

Subject: MPP response to European Commission Consultation on the revision of the Capacity Allocation and Congestion Management Regulation

17. Under which conditions the flows resulting from capacity calculation and allocation with third countries could be counted within the 70% of minimum capacity of critical network elements that needs to be offered to the market? Please motivate your response: why and under which conditions?

MPP asks both ACER and EC to recognise that the electricity grid in Europe does not end at the EU borders but is closely interconnected with third countries. Exchanges with third countries play an inherent and important role in the achievement of the internal market, though not being directly part of the internal market itself. This is particularly relevant with regard to Switzerland, which is highly integrated with the electricity networks of continental Europe and is a crucial link between the very liquid and well-developed markets of CWE and the Italian electricity market. An exclusion of Switzerland from capacity calculation and allocation processes as well as from the coordination of remedial actions poses a threat to a secure system operation, leads to inefficiencies and bears the risk of a substantial welfare loss in the whole region.

We agree with the ACER's request to EC on this topic, cf. CACM GL reasoning points (106), (107) and (112). Beyond political issues and as matter of market efficiency and operational security, we call for the definition of a dedicated framework for third countries in the frame of the CACM Regulation revision, notably regarding coordinated capacity calculation process and congestion management.

MPP asks the European Commission to

- ensure that the flows between third countries and EU countries are taken into account in a non-discriminatory way in the cross-zonal capacity calculation process and recognize flows resulting from exchanges with third countries as counting towards the 70% target for capacity available for cross-border trade in the Electricity Regulation Art. 16(8);
- ensure that the limiting elements from third countries with a high level of physical interconnection with EU countries are taken into account in the capacity calculation of adjacent capacity calculation regions.

If flows are not taken into account, this would make it even more difficult to respect the 70% threshold on the borders with third countries. Indeed, more virtual capacity would be needed to respect the 70% threshold because cross-border flows with those countries would not be taken in the MACZT, and this would require the use of more corrective measures to ensure the physical feasibility of these commercial flows.

In addition, in case of third countries with a high level of interconnections with EU countries, like Switzerland, third country flows which are not taken into account could lead to social welfare losses for EU Member States (in the case of capacity reductions used to ensure 70% compliance but affecting transit flows, e.g. from Germany to Italy). A cost benefit analysis on this matter could lay a common quantitative ground in order to assess the social welfare

variation on EU Member States. Finally, scenarios of exclusion of third country flows could also lead to an increased risk with regard to security of supply for specific EU Member States, and this risk should be quantitatively assessed.

Finally, MPP would like to point out that according to the Electricity Regulation Article 16 (8), 70 % of the transmission capacity (NTC approach) or a margin of 70% set in the capacity calculation process (flow-based approach) respecting operational security limits after deduction of contingencies should be available for flows induced by cross-zonal exchange, whereas 30% can be used for reliability margins, loop flows and internal flows. Within this conclusive list, flows resulting from transactions between an EU member state and a third country belong to the category of cross-zonal flows and should therefore be counted within the 70% MACZT. In contrast, these flows can neither be considered as reliability margin, loop flows nor internal flows.

18. How to ensure proper coordination of capacity calculation and allocation on borders with third countries and that there is no discrimination towards internal EU trade?

MPP supports the integration of and close cooperation with very well interconnected third countries, which are part of the synchronous area of Continental Europe – like Switzerland – and is of the opinion that this is crucial for an efficient market functioning and further integration of the European internal electricity market.

To reflect this, we propose to introduce a Whereas to frame the key principles of CACM GL applicable concerning third countries.

“Capacity calculation for the day-ahead and intraday market time-frames in the Union and capacity calculation at the borders with third countries mutually influence each other. The Union, Member States and TSOs of a capacity calculation region should therefore aim for a coordinated capacity calculation, allocation and congestion management process with third countries, in particular for third countries with a high level of physical interconnection with EU countries and/or belonging to a same synchronous area as EU countries. ENTSO for Electricity should facilitate cooperation between Union TSOs and third country TSOs in this regard.”

According to MPP, the activities to be covered by a proper coordination are:

- i. the consideration of internal network constraints of the third countries for intra-EU capacity calculation,
- ii. the calculation of cross-zonal capacities and congestion rent allocation at borders with third countries,
- iii. the implementation of remedial actions.

A legal basis should be set up for any coordination.

CACM GL should mandate ENTSOE and EU TSOs to coordinate capacity calculation, allocation and congestion management with third countries:

- This is necessary at least for countries in the same synchronous area as EU countries – in consistency with SO GL provisions for a secure system operation – see SO GL Whereas (15) and Article 13, and with Electricity Regulation Whereas (70) and Article 30(d) calling

for a close cooperation aiming at the integration of electricity markets and security of supply.

- When a CCR has common borders with a third country, EU Member State's TSOs of this CCR should be mandated to develop and propose agreements setting the basis for their cooperation concerning secure system operation, capacity calculation, allocation and congestion management.
- In line with the existing process for EU CCMs, the corresponding NRAs in the EU should be entitled to approve the requested amendments and agreements and in case of disagreement escalate the decision to ACER.

MPP requests that CACM GL include provisions for the borders with third countries in the capacity calculation and coordinated congestion management process, based on:

- Option 1: integrating borders between EU countries and third countries in existing CCRs,
- Option 2: bilateral or multi-lateral agreements for borders with third countries.

As a concrete proposal we propose to replace Article 1(4) and 1(5) of the current version of CACM and add directly in Article 26 (Capacity calculation methodology):

“Each capacity calculation region shall consider adjacent third countries in the coordinated capacity calculation process and operational security assessment:

- Option 1: include borders with third countries in existing CCRs;
- Option 2: capacity calculation methodologies to consider third countries critical network element contingencies and flows stemming from third countries.”

And to modify Art. 26(2) as follows: “(b) a detailed description of the capacity calculation approach which shall include the following: [...]

ii. rules for avoiding undue discrimination between internal and cross-zonal exchanges to comply with Article 16(8) of the Regulation 2019/943 taking into account principles set in Article 14(1) and 16(1) of the Regulation 2019/943

iii. rules for avoiding undue discrimination of cross-zonal exchanges on different borders within the same CCR, in different CCR or with third countries”.

On the second part of the question about “discrimination”, MPP would like to stress that:

- These provisions are to be taken without prejudice to EU internal trades;
- On the contrary, not taking into account the flows between third countries and EU countries would have a negative impact on some EU countries as explained above (in particular in link with the application of the 70% target).