

## **EFET response to ACER consultation PC\_2020\_E\_10 on methodologies for assessing electricity resource adequacy**



**27 May 2020**

### **Part 1: ERAA proposal**

*1.1 Do you think that policies and measures contributing to indirectly restricting wholesale price formation (as referred to in Article 10(4) of Reg. (EU) 2019/943) should be reflected in ERAA?*

Yes

*1.2 Please elaborate on your previous answer*

As a general principle, we think that all the measures directly or indirectly restricting wholesale price formation should be reflected in the ERAA. The model should reflect the functioning of the market it is representing as well as possible.

Measures identified by the NRAs as restricting wholesale price formation, as per article 10(4) of Regulation 2019/943 are factors that can increase the “missing money” problem. It is vital that they are taken into account in the ERAA as the “missing money” problem is the main rationale behind the application of capacity mechanisms.

Going a bit further, we would like to also make reference to articles 20(2) and 20(3) of Electricity Regulation 2019/943, where Member States also have a responsibility to do away with restrictions to wholesale price formation. Some of these restrictions may stem from the very NRAs that are expected to do away with them as per article 10(2). For example, we refer to provisions regarding harmonised clearing and bidding price limits at European level, and how non-harmonised limits may remain in certain European markets. As a result, wholesale price formation may be skewed because energy markets are altered/affected by price caps. Restrictions on balancing energy pricing, imbalance settlement, or regulation of retail prices also affect wholesale price formation in far too many European Member States. We think that the analysis in the ERAA should provide visibility to the market on the impact of all these restrictions.

*1.3 How should policies and measures contributing to indirectly restricting wholesale price formation be reflected in ERAA?*

Where relevant and feasible, it would be better to include them directly in the model. However, this could increase the risk that the model becomes too complex or even a black box. Alternatively, the effects of those measures could be integrated via post processing. Whichever the choice, full transparency on the impacts and the methodology chosen should be provided to the market.

*1.4 What would be the impact on price formation during scarcity hours?*

The scope of this question is not clear to us. We do not understand to what the impact it refers to. If the question refers to the impact of measures restricting the market functioning, the impact could be that price formation is affected during moments of scarcity or surplus (with lower spikes or dips, respectively, than in a pure, non-restricted energy market).

*1.5 Do you think that, actions taken by a regulatory authority or designated competent authority aimed to eliminate identified policies or measures which could serve to restrict wholesale price formation (as referred to in Article 10(5) of Reg. (EU) 2019/943) should be reflected in ERAA?*

Yes

*1.6 Please elaborate on your previous answer*

See our response to question 1.2. All the measures directly or indirectly restricting wholesale price formation should be reflected in the ERAA, since the ERAA should reflect market fundamentals as well as possible. On-going measures by the NRAs (or the Member State, according to article 20) aimed to do away with restrictions to wholesale price formation should also be integrated in sensitivity analysis, as long as the effectiveness of the measure to tackle the restriction is still uncertain.

*1.7 Do you think that scenarios for ERAA should reflect the timeline for adopting measures to eliminate any identified regulatory distortions or market failures as a part of the State aid process included in the implementation plans as referred to in Article 20(3) of Reg. (EU) 2019/943?*

Yes

*1.8. Please elaborate on your previous answer.*

See our response to question 1.6. On-going measures by the NRAs (or the Member State, according to article 20) aimed to do away with restrictions to wholesale price formation should also be integrated in sensitivity analysis, as long as the effectiveness of the measure to tackle the restriction is still uncertain. These measures should be integrated for the geographical scope and delivery period the measure is addressing.

*1.9 How should scenarios for ERAA reflect the timeline for adopting measures to eliminate any identified regulatory distortions or market failures as a part of the State aid process included in the implementation plans?*

See our response to question 1.6. As long as a measure tackling a restriction to wholesale price formation has not reached full success, the restriction should still be taken into account as part of sensitivity scenarios.

