accuracy of the capacity calculation process, leading to an increased efficiency of the market.

BIDDING ZONES

30. How frequently can bidding zones change?

Framework Guidelines state that zones shall be robust over time. As no other guidance has been given by regulators to state how long a bidding zone shall last, and the regulatory nature of such choice, ENTSO-E has kept the initial wording of CACM FG in draft Network Code. The expected duration of the zone will be subject of further guidance from regulators, for instance when they agree to launch the regional process for defining new bidding zones.

31. Does a zone correspond to a national border?

Not necessarily, a border of a zone does not necessarily need to coincide with a national border. It is possible to have several zones within a country or one zone with several countries inside.

32. Who approves changes in zones?

NRAs will be in charge of approving the proposal from TSOs on new bidding zone delimitation. All stakeholders will be consulted on this proposal, including the time needed to prepare before changing the zones.

33. What happens if NRAs reject TSO proposal on bidding zones?

If NRA rejects the TSO's proposal, the TSO may either amend the proposal, e.g. based on further analysis, and send it for approval or continue to apply current bidding zone configuration. NRAs should coordinate on regional basis (and within Agency) when making their decisions on new bidding zone configuration.

34. Shall the biennial report on current bidding zones be published?

NRAs and the Agency shall decide on the publication of the biennial report.

35. What are the contents of the biennial report on current bidding zones?

The biennial report consists of analysis of current zone delimitation on the European level. The report consists of a technical and a market efficiency part. The analysis included in the technical part of the report is based on data on redispatching/countertrading costs, adverse effects of internal transactions on other Bidding Zones and structural congestion. The analysis included in the market efficiency part covers liquidity, competition and efficiency of price formation process. NRAs and Agency shall evaluate based on this biennial report if further measures on bidding zone configuration has to be made.

36. Why is a specific process on bidding zone configuration needed?

The regional process as described in Network Code for defining bidding zone delimitations shall cover all kind of bidding zones in Europe. However, there are currently two countries, Italy and Norway, where the process to define bidding zones configuration requires specific attention. In Italy, some bidding zones may have negligible or no impact on neighbouring grids and application of a regional process may not introduce any added value. In Norway, due to the hydro generation situation the security of supply may be endangered and there is need to establish temporary new bidding zone delimitation in short notice. However, if this specific process is applied, it shall be notified to neighbouring TSOs and NRAs, and NRAs in case of objection could report to ACER.

SPLITTING OF CROSS ZONAL CAPACITY

37. What do we mean by splitting of cross zonal capacity?

System Operators calculate Cross Zonal Capacities for a longer timeframes e.g. yearly or monthly timeframes. In Forward Capacity Allocation, splitting of Cross Zonal Capacity defines the portion of this capacity which shall be allocated, at a maximum, for that a specific timeframe. Remaining Cross Zonal Capacity will be allocated later for a shorter timeframes such as monthly or quarterly timeframes.

38. How will splitting be done?

Splitting of Cross Zonal Capacity will be done by Coordinated Capacity Calculators after they have calculated Cross Zonal Capacity. Splitting is based on predefined methodology, which has been developed by System Operators and approved by National Regulatory Authorities.

39. Across what timeframes is splitting is done?

Timeframes are generally compliant with LTR products such as yearly, quarterly, monthly or weekly. Splitting will take into account all Capacity Allocation Timeframes including e.g. yearly, quarterly, monthly or daily

40. Why splitting of cross zonal capacities is needed?

The Long Term Transmission Right products can be sold in several timeframes. For each of these timeframes TSOs have to decide what amount of calculated capacity shall be given for allocation. When TSOs define the split, they take into account the requests from Market Participants for a specific timeframe and the liquidity of products for different time frames.

41. Who is responsible for splitting cross zonal capacity?

The Coordinated Capacity Calculator will make a calculation based on the approved methodology for splitting for splitting Cross Zonal Capacity developed by System Operators of the Capacity Calculation Region. System Operator is responsible for validating the splitting made by Coordinated Capacity Calculator.

OPTIONS FOR CROSS ZONAL TRANSMISSION RISK HEDGING

42. What is a physical transmission right with the Use-It-Or-Sell-It principle?

Physical Transmission Rights (PTRs) are linked to cross border capacity and managed by TSOs providing the option to transport a certain volume of electricity in a certain period of time between two areas in a specific direction. The use-it-or-sell-it mechanism ensures that not nominated capacities get automatically sold in the day-ahead market.

43. What is a financial transmission right?

Financial Transmission Rights (FTRs) are linked to cross border capacity and managed by TSOs or subsidiary entities. FTRs as options entitle their holders to receive a financial compensation equal to the positive (if any) market price differential between two areas during a specified time period in a specific direction. FTRs as obligations in contrast also oblige holders to pay for a negative market price differential.

For further information please see the Educational Paper on Transmission Risk Hedging Products developed by ENTSO-E: <https://www.entsoe.eu/major-projects/network-code-development/forward-capacity-allocation/>

NOMINATION PROCEDURES FOR PHYSICAL TRANSMISSION RIGHTS

44. Why do nomination rules need harmonisation?

In the framework guideline it is stated that a greater harmonisation of nomination rules, deadlines and processes are foreseen.

