

ACER consultation on the definition of capacity calculation regions

EFET response – 20 July 2016

Introduction

The European Federation of Energy Traders (EFET¹) welcomes the opportunity provided by ACER to comment on the TSOs' final proposal for Capacity Calculation Regions (CCRs), following the European regulators' failure to come to an agreement on this document.

We note that despite differences in viewpoints regarding CCRs, TSOs did manage to come up with a consensus proposal in the summer of 2015 thanks to the skilful steering of discussions by ENTSO-E. We are disappointed that national regulators have failed to reach the same sort of consensus, with the result that implementation of a key element of the Capacity Allocation and Congestion Management Guideline (CACM GL, EU Regulation 2015/1222) is delayed. We deplore the lack of competence invested in ACER to intervene, in order to overcome the disagreement among national regulators. We also deplore the delay. This blockage in finalising CCRs illustrates the pressing need to invest institutional responsibility for drafting and approving the "all TSOs/all NRAs" methodologies foreseen in the CACM GL directly in ENTSO-E and ACER. In spite of the need to improve and streamline the decision-making processes inside both organisations, such a reform should avoid delays such as the one we are unnecessarily incurring at the moment.

On the subject of CCRs, EFET expects that the benefit from increased coordination will lead over time to more capacity available to the market and thus to a deeper integration of the European energy markets. We note that the TSOs proposal lacks a thorough impact assessment of the proposed delineation of CCRs, as well as an analysis of possible alternatives. While we are aware that time was pressing to designate the CCRs in compliance with the deadline set in the CACM GL, it is difficult for market participants to give an informed view on the TSO proposal. The response provided below reflects the best expectation of EFET and our members as to the impact of the current proposal.

Question 1:

Do you consider both the commitment from the CWE and the CEE TSOs to cooperate towards a merger of the CWE and CEE CCRs and the MoU signed on 3 March 2016 as sufficient to ensure that the CWE and CEE regions will develop and implement a common congestion management procedure compliant with the requirements of the CACM Regulation, as well as of Regulation (EC) No 714/2009? Or should the definition of the CCRs provide for a CCR already merging the proposed CWE and CEE regions to ensure compliance with the required common congestion management procedure?

We note that the final TSOs' proposal for CCRs includes two different regions for Centre West Europe (CWE) and Centre East Europe (CEE). We are aware of the pressure exercised by the

¹ The European Federation of Energy Traders (EFET) promotes and facilitates European energy trading in open, transparent and liquid wholesale markets, unhindered by national borders or other undue obstacles. EFET currently represents more than 100 energy trading companies, active in over 27 European countries. For more information: www.efet.org

European Commission and ACER on the TSOs to merge the two proposed regions into one from the start of the process. Following discussions at Market European Stakeholder Committee (MESOC) meetings and the Florence Forum, the TSOs signed a Memorandum of Understanding (MoU) in February 2016 on the development of a common capacity calculation methodology between the two CCRs and their ultimate merger, which foresees a completion of the process by the first quarter of 2019.

While EFET is keen to speed up the process of market integration in Europe, we are aware of the challenges linked to the integration of these two regions, which are currently at very different stages of market development. The switch to flow-based capacity calculation in the day-ahead timeframe in CWE was a long and sometimes painful process, which we don't consider to be finalised yet (e.g. transparency requirements, intraday capacity calculation). Considering the number and complexity of reforms needed to implement day-ahead flow-based market coupling throughout the CEE region, we do not expect TSOs within the region to implement a new capacity calculation methodology overnight. We do not expect that an early merger of the two CCRs would fundamentally speed up this process. Therefore, provided that the timelines agreed in the MoU are respected, we support the approach of the TSOs in this respect. At the same time, we insist that the timeline to have the two regions coupled using a flow-based method and accordingly merged by Q1 2019 will absolutely have to be respected. We expect NRAs within both CCRs and ACER to follow the progress made towards the development of a common capacity calculation methodology and the merger of the two CCRs very closely, to ensure that the timeline is respected.

Question 2:

Do you have comments on the description of the geographical evolution of the CCRs over time, as proposed by all TSOs in Annex 3 to the Explanatory document to the CCRs Proposal?

