

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 agree with the broad objectives of the methodology, however it is still at a very high level and is very procedural. The methodology as codified states that the model used by the European Resource Adequacy Assessment (ERAA) will be the basis for determining the expected contribution across interconnections between Member States (Article 10). This will be calculated for every half hour for which the Energy Not Served in the country which hosts a Capacity Market is non-zero (Article 8 (flow based) or Article 9 (NTC)). These results are then averaged (Article 7) to give the MEC.

There is then an additional calculation in Article 11 stipulating how a bilateral scarcity ratio is calculated. This is then used solely as part of the revenue sharing calculation in Section 2 of the document (Articles 12 to 14 inclusive).

Ultimately the complexities of modelling derating factors will then largely stem from the approved models of the ERAA and the assumptions and scenarios that are entered into it. We note however that even then there are a number of exceptions to this rule whereby TSOs may deviate from this approach. These are set down in Articles 10(7), 10(8) and 10(9). There is little clarity about when such scenarios may arise and what impact this might have on the final MEC value calculated or indeed whether there are any constraints within which TSOs must act should they determine that one of these exceptions apply.

Conclusion

We would recommend that the MEC methodology is amended to provide greater certainty and clarity around the process to be followed each year when calculating MEC. This might set out the timetable, it may set out broad constraints on how the MEC is calculated regarding the use of the ERAA model and the input variables into the ERAA model. We also recommend further clauses to provide greater industry engagement and oversight of these calculations.

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 have no comment on this section

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.

DUE TO 5000 CHARACTER LIMIT OUR RESPONSE TO Q3 IS IN 3 PARTS ACROSS THIS SECTION AND THE REPLIES TO Q8 AND Q9

We consider that the methodology for sharing congestion revenues from the CMs fails to respect the principles established in the Electricity Regulation 943/19. There are several elements that raise concerns and that need to be considered by ACER and the NRAs when defining a fair system to reward interconnectors for the service they provide as facilitators of cross border participation in the CMs.

In our view these are the general principles that should define any sharing of revenues from capacity markets:

1) A fair reward system for foreign capacity and physical cross border infrastructure

Any methodology related to cross border providers participating in CMs, including the one on revenue sharing, should aim at maximising cross border participation, if this results in better security of supply and lower costs to consumers.

Cross border participation in CMs goes hand in hand with physical infrastructure between the two markets that are implementing the CM. For instance, foreign generators cannot participate in a local capacity market if there are no interconnectors connecting those markets. The other way around is also true, without foreign available capacity, interconnectors cannot contribute to the local capacity market. There is therefore a need to acknowledge the contribution of both foreign capacity and interconnectors to the total capacity saving across Europe.

The contribution of interconnectors to the overall capacity saving and security of supply will be established by the ENTSOE methodology on the sharing of revenues. It is critical that the methodology defines a fair system to calculate this contribution.

We fully recognise the need to implement a system that establishes the real contribution that an interconnector is going to make to solve an adequacy concern in the foreign market. For those borders where there is a high probability of having a simultaneous stress situation, the interconnection capacity will only contribute to solving the adequacy concern in the country that organises the CM in a limited way. To acknowledge this, it is important to establish a maximum entry capacity that reflects this situation. We do not advocate for methodologies that allocate congestion revenues to interconnectors if these are not providing a "valuable" service. But, once the "valuable" contribution of cross border interconnection capacity to the adequacy concern has been established through the maximum entry capacity, it is critical that the role that those interconnectors play in facilitating cross border participation in the CM is acknowledged through a fair reward system. Interconnectors are providing a service that should be remunerated.

Article 14 of the ENTSOE methodology is proposing an option for the sharing of revenue that is de facto double counting the probability of concurrent system stress. Maximum entry capacity already accounts for concurrent scarcity, and in Article 14 the total revenue (based on this maximum entry capacity) is again multiplied with a factor representing concurrent scarcity ("likelihood of concurrent system stress").

