

Methodologies and common rules for cross-border participation in capacity mechanisms

A Eurelectric response paper

March 2020

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- A smart, energy efficient and truly sustainable society for all citizens of Europe

We are committed to lead a cost-effective energy transition by:

investing in clean power generation and transition-enabling solutions, to reduce emissions and actively pursue efforts to become carbon-neutral well before mid-century, taking into account different starting points and commercial availability of key transition technologies;

transforming the energy system to make it more responsive, resilient and efficient. This includes increased use of renewable energy, digitalisation, demand side response and reinforcement of grids so they can function as platforms and enablers for customers, cities and communities;

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embedding sustainability in all parts of our value chain and take measures to support the transformation of existing assets towards a zero carbon society;

innovating to discover the cutting-edge business models and develop the breakthrough technologies that are indispensable to allow our industry to lead this transition.

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KEY MESSAGES

- **Eurelectric is rather disappointed with the quality of the methodology presented by the ENTSO-E.** While we fully understand the challenging timeline for ENTSO-E to develop the different pan-European methodologies, we strongly regret that **this challenging timeline results in the lack of time and resources to draft a fit-for-purpose methodology.** Therefore, we believe that market participants' opinion should be comprehensibly taken into account when developing and implementing final methodology, like this is the case for implementation of methodologies under electricity market guidelines such as CACM, FCA and EB.
- **On the proposed methodology for calculating the maximum entry capacity :**
 - The proposal from ENTSO-E to refer to the average of imports during scarcity events could result in **setting maximum entry capacities at a level that overestimate the actual contribution of foreign capacities**, hence impairing the sole purpose of capacity mechanisms to ensure the security of supply.
 - **This maximum entry capacity should reflect:**
 - **a level of net transfer capacity** that is expected to be available during stress events;
 - **a level of foreign export margin** that could be expected to be relied upon during stress events.

The assessment of the right level of maximum entry capacity should be linked to the outcomes of resource adequacy assessments and an energy policy choice: a too high level (given the expected distribution) could endanger the actual security of supply while a too low level (given the expected distribution) could unduly reduce the contribution from foreign capacities.
- **Full consistency is needed between the ERAA methodology** and this methodology under consultation; particularly to avoid artificial mismatch.
- **On the methodology for sharing the revenues :**
 - **Eurelectric is in favour of the “50/50” sharing key defined in Article 13.3 for the allocation of revenues.** This would ensure consistency with the sharing of congestion rent on cross-border energy trading.

- **All revenues should be taken into account when defining the total revenues to be shared between TSOs.** Revenues obtained by the TSOs from capacity allocation resulting from cross-border capacity market participation are congestion rent. They shall be used in priority to finance the associated CRM costs.
- **On the common rules for determining when a non-availability payment is due :**
 - Eurelectric would like to underline the importance of the principle of exclusivity, ensuring that no double commitment of capacity occurs in capacity mechanisms targeting overlapping time frames for scarcity or overlapping periods of obligation. Allowing double commitments would in particular conflicts with the main objective of security of supply.
 - The penalties would need to be sufficient to avoid capacity providers “overcommitting” themselves and receiving overcompensation relative to their (lack of) actual contribution to security of supply in case of simultaneous scarcity in committed markets.
 - More generally, the rules for determining when a non-availability payment is due should be holistic and developed in a framework wider than the implementation of capacity mechanisms

1. Would you have any comments related to the part specifying the General provisions?

1.1. Article 2 : Definitions and interpretation

- **Our first concern on this part is related to the definitions and their link to the actual capacity mechanisms.** In our opinion the definitions of “availability”, “availability checks”, “capacity market contract” and “activation” given in the Article 2 may be not applicable to some types of capacity mechanisms.

The ENTSO-E methodology is not providing clarity on how cross-border participation in capacity mechanisms will be impacted between capacity providers in a self-dispatch system and capacity providers in a central dispatch system.

