

Public consultation on the ENTSO-E proposals for technical specifications for cross-border participation in capacity mechanisms

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Public Consultation ENTSO-E proposals for technical specifications for cross-border participation in capacity mechanisms

This consultation is addressed to all interested stakeholders.

Stakeholders are invited to fill out this online survey by **9 August 2020, 23:59 hrs (CEST)**.

For questions, please contact ACER at: ACER-ELE-2020-014@acer.europa.eu

Consultation objective and background

This consultation aims to gather stakeholder views on the proposed technical specifications for cross-border participation in capacity mechanisms.

On 3 July 2020, the European Network of Transmission System Operators for Electricity (ENTSO-E) submitted to ACER their proposals for technical specifications for cross-border participation in capacity mechanisms pursuant to Article 26(11) of Regulation (EU) 2019/943, and consisting of:

- a methodology for calculating the maximum entry capacity for cross-border participation;
- a methodology for sharing the revenues;
- common rules for the carrying out of availability checks;
- common rules for determining when a non-availability payment is due;
- terms of operation of the ENTSO-E registry; and
- common rules for identifying capacity eligible to participate in the capacity mechanism.

According to Article 26(11), ACER shall approve these proposals based on the procedure set out in Article 27 of Regulation (EU) 2019/943, amending them where required. In order to inform its assessment and if required, identify areas for amendment, ACER invites all interested third parties to submit their views on the proposals by responding to this online survey during a consultation period of 4 weeks.

Following this consultation, ACER will consider stakeholder feedback and expects to take a decision on the proposals, including potential amendments, within the next three months as required by Article 27 of Regulation (EU) 2019/943, i.e. by 5 October 2020.

Related documents

- ENTSO-E, Cross-border participation in capacity mechanisms: Proposed methodologies, common rules and terms of operation in accordance with Article 26 of the Regulation (EU) 2019/943 of the

European Parliament and of the Council of 5 June 2019 on the internal market for electricity (recast), version of 3 July 2020

(https://www.acer.europa.eu/Official_documents/Public_consultations/PC_2020_E_12/200703%20Single%20document%20for%20XB%20CM%20methodologies.pdf)

- ENTSO-E proposed methodologies, common rules and terms of reference related to cross-border participation in capacity mechanisms: Explanatory document, version of 3 July 2020 (https://www.acer.europa.eu/Official_documents/Public_consultations/PC_2020_E_12/200703%20Explanatory%20document%20for%20XB%20CM%20methodologies.pdf)
- ENTSO-E, Public consultation on draft methodologies and common rules for cross-border participation in capacity mechanisms: Response to public consultation comments received during the consultation held from 31 January to 13 March 2020, version of 3 July 2020 (https://www.acer.europa.eu/Official_documents/Public_consultations/PC_2020_E_12/200703%20Response%20to%20public%20consultation%20on%20XB%20CM%20methodologies.pdf)
- Regulation (EU) 2019/942 of the European Parliament and of the Council of 5 June 2019 establishing a European Union Agency for the Cooperation of Energy Regulators (recast) (<https://eur-lex.europa.eu/legal-content/EN/ALL/?uri=CELEX%3A32019R0942>)
- Regulation (EU) 2019/943 of the European Parliament and of the Council of 5 June 2019 on the internal market for electricity (recast) (<https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32019R0943>)
- ACER Guidance Note on Consultations (https://www.acer.europa.eu/Official_documents/Other%20documents/Guidance%20Note%20on%20Consultations%20by%20ACER.pdf)
- ACER Rules of Procedure (AB Decision No 19/2019) (https://www.acer.europa.eu/en/The_agency/Organisation/Administrative_Board/Administrative%20Board%20Decision/Decision%20No%2019%20-%202019%20-%20Rules%20of%20Procedure%20of%20the%20Agency.pdf)

