

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.

It is important to allow for high entry capacity by interconnectors in order to ensure a well-functioning market for capacity mechanisms. The method for calculation entry capacity should not include double re-rating, i.e that availability of the interconnector is calculated twice, both in calculating foreign capacity and interconnector availability.

The proposed methodology suggests that XB- capacity will be calculated in a rather complicated and we fear in a not very transparent way. In order to fully take into account both Electricity Regulation provisions as well as the purpose of capacity mechanisms and the technical limitations we propose to simplify the approach. The maximum entry capacity should be determined by multiplying the physical capacity with the outage rates to reflect the "expected availability of interconnection" and with $(1 - \text{the probability of simultaneous scarcity})$ to reflect the "likely concurrence of system stress". The likely concurrence of system stress could be calculated using ERAA, as suggested. This approach would have the advantage of being simple and transparent.

We want to underline, that such a simplified approach should in any case be used with HVDC interconnectors between two countries. Contrary to some situations between countries with a meshed AC grid, flows on DC can be controlled and there are no loop-flows on DC which can reduce commercially available capacity on AC. In principle we have sympathy with ENTSO-E's aim to have a consistent link between maximum entry capacity methodology for cross-border participation and the methodology, assumption and scenarios used in ERAA. However, the methodology for ERAA is not available yet, and thus one needs experience with the model and use of it before committing to using it in connection with calculating maximum entry capacity for cross-border participation.

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?

No, at this stage it is important to focus on creating and implementing, bearing also in respect the requirements of Article 26 (2) in the EU regulation.

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.

Our view regarding revenue sharing methodology on a constrained interconnector is straight forward and independent of whether the interconnector capacity is used in an energy market, with implicit auctions, or if capacity is sold for use in energy or capacity markets included for capacity mechanisms. The value the interconnector represents is the price difference between connecting market on each side of the interconnector multiplied with relevant transported energy or committed capacity. This congestion rent which is due to the interconnector should be the earning for the interconnector owners, either TSOs or a merchant interconnector, or whether it is owned by one, two or three companies or more. ENTSO-E confirms that Art. 19 of the EU-regulation applies to the use of CRM-revenues, hence 50%/50% sharing of ALL revenues should be obvious. We do not support sharing only a part of the revenue 50/50 which is suggested. The proposal builds double derating in our view, since the probability for Simultaneous scarcity is correctly used as significant input in the calculation of the max entry capacity and there is a very high correlation between the max entry capacity and the factor for simultaneous scarcity. If pSIM is used in addition to determine which part of the revenue is to be shared, this is a clear double derating.

Article 11.2 states that the sharing methodology does not need to apply if the neighbouring Member State does not apply a capacity mechanism. With no perspective to benefit from revenues of the sale of entry capacity, and heavy processes and potential costs to allow the direct participation of assets in the CRM of another Member State, foreign TSOs, nor merchant owners, will have incentive to enter into negotiations with the TSO of the Member State where the CRM is located. This will lead to the de facto exclusion of foreign capacities from appropriate remuneration to the added security of supply they bring to the Member State where the CRM is located and affect competition in the CRM. We believe this is in contradiction with the principle of article 26.1 in Regulation 2019/943. Unfortunately Art 26.9. seems to be in contradiction to this principle in Art 26.1. and ENTSO-Es proposal is in line with Art. 26.9. We think however, that 26.9. is fundamentally flawed in that it treats Member States with no capacity mechanism (i.e. a good level of system adequacy and a functioning market) the same as Member States with a capacity mechanism that is not open to XB participation i.e. not implementing art 26.1.. This is in our view against competition law, and the economic consequence could be that the MS with no capacity market could be incentivised to introduce one. This is against the principle that capacity markets should be a last resort measure. Therefore, we would argue that principle of art 26.1. should be applied as a rule and that art 26.9. should only be applied in the case where a XB capacity mechanism is not open to XB participation. We would therefore recommend that article 11.2 are withdrawn and article 11.1 are modified so the wording applies to all. If pSIM twice (double derating) is still part of the methodology, it should be removed. We also would like to stress that permanent variations in the way pSIM is calculated and hence sharing key do not provide for stable investment signals in new interconnector capacity.

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.

No particular comments

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.

No particular comments

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.

The proposed terms is quite clear, but obviously do not the process of setting up the registry . We stress that when designing and implementing the registry it is important to keep it simple in order to keep cost down and enhance user friendliness.

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.

No particular comments

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.

Article 1: Reliability option types should, to the highest extent possible, be standardized.
Article 2: Internal transmission capacity or electric resources can also be scarce assets.
Article 4: The RCCS shall perform annual calculation of max entry capacity. Annual variation of max entry capacity creates uncertainty regarding new interconnector investments and must be avoided unless there are justifiable reasons for the opposite.

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

The general approach in the EU market regulation, expressed through relevant network codes, EU-regulation 2019/944 and other regulation is gradually harmonisation of markets. The same guiding principles must be enforced regarding cross-border participation in capacity markets. We recognize that ENTSO-E is obliged to develop a methodology for calculating the maximum entry capacity for cross-border participation. The guiding principle regarding calculation of maximum entry-capacity should be to treat XB-capacity and national capacity on equal terms. Too low entry capacity for XB-capacity is a discrimination of foreign capacity. This is unacceptable and not in line with the EU market regulation.

Low entry capacity for XB-capacity reduces incentives to invest in interconnector capacity, HVDC in particular, if this capacity is not allowed to participate in the capacity markets. Low entry capacity further can create disincentives to invest in new generation capacity on market based terms if such capacity is not allowed to participate in the capacity markets through XB-interconnectors, also in situations with similar scarcity. Such barriers for XB-capacity can create a dysfunctional dynamics where most of or all new generation capacity is established in the countries with CRM, increasing the total generation cost unnecessarily in addition to creating barriers to further integrate the European market through increased interconnector-capacity .

In addition to not taking sufficiently into account the concerns raised above, the proposed methodology suggests that XB- capacity will be calculated in a rather complicated and we fear in a not very transparent way. In addition this is proposed to be carried out in a totally different way than transmission capacity within a country or bidding zone, where one seems to assume a copper plate, this results in unacceptable discrimination- ref. comments above.

In order to fully take into account both Electricity Regulation provisions as well as the purpose of capacity mechanisms and the technical limitations we propose to simplify the approach. The maximum entry capacity should be determined by multiplying the physical capacity with the outage rates to reflect the "expected availability of interconnection" and with $(1 - \text{the probability of simultaneous scarcity})$ to reflect the "likely concurrence of system stress". The likely concurrence of system stress could be calculated using ERAA. This approach would have the advantage of being simple and transparent.

We want to underline, that such a simplified approach should in any case be used with HVDC interconnectors between two countries. Contrary to some situations between countries with a meshed AC grid, flows on DC can be controlled and there are no loop-flows on DC which can reduce commercially available capacity on AC-interconnectors.

Contact

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