45. Why do the nomination rules need only progressive harmonisation for bidding zone borders?

The nomination takes place only on those bidding zone borders on which the system operators issue PTR(s). As regards to the target model the introduction of the Financial Transmission Rights is expected instead of PTRs with UIOSI. Accordingly the nomination of the PTRs might be only a temporary solution. Furthermore, the European harmonisation of Nomination Rules could cause extra costs for the system operators and for the market participants.

46. Who is responsible for the preparation of the nomination rules?

The relevant System Operators have to develop a proposal for the nomination rules for the bidding zone borders where PTRs applied. The nomination rules have to be approved by relevant National Regulatory Authorities.

47. Does the FTR require nomination?

No, the nomination is needed only for PTRs, so it will remain until the introduction of FTRs.

PROCESSES AND OPERATION

48. What does the NC refer to with invoicing or self-billing procedures for the settlement of LTRs?

This refers to the two main approaches when it comes to settlement of LTRs:

- Invoicing means that the Allocation Platform(s) issues an invoice to the Market Participant with the settlement for a period of time.
- Self-billing means that the Allocation Platform(s) issues an invoice to itself on behalf of the Market Participants about credits in favour of the Market Participants.

49. Which is the difference between the secondary trading and the return of Long Term Transmission Rights?

When returning a Long Term Transmission Right, the holder gives back the underlying capacity to the Allocation Platform(s) so it can be offered for allocation in the subsequent Forward Capacity Allocation getting a remuneration based on the result of the subsequent

Forward Capacity Allocation where the LTR has been resold while when transferring it through secondary trading the holder fixes a price with an eligible Market Participant willing to acquire this Long Term Transmission Right.

SINGLE PLATFORMS FOR ALLOCATION AND SECONDARY TRADING

50. Why is there one Single Platform for Allocation and one Single Platform for Secondary Trading and not only one Platform comprising both responsibilities?

Given the current development in regards to financial market regulation, the separation of both platforms allows more flexibility. Currently it seems very likely that a platform only in charge of allocation would be exempted from MiFID II (Markets in Financial Instruments Directive), while a platform dealing with secondary trading might be subject to it. The separation of both platforms is in line with the Framework Guidelines.

51. Which of the existing Auction Offices in Europe will be the Single Platform for Allocation?

A network code cannot appoint a certain entity with such a monopoly role without sufficient grounds. It can only prescribe the requirements and the process for establishing this role without prejudice to certain entities.

52. Will the Single Secondary Trading Platform be the counterpart for the transfer of Long-Term Transmission rights?

No, the Secondary Trading Platform should only have the role of a facilitator without involving in commercial transactions directly.

53. Will it be obligatory to use the Single Secondary Trading Platform for performing transfers of Long Term Transmission Rights?

No, the Secondary Trading Platform should only have the role of a facilitator. Transfers outside of this platform or organised on other platforms will be possible.

54. Why does it take so long to introduce the Single Platforms?

The Single Platforms are not only monopolies towards market participants; they are also monopolies towards System Operators. Given the geographical scope, many different interests have to be accommodated. In order to ensure an efficient solution the establishment has to be carefully carried out. Furthermore, the network code cannot constrain certain procurement processes which might have to be followed due to procurement legislation.

55. Why do NRAs have to approve the common sets of requirements?

NRAs have showed a lot of interest to have single platforms. The approval will allow them to compare the functional requirements with their expectations. Furthermore, it will give System Operators the necessary security to make substantial investments and commit to future operational costs.

ALLOCATION RULES

56. What are Allocation Rules?

Allocation Rules govern the contractual arrangements for Cross Zonal Capacity allocation in the long term timeframe by Explicit Auctions. Generally the Allocation Rules deal with the procedures for auctioning transmission rights, the terms on which Market Participants may participate in Explicit Auctions and the terms for use of Cross Zonal Capacity.

57. What is covered in the Allocation Rules?

Allocation Rules generally contain the description of the allocation of Long Term Transmission Rights including the minimum requirements for participation, financial matters, type of products offered in explicit auctions, nomination rules, curtailment and compensation, secondary trading, UIOSI, force majeure and liability.

58. To what timeframes will the harmonised Allocation Rules apply?

The harmonised Allocation Rules will apply to at least annual and monthly auctions for Cross Zonal Capacity. Additional timeframes can also be provided based on the needs of Market Participants and following consultation with Market Participant's and regulatory approval.

59. Why are harmonised Allocation Rules required for Europe?

Currently there is no single set of harmonised rules for trading across European Bidding Zone Borders. A number of Regional Platform(s) are in place in different regions with Allocation Rules specific to these Regional Platform(s). A Single Platform for Allocation and a Single Platform for Secondary Trading underpinned by a harmonised set of Allocation Rules will ensure a pan-European approach to trading Cross Zonal Capacity in the Long Term timeframe and create a level playing field.

60. Who is responsible for developing the harmonised Allocation Rules?

System Operators are responsible for developing the harmonised Allocation Rules following NRAs' and ACER's requirements. The harmonised Allocation Rules shall be consulted on with Market Participants' to ensure their needs are taken into account and be subject to regulatory approval.

