

**REQUEST FOR AMENDMENT BY THE ITALY NORTH
REGULATORY AUTHORITIES**

OF

**ITALY NORTH TSOs PROPOSAL FOR METHODOLOGY
FOR REDISPATCHING AND COUNTERTRADING COST-
SHARING IN ACCORDANCE WITH ARTICLE 74 OF THE
COMMISSION REGULATION (EU) 2015/1222 OF 24 JULY
2015 ESTABLISHING A GUIDELINE ON CAPACITY
ALLOCATION AND CONGESTION MANAGEMENT**

23 November 2018

I. Introduction and legal context

This document elaborates an agreement of the Italy North Regulatory Authorities (in the following: IN NRAs), agreed on 23 November 2018 at Italy North Energy Regulators' Regional forum, on the Italy North TSOs (in the following: IN TSOs) proposal for methodology for redispatching and countertrading cost-sharing (in the following: IN cost sharing), submitted in accordance with Article 74 of Commission Regulation 2015/1222 of 24 July 2015 establishing a Guideline on Capacity Allocation and Congestion Management (in the following: CACM).

This agreement of the IN NRAs shall provide evidence that a decision on the IN cost sharing does not, at this stage, need to be adopted by ACER pursuant to Article 9(11) of CACM. It is intended to constitute the basis on which IN NRAs will each subsequently request an amendment to the IN cost sharing pursuant to Article 9(12) of CACM.

The legal provisions that lie at the basis of the IN cost sharing, and this IN NRAs agreement on the above mentioned methodology, can be found in Articles 3 and 74 of CACM. They are set out here for reference.

Article 3

Objectives of capacity allocation and congestion management cooperation

This Regulation aims at:

- (a) Promoting effective competition in the generation, trading and supply of electricity;*
- (b) Ensuring optimal use of the transmission infrastructure;*
- (c) Ensuring operational security;*
- (d) Optimising the calculation and allocation of cross-zonal capacity;*
- (e) (...);*
- (f) (...);*
- (g) Contributing to the efficient long-term operation and development of the electricity transmission system and electricity sector in the Union;*
- (h) (...);*
- (i) (...);*
- (j) (...).*

Article 74

Redispatching and countertrading cost sharing methodology

- 1. No later than 16 months after the decision on the capacity calculation regions is taken, all TSOs in each capacity calculation region shall develop a proposal for a common methodology for redispatching and countertrading cost sharing.*
- 2. The redispatching and countertrading cost sharing methodology shall include cost-sharing solutions for actions of cross-border relevance.*
- 3. Redispatching and countertrading costs eligible for cost sharing between relevant TSOs shall be determined in a transparent and auditable manner.*
- 4. The redispatching and countertrading cost sharing methodology shall at least:*
 - a. determine which costs incurred from using remedial actions, for which costs have been considered in the capacity calculation and where a common framework on the use of such actions has been established, are eligible for sharing between all the TSOs of a capacity calculation region in accordance with the capacity calculation methodology set out in Articles 20 and 21;*
 - b. define which costs incurred from using redispatching or countertrading to guarantee the firmness of cross-zonal capacity are eligible for sharing between all the TSOs of a capacity calculation region in accordance with the capacity calculation methodology set out in Articles 20 and 21;*
 - c. set rules for region-wide cost sharing as determined in accordance with points (a) and (b).*
- 5. The methodology developed in accordance with paragraph 1 shall include:*

- a. *a mechanism to verify the actual need for redispatching or countertrading between the TSOs involved;*
 - b. *an ex post mechanism to monitor the use of remedial actions with costs;*
 - c. *a mechanism to assess the impact of the remedial actions, based on operational security and economic criteria;*
 - d. *a process allowing improvement of the remedial actions;*
 - e. *a process allowing monitoring of each capacity calculation region by the competent regulatory authorities.*
6. *The methodology developed in accordance with paragraph 1 shall also:*
- a. *provide incentives to manage congestion, including remedial actions and incentives to invest effectively;*
 - b. *be consistent with the responsibilities and liabilities of the TSOs involved;*
 - c. *ensure a fair distribution of costs and benefits between the TSOs involved;*
 - d. *be consistent with other related mechanisms, including at least: (i) the methodology for sharing congestion income set out in Article 73; (ii) the inter-TSO compensation mechanism, as set out in Article 13 of Regulation (EC) No 714/2009 and Commission Regulation (EU) No 838/2010;*
 - e. *facilitate the efficient long-term development and operation of the pan-European interconnected system and the efficient operation of the pan-European electricity market;*
 - f. *facilitate adherence to the general principles of congestion management as set out in Article 16 of Regulation (EC) No 714/2009;*
 - g. *allow reasonable financial planning;*
 - h. *be compatible across the day-ahead and intraday market time-frames; and*
 - i. *comply with the principles of transparency and non-discrimination.*
7. *By 31 December 2018, all TSOs of each capacity calculation region shall further harmonise as far as possible between the regions the redispatching and countertrading cost sharing methodologies applied within their respective capacity calculation region.*