In particular, it is crucial for centrally dispatched systems where the units are marked as centrally and non-centrally dispatched units. In case of centrally dispatched units, the execution of the capacity contracts may cover being “available” to generate upon the request from the relevant TSO. However, there are also non-centrally dispatched units, which could fulfil their capacity market contract obligations by providing the electricity to the grid during scarcity events. Even if a unit is available to produce, it might not be able to actually produce the corresponding energy if the lead time for start-up is not sufficient (i.e. the stress situations are not properly anticipated).

- **In addition, the definitions of “scarcity” and “Energy Not Served” are too vague.** We would welcome clarifications on what is meant by “ENS” in ENTSO-E draft methodology: it is indeed unclear whether it refers to the market ENS (i.e. situations when resources offered in the energy market – excluding operational reserves – are not enough to cover the demand) or to the effective load shedding (i.e. after triggering strategic reserves if applicable, and manual operational reserves).

For consistency reasons with the ERAA, we believe that these ENS should be related to the market ENS. Otherwise, the latter one could correspond to an unstable system, which is not identified within the ERAA.

Therefore, we propose to refer rather to “stress situations” rather than to “scarcity hours” as it is a much broader concept.

- **Moreover, the definition of “Foreign capacity” as a “capacity located in a Member State different from the Member State applying the capacity mechanism” does answer to the challenge of Brexit and its impact on the energy market.** The Single Electricity Market (SEM) is indeed in place on the island of Ireland and therefore covers both Ireland – which is a MS - and Northern Ireland, which is not. Therefore, in the SEM the capacity mechanism is not “applied” by a single MS and the capacity contracted in neither jurisdiction can be deemed ‘foreign’. Clarity should be ensured by ENTSO-E on this point.
- Last but not least, **consistency in the definitions of key concepts should be ensured between the ERAA methodology and this one.**
- The methodologies apply to the “target model”, where interconnector operators (TSOs and merchant operators) do not participate directly in the CRMs. But the experience so far (with previously approved CRMs starting an “interim” solution where the TSO is planning, and legally obliged, to gradually open up for direct participation of foreign participation) has resulted in little direct participation of foreign capacity. The main challenge was the complexity of setting up bilateral arrangements, combined with the low likelihood of foreign TSOs to recuperate some of the congestion rent from interconnection rights has

deterred TSOs from concluding bilateral agreements for direct XB participation. This gives us one question regarding the methodologies:

- A clear framework to ensure direct participation of capacity providers (generation, DSR, storage) becomes a reality by putting in place the right incentives rather than legal obligations which in practice will not be fulfilled.

Eurelectric believes that the provisions contained in the new Electricity Market Regulation (Article 26, §10) are crystal clear and that TSOs have now an obligation to make all necessary arrangements (a.o. interest of foreign capacity providers, availability checks, notifications) to enable cross-border participation.

1.2. Article 3 : Costs incurred by the implementation of cross-border participation

Explicit cross-border participation contributes to competition between domestic and foreign capacities in the capacity markets, which could help reduce the overall cost of CRMs and therefore benefit the end-user electricity consumers. However, **the participation of foreign capacity in the national CRMs might also induce more or less important administrative costs**. The higher the number of specific TSO tasks are required for enabling cross-border participation, the higher the administrative costs should be expected. **It is important that the allocation of those costs do not create any discrimination between the domestic and the foreign capacity providers.**

Thus, **two options should be foreseen regarding the allocation of costs incurred by the implementation of cross-border participation.**

a) All related costs are not passed to neighbouring countries.

TSOs must meet their tasks and obligations related to the participation of capacity connected to their system into a neighbouring CRM without transferring the costs to other TSOs. Inherent obligations emanating from Directive 2019/944 and Regulation (EU) 2019/943 would justify this option.

b) Full administrative costs are covered by the country where the CRM is implemented.