61. Will the harmonised Allocation Rules be included in the FCA network code?

No, the harmonised Allocation Rules will not be included in the FCA network code. These rules may need to be amended on a more frequent basis than the network code process allows through comitology in order to meet the changing needs of Market Participants. Instead of including the detailed contractual arrangements contained in the harmonised Allocation Rules in the FCA network code it is considered preferable to instead include the key principles that the harmonised Allocation Rules will need to meet.

62. Which of the existing allocation rules will be used as the harmonised allocation rules for Europe?

Although there have already been significant efforts to harmonise Allocation Rules on a regional basis, these rules have been developed with the particular needs of that region in mind. Therefore no current set of regional Allocation Rules is appropriate for a pan-European set of harmonised Allocation Rules. System Operators will look to develop a preferred structure for the harmonised Allocation Rules and develop the rules on a pan-European basis.

63. What is the legal status of allocation rules?

The Allocation Rules form a contractual arrangement between the System Operators, Allocation Platform(s) and Market Participants. All eligible Market Participants who agree to the terms and conditions for participation on the Allocation Platform(s) are subject to the legal requirements set out in the Allocation Rules.

TRANSPARENCY

64. Where are the detailed data transparency requirements?

The detailed transparency requirements are contained in the draft Comitology Guidelines on Fundamental Electricity Data Transparency (FEDT).

65. Where will TSOs publish the Capacity Calculation methodologies?

The capacity calculation methodologies will be published on the ENTSO-E website.

66. Is the biennial report on the capacity calculation process public?

The report on the capacity calculation process will be submitted to ACER and the NRAs. Further distribution will be decided by ACER and the NRAs.

FIRMNESS AND COST RECOVERY

67. What is the Long Term Firmness Deadline?

The Long Term Firmness Deadline is a point in time that divides the period before the Day Ahead Firmness Deadline (CACM Art. 76) into two sub-periods. The Long Term Firmness Deadline introduces an increasing step-wise firmness regime, as capacity undergoes further confirmation by System Operators. It aims at further aligning firmness with information availability levels in time and capacity calculation processes. It is an optional feature, fully subject to NRAs approval at Capacity Calculation Region-basis. The optional proposal by System Operators of a Long Term Firmness Deadline will be based on product characteristics, regional calculation processes and the principles of the draft code.

68. What compensation will a market player receive in case of curtailment for force majeure or emergency situations?

In Force Majeure and Emergency Situations, System Security should be prioritized over market matters. For these reasons, System Operators are in these particular situations entitled to curtail Cross Zonal Capacities which have already been allocated. In order to establish a market-oriented framework and in accordance with the Framework Guidelines such curtailments are fully compensated at the initial price paid. According to the draft code, any imbalance costs or benefits arising from curtailments are neutralized. This, in turn, necessitates clear and unambiguous cost recovery provisions in order to avoid risk exposure of System operators who would ultimately have to cover these costs. If capacity has been allocated explicitly a market player will receive the full value of the capacity set during the auction process.

69. Why are cost recovery provisions in the network code?

While the framework guideline does not explicitly discuss the issue of cost recovery, we consider that being clear in the network code about how the costs which it will create are dealt with enhances certainty (but does not impose on the right of regulators to decide how to deal with costs or the right of unregulated parties to make their own commercial decisions). Also, on issues such as firmness (where costs are unpredictable and potentially highly significant) comfort on cost recovery is a prerequisite for offering a market friendly firmness regime.

70. What's the approach that ENTSO-E has taken?

Broadly speaking, ENTSO-E has tried to identify the categories of costs which the network code could give rise to. For each of those categories, we have tried to say who will be responsible for bearing the costs. Where the costs will require regulatory approval, we have tried to facilitate this approval. This includes being willing to provide forecasts of costs where possible and having processes to review costs ex-ante to ensure they were efficiently incurred. This is an issue which we continue to discuss with regulators.

71. How should the costs be recovered for:

a. Establishing and amending the day-ahead and intraday process?

As described in Articles 88 and 89, the costs for establishing and amending the day-ahead and the intraday process shall be supported by the Market Coupling Operator. System Operators can contribute to a part of it, under agreement of the Market Coupling Operator and approval by the National Regulatory Authorities. The costs supported by the System Operators shall be recovered *via* a mechanism defined by the National Regulatory Authorities.

b. Establishing and operating the coordinated capacity calculation process?

As described in the network code, each System Operator shall support its own costs for establishing and operating the capacity calculation process. These costs shall be approved by the National Regulatory Authority and recovered *via* appropriate national mechanisms defined by the National Regulatory Authority.

c. Operating the process?

As described in the network code, all the costs for operating the day-ahead and the intraday process shall be recovered from Market Operators.