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Privacy and confidentiality

ACER will publish all non-confidential responses, including the names of the respondents, unless they should be considered as confidential, and it will process personal data of the respondents in accordance with Regulation (EU) 2018/1725 (<https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32018R1725>) of 23 October 2018 on the protection of natural persons with regard to the processing of personal data by the Union institutions, bodies, offices and agencies and on the free movement of such data, taking into account that this processing is necessary for performing ACER's consultation task. For more details on how the contributions and the personal data of the respondents will be dealt with, please see ACER's Guidance Note on Consultations (https://www.acer.europa.eu/Official_documents/Other%20documents/Guidance%20Note%20on%20Consultations%20by%20ACER.pdf) and the specific privacy statement attached to this consultation.

Article 7(4) of ACER's Rules of Procedure (RoP) (<https://s-intranet/Drive/Departments/Electricity/ED%20Deliverables/Decision%20No%2019%20-%202019%20-%20Rules%20of%20Procedure%20of%20the%20Agency.pdf#search=rules%20of%20procedures>) requires that a party participating in an ACER public consultation explicitly indicates whether its submission contains confidential information.

* Is your submission to this consultation confidential?

- YES
 NO

Consultation questions

ACER seeks the opinion of stakeholders with respect to the following elements of the ENTSO-E proposal.

Methodology for calculating the maximum entry capacity

1. Do you agree with the proposed methodology for calculating the maximum entry capacity for cross-border participation? If not, please explain which elements of the methodology should be changed or otherwise improved.

We welcome the improvements made regarding the calculation of hourly contributions and the resulting maximum entry contribution (MEC), as well as the alignment of definitions of ENS and scarcity hours. In this sense, the description and examples made in the ENTSOE's explanatory note are very useful. However, it is important to consider the following issues:

- ENTSOE proposes an ERAA methodology based on a capacity expansion model, which simulates the market agents' decisions in terms of building / maintaining / mothballing / decommissioning generation capacity, while assumes the interconnection capacity in the last TYNDP available.
- The simulation of the market agents' decisions is in turn based on a stochastic energy market simulation, for which the day-ahead price coupling algorithm is considered, including its "curtailment sharing rule" - i.e. how curtailments are shared between both sides of an interconnection when there is a simultaneous stress situation (when the price in both markets reaches the harmonised day-ahead cap).
- Finally, the estimation of the MEC is based on the probability distribution of the hourly contributions observed in the ERAA's energy market simulation.

We explain below our remaining concerns on both methodologies (i.e. ERAA and MEC) that impede a robust and realistic approach. Although we acknowledge that this consultation is referred to the MEC, given its dependence on the ERAA's energy market simulation it is necessary to tackle also the ERAA methodology. Regarding the ERAA:

- The ENTSOE's proposed methodology would unveil adequacy concerns depending basically on the explicit assumptions made regarding the existence of market failures and/or externalities. Otherwise, if no failure and/or externality is assumed, the simulation would correspond to the perfect energy-only market paradigm, automatically leading to identifying no adequacy concern. Hence, the value of a methodology with such a "circularity problem" is more than questionable.
- As an alternative, we propose to (a) consider as the baseline the data provided by each TSO and based on the existing resources in the system (adjusted by announced decommissions, end of lifespan and capacities already under construction), and (b) perform a mandatory sensitivity analysis of economic viability of those resources (i.e. no new capacity to be incorporated by the model). Thus, the model would disclose the likelihood of a lack of adequacy also in the form of a "capacity/resource gap" with respect to the existing resources. Regarding the estimation of the MEC:

- The estimation of the MEC would be based on the probability distribution of the hourly contributions resulting from the energy market simulation. Therefore, it is key to simulate those contributions as realistically as possible, especially when facing a simultaneous stress situation and with regard to the actual (real-time) cross-border exchanges.