Alternatively, it could be deemed that **administrative costs above a certain baseline level should be covered by the country implementing the CRM** (for instance if administrative costs are considered particularly high due to frequent availability checks, stringent requirements, etc). Foreign administrative costs would then be considered additional to the inherent administrative costs of the national CRM.

The rationale behind such proposal is that cross-border capacity participation could lead to (much) higher total costs of CRMs in case the foreign administrative costs are higher than the local administrative costs. In order to ensure non-discrimination between domestic and foreign capacity bidders, this aspect should be avoided and therefore properly handled by regulatory authorities when discussing the practicalities of the cross-border participation and when overseeing its implementation. **The observations above plead for having the most straightforward and automated process for availability checks so as to minimize the cost overhead.**

For both options, it should be ensured that the allocation of administrative costs (local and foreign) do not create any discrimination between foreign and domestic providers.

1.3. Miscellaneous :

Eurelectric observes that strategic reserves are never mentioned explicitly in the proposed methodology. However, Eurelectric recalls that the electricity market regulation mentions the possibility of a cross-border participation for this type of CRM.

Indeed Article 26(1) of Regulation 943/2019 states that “*where technically feasible, strategic reserves shall be open to direct cross-border participation of capacity providers located in another Member State*”. Therefore, the proposed methodology should also cover strategic reserves and guarantee that a level playing field is also ensured for foreign capacities in that case. **ENTSO-E should not pre-empt the decision on the technical feasibility of cross-border participation in strategic reserves; it should discuss in the explanatory document provided with the methodology how the proposed methodology would apply to the cross-border participation of strategic reserve.**

2. Would you have any comments related to the part specifying the methodology for calculating the maximum entry capacity?

Eurelectric believes that the methodology for calculating the maximum entry capacity presented by the ENTSO-E is not adequately defined.

We fully understand the challenging timeline for ENTSO-E to develop the pan-European methodologies under the Electricity Regulation, in particular on ERAA and on cross-border participation in CRM. However, we strongly regret that this challenging timeline results in the lack of time and resources to draft a fit-for-purpose methodology.

1. First, the **proposed approach for the maximum entry capacity is seriously flawed**. Indeed, it refers to the **average of imports during (single/simultaneous) scarcity** events and therefore does not take into account the actual purpose of capacity mechanisms to ensure the security of supply.

Indeed, **the current proposal will result in setting maximum entry capacities at a level that could overestimate the contribution of foreign capacities to adequacy during some of stress hours**, hence impairing the sole purpose of capacity mechanisms to ensure the security of supply. The use of an *average contribution* doesn't factor the situations where stress situations are more severe.

Eurelectric believes that the maximum entry capacity on a border should not be a theoretical average value based on a modelling exercise as it could have a substantial impact on the economy of the Member States.

This maximum entry capacity should reflect:

- a level of net transfer capacity that is expected to be available during stress events;
- a level of foreign export margin that could be expected to be relied upon during stress events.

The assessment of the right level of maximum entry capacity should be linked to the outcomes of resource adequacy assessments and an energy policy choice: a too high level (given the expected distribution) could endanger the actual security of supply while a too low level (given the expected distribution) could unduly reduce the contribution from foreign capacities.

The assessment of the foreign export margin is probably most stringent: the contracted capacity should be as firm as possible. **This means that the maximum entry capacity should be set at the**

level of technically possible imports during stress events. Otherwise, there is a risk that a significant amount of capacity may be procured from foreign capacities that may not be able to supply electricity to the capacity market area.

In order to fully take into account both Electricity Regulation provisions as well as the purpose of capacity mechanisms and the technical limitations, **Eurelectric proposes to determine the maximum entry capacity on the basis of an extensive information, i.e. the distribution of import/export balance during all scarcity events.**

The estimation of maximum entry capacity must take into account the level of uncertainty on the direction of flows over interconnectors, particularly during periods of simultaneous stress.