Regarding Annexes 1 and 3 of the TSOs explanatory document on bidding zones borders with non - EU Member States and the long-term evolution of proposed CCRs, EFET would like to make a number of points:

- On Annex 1: we take good note of the proposed definition of 11 CCRs in the main body of the TSOs proposal, based on existing bidding zone border interconnection between EU Member States. However, EFET also welcomes the TSOs' considerations in Annex 1 of existing interconnected bidding zones borders between EU Member States and countries not yet subject to the CACM GL. We appreciate that the EU TSOs have collaborated with their non-EU counterparts on Annex 1, beyond the pure legal requirements of the CACM GL. More particularly, we believe that the exclusion of the bidding zones borders between EU Member States and the Swiss or Norwegian bidding zones will be detrimental to the functioning of the relevant CCRs. EFET encourages ACER to include these borders in the main CCRs proposal considering the state of advancement of the wholesale electricity markets in both these countries.

As mentioned in earlier contributions and public statements, EFET is opposed to the CACM GL provisions discriminating against non-EU TSOs and non-EU market participants, which may participate in the European single day-ahead coupling and single intraday coupling. These provisions interfere with EU external energy policy since most non-EU countries which are able to participate to day- ahead and intraday market coupling have already formalised their external energy policy with the EU or are in the process of formalising it. Non-EU TSOs and non-EU market participants should

participate in the single day-ahead coupling and in the single intraday coupling as fast as possible since this would effectively contribute to creating an integrated European electricity market, to enhancing security of supply, and to increasing flexibility within Europe by allowing for cross-border electricity exchange between non-adjacent EU Member States.

EFET calls for a swift adoption of the CACM GL provisions in EEA Member States and a resolution of the political hindrance to the full inclusion of Switzerland in the European electricity market integration projects, including through the integration of their bidding zones borders in the proposed CCRs.

- On Annex 3: we note that the number of CCRs in the proposal is greater than the number of coordinated congestion management regions in Annex 1, point 3.2 of EU Regulation 714/2009. EFET is not opposed to a definition of CCRs that would facilitate the implementation of the CACM GL. However, TSOs must keep in mind the fundamental objective of the CACM GL and EU Regulation 714/2009, i.e. the harmonisation of rules on capacity allocation, congestion management and trade in electricity at European level. To this end, we would have expected Annex 3 to sketch a clearer path towards European harmonisation of capacity calculation methodologies.

Further, we note that the CACM GL does not foresee a review process for the CCRs. It is unclear to us when and on which grounds CCRs may be reviewed and potentially modified. Periodical reviews will help identify the CCRs that can be joined to form a common CCR. The ACER decision could contain suggestion to fill the gap left by the CACM GL on this matter.

We call on ACER to clarify the timeline and triggers for a review and possible re-delineation of CCRs. We suggest a periodical review of the CCRs, every four or five years, accompanied by a full impact assessment of the current situation and of possible changes to the CCRs.

On the specific evolutions mentioned in Annex 3:

- CEE-CWE: please refer to our answer to question 1;
- Channel and Hansa: these two CCRs isolate the interconnectors between continental Europe and the Nordic region / the British Isles. These CCRs seem to have been introduced to facilitate and speed up the adoption of specific methodologies linked to the lack of redundancies of the HVDC cables. It therefore appears to us that such “buffer regions” should be thought of as temporary, and that the number of CCRs should be progressively reduced in the coming years;

EFET calls on ACER to request a precise timeline for the inclusion of the “buffer zones” CCR #2 (Hansa) and #9 (Channel), and to publish an indicative timeline identifying the projected mergers of CCRs in the coming years, according to the available information on the evolution of the various coordination projects ongoing in Europe.

Question 3:

Should the CEE region (or a merged region) include the bidding zone borders between Croatia and Slovenia, between Croatia and Hungary, and between Romania and Hungary?

The status of the Slovenian-Croatian, Croatian-Hungarian and Hungarian- Romanian bidding zones borders seemed rather complex in the initial draft proposal of the TSOs of August 2015. We welcome the clarification of the TSOs of their full inclusion in the CEE region (CCR #6) from the start of the process. This decision especially makes sense in regards to the Hungarian-Romanian border, which links two bidding zones that are part of 4M market coupling.

In addition, we highlight the importance and appropriateness of the Serbian bidding zone to be included as the integral part of CEE. Firstly, it would have a positive impact on overall interconnectivity in the region. Secondly, the Serbian's border capacities (i.e. Serbia – Hungary, Serbia – Romania) are highly traded within CEE capacity market as the country serves as natural transit connecting CEE markets with the rest of Balkan peninsula. Additionally, the inclusion of Serbian market reinforces the HU-RO interconnectivity. Lastly, thanks to the high compatibility of the trading system used by Serbian and neighbouring power exchanges, the integration to the common IT platform shall not represent any technical problems and can be easily achieved.