- To this end, the energy market simulation must keep to the provisions in Article 10 Regulation 2019/943:

- "There shall be neither a maximum nor a minimum limit to the wholesale electricity price"

- "Those limits shall be sufficiently high so as not to unnecessarily restrict trade, shall be harmonised for the internal market and shall take into account the maximum value of lost load"

- "NEMOs shall implement a transparent mechanism to adjust automatically the technical bidding limits in due time in the event that the set limits are expected to be reached".

- Therefore, the conditions for a realistic estimation of the cross-border contributions would include:

- a) The demand curve considered for each bidding zone must faithfully reflect the value that consumers give to the power supply, including the VoLL of

the most inelastic consumers (or equivalent parameter if the VoLL is not available). Price taking orders / demands should in any case have a bid price associated.

b) If a harmonised maximum clearing price is considered in the energy market simulation (as it is the case with the day-ahead coupling according to Article 10 Regulation 2019/943), then:

- it should not be lower than the maximum VoLL among all of the bidding zones for the purpose of the simulation; or
- an ex-ante automatic adjustment is introduced as part of the simulation, so the maximum clearing price is indeed never reached.

- It is important to note that the current harmonised maximum clearing price applied to day-ahead across Europe is significantly lower than the VoLL of most MS. Therefore, its application in the energy market simulation, if not accompanied by the ex-ante automatic adjustment previously mentioned, would lead to a significant distortion in the estimation of the MEC. This would result in an overestimation of the expected cross-border contribution / MEC and, thus, and in an underestimation of a potential adequacy concern. Example: country A with an energy-only market and a high VoLL, while country B with a capacity mechanism and a lower VoLL.

2. Should the methodology allow for calculating capacity contributions from Member States with no direct network connection with the Member State applying the capacity mechanism?

We propose to keep the current scope of the methodology because it is already a challenge to establish a robust and realistic approach as we explained in question 1. Therefore, ACER should counterbalance cost and benefits of expanding the methodology in this context.

Anyway, if capacity contributions with no direct network connection are included, a consistent scheme of consecutive derating factors of maximum entry of capacity has to be retained in the methodology. Otherwise the calculations could lead to worrying distortions.

Example in a NTC context when country A having a CRM is directly connected with country B, and country C is directly connected with country B: maximum entry of cross-border capacity from C to A is the result of maximum entry of cross-border capacity from C to B multiplied by maximum entry of cross-border capacity from B to A.

Methodology for sharing the revenues from the allocation of entry capacity

3. Do you agree with the proposed methodology for sharing the revenues from allocating entry capacity? If not, please explain which elements of the methodology should be changed or otherwise improved.

A lack of collaboration or agreement between neighbouring TSOs should not be a barrier for the swift implementation of direct cross-border participation. For example, with regard to the costs incurred in cross-border participation according to Article 3. In this respect, it would be necessary to consider in the methodology a dispute settlement mechanism ruled and administered by ACER. Such mechanism would be automatically initiated when collaboration / agreement between TSOs is not achieved within a certain ambitious timeframe or when called by any of the TSOs or NRAs involved.

Common rules for the carrying out of availability checks

4. Do you agree with the proposed common rules for the carrying out of availability checks? If not, please explain which elements of the proposed rules should be changed or otherwise improved.

We generally agree with the proposal. Please find below some technical comments:

- Article 16(2) (a) should refer to the Reference Period. Article 17(2) should be completed with information about Reference Periods.
- Article 18(2) should also refer to interferences in the different market timeframes.
- Situations described in Art. 18(5) (a) & (b) should be understood as exclusive situations.
- Regarding Article 18(6), section 6.2 of the explanatory note states that "there can be different contract obligations (e.g. obligation on offer vs on energy delivery) depending on different electricity markets architecture (e.g. unit bidding allows the TSO to know offers in the energy and balancing market for each unit, while where portfolio bidding is applied TSOs do not have access to these data)". We do not agree with this statement, because it is always possible for a TSO to verify availability of CMU by other means than unit bidding.

Common rules for determining when a non-availability payment is due

5. Do you agree with the proposed common rules for determining when a non-availability payment is due? If not, please explain which elements of the proposed rules should be changed or otherwise improved.