The policy target should be to define somehow the foreign capacity expected to secure effectively -solely by their availability -the export margin of the neighbouring countries and to deliver effectively an incremental security of supply. This is exactly similar to the treatment of local intermittent RES generation, which are actually derated based on their effective or expected contribution to the security of supply to the country. The foreign capacity should be contracted in the local capacity market only if its availability is expected to actually secure the export margin in stress situations, esp. in case of simultaneous scarcity situations at regional level. **Otherwise, the foreign capacity contracted in the capacity market would actually be remunerated for a service (contribution to the local security of supply) that it cannot secure on its own.**

2. Second, we would like to point out that there is no final methodology for ERAA available yet and that **full consistency is somehow needed between the ERAA methodology and this methodology under consultation.** It is crucial to ensure that ERAA outcomes are as reliable as possible and reflect the reality of the physical flows and market functioning in order to allow for a straight forward definition of “maximum entry capacity”. In particular:

- It is important **to avoid creating an artificial mismatch between the outcomes** of:
 - **The European or national adequacy assessment** reflecting some fundamentals (e.g. expected availability of interconnections and expected contribution of foreign capacity in times of system stress) set up in the ERAA methodology,
 - **The maximum entry capacity on a border** (setup in this methodology under consultation),
 - **The foreign capacity that would like to participate / actually contribute to the incremental security of supply in the “home” capacity market** (cf. auction process).

Indeed, the ERAA outcomes used to compute the maximum entry capacity reflect both the technical availability of interconnections but also the available capacity margin in neighbouring countries in order to respond to a country’s needs. If this maximum entry capacity is lower than the commercial capacity of the interconnections, then the scarce resource during stress events is the foreign capacity (and not the interconnector itself).

- **If the drafted approach towards building Central Reference Scenarios in ERAA methodology is sustained, there may be a serious issue of underestimating the actual threat to system adequacy.** As mentioned in our [response paper to the ERAA consultation](#), if the scenario considering CM looks at schemes as “approved” and not “as applied”, there is a risk of over assessing the capacities eligible for support . For example, if the CM was introduced before the entry into force of the Electricity Regulation, the ERAA will not take into account the influence that the CO2 EPS in CRM had on economic viability of assets. As

a consequence, the contribution in cross-border participation will be set on much higher level than it should be.

- In addition, Art. 9 of the present methodology mentions that *“Transmission capacity assumptions shall be consistent with the assumptions used in the ERAA”*. The Electricity Regulation provisions require to *“takes into account real network development”*. **As mentioned in our response to the ERAA consultation, in order to achieve consistency with real network development as required by the Electricity Regulation, ENTSOE should consider projects in development phase only.** We would also welcome clarifications on the last two paragraphs of Art. 9.

As we do not know the final provisions of ERAA methodology, we should keep in mind the strong interlinks between this methodology as designed in Article 9 and ERAA methodology.

3. **Eurelectric wants to stress that the whole methodology relies on the outcome of the ERAA and that it should ensure that some specific features of the electricity system are properly modelled.** For instance, one could question how HVDC interconnectors between two countries are treated. Indeed and contrary to situations with only a meshed AC grid, energy flows on DC links can be controlled and the avoidance of loop-flows on AC should avoid a reduction of commercially available capacity on AC. Ramp rates should be adequately taken into account.

Overall we believe that our pragmatic proposal is in line with our understanding of co-legislator’s purpose, presented especially in art. 26 (7) of IEM Regulation, stating that: “That calculation shall take into account the expected availability of interconnection and the likely concurrence of system stress in the system where the mechanism is applied and the system in which the foreign capacity is located.” On the contrary, the current proposal from ENTSO-E seems to address these requirements only formally, not practically.

