

# ACER consultation on the definition of capacity calculation regions

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A EURELECTRIC response paper

July 2016

***EURELECTRIC is the voice of the electricity industry in Europe.***

*We speak for more than 3,500 companies in power generation, distribution, and supply.*

***We Stand For:***

***Carbon-neutral electricity by 2050***

We have committed to making Europe's electricity cleaner. To deliver, we need to make use of **all low-carbon technologies**: more renewables, but also clean coal and gas, and nuclear. Efficient electric technologies in **transport and buildings**, combined with the development of smart grids and a major push in **energy efficiency** play a key role in reducing fossil fuel consumption and making our electricity more sustainable.

***Competitive electricity for our customers***

We support well-functioning, distortion-free **energy and carbon markets** as the best way to produce electricity and reduce emissions cost-efficiently. Integrated EU-wide electricity and gas markets are also crucial to offer our customers the **full benefits of liberalisation**: they ensure the best use of generation resources, improve **security of supply**, allow full EU-wide competition, and increase **customer choice**.

***Continent-wide electricity through a coherent European approach***

Europe's energy and climate challenges can only be solved by **European – or even global – policies**, not incoherent national measures. Such policies should complement, not contradict each other: coherent and integrated approaches reduce costs. This will encourage **effective investment** to ensure a sustainable and reliable electricity supply for Europe's businesses and consumers.

***EURELECTRIC. Electricity for Europe.***

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## KEY MESSAGES

- EURELECTRIC supports the general objectives of the CACM guidelines, aiming at increasing the efficiency in the use of transmission infrastructure to enhance cross-border trade in the day-ahead (DA) and intraday (ID) timeframes. Improvement of congestion management, as well as efficient cost allocation of redispatching and countertrading actions, should be considered as high priorities with significant economic benefits for Europe.
- The definition of CCRs is a prerequisite for the adoption of many methodologies pursuant to CACM. EURELECTRIC regrets that the national regulatory authorities have not been able to find an agreement in the last months on the TSOs proposals. A late or no approval is likely to delay the implementation of CACM for more than six months. EURELECTRIC therefore calls for a prompt adoption of the CCRs definition and to implement all improvements foreseen in CACM as soon as possible, where TSOs and NRAs are ready and willing to foster their cooperation.
- Considering this, the determination of the CCRs should be ambitious enough to represent a real improvement of the current situation and not just a confirmation of the status quo. The market is expecting an efficient calculation of the grid capacity on all timeframes which requires more cooperation between TSOs to avoid for example an overestimation of the margin needed to safely operate the grid.
- CCRs are a very important tool to let TSOs operate as one and efficiently calculate the grid capacity for the market. The Common Capacity Calculator function is perhaps even more important. EURELECTRIC expects that within this function TSOs define the capacity in the respective bidding zones with one single calculation rather than on the basis of the coordinated result of individual calculations.

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?

EURELECTRIC considers the importance of a swift definition of CCRs as a prerequisite for the adoption of several methodologies pursuant to CACM and welcomes CWE and CEE TSOs' commitment to develop a common flow-based methodology and merge in the near future, as it will certainly provide benefits to the functioning of DA and ID markets in Europe.

EURELECTRIC notes that an immediate merge between CWE and CEE is likely to leverage governance and legal issues in the new CCRs, which could create a delay when implementing the CACM guidelines.

EURELECTRIC therefore supports the proposed objective of merging CWE and CEE regions, provided that:

- The merge does not create any delay regarding the implementation of the CACM guidelines as well as the go-live of ongoing projects and other quick wins that can be easily achieved with the present TSOs' proposal of CCRs delineation which are crucial for the integration of the markets (such as flow-based for ID in the CWE region). The market needs a commitment and a close follow-up of the process to make sure those timings will be respected.
- The capacity allocated to the market should be maximised and transparency on the capacity calculation is fully granted. In particular, the implementation of the transparency requests in the flow-based market coupling context should be a precondition for a merger. Any governance and legal issues should be clarified beforehand: there needs to be a clear and simplified process for approval to avoid that one TSO/NRA could block any progress.

However, considering the challenge and the vast number of reforms needed to implement a DA flow-based market coupling in CEE, EURELECTRIC does not expect TSOs to implement this new capacity calculation methodology immediately nor that an early merger of both regions would fundamentally speed up this process.

Should an early merging of CWE and CEE regions be incompatible with the preconditions described above, a pragmatic, step-wise approach aiming to proceed with the merging at a later stage as proposed by the TSO, would be a good alternative. A roadmap towards the merge could then be introduced, as the implementation path is pivotal to achieve the objective set by all TSOs. In this context, EURELECTRIC welcomes the commitment taken by CWE and CEE TSOs on 3 March 2016 in the Memorandum of Understanding on the development of a common CWE and CEE CCR's DA flow-based capacity calculation methodology and the merger of the CEE and CWE CCRs.