We generally agree with the proposal. Please find below some technical comments:

- Article 23 should refer to Delivery Period although availability checks are done in the Reference Periods. Moreover, Overlapping Delivery Periods should be defined in Article 2 as referred in Article 23(4).
- Article 23(5) should be reformulated and clarified both in the wording of the methodology and the explanatory note.
- We think Article 23(6) refers to Article 27 of the Regulation 2019/943 in a partial way, because Article 27 should be applied pursuant Article 26(11) of Regulation 2019/943. Any approved change shall foresee no retroactive application for contracted capacities, irrespective of the length of the Delivery Period engaged.
- Article 24(2) seems not compatible with Article 18(5) (b). No penalties to the CMU shall be applied in case of exogenous reasons preventing the participation of the CMU in the market.

Terms of the operation of the ENTSO-E registry

6. Do you agree with the proposed terms of the operation of the ENTSO-E registry? If not, please explain which elements of the proposed terms should be changed or otherwise improved.

We generally agree with the proposal. Please find below some technical comments:

- Article 27 should include data of the capacity provider, apart from data related to the CMU.
- Article 27(4) shall be completed as follows: "after notification of the capacity provider concerned, without prejudice of Article 28(10)."

Common rules for identifying capacity eligible to participate in the capacity mechanism

7. Do you agree with the proposed common rules for identifying capacity eligible to participate in the capacity mechanism? If not, please explain which elements of the proposed rules should be changed or otherwise improved.

We generally agree with the proposal. Please find below some technical comments:

- The conditions set up in Article 29(6) and 29(7) for CMUs must not prevail neither condition the national arrangements to participate in the electricity markets (energy, balancing and/or ancillary services).
- Article 30 should reflect achievement of steps "without undue delay".
- Regarding data listed in Article 31(1): EIC must be required to the capacity provider too and data like technology type and fuel should refer to Regulation 543/2013 and reuse as much as possible the information available in the Transparency Platform.
- Article 31(5) shall specify who holds the responsibility.
- Article 31(6) shall specify "new foreign capacity contracts".

General provisions and other comments

8. Do you agree with the general provisions of the ENTSO-E proposals (Title 1)? If not, please specify which provisions should be changed or otherwise improved, and explain why.

We think the definition of "Capacity Mechanism Contract" in Article 2(e) should refer to the Delivery Period instead of Reference Period, in the same manner the definitions of "activation" and "Non-availability volume" do, and in contrast to the availability checks in Reference Periods (defined as the Delivery Period or a subset of the time period of the Delivery Period

9. Do you have any other comments on the ENTSO-E proposals that we should take into account in our assessment?

- We remind that the TYNDP was put forward as the basis for the grid modelling, which does not seem to correspond to the "real network development" as stated in Article 23(5) (1) of Regulation 2019/943. Therefore, grid development targets cannot be considered in both methodologies (ERAA and cross-border contribution). Alternatively, it shall be taken into account only the existing grid plus projects already in the commissioning phase.
- We think the revenues of the TSOs coming from the cross-border participation in capacity mechanisms should be allocated according to Article 19 Regulation 2019/943, with first priority being "guaranteeing the actual availability of the allocated capacity including firmness compensation". We do not support the proposal of ENTSO-E of giving priority to the interconnection expansion (i.e. Article 19(2)) and not necessarily linked with the one producing those revenues. It should be a decision of the relevant NRA with ACER support and after public consultation.
- We would like ACER to clarify if a foreign capacity provider with CMU in country B participating in the CRM of country A has the right to declare access to secondary market of the capacity mechanism and can trade with capacity contracts in force for the same Delivery Period (or a portion of it), being located in country A, B or even a country C where a foreign capacity provider is also participating in the CRM of country A. Although out of the scope of this proposal, we would like to highlight this aspect guaranteeing equivalent opportunities of every capacity provider in a particular capacity mechanism.

Contact

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