Question 4:

Should the CEE region (or a merged region) include a bidding zone border between Germany/Luxembourg and Austria?

EFET is conscious of the sensitivity of the question about the possible creation of a new bidding zone border between Austria and Germany/Luxembourg. As mentioned in earlier contributions and public statements, EFET believes that any bidding zones re-delineation should be based on a thorough and forward-looking assessment of both congestion and the market impact of such a decision. That assessment must take, into account effects not only on the day-ahead market but also on the forward market and on retail competition.

The CACM GL foresees in articles 32 to 34 a process for the review of bidding zones delineation, and ENTSO-E and ACER have started a pre-implementation project in that regard. We believe that this process, provided it is conducted in a professional manner, should bring out balanced conclusions as to the necessity and appropriateness of a possible bidding zones re-delineation. This process also has the advantage of allowing in-depth analysis and exchange of views between regulators/ACER, TSOs/ENTSO-E, and market participants, which contributes to the consideration of all viewpoints in the final proposal to be made by ENTSO-E.

As a consequence, we believe ACER would be ill-advised to pre-empt the creation of a bidding zone border between Austria and Germany/Luxembourg in the course of taking a separate decision on the TSOs' proposal on CCRs. We believe that the approach taken by TSOs in their proposal is the right one, i.e. to consider the Austria/Germany/Luxembourg bidding zone as one in the context of the CCR proposal until a final decision is made based on articles 32 to 34 of the CACM GL. If a decision (based on articles 32 to 34 of the CACM GL) was taken to change the delineation of bidding zones in Europe, TSOs would need to consult market parties

on how to treat the resulting new bidding zone borders at that point in time, in line with the amendment process described in Article 9(13) of CACM.

Question 5:

Do you have comments on any other new element or development concerning the CCRs Proposal which occurred after the public consultation held by ENTSO-E from 24 August to 24 September 2015?

EFET would like to raise an additional point that has not been tackled since the TSOs' consultation on their draft CCR proposal: CCRs are defined according to bidding zone borders, while historic coordinated congestion management regions were defined per Member States in Annex 1, point 3.2 of EU Regulation 714/2009. The two concepts are however related, as Art. 15.2.a of the CACM GL provides that the CCR proposal shall take into account the regions specified in Annex 1 of EU Regulation 714/2009. In accordance with the Regulation, a bidding zone border should only belong to one CCR. This also implies that one bidding zone may have borders linked to several CCRs, and consequently may be directly influenced by actions taken in different CCRs. Therefore, coordination between CCRs is important. However, it is unclear at the moment how this coordination will be ensured.

EFET calls on ACER to request TSOs to establish a transparent process for inter-CCR coordination, in accordance with the provisions of the Regulation.

EFET also welcomes the inclusion of Annex 1, tackling the treatment of existing interconnected bidding zones borders between EU Member States and countries not yet subject to the CACM GL. While this annex is not officially part of the approval process requested in the CACM GL, we would like to point out a number of elements: we appreciate that the EU TSOs have collaborated with their non-EU counterparts on Annex 1, beyond the pure legal requirements of the CACM GL. We believe that the non-inclusion of the bidding zones borders between EU Member States and the Swiss or Norwegian bidding zones will be detrimental to the functioning of the relevant CCRs. EFET encourages TSOs to pursue their efforts and facilitate the inclusion of these borders in the proposed CCRs.

As mentioned in earlier contributions and public statements, EFET is opposed to the CACM GL provisions discriminating against non-EU TSOs and non-EU market participants which may participate to the European single day-ahead coupling and single intraday coupling. These provisions interfere with EU external energy policy since most non-EU countries which are able to participate to day-ahead and intraday market coupling have already formalised their external energy policy with the EU or are in the process of formalising it. Non-EU TSOs and non-EU market participants should participate in the single day-ahead coupling and in the single intra-day coupling as soon as possible, since this would effectively contribute to creating an integrated European electricity market, enhancing security of supply and increasing flexibility within Europe and allowing for cross-border electricity exchange between non-adjacent EU Member States.

EFET calls for a swift adoption of the CACM GL provisions in EEA Member States and a resolution of the political hindrance to the full inclusion of Switzerland in the European electricity market integration projects, including through the integration of their bidding zones borders in the proposed CCRs.