

## Core TSOs consultation on a long-term capacity calculation methodology



### EFET an MPP response – 10 July 2019

The European Federation of Energy Traders (EFET) and the Market Parties Platform (MPP) welcome the opportunity to provide comments on the draft methodology for long-term capacity calculation (LTCC) proposed by the TSOs of the Core capacity calculation region (Core CCR).

As previously mentioned in EFET responses to other CCRs' forward capacity calculation methodology proposal<sup>1</sup>, forward capacity calculation and allocation is critical to allow market participants to hedge their long-term positions across borders and make sure that they are not exposed to short-term price volatility and imbalance costs. Hence, it is crucial that the calculation methodology for the forward timeframe is robust.

As we see it for the moment, the draft proposal does not show a clear commitment to the first objective listed in article 3 of the Forward Capacity Allocation (FCA) Regulation, i.e. *"promoting effective long-term cross-zonal trade with long-term cross-zonal hedging opportunities for market participants"*. Besides, the proposal should be more detailed in the description of capacity calculation methodology itself, especially when it comes to the selection of CNE(C)s. It should also ensure better consistency with the day-ahead and intraday CCMs for the region, approved by ACER in February 2019.

Furthermore, we would like to underline that in the view of market parties should not be political agreements on pre-determined levels of capacity at given borders, as such bilateral agreements are detrimental to the efficiency of the capacity calculation and the maximisation of welfare at regional level. If there were some, they should at the very least be listed in the capacity calculation methodology and their impact thoroughly assessed.

You will find below our detailed comments on individual articles of the draft methodology.

<sup>1</sup> EFET responses to the SWE and Hansa TSOs consultations on a proposal for a common long-term capacity calculation methodology, respectively dated 15 April and 15 May 2019, and available at: [https://efet.org/Files/Documents/Downloads/EFET\\_ENTSO-E%20consult%20SWE%20LTCC\\_15042019.pdf](https://efet.org/Files/Documents/Downloads/EFET_ENTSO-E%20consult%20SWE%20LTCC_15042019.pdf) and [https://efet.org/Files/Documents/Downloads/EFET\\_Hansa\\_CCM\\_15052019\\_final.pdf](https://efet.org/Files/Documents/Downloads/EFET_Hansa_CCM_15052019_final.pdf).

**Comments on individual articles:**

- **Article 4.2:** *The TSOs of the Core CCR shall provide the Core CCC, sufficiently in advance in time, with the following initial inputs: GSK, CNEC files.*

As listed under article 14 of the proposal, GSK and CNEC files are not the only inputs TSOs should provide to the CORE CCC. Please remain consistent throughout the proposal.

- **Article 5.1:** *The Core TSOs shall use the latest available FRM from the DA timeframe.*

We understand that the proposal is to use the same reliability margin will be used for the day-ahead and forward timeframe. According to article 22.2 of the CACM Regulation, referred to in article 11 of the FCA Regulation, “The methodology to determine the reliability margin shall set out the principles for calculating the probability distribution of the deviations between the expected power flows at the time of the capacity calculation and realised power flows in real time.” This means that reliability margins serve to cover uncertainty between the time of calculation and the time of delivery. Hence, using the *same methodology* to determine reliability margins in DA and forward would be welcome, using the *same exact margins* does not seem appropriate: a specific calculation should be performed for each timeframe. We would welcome more clarity from the TSOs on this point.

- **Article 6.1:** *In accordance with article 12 of the FCA Regulation, referring to article 23(1) of the CACM Regulation, Core TSOs shall respect the operational security limits used in operational security analysis carried out in line with article 72 of the Commission Regulation (EU) 2017/1485 of 2 August 2017 establishing a guideline on electricity transmission system operation (hereafter referred to as the “SO GL”). And article 12:* *The Core CCC shall calculate the long-term capacity values based on likely corners.*

Considering the number of borders in the Core CCR, the operational security analysis will determine “likely corners” for the capacity calculation domain, based on historical data. We would like to draw the TSOs attention on a number of concerns:

- Changing market fundamentals (including grid topology and weather) means that situations change, and the past may not repeat itself. A proper assessment and forecast of possible changes in these fundamentals should be part of the operational security analysis.
- Forward capacity calculation should primarily be based on technical requirements. The past behaviour of market participants should not influence the quantity of forward capacity calculated and allocated, as it has no relevance to the operational security limits and contingencies at the moment of allocation.

Should TSOs want to perform a forward-looking analysis of where the market is likely head at the time of long term allocation, they can check forward market prices (which are already available for the year ahead before the TSOs perform the operational security analysis and the forward capacity calculation) in order to confront their assessment of the likely directions of trades and future flows with the market appreciation. Forward prices represent the view the market has at any moment in time, based on all information available at that moment, of the expected delivery price for a given period. We take note of the concerns of TSOs to have at their disposal “trustable” market quotations and suggest them to liaise with power exchanges and forward price index providers for that matter. Where historical data does not match forward prices in terms of likely direction, TSOs should be particularly cautious.

Provided that these concerns are taken into account, we would have a preference for the top-down approach, as it should theoretically maximise the capacities made available to the market.

