

## **ACER consultation on the CORE capacity calculation methodology (CCM) for the day-ahead and intraday timeframes**



### **EFET response – 21 December 2018**

#### **Introduction**

We thank ACER for the opportunity to comment on their proposals for a decision on the Capacity Calculation Methodologies (CCM) for day-ahead and intraday cross-zonal capacity calculation in the CORE region. We would like to refer to our response to the TSOs consultation on the two CORE CCMs<sup>1</sup> and the follow-up NRA consultations on the same subject<sup>2</sup>.

Throughout our response to this ACER consultation, a series of principle guide our position. These principles find their origin in existing legislation, primarily Regulation 714/2009 and the CACM Regulation, and should also be mirrored in the future Electricity Regulation after its review in the framework of the Clean Energy Package. Here are these principles:

- Maximisation of cross-zonal transmission capacity made available by TSOs to the market, up to the level of optimum welfare
- Transparency of the capacity calculation process

<sup>1</sup> See our common response, with Eurelectric, MPP and Nordenergi, to the TSOs consultations on their draft capacity calculation methodologies, dated 19 July and last updated on 22 March 2018, available at: [https://efet.org/Files/Documents/Downloads/EFET\\_Eurelectric\\_MPP\\_Nordenergi-TSOs%20consultation%20CCM\\_22032018.pdf](https://efet.org/Files/Documents/Downloads/EFET_Eurelectric_MPP_Nordenergi-TSOs%20consultation%20CCM_22032018.pdf).

<sup>2</sup> See also our responses to the corresponding NRA consultations on the subject for the CORE region, dated 27 October 2017, available at: [http://www.efet.org/Files/Documents/Downloads/27102017\\_RESPONSE\\_EFET\\_EURELECTRIC\\_NORDENERGI\\_MPP\\_BUNDESNETZAGENTUR\\_CORE%20CCM\\_FINAL.pdf](http://www.efet.org/Files/Documents/Downloads/27102017_RESPONSE_EFET_EURELECTRIC_NORDENERGI_MPP_BUNDESNETZAGENTUR_CORE%20CCM_FINAL.pdf).

## Questions

### 1. *Open comments on the selection of critical network elements*

First, we would like to react to the introductory statement of ACER in its explanation of its position on the selection of critical network elements: “In an efficient zonal congestion management model, the bidding zones should be established such that physical congestions occur only on network elements located on the borders of bidding zones.” We have concerns with this statement for two reasons: First, a zonal model will necessarily result in congestions within bidding zones at one point or another. The fundamentals of such a model is to treat these congestions as cost-efficiently and transparently as possible. Second, we would like to point out that we are not only in a zonal congestion management model: we are also in a zonal market. In this context, bidding zones delineation should take account not only of congestions in the grid, but also of market efficiency, as properly laid out in the CACM Regulation.

This being said, we indeed observe that cross-zonal capacities made available to the market in the CORE region are low. As ACER notes, we also regret that TSOs seem to have taken the habit and continue to use cross-zonal capacity calculation as a way to manage congestions on internal network elements, without a proper assessment of the cost and benefits of such practice – a practice we can only suspect in the context of NTC calculations due to their lack of transparency, but that was made apparent in the context of flow-based calculations with the inclusion of internal lines (CBCOs) that constrain cross-border capacity calculation. This practice has already been identified as not compliant with EU Regulation 714/2009 by regulators, for instance in their approval document for CWE Flow-Based Market Coupling in March 2015.

ACER proposes that after a period of two years, no internal critical network elements be included in the capacity calculation unless TSOs demonstrate that no alternative is more efficient than limiting cross-zonal capacity to address congestions within bidding zones, under NRA scrutiny.

This approach poses a multitude of questions:

- In a flow-based context, it seems unavoidable that a number of internal lines limit cross-zonal flows; rejecting the inclusion of any internal lines in the algorithm would look like a step back, returning to NTC calculations. We therefore wonder what the objective of the ACER rule would be, considering the obligation in CACM to apply a flow-based methodology for capacity calculation in day-ahead and intraday unless exempted by all NRAs of the given CCR.
- While we are concerned with the current number of CBCOs in CWE flow-based market coupling – which does not bode favourably for its extension to the Core region – the outright exclusion of internal critical network elements with contingencies (CNEC) does not seem to be in line with ACER’s own Recommendation 02-2016. Indeed, the Recommendation foresees that loop flows and internal congestions shall not be taken into account in the capacity calculation process unless TSOs prove that this is economically more efficient and have this vetted by NRAs. Instead of an outright exclusion of internal CNECs from the calculation, we would rather favour an exceptional inclusion based on sound ex-ante economic efficiency analysis. This economic efficiency

analysis should look not at the CNEC itself, but the effect it has on the availability of cross-border capacity (i.e. shadow cost of the CNEC).

