

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.

In order to have a real and efficient cross-border participation to CRM it's necessary to put the right responsibility on both the CMU and the foreign TSOs that should guarantee transmission capacity and balancing through dispatching. Adequacy resources provided by cross border CMU must have obligation as equivalent as possible with domestic ones, putting on them the obligation of markets participation equivalent to domestic units.

On the other hand, TSOs should be adequately incentivized to an efficient adequacy resource provision to other countries, to avoid that foreign TSO dispatching actions repeal the actual foreign contribution to adequacy even though the CMU is effectively available. In this case, the contribution to adequacy would be 0 or even negative, with incremental cost for the originating CRM Country: an efficient and effective regulation should set appropriate and cost-reflective incentives to CMU and TSO in order to achieve a reliable and firm cross-border participation. Until the connecting TSOs won't be responsible, the max entry capacity has to be estimated as conservatively as possible. The main critical concept of the proposed methodology for calculating maximum entry capacity is setting this value based on the expected energy flow between 2 bidding zones. This approach isn't consistent with the purpose itself of the CRM: the introduction of CRM is a factor enabling possible changes in the generation scenarios and related optimal energy flows between countries. We highlight that the generation scenario and the related flows scenario are results of the CRM (because they are dynamically impacted by it) and not a static input.

Even assuming a simplified model of energy flows, we deem necessary to recast the approach to the max entry capacity calculation. Instead of expected flows, the calculation should be based on the following factors:

- Generation scenario of foreign bidding zone/country. It should be set according to the best foresight for the years analyzed. Regarding the regulatory hypothesis, the existence of a CRM also in the foreign country should be considered only if already existing or confirmed and authorized decision on their implementation have already been assumed
- Transmission capacity between foreign bidding zone and CM bidding zone (with NTC or flow based calculation)
- Scarcity hours (single and simultaneous)

Abovementioned factors should be kept separated because they could be influenced by the participation itself to the capacity market. In this case, the impacted factors could be more transparently modified, consequently obtaining a new entry capacity.

In any case, from those factors, the maximum entry capacity should be estimated as the minimum value of the potential foreign contribution during scarcity hours. The potential foreign contribution should be the minimum value between the NTC and the available margin of the foreign country during (all kind of) scarcity hours. This available margin has to be simulated according to the existence or not of a CRM also in the foreign country, because this CRM will dramatically impact the generation scenario and the related available margin. Therefore, we don't agree using the average value of the expected energy flows because:

- energy flow in the scarcity hours are dynamically affected by CRM results itself, not an hypothesis for CRM design
- the average contribution approach risk to over-estimate the real foreign adequacy contribution, not considering the risk that not served energy in the CM country is concentrated in 1 or few hours where the foreign country is simultaneously facing scarcity or near-scarcity (with 0 or very low real contribution)

Otherwise, the entry capacity will give a signal to over-investment, provided that the average entry capacity will not be effectively available during all delivery period, with a consequent risk, in those hours, of inadequacy caused by

under-supply in the CM country.

Regarding contribution calculation, Entsoe proposed to set the contribution to 0 in case of export from CM country. Enel didn't agree with this proposal, because it doesn't take into account that export may occur during simultaneously scarcity hours, so Enel proposed that such hours (of export) should have been considered as negative contribution in the average balance during the abovementioned situation. In the proposal submitted to ACER, Entsoe accepted our proposition and updated the formula only for NTC. In case of flow based, it still looks possible that in case of exports from CM bidding zones the contribution from Ai is set to 0 (art.8(2-3)): we ask clarification and, if it's the case, to update the calculation (as for NTC).

Overall, to manage context where cross border participation with equivalent rules as for the domestic ones isn't in place, we agree with art.1 i).

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?

In order to have realistic and prudential estimation of maximum entry capacity, we believe that such eventual contributions should be adequately derated (see extra derating factor mentioned in answer 3), since the indirect adequacy contribution can be strongly impacted (even reducing to zero) by network constraints or other issues of the bidding zones between the MS and the CM bidding zone.

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.

As already wrote in the answer to the previous Entsoe consultation, in general Enel doesn't agree with the 50-50 sharing key.

We understand that the driver to share the revenues is to provide appropriate incentives towards investments in transmission capacity to contribute during adequacy-relevant moments, but we believe that the sharing key should also consider the level of equivalence between foreign and national resources. If the foreign capacity cannot provide the same level of adequacy of domestic resources (also because of different market structures), this difference should be reflected in the sharing key or, alternatively and more transparently, through extra-derating factors applied to the offers of foreign eligible capacity. These extra-derating factors act as an increasing factor of the price offered by foreign CMU, to guarantee a fair merit order and common level playing field with the domestic resources that have a higher quality of adequacy contribution.