This is clearly erroneous. The ENTSOe explanatory note attempts to justify the double-counting by stating that the “likelihood of concurrent system stress” is a measure of the scarce resource. However the measure of the scarce resource is already clearly identified in the modelling that leads to the calculation of MEC; indeed by examining flows across multiple scenarios it arguably determines this more accurately. We illustrate this by using the example in the ENTSOe note relating to the France □ GB border.

ENTSOe notes that their preliminary calculations deliver a MEC of 2500MW (assuming 3000MW of installed capacity IFA+IFA2). Yet the likelihood of concurrent system stress reveals that 46% of the time both the GB and French markets experience concurrent scarcity. Clearly then for both numbers to be accurate the MEC model must determine that during some points of concurrent system stress there must still be flows in the direction of France to GB. Otherwise the MEC would be at most $3000 \times (1-0.46) = 1620\text{MW}$. MEC then arguably delivers a more robust and accurate measure of the value of the interconnector as the scarce resource.

Notwithstanding the above it is clearly incorrect to have two measures of “concurrent scarcity” applied to the revenue stream payable to interconnector TSOs. A measure of the scarce resource is already determined within the calculation of MEC. Applying a “likelihood of concurrent scarcity” simply double counts the same impact. Therefore all revenues delivered from the allocation of cross-border capacity should accrue to the Interconnector TSOs, and should not be further shared with TSOs in the home market in which Capacity Market is operating via a double derating of the revenues.

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 have no comment on this section

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.

In our response to the ENTSOe consultation on the draft methodology we raised concerns about what is now Article 20(3) of the methodology which states that

“For this reason, when availability commitments of different capacity mechanisms are overlapping, the capacity provider has to provide a capacity equal to the sum of availability commitments he has”

We were concerned that the proposal suggests that generators will be constrained to bid only their 'full capacity'. So if they bid their full capacity into one market, they will not be allowed to bid into a different market. We felt this would fail to meet the requirements of the Clean Energy Package and ultimately will result in an overcapacity built across the continent and additional costs for European consumers.

ENTSOe has clarified that this is not the intent of the clause, and parties may bid unconstrained into as many capacity markets as they wish, but that the penalties they face for non-delivery should be in every market where simultaneous stress occurs where they have commitments in those markets. While this is welcome clarification the text in the methodology has not been updated. We still feel that the intent of this clause would benefit from additional drafting to clarify that the intent is that penalties for non-delivery should reflect simultaneous stress in both markets but that parties are free to bid into each market without restriction.

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 have no comment on this section

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 have no comment on this section

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.

DUE TO 5000 CHARACTER LIMIT WE SUBMIT PART 2 OF OUR RESPONSE TO Q3 IN THIS SECTION. We have no comment on the general provisions.

Continuation of reply to Q3...

2) The CM reward system should not deviate from the existing IEM established models

We consider that there is already a fair and established system to reward interconnectors in the energy-only market. We recommend that the principles established for the energy market are also applied to CMs. Any congestion revenues arising from the selling of capacity for the cross-border participation in CMs should be shared among the interconnector owners, as it is this cross-border infrastructure that allows the participation to take place.

We recommend that Capacity Markets should be treated in a way that is consistent with the energy market. Interconnectors offer several benefits to the European system. They provide a capacity benefit by importing energy during system stress periods, offsetting the need for other back up capacity and therefore contributing to security of supply in a cost-efficient way. Furthermore, interconnectors contribute to the integration of renewables and to the reduction of energy prices across Europe. This is the basis for their business. It is already established that in energy markets, any congestion rent that arises should go to the interconnector TSOs to maintain existing or construct further interconnection. We recommend that this simple principle is applied to capacity markets. As electricity markets evolve from a model that purely remunerate energy to a model that is increasingly based on remuneration of capacity and services it is essential that a consistent approach to rewarding the contribution of interconnectors is carried over to capacity from the energy market.

3) The sharing of congestion revenues methodologies should not disincentivise long term investments in cross border infrastructure if this infrastructure is needed

The proposed methodology fails to provide an appropriate incentive for interconnector capacity to be developed and will ultimately put at risk future investments in cross border capacity.