- The exemption process that would allow CNECs to be included in the calculation is neither clear on the content and process:
  - o Content: it should be made clear that the efficiency analysis performed by the TSOs to justify the inclusion of a CNEC in the calculation is an **economic efficiency analysis** of the effect of the inclusion of the CNEC on the availability of cross-border capacity;
  - o Process: it should be made clear that **all NRAs of the CCR** have to approve the inclusion of internal CNECs in the calculation before such inclusion is done.
- Last but not least, the timing of implementation is currently not precise enough. It should be made clear that the capacity calculation methodology applies from day 1, and not with the possible inclusion of an unlimited number of CNECs for two years – two years without clear starting point.

As a conclusion, we propose the following approach:

- A capacity calculation process that allows both cross-zonal and internal CNECs:
- The inclusion of internal CNECs in the calculation shall be subject to an economic efficiency analysis of the effect of each internal CNEC on the availability of cross-zonal capacity, performed by the TSOs and to be approved by all NRAs of the CCR before inclusion in the calculation;
- The application of this rule starts from day 1 of the application of this capacity calculation methodology.

## 2. *Open comments on the approach to minRAM*

EFET has expressed at multiple times its doubts about the 20% min RAM rule. Though in the current context of CWE flow-based market coupling, the rule has helped increase capacity availability for the market, we still see it as an artificial tool that alters the mathematical soundness of the algorithm and does not guarantee that the level of capacity made available to the market is maximised up to the level of optimum welfare.

We believe that if TSOs apply our suggestions above and perform an economic efficiency analysis for the inclusion of internal CNEC, capacity will not be reduced to the level that we're seeing now. As a result, the percentage of RAM compared to  $F_{max}$  may very well be above 20 or 30% in many cases. Once again, the 20% min RAM rule applied in CWE flow-based market coupling was implemented to remedy the absence of economic efficiency analysis in the inclusion on internal CBCOs. With our recommendations in point 1, we should not be in that situation anymore.

One last point concerning the reference to the 75% threshold of article 14.7 of the draft recast Electricity Regulation: as many actors in sectors – market participants, TSOs, NRAs – we do not believe that the approach taken by the European Parliament and Council to set a threshold is the right way to go. Furthermore, this 75% threshold was included in the draft recast Regulation as an alternative to CCMs and their economic efficiency approach. Therefore, we are very surprised that ACER now considers it a

goal to reach in itself in terms of capacity availability to the market. Rather, we see the 75% threshold as a significantly high level of capacity to be made available to the market that will incentivise TSOs to draft sturdy CCMs and perform capacity calculations that truly reach towards the optimum welfare. That welfare may correspond to higher or lower levels of capacity made available to the market. Therefore, just as the 20 or 30% min RAM rule do not appear to us as sound instruments to be included outright in the methodology, we do not consider the 75% threshold as a legitimate goal in itself. Economic efficiency in the maximisation of cross-zonal capacity made available to the market up to the level of optimum welfare is the only goal that should be pursued in the CCMs.

### *3. Open comments on the approach to the validation process*

We agree with all the suggestions made by the Agency, both in terms of the detailed information to be provided every three months in case of reductions applied by individual TSOs in the validation process, as well as the action plan to be drafted by individual TSOs in case such reductions happen more than 1% of the market time units in a given quarter.

Regarding the “insufficient remedial actions” justification for reductions in the validation process, we are afraid that this explanation opens the door for capacity contracting for remedial actions below the necessary level. We would therefore add that the report/action plan also includes an analysis of whether capacity contracting for remedial action by the individual TSOs is sufficient, and if increasing capacity contracting would be economically efficient.

### *4. Open comments on the approach to FRM*

We support the approach of the Agency for the calculation and application of the FRMs.

### *5. Open comments on the approach to GSK*

We support the approach of the Agency for the establishment and application of the GSKs. We would specify in the rules that the methodology and high-level principles in point 1 shall be common to all GSKs of the CCR.