DRAFT

ANNEX 2: ASSESSMENT OF THE DRAFT FORWARD CAPACITY ALLOCATION NETWORK CODE AGAINST THE REQUIREMENTS OF THE FRAMEWORK GUIDELINE

REQUIREMENT OF THE FRAMEWORK GUIDELINE	EXTENT TO WHICH THE PROVISION IS MET
1.2	<p>The CACM Network Code(s) shall set out deadlines for the implementation, for the different timeframes and across the European Union, of the target model for CACM as defined in these Framework Guidelines, with 2014 as the overall deadline for the completion of the Internal European Market.</p> <p>The CACM Network Code(s) may also provide for transitional arrangements allowing:</p> <ul style="list-style-type: none"> - regional platform for the allocation and for anonymous secondary trading of long-term transmission rights to operate, as indicated and subject to the conditions specified in Sections 4.1 and 4.2;
1.2	<p>The Forward Capacity Allocation chapter sets deadlines first for regulatory decision about the necessity of introduction of Long Term Transmission Rights or appropriate cross zonal risk hedging opportunities are already exist. If LTR is deemed, Article 46 sets deadline for the introduction of the Long Term Transmission Rights (PTR, FTR option or FTR obligation). The NC is foreseen entry into force in Q4/2014.</p> <ul style="list-style-type: none"> - Regional Platform both for allocation and secondary trading are allowed under certain conditions and are covered in Article 85-87.
1.3	<p>The CACM Network Code(s) shall contain a section with a glossary and definition of words and expressions adopted.</p> <p>The glossary is contained in Article 2.</p>
1.4	<p>The CACM Network Codes(s) shall provide that ENTSO-E or TSO(s), as relevant, submit to ACER, without delay, all the relevant documents related to the opening of any approval procedure by NRA(s), as laid down in these Framework Guidelines. The relevant NRA(s) shall inform ACER of the outcome of such procedures. The competences of ACER as defined in Articles 4, 7 and 8 of Regulation (EC) No 713/20093 shall remain unaffected.</p> <p>Obligations in the network code have been drafted to apply to NRAs, except in cases where ACER already has powers. In cases where a process requiring regulatory approval is specified, steps have been taken to ensure that information is submitted to ACER in a timely manner.</p>
Capacity Calculation Methods	
2.1.1	<p>The CACM Network Code(s) shall require the use of either a Flow-Based (FB) method or an Available Transfer Capacity (ATC) method for capacity calculation at each zone border for a given timeframe.</p> <p>This point is covered in Article 22 (Capacity Calculation Approaches):</p> <p>For the long term Capacity Calculation timeframes the Capacity Calculation Approach shall be a Coordinated Net Transmission Capacity Approach, or a Flow Based Approach</p>

2.1.1.	Both methods shall make use of locational information on relevant generation and consumption units, through a detailed common grid model and ensure compliance with legal provisions for transparency.	This point is covered Section 2 when describing the Individual Grid Model, the Common Grid Model and the European Merging Function.
2.1.1	Both methods shall be described in the CACM Network Code(s).	This is covered with the detailed description of the capacity calculation inputs, the capacity calculation methodology and capacity calculation process: this is the whole chapter 1, especially sections 2, 3 and 4.
2.1.1	The CACM Network Code(s) shall foresee that the practical usage of the FB calculation and allocation starts only after market participants have been consulted and allowed sufficient time for their preparation and for a smooth transition to the new arrangement.	This is covered in Article 22.2 where there is an explicit prerequisite that "Market Participants have been provided with six months to adapt their processes".
2.1.1	Long-term capacity calculation methodologies shall be fully compatible with the adopted short term capacity calculation	This requirement is met by definition, since all combinations of ATC and FB in long term and short term are compatible. In addition, Article 22 paragraph 3 explicitly says "The long term Capacity Calculation Approach shall be compatible with the Capacity Calculation Approach of the Day Ahead and Intraday Capacity Calculation timeframes according to Article 24 of the Network Code on Capacity Allocation and Congestion Management." ensuring this requirement.
2.1.1	In cases where different capacity calculation methods are applied on different borders of the same zone, the CACM Network Code(s) shall thoroughly describe the required solution in order to ensure technical and operational feasibility, neither reducing social welfare nor operational security in the network. In particular, the CACM Network Code(s) shall specify the coordination of ATC and FB methods.	This is covered in Article 20(3) (b) where it is required to define a rule to share the Cross Zonal Capacities between the different Capacity Calculation Regions prior to Capacity calculation. Operational feasibility is ensured by Article 20(3)(c) and Article 29(4) where coordination between neighbouring Capacity Calculation Regions has been defined. The coordination between Capacity Calculation Regions ensures also coordination of ATC and FB approach.
2.1.1	The CACM Network Code(s) shall stipulate that the capacity calculation methods, including the approach to assess the required security margins and to split capacity between interdependent borders, are submitted to the relevant NRAs for approval.	This is covered with article 29 (Cross Zonal Capacity Validation) and article 20 (Capacity Calculation Methodology).
2.1.2	The CACM Network Code(s) shall ensure that the process for determining the common grid model and common base case does not discriminate between exchanges internal to a zone and cross-border (cross-zonal) exchanges.	As the Common Grid Model is the way how the security of the grid is achieved, it shall reflect the best forecast of real time conditions to compute accordingly possible cross border exchanges possibility, This is why TSOs will have to also perform the best forecast for both internal exchanges and cross border exchanges. These issues are addressed in article 31 (Creation of the Common Grid Model)
2.1.2	The CACM Network Code(s) shall ensure that the description of the capacity calculation method is made publicly available by the relevant TSOs and that it contains a detailed and clear explanation of the common grid model, of the security assessment methods and the level of security margins and where applicable, of the critical branches taken into account.	This is covered in Article 5 (Publication of Information), Article 16 (Common Grid Model Methodology) and Article 20 (Capacity Calculation Methodologies). Article 6 requires publishing methodologies. Article 16 includes Common Grid Model issues, which shall be published. Article 20 includes determination of reliability margins, security constraints (including information of critical branches) and capacity calculation approach.

