

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.

AQUIND Interconnector welcomes the opportunity to respond to ACER's consultation on ENTSO-E's proposals for technical specifications for cross-border participation in capacity mechanisms.

We responded to ENTSO-E's draft proposals through the GB Interconnectors Forum ("GBIF") earlier this year. ENTSO E has now provided additional detail on its proposals, particularly in relation to the methodology for calculating maximum entry capacity ("MEC") for cross-border participation, including some indicative simulations.

However, we remain concerned that the methodology for calculating MEC is still inherently unclear and non-transparent. Although ENTSO-E has provided new guidance on the calculation methodology, this is still entirely reliant on the results of simulations from the European Resource Adequacy Assessment ("ERAA"). The ERAA methodology, at the time of this response, is still not finalised. All interconnector operators are likely to recognise, from experience, that the details of this methodology - including its parameters, definitions and assumptions - need to be considered carefully to avoid unintended consequences. By ENTSO-E's own admission, "the results of the maximum entry capacity calculation coming out of the ERAA simulation could be in some cases difficult to understand intuitively" (ENTSO-E Explanatory Document). ENTSO-E also states that its illustrative formulas "shall in no case overrule the results of the methodology after an ERAA simulation". We are therefore concerned that it will not be possible for market participants to review, understand and challenge the calculation of the MEC in an appropriate way; and that the methodology may not represent fair and unbiased market positions.

Under ENTSO-E's proposals, TSOs will also be able to deviate from ERAA results in certain circumstances, as set out in Articles 10(7)-10(9) of ENTSO-E's consultation document. However, it is unclear when TSOs will be able to exercise this ability and the likely effects on the MEC. This will ultimately only serve to increase uncertainty and discourage further investment in interconnection in the long run.

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?

Yes. We consider that the calculation of the MEC should include capacity contributions from Member States with no direct network connection to the home capacity market. Excluding this capacity would undermine the principle of capacity sharing across all Member States, artificially inflate the amount of capacity deemed to be required in the home capacity market, and understate the contribution that foreign capacity could make to the security of supply in the home market. Ultimately, this would increase inefficiencies and costs to customers.

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.

No. We consider that the proposal to share revenue from the sale of access tickets between the interconnector and the TSO organising the capacity mechanism is fundamentally flawed. Moreover, by applying the concept of a sharing key to the auction revenues from the sale of capacity market ("CM") access tickets, it specifically deviates from the achievement of Article 12 of ENTSO-E's proposed methodology. Article 12 states that:

"the sharing of revenues should provide incentives for the development of transmission capacity. The Methodology for sharing the revenues should therefore ensure that:

a. When transmission capacity between two Member States is deemed the scarce resource limiting the participation of eligible Foreign Capacity in the capacity mechanism, the sharing of revenues shall result in a proportionate incentive to further develop transmission capacity on the border considered.

b. When transmission capacity is not deemed the scarce resource limiting the participation of foreign eligible capacity in the capacity mechanism, no additional incentives for further development of the transmission capacity on the considered border shall be provided for adequacy reasons".

Instead, the sharing key concept undermines investment incentives in transmission capacity. It does this by sequestration of revenues that should accrue to interconnectors. By diverting revenue from interconnectors, the introduction of the sharing key concept favours, *ceteris paribus*, investment in local generation. We assume that ENTSO-E has made an error in this regard because, as well as directly contravening the aims of Article 12 to provide appropriate incentives, it also goes against the spirit of the Internal Energy Market, which seeks to enhance transmission capacity between Member States, and, also, against the principle of a level playing field. We therefore politely ask ENTSO-E to reconsider its approach and the use of the sharing key approach. The market for access tickets on its own perfectly rewards interconnectors for capacity when it is scarce, and rewards generators instead when interconnection capacity is plentiful and in so doing exactly meets the objectives of Article 12. Moreover, so long as other aspects of the CM design are correct and appropriately enforced (such as the penalty mechanism), then it meets the objectives of Article 12 in a way that is arguably superior to other potential methodologies. It does this because the bidding for tickets allows the market to reveal its view of the likelihood of coincidence scarcity. Other methods inevitably require a "black box allocation process" that would almost certainly be inferior.

However, the sharing key, mistakenly in our view, then removes a portion of revenue allocated to the interconnector capacity through appropriate market mechanisms and passes it to the host TSO. In so doing, it reduces the amount of revenue that the interconnector capacity earns below the amount deemed to be appropriate by the market through the CM access ticket allocation process. In turn, this will disincentivise investment in interconnectors, and instead will tilt the playing field to the provision of more costly (and actually unnecessary) local generation. This will increase costs to European customers. We assume that this cannot truly be in the intent of the proposals and respectfully request that ENTSO-E and ACER reconsider the application of the sharing key to an otherwise sensible, market based, CM access ticket revenue allocation process.

Further, we note that the introduction of a sharing key combined with the lack of transparency over the ERAA methodology to calculate the probability of simultaneous scarcity used in this mechanism, means that TSOs organising capacity mechanisms will have perverse incentives to set a high probability of simultaneous scarcity in order to divert a greater proportion of revenues. This in turn is likely to result in a lower MEC, and further discourage foreign

participation in capacity mechanisms. This would be an undesirable consequence of the proposed market design and increase costs to European customers.

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 do not have comments on the proposed rules on availability checks.

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 welcome ENTSO-E's clarification that "there is no ex-ante constraint on the amount of capacity that can be bidded" in multiple capacity mechanisms and that it will be up to the capacity provider to consider its own risk of non-availability payments. However, the text of the methodology has not been updated in line with this clarification and should be updated to avoid any potential confusion at a future date.

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 do not have comments on the proposed terms of the ENTSO-E registry.

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 do not have comments on the proposed eligibility rules.

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 do not have comments on the general provisions.

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

As a proposed provider of cross-border capacity, AQUIND Interconnector remains concerned that ENTSO-E's proposals will discourage further investment in interconnection in the long run. Specifically, we are concerned that:

1. ENTSO-E's methodology for calculating the MEC remains inherently unclear and non-transparent; and
2. The market for access tickets is already capable of providing appropriate investment signals for transmission and further intervention in the form of the proposed revenue sharing factor would simply serve to distort market outcomes and promote inefficiency, and ultimately cause European customers to incur higher costs or increased risk of black outs.

In European energy markets, interconnectors (rightly) earn congestion rent through the price differentials between bidding zones. We recommend that these established principles should be extended to cross-border participation in capacity markets.

Note: AQUIND Interconnector is a proposed high voltage direct current interconnector between Great Britain and France that will facilitate improved electricity transmission between the two countries. The subsea cable will connect the South Coast of England with Normandy and provide 2,000MW of additional capacity from 2024 onwards. The project is expected to make energy markets more efficient, improve security of supply, and help meet decarbonisation targets. Ultimately, it will ensure greater reliability and affordability for consumers.

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