*1.10 How do you expect the measures referred to in questions 1.1 and 1.5 would affect price formation, especially during scarcity situations (i.e. when unserved energy occurs)?*

The adoption of measures to do away with restrictions to wholesale price formation is intended to provide a more accurate price signal for dispatch and investment/divestment. The idea behind this is to ensure that the market is ready to respond to signals of (near) scarcity or surplus. In theory, this should reduce the occurrences or unserved energy.

If and when unserved energy moments materialise, more accurate price signals should allow scarcity moments to be better reflected in short term prices. We think that the implementation of those measures should be assessed based on their impact/contribution to the functioning of short-term energy markets.

*1.11 The Proposal for ERAA mentions that Replacement Reserve (RR) is fully available to avoid unserved energy, whereas FRR is fully unavailable for this purpose. Do you agree with this proposal?*

No response.

*1.12 Please elaborate on your previous answer*

No response.

*1.13 What do you think should be the FRR purpose (and use) at times of unserved energy and how should ERAA reflect this use?*

The SOGL is quite clear on this point: the use of FRR for adequacy purpose would prevent TSOs to have those resources for short-term frequency restoration, which continues to take place even in scarcity situations. Therefore, the use of FRR to deal with short-term frequency variations should not be included in the ERAA simulations.

*1.14 Do you think taking into account unused (normatively estimated based on the historical difference between available and activated for other purposes, see example below) Frequency Restoration Reserves (FRR) upwards as resource to be used in ERAA with the aim to reduce unserved energy (which ultimately materialises as imbalance)?*

No

*1.15 Please elaborate on your previous answer*

See our response to question 1.13. The FRR volumes are “insurance” against an event that would have a big impact, but for which the timing cannot be anticipated/predicted. The use of “normatively estimated” historical difference between available and activated FRR for other purposes would remove the ability of TSOs to safeguard grid safety at any moment.

*1.16. What should be the price for unused FRR in ERAA ?*

See our responses to questions 1.14 and 1.15, (Unused) FRR volumes should not be deployed for adequacy purposes.

*1.17. Do you have any views for the selection of a relevant and representative set of climate years as input for the Monte Carlo approach?*

It is important that the set of climate years does not only use historical data. Instead, it should be a set of representative years that are correctly mimicking different future climate scenarios.

*1.18 Do you have any other major observation on the ERAA Proposal? (if so, please indicate clearly the related Article, paragraph of the proposal, and add a sufficient explanation)*

- Article 3.3(b): It is important to note that the current proposal of ERAA methodology does not take into account “real network development” as stated in Art. 23.5(l) of Regulation 2019/943 because the baseline data proposed will include “best estimates regarding the state of the grid in line with the TYNDP and the most recent national development plans” (see Art. 3.3(b) of the ERAA proposal). It is important that the ERAA methodology only takes credible network development projects into account for the horizon of the assessment and not affect ex-ante its outcome. Therefore, interconnectors and other network projects must be considered among the capacity/resources available (generation, DSR, CRM, storage...) to solve a potential adequacy problem.
- Article 6.1: In line with our response to previous questions, the sensitivity analysis of economic viability is a must-have feature of the model. Hence, this should be implemented since the beginning within the model. While acknowledging the merits of the stepwise approach proposed by ENTSOE in Art. 6.1 of the draft, we firmly support that a first-stage implementation of the sensitivity analysis of economic viability shall be delivered with the launch of the ERAA methodology. This approach will guarantee the fulfilment of Art. 23.5(d) “an economic assessment of the likelihood of retirement, mothballing, new-build of generation assets”.
- Article 6.2: The economic viability check should be done using forward market prices. These markets usually give visibility to market participants for a 3-4 years time horizon. As the assessment done by ENTSO-E will be performed on a 10-year horizon, this lack of visibility on market prices should be considered in the simulation, together with the consequent increase of risk perceived by investors relying only on revenues from energy markets.