II. The Italy North TSOs proposal

The methodology for redispatching and countertrading cost sharing is not subject to public consultation according to Article 12 of CACM Regulation.

The IN cost sharing was received by the last Regulatory Authority of the Italy North Capacity Calculation Region on 24 May 2018. The proposal includes proposed timescales for its implementation and a description of its expected impact on the objectives of CACM, in line with Article 9(9) of CACM.

Article 9(10) of CACM requires IN NRAs to consult and closely cooperate and coordinate with each other in order to reach an agreement, and make decisions within six months following receipt of submissions of the last Regulatory Authority concerned. A decision is therefore required by 24 November 2018.

IN TSOs proposed to apply a simplified approach basing on sharing keys computed on the basis of the quota of the congestion attributed to each TSO: the keys for year Y are based on the congestion rent of year Y-2.

Only the cost associated to the implementation of countertrading and redispatching to solve a constraint on a critical network element (as defined in the CCM proposals) are eligible for cost sharing. The activation of costly remedial actions (i.e. of countertrading and redispatching resources) is based on the coordination process described in the countertrading and redispatching methodology submitted in accordance with Article 35 of CACM.

The proposal includes also a process for monitoring: a quarterly report for IN NRAs about costly remedial actions and associated costs and a yearly review for improvement with the assessment of the effectiveness of the costly remedial actions and of the quality of the general coordination process and the associated cost sharing are envisaged.

The proposal will be applied once the capacity calculation methodology pursuant to Article 20 of CACM and the countertrading and redispatching methodology pursuant to Article 35 of CACM regulation are implemented.

III. The Italy North Regulatory Authorities position

General view

IN NRAs are conscious that the approach based on congestion rent sharing keys was developed by IN TSOs since no agreement on a more sophisticated methodology could be reached. Nonetheless, despite this approach could be easily implemented, IN NRAs deem it not acceptable as it leads to a proportional sharing of the cost, without allocating the responsibility to the effective TSOs violating the constraint. IN NRAs do not think this should be the case in a meshed network such as the network relevant for Italy North CCR where a causer sharing rule should be applied to match the objectives set in the EU Regulation.

Consequently, IN NRAs invite IN TSOs to submit a more adequate proposal based on the following:

- a) polluter pays principle shall be at the base of the cost sharing proposal, in accordance with the above mentioned articles;
- b) any methodology based on the deviation principle¹ shall be excluded, since some deviations, for example those associated to market results, are out of the control of the TSOs;
- c) loop-flows, internal flows and flows associated to uncoordinated actions shall be penalized before the other contributions;
- d) an approach resembling the effective patterns of exchanges between bidding zones in the day ahead or intraday market is preferable; nonetheless IN TSOs may propose alternative approaches, if deemed more efficient;
- e) the methodology shall give clear evidence of the contribution to the flows associated to internal transactions, external transactions, transits, loop-flows and PST-flows and shall distinguish between flows from coordinated and uncoordinated actions, respectively;
- f) the methodology should apply a threshold under which flows are not penalized according to the polluter-pays principle.

For sake of clarity, for the flow decomposition suggested at letter f), for critical network elements internal to a bidding zone, the flows should be divided according to the following:

- 1) internal transactions, i.e. transactions occurring within the same bidding zone to which the concerned network element belongs;
- 2) external transactions, i.e. transactions occurring between the bidding zone to which the concerned network element belongs and a different bidding zone;
- 3) loop-flows, i.e. flows associated to transactions occurring within a bidding zone different from the bidding zone to which the concerned network element belongs;
- 4) PST-flows, i.e. circular flows resulting from the use of PSTs;
- 5) transits, i.e. flows associated to transactions occurring between bidding zones different from the bidding zone to which the concerned network element belongs;

For cross-zonal critical network elements the flows shall be decomposed in the following:

- 1) cross-zonal transactions, i.e. transactions between the bidding zones connected by the concerned network element;
- 2) loop-flows, i.e. flows associated to transactions occurring within a bidding zone different from the bidding zones connected by the concerned network element;

¹ Which considers that congestions are due to deviations from the uncongested scenario built at the capacity calculation step.