3. **Would you have any comments related to the part specifying the methodology for sharing the revenues?**

There are a number of elements that may raise concerns and that needs to be considered by TSOs and NRAs when defining the methodology for sharing the revenues:

3.1 Article 13.3 : Allocation of revenues :

- Regarding the determination of the sharing key of the total revenues, **Eurelectric is in favour of the “50/50” sharing key defined in Article 13.3. This would ensure consistency with the sharing of congestion rent on cross-border energy trading.**
- However, as foreseen in Article 13.3, NRAs should have also the possibility to apply different sharing key to make a fair congestion rent allocation, coherent with the potential different realibility level between domestic and foreign capacity.

3.2 Article 12 / Article 13.2 : Determination of the total revenue considered for sharing :

The different options 1 and 2 proposed in Article 13 both look confusing and not fit-for-purpose. Eurelectric is of the opinion that **all revenues should be taken into account when defining the total revenues to be shared between TSOs.**

- We also would like to point out that **revenues obtained by the TSOs from capacity allocation resulting from cross-border capacity market participation will effectively be congestion income. Therefore, such revenue should be deducted from the income used by the TSOs in tariff** in order to contribute to objectives stated in art. 19 of IEM Regulation.

Otherwise there may be a situation in which the TSO has a conflict of interest because it determines the Maximum Entry Capacity and is also the one who benefits from the „capacity market congestion rent” resulting from this Entry Capacity. Such revenues obtained by the TSOs from capacity allocation resulting from cross-border capacity market participation shall be used in priority to finance the associated CRM costs.

- We would welcome a confirmation of the following: if the “Entry Capacity” is smaller than the “Maximum Entry Capacity”, our understanding is that the first one will be a volume which is multiplied by the price difference between the national capacity and the foreign capacity price.
- **Art.13.2: the proposed options for the total revenue for sharing seem to be double counting of concurrent system stress.** Maximum entry capacity (art.4) already accounts for concurrent scarcity, and in art.13.2 the total revenue (based on this max entry capacity) is again multiplied with a factor representing concurrent scarcity. We do not understand nor support such approach.

3.3 Article 11. 5-6-7 : Determination of the scarce resource :

- **Art. 11. 5-6-7 are very dubious on the determination of the scarce resource.** If the maximum entry capacity is lower than the technically available entry capacity (cf. art. 4 with the two options, this is already explicitly recognized), we believe that the generation should be considered as the scarce resource, not the interconnection capacity. This assessment of scarce resource should not be done again with the allocated capacity.

3.4 Article 12 : Uniform pricing assumption :

- **Art. 12 seems to assume uniform pricing of the capacity market, which is not necessarily the case** (decentralized markets, strategic reserves, pay-as-bid, etc...). The methodology should cover all types of pricing of the capacity market otherwise the determination of the revenue from XB participation becomes very dubious. When determining the total revenue considered for sharing in case of implicit allocation, article 12 establishes that it should be calculated as the difference between the price offered in the capacity mechanism by last contracted capacity and the last contracted foreign capacity.

4. Would you have any comments related to the part specifying the common rules to carry out availability checks?

- According to Art. 17, *“contracted capacity is deemed to be available when it has commitments related to the DA/ID or the ancillary services market but is not able to actually deliver due to national or supranational requirements including but not limited to congestion management”*. Indeed capacity providers shouldn’t be penalized due to such external constraints. However, we should avoid that the system incentivizes the surge of national grid constraints (e.g. in the occurrence of simultaneous scarcity situations). Congestion remedy actions to maximize the availability of interconnection capacity and foreign capacity, post-check analysis of the unavailability of foreign capacity scarcity events or other equivalent measures could be defined. They might lead to liabilities and compensation costs for the non-delivery of contracted capacity in neighbouring countries.
- Eurelectric is supportive of the need to carry out availability checks. In order to keep the costs linked to capacity mechanism implementation low, we recommend such availability checks should rely as much as possible on existing reporting, such as REMIT, in order to minimize CRM related costs for all consumers. Moreover, the use of REMIT would allow in addition to have more visibility on the availability of assets, particularly for the bigger ones.

