

SWE TSOs consultation on a proposal for a common long-term capacity calculation methodology



EFET response – 15 April 2019

The European Federation of Energy Traders (EFET) welcomes the opportunity to provide comments on the draft methodology for long-term capacity calculation (LT CC) proposed by the TSOs of the South West Europe capacity calculation region (SWE CCR).

Forward capacity calculation and allocation is critical to allow market participants to hedge their long-term positions across borders and make sure that they are not exposed to short-term price volatility and imbalance costs. Hence, it is crucial that the calculation methodology for the forward timeframe is robust. As we see it for the moment, the draft proposal should be more detailed in the description of capacity calculation methodology. It should also avoid reproducing some of the inconsistencies with existing regulation already observed in the day-ahead and intraday CCMs for the region.

Comments on individual articles

- **Article 3:** *This proposal applies solely to the LT common capacity calculation methodology based on the coordinated net transmission capacity approach within the South West Europe Capacity Calculation Region.*

We note and approve the choice of SWE TSOs to adopt a CNTC methodology rather than a flow-based methodology for long-term capacity calculation. We have repeatedly mentioned during the drafting of the FCA Guideline that we do not believe a flow-based calculation methodology would make sense for the forward timeframe.

- **Article 4:** *For the long-term time frames, values for cross-zonal capacity for each forward capacity allocation and at least on annual and monthly time frames shall be calculated using the LT coordinated capacity calculation methodology.*

We understand from the text of article 4 that capacities will be calculated on a yearly basis, and then recalculated again every month.

We will share our thoughts as to the repartition of capacity allocated at different moments within the forward timeframe in our response to the consultation on a methodology for long-term capacity splitting.

- **Article 5.2:** *As defined in Article 11 of FCA, the reliability margin mentioned above shall be in line with Article 22 of Regulation (EU) 2015/1222 and based on the analysis of the following data: 1. unintended deviations of physical electricity flows within a market time unit caused by the adjustment of electricity flows within and between control areas, to maintain a constant frequency; 2. uncertainties which could affect capacity calculation and which could occur between SWE capacity calculation for day-ahead and real time, for the market time unit being considered.*

On a general note, we observe that, so far, the SWE long-term CCM is the only CCM proposed by the TSOs that foresees reliability margins. All other long-term CCMs already on the table (Ireland-UK, Nordic and GRIT) foresee a TRM at 0. We would welcome further justification by the TSOs of the rather significant TRM that would be applied at the SWE borders for the forward timeframe.

This being said, we appreciate that the SWE TSOs respect their obligations with regard to the FCA Guideline and align the method for the determination of the TRM for forward capacity calculation to that of day-ahead capacity calculation (as mentioned in article 5.1). However, we still harbour concerns with the DA TRM determination, which are carried over in the forward timeframe.

The TRM would be calculated as the highest value between unintended deviations and uncertainties between the DA forecasts and real time. We have a few questions in that regard:

- First, concerning the uncertainties, it is not quite clear whether the use in the methodology of a reference to day-ahead forecasts is a mistake or not. If so, article 5.2.2 should be changed to: *“uncertainties which could affect capacity calculation and which could occur between SWE long-term capacity calculation and real time, for the market time unit being considered.”* or *“uncertainties which could affect capacity calculation and which could occur between SWE long-term capacity calculation and day-ahead capacity calculation, for the market time unit being considered.”* If

this is not a mistake, we would like the TSOs to clarify why uncertainties between DA and real time would determine the forward TRM.

- Second, the methodology itself does not detail for which lines uncertainties will be considered. In the (non-binding) explanatory note, the TSOs mention that “uncertainties will be evaluated from the impact on **most relevant** CNE elements on the interconnection”, those being “typically tie-lines and the nearest internal lines”. This is far from precise enough. See our comments on article 6.1 for more details on the CNE selection.
 - Finally, the explanatory note details that the uncertainties would be determined based on predefined thresholds of TTC (10% at the ES-PT border, 7,5% at the ES-FR border). Not only is this approach not detailed in the methodology itself, but we also consider it not properly justified: the application of any generic threshold is unacceptable unless such threshold is justified based on assessment of economic efficiency. The two lines provided in the explanatory document do not satisfy this requirement.
- **Article 6.1:** *The TSOs of SWE Region shall use, for the long-term capacity calculation, the same methodologies for operational security limits and contingencies used in the SWE capacity calculation methodology for day-ahead.*

Once again, we appreciate that the SWE TSOs respect their obligations with regard to the FCA Guideline and align the method for the determination of operational security limits and contingencies for forward capacity calculation to that of day-ahead capacity calculation. However, since the SWE CCM for day-ahead misses key elements in the determination of operational security limits and contingencies, these errors are reproduced for forward capacity calculation.

Most notably, there is no explicit and detailed methodology for the selection of CNEs. The SWE DA CCM and the explanatory note for the SWE forward CCM mention that CNEs are network elements that are significantly impacted by cross-zonal trades. However, they do not give any indication of what “significant” means. The SWE DA CCM simply states that TSOs shall select critical network elements. So instead of describing a methodology it only gives the right to TSOs to select CNEs – and not even in a coordinated manner. This flaw in the SWE DA CCM is reproduced in the SWE forward CCM.

Further, we also understand from article 6.1 that a sensitivity threshold of 5% will be applied for the monitoring of CNEs. We deplore this approach, as the application of any threshold, and in particular a generic threshold for all possible CNEC, is not acceptable unless such threshold is justified based on assessment of economic efficiency. Such justification is missing.