2.1.3	The CACM Network Code(s) shall require that the TSOs establish one or more common grid models suitable for community-wide application.	This is covered with article 6.3 (Functions within the Capacity Calculation) where is foreseen that all System Operators shall establish a single European Merging Function and guarantee the uniqueness of results across Europe and with article 28 (Creation of the Common Grid Model).
2.1.3	As a minimum, each common grid model shall cover an area appropriate for the capacity calculation method used, at least the synchronous area.	This is covered in Article 16 (Common Grid Model Methodology) Article 30 (General Provisions) and Article 31 (Creation of Common Grid Model). European Merging Function established according to Article 30 shall be responsible creating a single Europe wide Common Grid Model as stated in Article 31(5).
2.1.3	The common grid model(s) shall include a detailed description of the transmission network including the location of generation units and demand.	This is covered in section 2 (The Common Grid Model), especially in Article 14 (Generation and Load Data Provision Methodology) and Article 16 (Common Grid Model Methodology) containing how to build scenarios (Article 18) and individual grid models (Article 19). The Individual Grid Model shall consist of best forecasts of system conditions, covering the relevant part of the European power system for capacity calculation.
<h2>Bidding Zones</h2>		
2.2	The CACM Network Code(s) shall define a zone as a bidding area, i.e. a network area within which market participants submit their energy bids day-ahead, in intraday and in the longer term timeframe	This is covered in Article 2 (Definitions) which defines Bidding Zone as the largest geographical area within which Market Participants are able to exchange energy without Capacity Allocation. Furthermore, Article 37 (Criteria to assess the Efficiency of Alternative Bidding Zone Configurations) states that Bidding Zone configurations shall be assessed based on their consistency for all Capacity Calculation Timeframes.
2.2	The CACM Network Code(s) shall ensure that, when defining the zones, the TSOs are guided by the principle of overall market efficiency. This includes all economic, technical and legal aspects of relevance, such as, socio economic welfare, competition, network structure and topology, planned network reinforcement and redispatching costs.	This is covered in Article 37 (Criteria to Define and Assess the Efficiency of Alternative Bidding Zone Configurations). Overall market efficiency, network security, and stability and robustness of Bidding Zones (including location and frequency of congestions taking into account reinforcements in grid) are criteria, which shall be used in reviewing bidding zone configurations.
2.2	The definition of zones shall further contribute towards correct price signals and support adequate treatment of internal congestion.	This is covered in Article 37 (Criteria to Define and Assess the Efficiency of Alternative Bidding Zone Configurations). Contribution towards correct price signal is part of criteria defined under Article 37(b) and support to adequate treatment of internal congestions is addressed in Article 37 (c)
2.2	Zone definitions concern all timeframes: long-term, day-ahead and intraday. Moreover, zone delimitations should be coordinated with balancing zones.	This is covered in Article 37 (Criteria to Define and Assess the Efficiency of Alternative Bidding Zone Configurations). Article 37(c) sets criteria that Bidding Zones shall be consistent for all Capacity Calculation Timeframes. Article 37(c) recognises the need for Bidding Zones to be sufficiently stable and robust over time. Article 37 (b) take into account the impact on balancing zones.
2.2	The CACM Network Code(s) shall provide that TSOs propose the delimitation of zones for subsequent approval by the relevant NRAs.	This is covered in Article 36 (Review of Bidding Zone Configuration) and Article 7 (Regulatory Approvals). Article 36(4)(e) request TSOs to make proposal(s) to amend Bidding Zone configuration and Article 7 requests NRAs to approve Bidding Zone

