

SEE TSOs consultation on a long-term capacity calculation methodology



EFET response – 2 September 2019

The European Federation of Energy Traders (EFET) welcomes the opportunity to provide comments on the draft methodology for long-term capacity calculation (LTCC) proposed by the TSOs of the SEE capacity calculation region (SEE CCR).

As previously mentioned, notably in our responses to other CCRs' forward capacity calculation methodology proposal¹, 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 does not show a clear commitment to the first objective listed in article 3 of the Forward Capacity Allocation (FCA) Regulation, i.e. *“promoting effective long-term cross-zonal trade with long-term cross-zonal hedging opportunities for market participants”*.

Very importantly, there is no article in the methodology to determine the common list of remedial actions, as requested in article 14 of the FCA Regulation. This leaves entire room to TSOs to define the set of available RAs in their control areas, and does not mandate the consideration of costly remedial actions. We believe that costly remedial actions should be systematically considered in the capacity calculation, to the same extent that they are considered in the 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.

¹ EFET responses to the SWE, Hansa and CORE TSOs consultations on a proposal for a common long-term capacity calculation methodology, respectively dated 15 April, 15 May 2019 and 10 July, and available at: https://efet.org/Files/Documents/Downloads/EFET_ENTSO-E%20consult%20SWE%20LTCC_15042019.pdf, https://efet.org/Files/Documents/Downloads/EFET_Hansa_CCM_15052019_final.pdf and https://efet.org/Files/Documents/Downloads/EFET-MPP_TSOs%20consult%20CORE%20LTCC_10072019-2.pdf.

There is also a lack of detail on the selection of CNE(C)s, given the absence of publication of the DA/ID CCM for the SEE region, to which the document under consultation refers on this matter.

You will find below our detailed comments on individual articles of the draft methodology.

Comments on individual articles:

- **Article 5.2:** *The SEE CCR TSOs, for LT CC shall consider to use the same reliability margin from the day-ahead time- frame as described at the SEE CCR TSO's proposal for the common capacity calculation methodology for the day ahead and intraday timeframe.*

We understand that the proposal is to use the same reliability margins for the day-ahead and forward timeframe. According to article 22.2 of the CACM Regulation, referred to in article 11 of the FCA Regulation, “The methodology to determine the reliability margin shall set out the principles for calculating the probability distribution of the deviations between the expected power flows at the time of the capacity calculation and realised power flows in real time.” This means that reliability margins serve to cover uncertainty between the time of calculation and the time of delivery. Hence, using the *same methodology* to determine reliability margins in DA and forward would be welcome, using the *same exact margins* does not seem appropriate: a specific calculation should be performed for each timeframe. Besides, the wording of the article “shall consider to use” is particularly unbinding for the TSOs, and does not provide the market any certainty as to which methodology will actually be used to determine the RM. We request more clarity from the TSOs on this point.

- **Article 6.3:** *The methodology to select the monitored elements is the same with the one that is used in the SEE CCR TSO's proposal for the common capacity calculation methodology for the day ahead and intraday timeframe in line with article 21(1)(b)(ii) of Regulation (EU) 2015/1222 since it is an objective way to use in the capacity calculation only monitored elements inside bidding zones that are significantly taking part in the cross-zonal exchange. In this way cross-zonal and internal exchanges are treated on the same level of importance, avoiding undue discrimination of one over the other.*

Article 6.3 refers to the SEE DA/ID CCM for the selection of CNE(C)s. Considering that the final approval of the SEE CCM was not published on the ACER or ENTSO-E websites, we can only judge the content of the CNE(C) selection provision in the SEE DA/ID CCM from the final submission of the TSOs to the regulators. In article 7 of that document, it is very unclear whether or not the selection of CNE(C)s is coordinated at CCR level and monitored jointly by all the CCR NRAs. If not, then the selection of

CNE(C)s (in the forward, day-ahead and intraday timeframes) remains a prerogative of each TSO of the region, which would leave too much room for divergent approaches between the TSOs of the region, without oversight of the NRAs. The list of CNE(C)s should be systematically approved by all SEE TSOs and all SEE NRAs, not just updated unilaterally by single TSOs, as laid out in the final submission of the DA/ID CCM. The review of CNE(C)s should also happen at regular and foreseen intervals rather than ad-hoc and possibly every month.

- **Article 7:** *Generation shift keys*

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, in a much clearer way than in paragraphs 5, 6 and 7.

- **Article 8.3:** *Each SEE TSO can update the year-ahead reference scenarios for the monthly capacity calculation, in which the CCC shall incorporate the latest available information as regard to the generation pattern and topology (due to grid element commissioning or decommissioning)*

We think the scenarios to be used in the common grid model for the monthly capacity calculation should always be updated, in order to reflect the latest changes in market fundamentals and topology, and hence improve the efficiency of monthly capacity calculation. The current wording of the article makes this update optional for the TSOs.

- **Article 10.7:** *The splitting factor used for year-ahead and month-ahead capacity calculation in the year Y will be based on the NTC values from the last two years. This approach is based on the Article 3(h) of the CACM Regulation that contributes to the objective of respecting the need for a fair and orderly market and price formation and ensures a fair distribution of costs and benefits between the involved TSOs. Moreover the approach is in line with the distribution of the congestion income (as defined in the Article 73 of CACM Regulation and Article 57 of FCA Regulation) collected by the TSOs, and thus do not alter the signals for investments to TSOs given by the congestion income. The splitting factors used at the NTC computation will comply with the security operation in accordance with Article 3(c) of the CACM Regulation, will not alter the signals for investments to TSOs given by the congestion income and allow reasonable financial planning according with Article 73 of the CACM Regulation.*

The TSOs of the SEE region intend to use splitting factors as elements of the capacity calculation process. If our understanding is correct, these splitting factors make the volume of capacity allocated at the borders of the region dependent on the level of capacity on local networks.

We remind the TSOs that article 16 of Regulation 714/2009 prohibits any discrimination of cross-border transactions compared to transactions internal to a bidding zone². This principle has been taken over in the recast Regulation 2019/943, due to enter into force on 1 January 2020³. We see a risk that the proposed method of calculation, including a splitting factor based on internal transactions within bidding zones in the regions (paragraphs 7 to 11 of article 10), leads to a discriminatory treatment of cross-border transactions. We would welcome clarification from the TSOs in that regard.

In addition, the use of CNE(C)s in the proposed calculation methodology to compute capacity means that congestions on transmission lines in the region, including within bidding zones, will already have an effect on the results of the calculation process. Hence, it seems to us that the effect of internal congestions may be counted twice in the process, via the CNE(C)s and via the splitting factor. Once again we request clarification by the TSOs on this matter.

- **Article 17.3:** *The CCC, with the support of SEE CCR TSOs where relevant, shall draft and publish an annual report and a quarterly report satisfying the reporting obligations set in this methodology.*

We would recommend making clear that the report be made available to the public as well (i.e. not just the NRAs), for transparency reasons.

² Art. 16.1 of Regulation 714/2009: “Network congestion problems shall be addressed with non-discriminatory market-based solutions which give efficient economic signals to the market participants and transmission system operators involved. Network congestion problems shall preferentially be solved with non-transaction based methods, i.e. methods that do not involve a selection between the contracts of individual market participants.”

³ Art. 16.1 of Regulation 2019/943: “Network congestion problems shall be addressed with non-discriminatory market-based solutions which give efficient economic signals to the market participants and transmission system operators involved. Network congestion problems shall be solved by means of non-transaction-based methods, namely methods that do not involve a selection between the contracts of individual market participants. [...]”