

March 2025

UFE's response to Core TSO's proposal for the first amendment of the long-term capacity calculation methodology of the Core capacity calculation region

UFE welcomes the Core TSO's proposal for the first amendment of the Long-Term Capacity Calculation methodology of the Core Capacity Calculation Region.

As previously expressed, UFE has strong reservations regarding the implementation of the flow-based methodology within forward markets. The added value of the long-term flow-based allocation has not been sufficiently demonstrated. Notably, it has not been proven that flow-based calculation and allocation will lead to more cross-zonal capacities being made available. In fact, some bidding zone would have very low or even zero volume allocated to their borders (this risk has been raised by some TSO simulations). The forward timeframe is naturally subject to higher uncertainties, which will be reflected in flow-based calculations, leading to non-optimal results. Moreover, the flow-based allocation has negative effects on collaterals, increasing them to a level disproportionate to the risk exposure of TSOs.

The risks inherent to flow-based implementation in the forward timeframe remain a concern. Indeed, limited progress has been achieved to ensure that sufficient interconnection capacities are available at every border and to mitigate the increase in collateral requirements, notwithstanding the proposal to implement a collateral price cap in the Harmonised Allocation Rules for LTTRs. UFE believes that further mitigation measures are needed to decrease the collateral burden in a scenario of long-term flow-based allocation.

UFE welcomes Core TSO's proposal to include an ATC extraction at the end of the long-term capacity calculation process in the Core LT CCM. This stepwise approach could allow Core TSOs to gather feedback and additional information about the observed benefits and effects of the flow-based approach on the long-term market.

It is UFE's understanding that regardless of the developments in 2026, flow-based yearly and monthly auctions will be implemented from January 2027. UFE stresses that a flow-based allocation should be implemented only if (i) it was proven in 2026 that the flow-based calculation managed to overcome adverse effects of long-term uncertainty and that the domains are large enough and (ii) if a sustainable collateral management solution is implemented e.g. with bid filtering performed ex post on the basis of the market results.

Therefore, UFE points out that sufficient time should be allowed to assess the results of the yearly auction to be performed at the end of 2025 and the monthly auctions planned throughout 2026. To effectively proceed with flow-based implementation, UFE emphasizes that the ATC extraction step should also deliver robust evidence that flow-based will increase economic efficiency compared to the actual Net Transfer Capacity approach.

Moreover, UFE believes it would have been valuable to present the latest simulations results of the flow-based calculation with ATC extraction in the explanatory document. Indeed, the proposed approach could lead to less capacity allocated than with the current NTC approach. Furthermore, the simulation results for all borders expressed the general challenges in reaching capacities comparable to historical JAO levels, even under optimal scenario where no outages are considered. The simulations also included Polish borders and excluded IVAs, which was not the case in the historical values. This discrepancy complicates the comparison of capacity levels but generally points to lower capacities under the new methodology, which puts into question the effectiveness of the new methodology and the benefits of implementing it. As a result, UFE asks TSOs to put in place measures to ensure that the total amount of extracted capacities is at least in the same order of magnitude as current NTCs approach.

Regarding the text proposal, UFE sees several unclear aspects.

- Firstly, in relation to the integration of returned volumes (Annex 1, §6): the methodology states that *“the reduction of already allocated cross-zonal capacities by the returned volumes defined in Article 14(4)(b) shall not be applied.”*. According to UFE's understanding, the handling of returned AACs is related to title 5 of the HAR (art.38-40). It remains unclear how such returns will be integrated.
- Secondly, as for the fallback Procedure (art.16), the change of fallback procedure for monthly capacity calculation from using the parameters of the annual flow-based calculation to the parameters of the previous monthly flow-based calculation seems to make sense as it indeed could provide more up-to-date and precise data. However, on several borders UFE points out that there can be

significant variations in monthly allocated volumes from one month to the other. UFE thus questions how such seasonal fluctuations will be integrated in the fallback process. Besides, it is not clear what would happen in such a situation with the ATC extraction. Would the results of the last validated ATC calculation be considered?

In conclusion, UFE believes that the intermediate period with ATC extraction presents a valuable opportunity to gather evidence about the feasibility and efficiency of flow-based in forward markets. UFE recommends conducting an impact assessment followed by a 4-week consultation with market participants at the end of this one-year intermediate period. Regarding Art. 22(1.c), UFE considers that the determination of the actual go-live date of flow-based allocation should be based on the impact assessment and should be conditional to the implementation of enduring solutions to address the collateral burden and low capacity observed on certain borders.