2.2	In cases where it can be shown that there is no significant internal congestion within or between control areas, one or several control areas may constitute on zone.	This is covered in Article 37 (Criteria to Define and Assess the Efficiency of Alternative Bidding Zone Configurations). The article ensures that Biding Zones are defined the most appropriate way, joining or splitting zones based on the predefined requirements set in Article 38.
	The above-mentioned market efficiency principle and aspects such as system security must be reflected in the proposal and be assessed in a sound and comprehensive substantiation for either the proposed new delimitation or preservation of existing zones.	This is covered in Article 36 (Criteria to Define and Assess the Efficiency of Alternative Bidding Zone Configurations) and Article 36 (Review of Bidding Zone Configuration). The review of Bidding Zone configurations according to Article 36 shall be based on criteria set in Article 37 (among criteria are those for overall market efficiency and network security).
2.2	The assessment shall be prepared in a region-wide coordinated way, also taking into account possible impact on other zones in the respective region	This is covered in Article 36(Review of Bidding Zone Configuration). Article 36(2) requires that geographic area for study including also impacted area(s), participating TSOs and participating NRAs shall be specified when a review study is launched.
2.2	The CACM Network Code(s) shall envisage that the relevant TSOs repeat the assessment when network topology or patterns of generation and load, or local energy situations (deficits or surplus) are significantly changed or if it is necessary to ensure system security.	This is covered in Article 36 (Review of Bidding Zone Configuration). A TSO can recommend to launch a review of Bidding Zone configurations according to Article 36(1)(b).
2.2	NRAs shall assess the delimitation of zones against the criteria of overall market efficiency. In case a change in the zone delimitation is foreseen, it is of the utmost importance that market participants be consulted and have sufficient time to prepare.	This is covered in Article 37 (Criteria to Define and Assess the Efficiency of Alternative Bidding Zone Configurations) and Article 36. Overall market efficiency is among the criteria which NRAs use when reviewing Bidding Zone configurations, as seen from Article 37(1)(b). Article 36(4)(d) requires public consultation including also proposal for implementation timescales. The timescales for implementation shall be submitted to NRAs when regulatory approval is requested according to Article 7.
2.2	While limiting cross-border capacity to solve internal congestion inside a control area is generally not permitted, the CACM Network Code(s) shall provide that, if such a situation occurs, it is reported transparently. Detailed information on internal and cross-border congestion and limiting constraints (exact location, exact hour of congestion) shall also be reported to the relevant NRAs.	This is covered in Article 39 (Biennial Technical Report). Article 39(1)(a) requires to include in the biennial report a list of Structural Congestions and other major Physical Congestions, including their location and frequency.
2.2	The CACM Network Code(s) shall require TSOs to submit every two years, on a regional basis to the responsible NRAs and to the Agency, an analysis of the current zone delimitation based on detailed data on redispatching/countertrade costs and structural congestion.	This is covered in Article 38 (Biennial Assessment of the Current Bidding Zone Configuration) Article 39 (Biennial Technical Report) and Article 84 (Cost of Ensuring Firmness). Article 38(2) (a) requires TSOs to provide for a biennial technical report and send to NRAs and the Agency. The analysis of current zone delimitation is defined in Article 39, which shall contain data on Congestion Income and firmness costs (Article 39(1)(d)). These firmness costs shall include according to Article 84 the costs of Redispatching and Countertrading. Structural congestions are addressed in Article 39(1)(a) where list of Structural Congestions and other major Physical Congestions, including their location and frequency, has been requested.

2.2	Based on this analysis, the market structure and possible market power issues shall be evaluated by the relevant NRAs and the Agency and, where necessary, measures shall be adopted.	This is covered in Article 38 (Biennial Assessment of Current Bidding Zone Configuration). Article 3(2)(b) requires NRAs and the Agency to evaluate market structure and possible market power issues taking into account the biennial technical report prepared by TSOs. Furthermore, Article 38(3) requires NRAs to make decision to request to launch a review of Bidding Zone configuration or to approve the current Bidding Zone configuration.
2.2	The CACM Network Code(s) shall foresee stable and robust zones over time.	This is covered by article 34.1 (Criteria to Define and Assess of Alternative Bidding Zone Configurations), which states that bidding zones shall be sufficiently stable and robust over time. This is covered in Article 37 (Criteria to Define and Assess the Efficiency of Alternative Bidding Zone Configurations). Review of Bidding Zone configurations shall apply (both TSOs and NRAs) criteria set in Article 37 and among these criteria is Article 37(1)(c) which recognises the need for Bidding Zones to be sufficiently stable and robust over time.
<h2>Forward Capacity Allocation</h2>		
4.1	The CACM Network Code(s) shall foresee that the options for enabling risk hedging for crossborder trading are Financial Transmission Rights (FTR) or Physical Transmission Rights (PTR) with Use-It-Or-Sell-It (UIOSI), unless appropriate cross-border financial hedging is offered in liquid financial markets on both side of an interconnector.	The FTR/PTR with UIOSI are covered by the Article 46 describing the proposal that System Operators have to develop and submit to NRAs in case NRAs decide that no appropriate cross-border financial hedging is offered in liquid financial markets on both side of an interconnector. The Regulatory decision is covered by Article 45.
4.1	PTR shall be defined as options and subject to UIOSI.	This is covered by Article 46(1) saying "Long term Cross Zonal Capacity shall be allocated to Market Participants by the Allocation Platform(s) in the form of Physical Transmission Rights in accordance with the Use-it-or-sell- it (UIOSI) principle or in the form of Financial Transmission Rights. "
4.1	The CACM Network Code(s) shall define the nature of FTR in terms of options or obligations.	This is covered by Article 49 (Financial Transmission Rights - Options) and 50 (Financial Transmission Rights - Obligation). Both articles cover the specialities of these products including the payment obligations.
4.1	The CACM Network Code(s) shall also foresee a harmonised set of rules for borders where PTRs with UIOSI are applied and a harmonised set of rules for borders where FTRs are applied.	This is covered by the whole Chapter 6. It includes the different steps including a detailed list about the provisions to be harmonised and the development of structure and process for the establishment. It also covered the amendment produce if necessary.
4.1	The CACM Network Code(s) shall require that the TSOs provide a single platform (single point of contact) for the allocation of long-term transmission rights (PTR and FTR) at European level.	This is covered by the whole Chapter 5. The general tasks of the platforms and functional requirements are described in Article 65 and 66. The Article 67 covers the establishment process of these platforms.