In the future, it is increasingly likely that there will be times when the market will be dominated by zero or very low marginal cost generation and it is very likely that Member States will continue introducing CMs. We will see that in the future CMs might represent an important part of the market revenue earned by generators, reducing the congestion income of an interconnector from the energy market. If the CM revenues in the market are not appropriately allocated to those parties that have invested, or are going to invest, in interconnectors then there is a significant risk that those assets will never be built despite there being a strong socio-economic welfare from such interconnectors.

We note in ENTSOe's Explanatory Note that the justification for a double-counting of the scarcity is born of concerns about inappropriate incentives for new interconnectors on a border. We disagree with this assessment. The Maximum Entry Capacity is a dynamic variable. It may be the case that in Year Y a border is allocated a high MEC. This may then prompt a developer to investigate additional cross-border infrastructure. Any developer would analyse the impact of new capacity on a border on the MEC and factor it into its decision to proceed with a project or not. If this analysis reveals that once this new

interconnector is included in the MEC calculation the MEC for the same border in future years would fall significantly indicating that there is little or no capacity value to be gained from a new interconnector, then the developer will have fully accounted for this in its decision to proceed or not. The system of double-counting proposed by ENTSOe is one that appears to penalise current owners of interconnector infrastructure for fear of giving developers of new infrastructure a misleading signal is therefore manifestly unfair.

We would like to highlight the inconsistency among different methodologies of ENTSOE. The ENTSOE methodology for calculating socio-economic welfare of interconnectors (the so-called TYNDP CBA 3.0 guidelines, Benefit B6: Security of Supply: Adequacy) explicitly acknowledges the capacity benefit that interconnectors provide. However, If the cross-border methodology prevents interconnector owners from earning a reward comparable to this capacity benefit, there will be no incentive to build new merchant interconnectors. It must be emphasised that GB interconnector development relies on merchant revenues and therefore any disconnect between the merchant revenues and the socio-economic welfare benefit will prevent developers from investing in new projects.

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

DUE TO 5000 CHARACTER LIMIT WE SUBMIT PART 3 OF OUR RESPONSE TO Q3 IN THIS SECTION

4) Any congestion revenues from the CMs should respect the principle of the Use of Congestion Income defined in the Electricity Regulation

Article 19.2 of the Electricity Regulation (article 26.9) states that the congestion income can only be used for maintaining the availability of existing interconnectors or for building new ones. Article 26.9 of the same Regulation specifies that the congestion revenues generated by cross border capacity mechanisms that accrue to the TSOs must be used in accordance with this principle. Giving a proportion of that income to the CM operator does not appear to be consistent with this requirement.

We note that ENTSOe has in its explanatory note on the revenue sharing proposal (paragraph 4.4), when applied to borders with Capacity Markets on either side of an interconnector delivers much the same outcome in terms of revenue when the two capacity markets are considered. However we would point out that this would only apply where the national TSO are the exclusive owners of the interconnector assets. For third party interconnectors this will clearly not be the case. They also note that the revenues would be used for the purposes set out in Article 19(2) of regulation 943/2019 regardless of which TSO the revenue is allocated to. However we note that again, unless that national TSO owns all interconnectors on a border this will not be the case.

The methodology appears to place a perverse incentive on the TSO operating the local CM to lower cross border participation. The lower the maximum entry capacity, the greater the proportion of the revenue from cross border trade goes to the CM operator, who is the one establishing the maximum entry capacity in the first place. It also permits a TSO to rely more heavily on local capacity resources rather than the more efficient cross-border markets. For instance, in the GB market, where there is an independent Electricity System Operator (ISO) that acts as the CM operator but does not have the responsibility of building new interconnectors or operating them, it is difficult to see how the ISO will be able to fulfil the obligation of the Electricity Regulation in relation to the use of congestion income.

Conclusion

We are disappointed that while we and many other respondents to the ENTSOe consultation made these same points we note that ENTSOe has done very little to amend its proposals.

From all the above, we recommend amendments to the methodology to ensure that any congestion revenues originating from cross border participation in CMs are accrued to the interconnector owners, and shared between them in a similar way as congestion revenues originating from the energy market only.

Contact

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