- **Articles 7.1:** *The TSOs of SWE Region shall define the generation shift keys methodology in accordance with Article 13 of FCA Regulation.*

Article 7 does not provide a harmonised methodology for GSKs. Should TSOs think that local specificities prevent harmonisation of principles and methodologies, these specificities should be clearly explained.

- **Article 7.2, 7.3 and 7.4:** *TSOs' forecasts of "market behaviour".*

We strongly oppose TSOs starting to forecast "market behaviour". We believe that it is not their role and that this endangers the principle of unbundling. Forward capacity calculation should solely be based on technical requirements. The behaviour of market participants should not influence in any way the quantity of forward capacity calculated and allocated, as it has no relevance to the operational security limits and contingencies at the moment of allocation.

We request replacing the terms "best forecast of market behaviour" by "forecast of load and generation profiles" in articles 7.2, 7.3 and 7.4.

- **Article 8.9:** *Each TSO of the SWE Region may decide, based on regulation, to make available costly remedial actions. Where a costly remedial action is used in the capacity calculation process, it shall be performed in accordance with the provisions of the methodology for coordinated redispatching and countertrading with cross-border relevance as defined in Article 35 of Regulation (EU) 2015/1222. It shall also be applied only when economically relevant at Union level.*

We believe that costly remedial actions should be systematically considered in the capacity calculation, to the same extent that they are considered in coordinated security assessment. Where economically efficient, costly remedial actions should be taken in order to allocate the maximum of cross-zonal capacity to the market. Congestion "rents" and redispatch "costs" are both financial redistributions elements that should be considered on an equal footing in order to optimise regional welfare.

We fail to understand why costly remedial actions, such re-dispatching and countertrading, need to be economically relevant at Union level and not at CCR level as this methodology only applies to the SWE region. We understand that certain redispatch or countertrading actions may affect other CCRs, but as capacity calculation and remedial actions are only coordinated at CCR level, it seems unpractical to assess the economic relevance of remedial actions at EU level.

- **Article 9.5:** *In accordance with Article 15 of FCA regulation and the referred Article 26 (5) of CACM regulation, the coordinated capacity calculator shall, every three months, report all reductions made during the validation of cross-zonal capacity to all regulatory authorities of the SWE region. [...]*

We would recommend making available the report for all reductions made during the validation of cross-zonal capacity to the public as well, for transparency reasons.

- **Article 10:** *Long-term capacity calculation.*

Article 10 is supposed to detail the capacity calculation methodology for the forward timeframe but the article is rather a description of the process that follows the capacity calculation. The binding proposal should describe the capacity calculation methodology in detail. The articles notably fail to provide any of the details requested by article 21.1.b of the CACM Guideline referred to in article 10.3 of the FCA Guideline, including:

- (i) a mathematical description of the applied capacity calculation approach with different capacity calculation inputs;
- (ii) rules for avoiding undue discrimination between internal and cross-zonal exchanges to ensure compliance with point 1.7 of Annex I to Regulation (EC) No 714/2009;
- (iii) rules for taking into account, where appropriate, previously allocated cross-zonal capacity;
- (iv) rules on the adjustment of power flows on critical network elements or of cross-zonal capacity due to remedial actions in accordance with Article 25 CACM;
- [...]
- (vi) for the coordinated net transmission capacity approach, the rules for calculating cross-zonal capacity, including the rules for efficiently sharing the power flow capabilities of critical network elements among different bidding zone borders;
- (vii) where the power flows on critical network elements are influenced by cross-zonal power exchanges in different capacity calculation regions, the rules for sharing the power flow capabilities of critical network elements among different capacity calculation regions in order to accommodate these flows.

Besides including all these elements in the methodology itself, we believe that the TSOs should maintain online a documentation describing the applied capacity calculation methodology, including full details on how all parameters of the capacity calculation methodology are set. This includes providing information on:

- The Common Grid Model used for capacity calculation (including expected flows on all CNEs);
- The full list of non-anonymous Critical Network Elements (or elements likely to limit cross-zonal capacities in case of CNTC) to be considered in capacity calculation;
- Operational Security Limits and Reliability Margins on all CNEs;
- PTDF or extent to which cross-zonal flows affect the CNE for CNTC;
- Full transparency on the GSK methodologies. We are opposed to vague elements such as “generic” GSK. A fully transparent and prescriptive methodology should be adopted. In addition, operational transparency on GSKs, i.e. the value per node and per hour.

The binding documents shall also mention that outages of all significant CNE should be published in a timely and usable manner on ENTSO-E Transparency platform, and that failure to do so shall be considered as a breach to the TSOs’ transparency obligations.

As soon as the capacity is validated for a bidding zone border, the total CNTC should be disclosed so that market participants can take updated values into account. The CACM and FCA Guidelines indeed foresee that “information on available capacity should be updated in a timely manner based on latest information”.

Should there be any national legal barriers to the disclosure of these elements, we urge NRAs to assess and report on them and to identify possible ways to overcome them.

On an editorial note, we suggest the deletion of the word “with” in article 10.8 to make sure the sentence is fully understandable (change to: “*The coordinated capacity calculator of the SWE Region shall provide the validated NTCs after application of the reliability margin defined in accordance with Article 5 for each bidding-zone border of SWE Region*”).

- **Article 12.2:** *The TSOs of SWE Region shall implement the long-term CCC methodology Proposal no later than Q2 2021.*

We are glad to see a deadline set for the implementation of the forward CCM, but we see the deadline rather far away in time. A deadline for implementation could be set and applied earlier.