In any case, considering the fact that these two regions are highly interconnected, TSOs should provide commitment to the market ensuring that the merger will effectively materialise in the longer term (with a strict and detailed timeline) and within reasonable timing.

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?

EURELECTRIC would like to see non-EU Members included in the calculation from the beginning in order to ensure efficient and faster regional coordination. Excluding them from the process means ignoring the reality of this highly interconnected market and risks adding unnecessary bureaucracy. This should be considered as an early technical implementation and not as a part of the trade arrangements which can be evaluated in higher level negotiations.

EURELECTRIC would like to emphasise the importance of swift coupling of key regions, i.e. CWE and CEE as a solid ground for further integration. This is because these two areas are fundamental for the successful evolution of the entire European energy market.

The importance and relevance of the Serbian bidding zone should be included as an integral part of CEE. Firstly, it should have a positive impact on the overall interconnectivity in the region. Secondly, Serbian border capacities (i.e. Serbia-Hungary, Serbia-Romania) are highly traded within CEE capacity market because the country serves as a natural transit connecting CEE markets with the rest of the Balkan Peninsula. Also, the inclusion of the Serbian market would help reinforcing the Hungary-Romania (HU-RO) interconnectivity. In addition, thanks to the high compatibility of the trading system used by Serbian and neighbouring CEE power exchanges, the integration to the common IT platform will not represent any technical problem and can be easily achieved.

Moreover, ACER should explicitly include the Swiss borders in the CCRs CWE and North Italy at the start, in order to take into consideration the grid security of Switzerland. Given the central geographical location and the role of the Swiss electricity network in Europe, it is crucial that it is taken into account in the capacity calculation processes, otherwise some important interconnectors in Central Europe can be ignored when calculating capacities.

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?

See answer to question two.

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

As a preliminary comment to questions 3 and 4, further improvement of the calculation should be analysed in depth before any discussion of delimitation of bidding zones. EURELECTRIC's view is that discussing bidding zones based on an inefficient calculation leads to wrong incentives to TSOs, which could tend to view the capacity calculation from a national or control area perspective.

Furthermore, a decision as far reaching as reviewing bidding zone configuration requires an informed debate involving all relevant stakeholders on the issue at stake (e.g. location, frequency and amount of congestion) as well as the consideration of all alternative solutions available to solve congestion. This work is currently being carried out by ENTSO-E as part of the bidding zone review study and will allow a deeper and sound understanding of important parameters for a well-functioning, competitive and unified wholesale electricity market as set out in the Third Energy Package. EURELECTRIC therefore believes that the CCRs process is not the place to introduce a new bidding zone border as there are other stakeholder platforms (mainly the ENTSO-E project) where these arguments are better dealt with.

Generally, EURELECTRIC believes that reducing/splitting existing bidding zones should be considered only in case of structural congestions which are expected to persist in the future. In such cases, reviewing bidding zones should follow a detailed cost-benefit analysis and impact assessment. In particular, the impact on market efficiency and market dynamics should be duly taken into consideration.

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?

EURELECTRIC supports the merger of the CEE and CWE regions but reiterates that this needs to come with an increased level of transparency. EURELECTRIC would like to emphasise that capacity calculation is still lacking in transparency and improvement on this is urgently needed. The same applies for changes in capacity calculation, which should be transparent and implemented with care (i.e. parallel run should be foreseen and the change should be announced before hand).

EURELECTRIC believes that TSOs should speed up their effort to improve the calculation time if they want to make the market more efficient. Faster coordination would, for example, allow a recalculation of the domain after the DA clearing and solve the issue of limited cross-border capacities on ID markets. Speed will be a key element for the success of market integration.

EURELECTRIC would also like to emphasise the need for transparency on redispatch and other remedial actions. After one year of flow-based market coupling, EURELECTRIC has observed that the lack of transparency has strong consequences on the understanding and the prediction of the prices for market parties. As requested by the market parties and approved by the NRAs, the TSOs should provide more transparency on the parameters that are price sensitive.

EURELECTRIC pursues in all its activities the application of the following sustainable development values:

Economic Development

▶ Growth, added-value, efficiency

Environmental Leadership

▶ Commitment, innovation, pro-activeness

Social Responsibility

▶ Transparency, ethics, accountability



Union of the Electricity Industry - EURELECTRIC aisbl  
Boulevard de l'Impératrice, 66 - bte 2  
B - 1000 Brussels • Belgium  
Tel: + 32 2 515 10 00 • Fax: + 32 2 515 10 10  
VAT: BE 0462 679 112 • [www.eurelectric.org](http://www.eurelectric.org)