4.1	As a transitional arrangement, regional platforms may operate, as long as this does not hamper the improvement and harmonisation of allocation rules.	Regional Platform both for allocation and secondary trading are allowed under certain conditions and are covered in Article 85-87.
4.1	The CACM Network Code(s) shall also foresee greater harmonisation of the nomination rules, deadlines and processes.	This is covered in the Section 3 by Article 52 and 53. The Article 52 lists the provisions to be included to the Nomination Rules which rules shall be progressively harmonised for all Bidding Zone Border(s) on which Physical Transmission Rights are applied.
4.2	The CACM Network Code(s) shall require that PTR are subject to the UIOSI requirement at the time of nomination (or equivalent market allocation process), which means, as a default, the resale of non-nominated capacity rights.	This is covered by Article 46(1) saying "Long term Cross Zonal Capacity shall be allocated to Market Participants by the Allocation Platform(s) in the form of Physical Transmission Rights in accordance with the Use-it-or-sell- it (UIOSI) principle or in the form of Financial Transmission Rights. "
4.2	TSOs shall give the total financial resale value of capacity (in the case of an explicit auction this is equal to the clearing price of the auction in which the capacity is resold; in the case of an implicit auction this is equal to the day-ahead price differential between the two zones) back to the market participants who owned the PTR.	This is covered by Art.51(1) and (2) which establish the following. In general: (1) System Operators on a Bidding Zone Border shall remunerate the Long Term Transmission Right holders based on the related Market Spread between the two concerned Bidding Zones in case the difference is positive in the direction of the Long Term Transmission Right. For FTR obligations: (2) The Financial Transmission Rights Obligation holder shall remunerate the System Operators on a Bidding Zone Border based on the related Market Spread between the two concerned Bidding Zones in case the difference is negative in the direction of the Financial Transmission Rights Obligation.
4.2	The CACM Network Code(s) shall require that TSOs determine the volume of long-term capacity rights in accordance with the technical capabilities of the network and for each long-term timeframe.	Article 40 (Methodology for splitting cross zonal capacity) covers that the System Operators of each Capacity Calculation Region need to develop a methodology for determining the volume of cross zonal capacity to be allocated on each timeframe. The Article 40 also lists the criteria to be met by this methodology.
4.2	The CACM Network Code(s) shall also ensure that the TSOs submit (at least indicative) levels of capacity available for the whole year sufficiently in advance before the yearly allocation takes place.	Article 56 (1) specifies that the corresponding Allocation Rules define the auction specification. The auction specification needs to contain the Long term Cross Zonal Capacity to be auctioned as well as the date and time of gate opening and fate closure of the auction.
4.2	NRAs shall review and approve the volume of yearly capacity rights, as well as the principles for sharing capacity between the different time frames.	As described in this document's 4.2 section while ENTSO-E agrees with the general principle, it is believed that the regulatory approval of the methodology and of the splitting between the different timeframes is sufficient to ensure that the yearly volumes are calculated correctly and appropriate level of capacity, considering all relevant constraints, is offered to the market. Complying with FWGL requirement literally would imply that NRAs have to bear the risk related to their decision.

4.2	In line with the point 2(12) of the CM Guidelines, the CACM Network Code(s) shall foresee that the TSOs provide a single platform for anonymous secondary trading at the European level.	This is covered by the whole Chapter 5. The general tasks of the platforms and functional requirements are described in Article 65 and 66. The Article 67 covers the establishment process of these platforms.
4.2	As a transitional arrangement regional platforms may operate.	Regional Platform both for allocation and secondary trading are allowed under certain conditions and are covered in Article 85-87.
General Issues, Requirements & Provisions		
6.2	A common definition of <i>force majeure</i> shall be given in the CACM Network Code(s) to be used in all capacity allocation rules (including auction rules, market coupling rules, rules for continuous trading).	Definition provided (Article 2)
6.4	The CACM Network Code(s) shall provide that curtailments of cross-zonal transactions is applied only in emergency situations and ensure that the affected TSOs avoid any discrimination between the different types of commercial exchanges, between the relevant time frames and between exchanges internal to countries and cross-border exchanges.	This has been included in the Firmness Articles and in the definitions of Emergency situations and Force Majeure.
6.4	Other measures, such as redispatching and countertrading, shall be considered before curtailing capacities and the most efficient solution shall be applied.	In Article 2 The definition of Emergency situations draws on situations where “re-dispatching and countertrading are not possible” The definition of Force Majeure obliges SOs “to take measures which are from a technical, financial and/or economic point of view, reasonably possible for the System Operator”