- 3) transits, i.e. flows associated to transactions involving one or none of the bidding zones connected by the concerned network element.

For each contribution, the flows associated to coordinated and uncoordinated actions, respectively, shall be assessed.

Swiss involvement

From technical point of view, as addressed in the request for amendment for capacity calculation methodology, the capacity on the Italian Northern borders cannot be computed in an efficient manner without taking into account duly the transmission network of Swissgrid and the effects this network has on the neighbouring TSOs.

Nonetheless, as far redispatching and countertrading cost sharing methodology is concerned, IN NRAs would like to express some concerns.

First of all, IN CTRDCS proposal is developed according to CACM that, being a EU regulation, is legally binding only for EU Member States and not for Switzerland. Therefore, in IN NRAs' view, Swissgrid cannot be considered as a participating TSOs for the countertrading and redispatching cost sharing methodology, but only as a technical counterparty.

Moreover, IN NRAs are concerned that the costs attributed to Swissgrid may be borne by the latter only on a voluntary basis, since there is no legal provision that binds Swiss TSO to pay.

For these reasons IN NRAs ask IN TSOs to modify the proposal accordingly, clarifying, wherever needed, that:

- a) the common grid model used for countertrading and redispatching cost sharing can include Swissgrid network, subject to the conditions reported in Article 1 of the CGM proposal;
- b) the proposal is submitted to the respective regulatory authority only by Terna, RTE, ELES and APG, since they are the only TSOs legally bound by CACM Regulation;
- c) the cost sharing is based only on costs borne by Terna, RTE, ELES and APG.

The above mentioned issues shall not be meant as an obstacle to specific agreement between EU countries and Switzerland to deal with specific countertrading and redispatching issue.

Merging with Core CCR

Eventually, Italy North CCR will most likely be merged with Core CCR for capacity allocation, countertrading and redispatching and the associated cost sharing issue. Flow based is the target approach for both CCRs and, being two adjacent CCRs, according to Article 20(5) of CACM, the implementation of a common capacity calculation methodology would be due by 12 months (for day ahead) and 18 months (for intraday market) after the implementation of the flow based approach in each of them.

Despite the merging is not yet at the agenda (since flow based has not been proposed yet for Italy North CCR) and no coordination for the cost sharing methodologies is explicitly required by CACM, IN NRAs invite IN TSOs to evaluate the impact of the cost sharing proposal not only with a focus on the perimeter of Italy North, but also with reference to the Italy North plus Core CCR perimeter. In particular, figures and simulations about the sharing keys shall be provided in the explanatory note with reference to both Italy North and Italy North plus Core perimeters. For the sake of clarity, IN NRAs ask IN TSOs to pursue compatible options that would ensure a smooth merge.

Monitoring and reporting

IN NRAs are fine with the quarterly report and the yearly review for improvement proposed by IN TSOs, nonetheless they require more details to be included.

The quarterly report shall provide for each costly remedial action the decomposition of the flows resulting in each congested critical network elements, giving evidence of the contribution associated to internal transactions, cross-zonal transactions, loop-flows, PST-flows, transits and flows from coordinated and uncoordinated actions, respectively, and of the resulting cost sharing.

The yearly review shall specify the reasons between the effective and the expected cost of each costly remedial actions. If the difference exceeds a reasonable threshold (and it cannot be properly justified), some measure to improve the quality of the estimations shall be included.

Conclusions

The IN NRAs have consulted and closely cooperated and coordinated to reach agreement that **they request an amendment to the IN cost sharing submitted by IN TSOs pursuant to Article 74 of CACM**. The amended proposal should take into account the IN NRAs position stated above, and should be submitted by TSOs no later than 2 months after the last national decision to request an amendment has been made, in accordance with Article 9(12) of CACM.

The IN NRAs must make their national decisions to request an amendment to IN cost sharing methodology, on the basis of this agreement.

List of Action points

- Submit a more adequate proposals based on the conditions listed in the text
- Clarify all the conditions related to Switzerland as detailed in the text
- Provide figures and simulations of the sharing key related to both Italy North and Italy North plus Core perimeters
- Include in the quarterly report the decomposition of the flows in each congested critical network element and the resulting cost sharing
- Specify in the yearly review the reasons between the effective and the expected cost of each costly remedial actions.