### *6. Open comments on any other input parameter*

We support the approach of the Agency regarding the application of external constraints (no dedicated question).

*7. Open comments on the consistency between DA and ID (removal of minRAM, LTA inclusion and validation, use of RAs to increase ID capacity)*

We support the approach of the Agency regarding the consistency to be applied between the DA and ID capacity calculation processes. The ID capacity calculation methodology proposed by the TSOs looks rather non-committal to us, and is definitely not detailed enough. Making sure that the same approach to the selection and application of CNECs, external constraints, RefProg for non-Core borders, FRMs, GSKs, calculation process etc. applies for both DA and ID – and is explicitly made clear in the methodology – would alleviate many of our concerns with a process that is for the moment rather unclear.

*8. Open comments on the timing and frequency of ID capacity calculation*

We are still missing sound justification why TSOs need close to seven hours to recalculate ID capacities after DA clearing. It is true that European TSOs have no experience with ID capacity recalculation. However, an ID capacity allocation following recalculation set at 22:00 is far too late. The earlier cross-zonal intraday capacity is calculated and allocated, the earlier expected open positions can be closed in an efficient way across borders. This will result in a more efficient dispatch. In addition, a late CZ ID GOT risks damaging the level-playing field between market participants, with smaller trading entities not necessarily able to maintain a 24/7 trading desk. This means that many smaller market participants will only trade the following morning, with limited time for the first hours of the day, damaging liquidity in those first trading hours – and the potential future pan-European intraday auction – along the way.

Pending proper justification, we remain of the view that an ID capacity allocation at 22:00 following recalculation is too late. We do not support ACER setting this timing in stone unless proper justification comes from the TSOs.

*9. Open comments on the cross-zonal capacity at the intraday cross-zonal gate opening time*

We strongly oppose to the approach proposed by the TSOs and somehow supported by the Agency regarding the cross-zonal intraday gate opening time (CZIDGOT).

In its Decision 04-2018 on the CZIDGOT (and GCT), ACER made it clear that “the IDCZGOT can only be understood as a general rule for **when TSOs have to release the available cross-zonal capacity to the market**, whereas the rules on how much cross-zonal capacity TSOs have to offer and at which times during the intraday timeframe fall within the scope of the regional intraday capacity calculation methodology” (point 52).

While the amount of capacity to be made available at the GOT depends on the recalculation process, it seems clear to us that from one month after the approval of the CCM, the TSOs have to set the GOT at 15:00 at all borders of the region and release some capacity.

From recent discussions at the XBID User Group, it loops like some TSOs wish to advance an alternative reading of the decision, where they would have an “effective” (!) CZIDGOT at 15:00, but they would only release capacity to the market after recalculation at 22:00. This reading seems to us absolutely at odds with the principles put forward by the Agency in its Decision, notably:

- ensuring that market participants access cross-border capacity in intraday at an early point in time
- ensuring fair and non-discriminatory treatment of all EU market participants
- improving market participants understanding of price formation
- allowing market participants to optimise their portfolio
- improving the efficiency of market coupling

Therefore, we call on ACER to reject the possibility for TSOs to withhold leftover capacities after DA clearing until ID capacities have been recalculated. We refer in particular to the situation in the region SWE, with the CCM already approved. We understand that the intraday capacity allocated in the Nordic CCR at 15:00 will be based on remaining available capacities after day-ahead market clearing. The CACM Guideline foresees in its articles 14.4 and 21.2 that cross-border intraday capacities can be recalculated a number of times during the operation of single intraday coupling. Therefore, it is to be understood that the CACM Guideline foresees the option to suspend temporarily the single intraday market coupling to re-adjust cross-border capacities. As a consequence, we believe that the option proposed by the Nordic TSOs to open the intraday market before capacities are recalculated and to re-adjust capacities once the recalculation has been performed is a valid proposal. The TSOs from all the Core CCR have not given proper justification as to why they would not be able to follow the same process of opening the market and performing the recalculation in parallel. Considering that the Nordic option would allow seven more hours of true cross-border intraday trading for market participants in continental Europe, there are significant welfare gains to reap by opening cross-border intraday markets at 15:00 with leftover capacity from DA. These welfare gains do not seem to have been considered in the TSOs’ proposal. Therefore, we support the Nordic solution as the target solution for the whole of Europe.