6.4	<p>Congestion rents shall be used, <i>inter alia</i>, for guaranteeing the firmness of allocated capacity rights, in particular through the activation of coordinated/countertrade actions.</p>	<p>This provision is already contained in Reg (EC) 714/2009. In the Firmness section contains an obligation on System Operators to bear firmness costs pursuant to Article 84. The cost recovery section contains an entitlement to recover these costs in a timely manner via tariffs or other regulatory mechanisms pursuant to Article 81. Such other regulatory mechanisms may include congestion income.</p>
6.4	<p>TSOs shall ensure, on a coordinated basis, that enough redispatching/countertrade means are available for ensuring firmness</p>	<p>This is relevant for shorter timeframes as described in CACM NC</p>
6.4	<p>Capacities shall be firm. After the nomination deadline, physical firmness is the preferred approach, but financial firmness may be accepted in case of explicit auctions.</p>	<p>This is covered by the Chapter 7 (Firmness). After Day-Ahead Firmness Deadline capacities are indeed fully firm. There is the optional possibility to establish an additional and previous Long-Term Firmness Deadline, which will divide the period prior to the Day-Ahead Firmness Deadline in two sub-periods under a step-wise increasing firmness compensation regime</p>
6.4	<p>The CACM Network Code(s) shall require that, except in the case of <i>force majeure</i>, capacity holders shall be compensated for any curtailment. Compensation shall generally be equal to the price difference between the concerned zones in the relevant time frame.</p>	<p>This is covered by the Chapter 7 (Firmness). The provisions of the FCA network code are broadly in line with the FWGL ensuring the possibility of having a market spread based firmness regime besides the initial price paid principle. Compensation rules have to be approved by NRAs and consulted with Market Participants. An optional Long Term Firmness Deadline is foreseen by Article 74 (to be placed before the Day-Ahead Firmness Deadline and also subject to NRA approval and consultation with market parties). Where market spread based compensation is applied, price or congestion income based caps might be introduced in order to ensure that curtailed market parties get generally compensated with the price spread without any discrimination introduced by curtailment time precedence (price caps) and this for the whole congestion revenues collected by the SO from the LTRs during a pre-defined period of time (congestion income based caps). In case of force majeure the network code foresees initial price paid reimbursement (as per the FWGL).</p>
6.4	<p>As a derogation to the general compensation rule, on some borders and subject to approval by the relevant NRAs, caps on the compensation may be introduced:</p> <ul style="list-style-type: none"> - in the case of curtailment announced before the nomination deadline; - in the case of curtailment announced before a reasonable lead-time defined by the concerned NRAs, taking into the account the liquidity of the relevant markets and the possibility for grid users to adjust their cross-border positions; - for curtailments of long duration. 	<p>This is covered by the Chapter 7 (Firmness). The Firmness Regime has been designed to simultaneously cover all three derogations.</p> <ul style="list-style-type: none"> - Article 73(3) states that "where System Operators apply capped Market Spread compensation principles, a cap based on congestion income and/or a price cap shall be used. - Article 75(3) states that each System Operator is entitled "to develop a proposal for adequate Compensation Rules for an outage, if the System Operator foresees that the outage will last for a long period of time such as an outage related to DC cables, subsea cables and phase-shifter transformers. Any such proposal shall establish clear terms and conditions for the application of the Compensation Rules."

6.4	<p>The CACM Network Code(s) may also provide that, until the introduction of day-ahead market coupling, alternative compensation arrangements apply as a transitional measure. These transitional arrangements shall be fair, transparent and non-discriminatory.</p>	<p>The Code contains a provision on allocation under explicit allocation regimes (Article 89). "Until the introduction of price coupling in the Day Ahead timeframe, alternative Compensation Rules shall apply as a transitional firmness measure. These transitional arrangements shall be fair, transparent and non-discriminatory. Compensation for curtailment of Long Term Transmission Rights on Bidding Zone Border(s) where price coupling in the Day Ahead timeframe has not been introduced yet shall be limited to the Initial Price Paid principle pursuant to Article 73(2)(a)".</p>
6.4	<p>The CACM Network Code(s) shall define a certain period of time ahead of capacity allocation during which capacity announced for an auction (explicit or implicit) can no longer be changed. This time period shall be subject to approval by the NRAs concerned.</p>	<p>The "Day Ahead Firmness deadline" (Article 76) is recalled from CACM network code. This deadline is subject to NRA approval</p>
6.4	<p>The CACM Network Code(s) shall foresee that capacity which cannot be used as a consequence of a <i>force majeure</i> event shall be reimbursed on the basis of the initial price paid.</p>	<p>Article 78 (Firmness in case of force majeure) covers this requirement saying "3. Allocated Cross Zonal Capacities which become subject to an Emergency Situation or Force Majeure situation shall be reimbursed for the period of that Emergency Situation or Force Majeure situation, by the System Operator which invokes the Force Majeure or Emergency Situation, in the event of Explicit Allocation Market Participants shall be entitled to compensation equal to the value of the capacity set during the Explicit Allocation process"</p>
6.5	<p>The CACM Network Code(s) shall ensure that the TSOs and PXs provide all the necessary data to the NRAs and ACER, to enable all necessary monitoring and supervision of the areas covered by these Framework Guidelines.</p>	<p>The Regulatory Approval Article 7(5) contains obligations to submit relevant documents to NRAs</p>