- Article 6.3(b): the only asset that should be excluded by the viability check are the ones subsidised for all the time horizon of the EERA or at least to an extent sufficient to cover their fixed costs.  
Article 5.10: the imbalance costs are not mention in this article but they should be considered in the Economic Viability Assessment because they are very relevant.

## **Part 2: VoLL/CoNE/RS proposal**

*2.1 In the CoNE Proposal, an initial list of technologies is set up; only technologies which fulfil criteria to become candidate Reference Technologies are then thoroughly studied. Do you agree with the way some technologies (e.g. Demand Side Response (DSR), RES, storage, etc.) are considered in the methodology for calculating the CoNE (Title 3 of VoLL/CoNE/RS Proposal)?*

Yes

*2.2 Please elaborate on your previous answer*

We generally agree with the revised proposal of ENTSO-E that all technologies should be considered as potential candidates when selecting and calculating the CoNE.

While all technologies should be considered as potential candidates when selecting and calculating the CoNE, the technical specificities of each technology should be taken into account and may result in de-ratings, or in only a sub-set of these technologies being retained for the CoNE calculation.

Article 10.3(a) excludes technologies benefiting from state aid. We believe this outright exclusion is not warranted. Instead, the methodology should allow these technologies to be considered in the calculation of the CoNE, but taking account of the state aid benefit in the calculation.

*2.3 How would you suggest that these technologies should be considered?*

See our response to question 2.2.

*2.4 Do you agree with the provisions of Article 15 of the VoLL/CoNE/RS Proposal according to which Member States can rely on their own relevant, recent and representative WACC estimates, instead of using a binding common methodology to calculate the WACC for all Member States?*

No.

*2.5 Please elaborate on your previous answer*

To ensure comparability of the CoNE calculation throughout Europe, WACC estimates should be calculated in the same manner, to be developed in this methodology or developed in common at a later stage. The methodology/formula should be common, otherwise article 15.6 leaves too much room to Member States in that regard, which was not foreseen by Regulation 2019/943.

However, a common WACC methodology does not preclude that inputs/parameters could differ for justified reasons (eg: the net efficiency of an asset can vary depending on temperature, therefore, the geographical location within Europe influences the net efficiency). Therefore, the output could also differ.

As a general rule, the WACC methodology for the CoNE estimation should reflect best practice used by asset developers in the sector. Should the common WACC methodology not be decided right away in this document, then market participants should be consulted to inform ACER or ENTSO-E on their practices.

*2.6 Do you think that the main technical parameters used to calculate CoNE should be harmonised across MSs?*

Yes.

*2.7 Please elaborate on your previous answer*

See our response to question 2.5. Some technical parameters can be defined on a national basis because the mix of resources needed to comply with adequacy standards is not the same across Europe.

*2.8 What are the main technical parameters used to calculate CoNE that could be different?*

- Article 9.2: timing of the calculation: the article foresees a (re)calculation of the CoNE every five years. This is consistent with the timing of the VoLL estimate update, but it would rather make sense to also link the timing of calculation of the CoNE with the timing of the update of elements in national CRMs: if the CoNE is used at a specific frequency as an input in a CRM design, then let's make sure it is updated at the same frequency.
- Article 12.2: stress events: It is not clear what a stress event is, as it is defined nowhere in this methodology or existing EU legislation. The wording of the methodology should be consistent with existing legislation and other CRM-related methodologies.

*2.9 Do you think that renewal or prolongation of existing resource capacity should be considered as a candidate technology that can address the required capacity needs and thus be taken into account in the calculation of the reliability standard (Annex 2(iii) of VoLL/CoNE/RS Proposal)?*

No.

*2.10 Please elaborate on your previous answer*

The contribution of all available capacities should be taken into account in the adequacy analysis, but not necessarily in the CoNE methodology.