The need of derating factors emerges as a temporary measure until:

- i. every TSO bear full responsibility of transport and dispatching activities in order to allow a firm foreign adequacy contribution (as already mentioned in answer 1);
- ii. market representation evolves to a sufficient level of complexity in order to correctly estimate the relevant grid/dispatching constraints (in fact, as of today, cross border market clearing are modeled with a simplified bidding zone approach).

In any case, even after applying abovementioned extra derating methodologies, Enel considers that the revenues allocation and the conditions of equivalence between foreign and national resources are tasks to leave to the NRA. Only the Authorities should assess whether, and to what extent, there is a real equivalence between the two types of resources in terms of adequacy contribution and consequently when it is correct to proceed to the complete distribution of the congestion revenues. When the CRMs will become more integrated and harmonized, in terms of rights and obligations between foreign and domestic capacity, this prudence could be gradually overcome.

Therefore, we propose to integrate the text of art.14 (determination of sharing key) with the text that Entsoe itself used in its answer to public consultation: "following Art. 26(9) of Reg. 943/2019, the relevant NRA's in the framework of a CM - CM situation are natural actors to determine the sharing of the revenue jointly as in any case, the IEM Regulation has provided the competence of approval by these NRA's. They can furthermore take the last decision on the revenue sharing methodology to apply in a specific case and can adapt it to suit local characteristics."

Coordination between congestion rent from spot market and capacity market should be guaranteed in order to avoid double payments/incentive to the TSO for the same MW of transmission capacity.

Moreover, we ask clarifications about the linkage between:

- The bilateral scarcity ratio P% (art.11);
- The likelihood of concurrent system stress between the considered neighbouring countries (art.14.2.b).

They seems to be similar but it's not clear if they are the same concept or not. If they are the same concept, we suggest to use the same terminology and symbols in both articles (for instance referring in art. 14.2.b to the term P% of art.11).

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.

The foreign contribution is a result of CMU and TSO actions. The role of the TSO connecting foreign resources is relevant in order to correctly estimate the actual contribution of each CMU to a certain CRM. For this purpose the TSO should use perform eligibility checks taking into account the relevant grid constraint inside its own control area. These internal grid constraints should be added to the basic derating factor based on resource availability. In art.16.2.c, the proposed methodology states that same availability checks should apply to domestic and foreign resources. The availability of domestic capacity in the CM bidding zone take account of grid constraints, yet considering that the same TSO can solve those constrains and allow the contribution of the domestic resource. This is not the exact case of foreign capacity, because TSO of CM area has no possibilities to solve those constraints, so the TSO of CM area should incorporate in the derating factor of foreign resources this further uncertainty (higher than the one for domestic capacity).

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.

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.

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.

According to art. 14.3 b), the interconnectors should participate to the sharing of the congestion incomes. To do that, the National Authorities have to update the existing physic and economic exemption conditions.

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.

In the proposed methodology, strategic reserve is never explicitly mentioned. According to art.26.1 of the EU Regulation 943/2019 "where technically feasible, strategic reserves shall be open to direct cross-border participation of capacity providers located in another Member State". Following the latter statement, Enel considers that the methodology should be applied also to Strategic Reserve (SR) mechanisms, since the issues related to assuring a full equivalence between foreign and domestic resources are similar in the different CRM mechanisms.

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

As highlighted in the "Explanatory note" ("Capacity mechanism in the European union" subparagraph) the Regulation 943/19 introduces in Article 26 an obligation to enable direct cross-border participation of capacity providers located in Member States which are electrical neighbours. Furthermore, the Regulation indicates that, where foreign capacity is capable of providing equivalent technical performance to domestic capacities, direct cross-border participation must be implemented at the earlier date between:

- 4 th July 2023;
- 2 years after the date of ACER's approval of the methodologies detailed in this document.

Article 22.5 of Reg. 943/19 foresees that the existing CRMs must be adapted to Chapter IV of Reg. 943/19 which also includes the new method of participation of the cross-border resources currently in consultation. However, art. 21.6 of the same Regulation seems to foresees that the only requirements that is necessary to proceed with the assignment of new contracts are: a) the confirmation of adequacy concerns on the basis of the European Analysis; b) the adoption of the National Implementation Plan on which the Commission must have expressed its opinion. Further, some countries (UK, France, DE) in 2020 held tenders and assigned capacity contracts based on CRM not yet adapted to Reg. 943/2019. Thus, the adaptation to the new methodology seems not to be among the conditions for carrying out new auctions. In this regard Enel, in absence of a clear timeline regarding the implementation of the described methodologies, assumes that if they are not approved when new auction will take place, they will be not transposed.

Contact

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