The ACER proposal seems to forego implementing its own Decision 04-2018 in the first place. And the additional exemption it would foresee until the CCM for ID is implemented makes even less sense considering the TSO arguments: if it is the recalculation process that would prevent TSOs from releasing leftover capacities from DA to the market, there is even less reason to exonerate TSOs to release these capacities when the recalculation process is not in place.

As a conclusion we advocate:

- A true CZIDGOT at 15:00, with capacities leftover from DA released, as of one month after the approval of the Core CCM, as per the Agency’s Decision 04-2018;
- The possibility for TSOs to shortly suspend XBID to readjust capacities – 10 minutes maximum, like for the regional auctions process – when finalising the capacity recalculation process;
- No exemption from these rules, be it before or after the full implementation of ID capacity recalculation.

## 10. Open comments on the approach to Transparency

We welcome the recognition by NRAs and ACER that transparency has been a significant problem for market participants in CWE flow-based market coupling. Experience from that project rightly serves as a basis for the ACER approach to transparency, which we fully support.

We have some comments on the proposed list:

- *4. real names of CNECs and external constraints:* the CBCOs should be “split” between CBs and COs.
- *5.1 and 5.2. vertical load and production:*
  - o TSO should provide an estimation of the decentralised generation imbedded in the vertical load (Ideally with the technology type breakdown);
  - o TSO should provide a breakdown of generation by fuel type, as we know that some fuels play a big role in the FB domain.
- *5.4. exchange programs on non-Core bidding zone borders:* the expected individual positions considered by TSOs of at least all direct neighbours should be published (not just a global view).
- *6. Every six months, publication of an up-to-date static grid model by each Core TSO:* the CCM should specify that the static grid model should be detailed enough. For instance, detailed substation topology (Switch/Breaker/Connected Generation) should be published. Transmission lines below 400kV and Transformers/PST should be described and published if they are modelled in the operational grid model (D2CF).

We would also add to the list:

- Full domain before and after the application of the LTA patch, or any other patch (e.g. 20% min RAM). It is important that the domain as obtained without patch is published, since it reflects the physical situation.
- On top of Core positions for the base case, the expected individual positions considered by TSOs of at least all direct neighbours should be published (rather than just a global view).
- With the assumption that no internal CNECs are selected, only information on cross-border CNECs would be published, following ACER transparency requirements. This would be problematic since no information on how the decision to allocate capacity at the border would be available to the market. Information on grid elements influencing PTDF calculation should be available. A solution must be found, for instance by publishing information (like for cross-border CNECs) for internal lines that influence the calculation. This kind of approach was in place during the CWE flow based parallel run.
- The transparency obligations should also detail what TSOs should publish in case they are not able to respect the minimum level of capacity imposed by the CCM. As mentioned in our letter on the application of the 20% min RAM rule in CWE Flow-Based Market Coupling<sup>3</sup>, we think that the methodology should detail:

<sup>3</sup> Joint EFET, IFIEC Europe and MPP letter on the the rule guaranteeing 20% of minimum RAM in CWE flow-based market coupling and its application, dated 31 October 2018, available at:

- An exhaustive list of conditions for which the rule can be suspended;
- A clear obligation on TSOs to inform market participants about the suspension at the moment of the decision, with all the details available on the reasons for the suspension at that moment;
- An obligation on TSOs to issue a yearly report to regulators and the market on the application of the rule, with extensive details on the reasons leading to its suspension.

Finally, we disagree with the possibility that ACER wishes to include that individual TSOs can deviate from the common transparency requirements based on national legislative requirements. This argument was used by some of the CWE TSOs to resist transparency publication in CWE flow-based coupling, to be ultimately rejected by their NRA(s) but after far too long a time. Granting TSOs the benefit of this clause from the start inverses the burden of proof and forces market participants to challenge their non-transparent behaviour. TSOs are subject to the Transparency Regulation, and have to submit all “price sensitive data” according to it. According to European case law, this takes precedent over national legislation barring TSOs to do so. Should legal interpretations in some Member States differ, it should be up to the TSOs to bring the matter to their NRA and request the non-publication, not the other way around.

#### *11. Open comments on the implementation timeline*

We agree with the Agency’s proposal to have a firm implementation timeline in the CCM, i.e. by 1 January 2020 at the latest.

#### *12. Final open comments (“any other issue”)*

No further comments.