- **Article 6.1, 6.2 and 6.3:** *Methodologies for operational security limits*

There is an inconsistency in the equivalence of operational security limits used in the LT CCM and those used in the operational security analysis. Under article 6.1 there are equivalent, under article 6.2, they might differ (by taking the form of an import/export constraint which indicates that the issue is zonal rather than located on one element). We oppose the inclusion in the methodology of a provision opening the possibility for TSOs to include import/export limits in the forward timeframe without proper justification, consultation of other Core TSOs and market participants, and approval by all Core regulators.

- **Article 7.1:** *Each Core TSO shall provide a list of critical network elements (CNEs) and a list of associated contingencies (Cs) of its own control area based on operational experience. The result of the process will be an initial pool of CNECs in all subsequent steps of the common long-term capacity calculation.*

The article does not include the methodology for the CNE(C) selection, which will therefore remain at national level if the methodology is approved as is. This approach is not coherent with the CNE(C) selection methodology for day-ahead and intraday (article 5), which is harmonised at CCR level for the Core region.

Besides, the LTCC proposal does not take account of the requirements laid down by ACER in its decision on the DA and ID CCM for the Core region concerning the removal of internal CNE(C)s from the DA and ID capacity calculation within two years unless properly justified by the TSOs and approved by all CCR NRAs. For consistency reasons once again, we believe the same provision should apply to the LTCC. This will also allow full compliance with article 10.3 of the FCA Regulation (“*The capacity calculation methodology shall be compatible with the capacity calculation methodology established for the day-ahead and intraday time frames pursuant to Article 21(1) of Regulation (EU) 2015/1222.*”)

With such uncoordinated CNE(C) selection and application, between bidding zones and across timeframes, the likelihood of drastically reduced available capacity in the forward timeframe increases.

Furthermore, the methodology should be much more developed on the possible use of minimum RAM to ensure that a sufficient level of capacity is made available to the market.

- **Article 7.3:** *The list of CNEs and the associated contingencies can be updated monthly by the respective Core TSOs.*

The list of CNE(C)s should be systematically approved by all Core TSOs and all Core NRAs, not just updated unilaterally by single TSOs, as laid out in the DA and ID CCM. The review of CNE(C)s should also happen at regular and foreseen intervals rather than ad-hoc and possibly every month. We request that the Core TSOs apply the same requirements as in article 5 of the Core DA/ID CCM.

- **Article 8:** *In accordance with article 13 of the FCA Regulation, Core TSOs developed the following methodology to determine the common GSK:*
  - a. Core TSOs shall take into account the available information on generation or load available in the common grid model for each scenario developed in accordance with article 19 of the FCA Regulation;*
  - b. each Core TSO shall define its GSK based on scenarios with production and load units reflecting TSO's best forecast of flow patterns and market behaviour;*
  - c. each Core TSO shall aim to apply a GSK that resembles the dispatch and the corresponding flow pattern, thereby contributing to minimizing the reliability margin;*
  - d. Core TSOs belonging to the same bidding zone shall determine a common methodology that translates a change in the bidding zone net position to a specific change of generation or load in the common grid model.*

Article 8 does not provide a harmonised methodology for GSKs. Should TSOs think that local specificities prevent harmonisation of principles and methodologies, these specificities should be clearly explained.

Besides, we strongly oppose TSOs starting to forecast “market behaviour” unless by using publicly available information such as forward market prices (see our comment to article 6.1). We believe that it is not the role of TSOs to develop their own models of forward market prices, and that this endangers the principle of unbundling. Forward capacity calculation should primarily be based on technical requirements. The behaviour of market participants should not influence in any way the quantity of forward capacity calculated and allocated, as it has no relevance to the operational security limits and contingencies at the moment of allocation.

We therefore request replacing the terms “best forecast of market behaviour” by “forecast of load and generation profiles” in articles 8.b.

- **Article 9.1:** *Each Core TSO may define a set of available RAs, which is located in its control area. For transparency reasons, all Core TSOs have to be informed about this set of RAs in advance.*

Article 9.1 leaves entire room to TSOs to define the set of available RAs in their control areas, and does not mandate the consideration of costly remedial actions. We believe that costly remedial actions should be systematically considered in the capacity calculation, to the same extent that they are considered in coordinated security assessment. Where economically efficient, costly remedial actions should be taken in order to allocate the maximum of cross-zonal capacity to the market. Congestion “rents” and redispatch “costs” are both financial redistributions elements that should be considered on an equal footing in order to optimise regional welfare.

- **Article 10:** *Each Core TSO can update the year-ahead reference scenarios for the monthly capacity calculation to incorporate the latest available information as regard to the generation pattern and topology (due to grid element commissioning or decommissioning).*

We think the scenarios to be used in the common grid model for the monthly capacity calculation should always be updated, in order to reflect the latest changes in market fundamentals and topology, and hence improve the efficiency of monthly capacity calculation.

- **Article 13.5:** *The Core CCC shall issue a three-monthly report for regulatory authorities that shall include the amount of reduction in cross-zonal capacity, location, and reasons for the reduction, pursuant to article 26(5) of the CACM Regulation. In cases of reduction due to situations as defined in Article 13(1)(c) the report shall contain measures to prevent similar mistakes to occur again.*

We would recommend making the report for all reductions made during the validation of cross-zonal capacity available to the public as well, for transparency reasons.