There is no doubt that existing resources have to be taken into account for assessing adequacy and checking the level of reliability of the system. However, the CoNE should be based on the cost of new entry as it should represent the costs that a market participant would face to enter the market with a new asset. If this parameter is mis-calibrated, there is a risk to penalise the functioning of the markets: a capacity market might not attract the new investments needed and therefore might not meet its objective.

*2.11 Do you agree with the provisions Annex 3 of the VoLL/CoNE/RS Proposal that a range of values of VoLL and CoNE should be used to defined the reliability standard?*

Yes

2.12 Please elaborate on your previous answer

Both methodologies (CoNE and VoLL) are based on various assumptions which contain a number of uncertainties and ranges. It therefore seems logical that the CoNE and the VoLL should also be given the same ranges in order to correctly reflect the uncertainty behind their computation methodology.

*2.13 How should the methodology define the approach for extracting a single value from each range when defining the reliability standard?*

The choice of selecting one single value is a political choice falling within Member States' competence. We think that the most important point is that the ranges determined in each Member State are based on the same methodologies.

*2.14 Do you have any other major observation on the VoLL/CoNE/RS Proposal? (if so, please indicate clearly the related Article, paragraph of the proposal, and add a sufficient explanation)*

Article 5: characteristics of outages: we would add the frequency of outages to evaluate the VoLL.

Article 6.1: surveys for VoLL estimates: the use of existing surveys for the determination of the VoLL should only be allowed if they meet all the criteria of this methodology, otherwise they should be performed again.

Article 7.2: exclusion of elastic load: in order to dissipate possible misunderstanding stemming from the initial draft methodology proposed by ENTSO-E, the methodology should make clear that the VoLL estimates will take account of all consumers, possibly with derating factors for reactive consumers, and only exclude DSR to the extent covered by the elasticity of consumer demand.

### **Part 3: Both proposals**

*3.1 Do you see an interplay between economic viability checks performed in ERAA and reliability standard calculation?*

Uncertain.

*3.2 Please elaborate on your previous answer*

We would need some clarification to answer the question 3.1. We observe that:

- The reliability standard calculation is based on the VoLL and the CoNE, giving a theoretical expected number of hours with load shedding. This number should then be adapted to the political/regulatory/energy policy context in each Member State.
- The economic sustainability of existing assets has to be based on expected market revenues.

One possible link between both could be the number of hours with scarcity prices, hours during which the existing assets receive contribution to their economic viability. We are however doubtful whether this should be part of a long-term adequacy assessment. The risk would be to create a theoretical interplay between those two methodologies that would risk to further complicate them without significant added value.

*3.3 How should this interplay affect CoNE, VoLL and maximum clearing price, in order to ensure a realistic and consistent modelling framework?*

*3.4 Do you think that the proposed involvement of stakeholders in both Proposal is sufficient to guarantee robustness and transparency on scenario assumptions, input datasets, modelling approaches (e.g. with respect to the links with national energy policy targets and plans, DSR modelling), etc.?*

No.

*3.5 Please elaborate on your previous answer*

Regulation 2019/943 foresees the establishment of common methodologies for the ERAA and the calculation of the VoLL, CoNE and the reliability standard. Where the methodology leaves room for national interpretation, of reuse of existing performed at national level on the subject, market participants should be consulted to give their view and the responsible authorities should justify any perceived deviation from the methodology's letter or spirit.

*3.6 how should stakeholders be involved to guarantee robustness and transparency on scenario assumptions, input, datasets, modelling approaches, (e.g. with respect to the links with national energy policy targets and plans, DSR modelling), etc.?*

See response to question 3.5.

*3.7 How should stakeholders be involved to support the implementation of the methodologies described in the Proposals?*

See response to question 3.5.

*3.8 How would you increase stakeholder interaction with the aim to improve the methodologies towards possible future updates?*

We would recommend a systematic consultation of market participants when either the VoLL, CoNE or reliability standard are (re)calculated in each Member State.

#### **Part 4: Conclusion**

4. Please provide any further comment