However, the scope of REMIT does not include smaller capacity providers or DSR/aggregation operators. Alternative means to check the availability of those types of smaller assets should therefore be found.

- In addition, information will need to be available as to how cross-border thermal plants are in compliance with the EPS provisions of Regulation 943/2019.

5. Would you have any comments related to the part specifying the common rules for determining when a non-availability payment is due?

- First of all, Eurelectric would like to underline the importance of the principle of **exclusivity, ensuring that no double commitment of capacity (or double earnings) occurs in capacity mechanisms targeting overlapping time frames for scarcity or overlapping periods of obligation**. When capacity derating is not determined ex-ante, enabling multiple commitments could require developing a complex set of arrangements between national authorities to establish the likelihood of contributing to security of supply in each. Double commitment also directly conflicts with the main objective of security of supply of capacity mechanisms. This is a principle we have strongly advocated during the elaboration and adoption of the Electricity Regulation.
- The following principles could be followed to ensure that contract holders are regularly providing the service for which they have been contracted :
 - **All capacity providers should be incentivized to be available and to be controlled during the delivery obligation period of capacity contracts, in particular during peak times** (or usually defined peak times). This could be done by performing availability checks during monitoring periods, linked somehow to possible stress events.
 - **Simultaneous availability checks should be done so as to reflect the likelihood of simultaneous scarcity situations**, being equally applicable to domestic and foreign capacities.
 - **Non availability penalties are expected to be applicable only when capacity providers are not available in times of system stress**. In the case of cross-border capacity exchanges between a Member State and its neighbours (all having a capacity mechanism in place), the penalties would need to be sufficient to avoid capacity providers “overcommitting” themselves and receiving overcompensation relative to their (lack of) actual contribution to security of supply in case of simultaneous scarcity in committed markets. **Foreign capacity providers should be subject to the same regime of reward and penalties as national capacity providers**.
 - More generally, **the rules for determining when a non-availability payment is due should be holistic and developed in a framework wider than the implementation of capacity mechanisms**. Indeed, this is crucial to avoid discrimination between capacity providers in an energy-only market and capacity providers in a market with capacity mechanisms. Indeed, the case of a capacity provider in an energy-only market overcommitting itself is not tackled in the proposed rules.
- **Linked to this point, overall we believe that the methodology on cross-border participation in CRM overlooks operational aspects**. An appropriate legal and operational framework for managing simultaneous scarcity events (e.g. handling of existing contracts and conduct of TSOs) –possibly completed by intergovernmental agreements- is needed.

In particular, -the provisions on the difference of capacity bid prices to be shared among TSOs should be assessed carefully.

6. Would you have any comments related to the part specifying the terms of operation of the Registry?

- Art.25.3/27.1: Capacity Holders should also have access to the registry to check the data included, and be able to detect/highlight outdated/wrong data.
- **The interaction between the registry and other databases (REMIT, national capacity registries ...) should be clarified to avoid** multiple submissions of the same data to different databases (e.g. double reporting obligations). This would lead to increased workload and risk of inconsistent data.

We would welcome clarifications on the following elements:

- **More details should be given on who is responsible for the timely and correct submission of data to the registry.** In particular, it should be clarified what would happen if wrong/delayed data submission leads to ineligibility of participation to XB CRM. There seems to be different standards for capacity provider and TSO (art.27.2): capacity provider has to submit 'without delay' and the TSO has to update in the registry 'in a timely manner'.
- **Clarity should also be given on the criteria for 'positive or negative result of the registration process.** Is this purely a data-check process?
- The concrete implications of the annual verification process defined in Article 30-5.
- More generally: the registry seems to be an 'address book' rather than an adequate / fit for purpose tool for organizing XB CRM participation. **Rather than limiting it to the lowest common denominator in terms of data, it should be set up in a sufficiently flexible manner to allow the actual organization of XB participation to a CRM.** This requires that TSO would be obliged to input/request the necessary data for participation through the registry, and have a registry that can technically handle this. This would avoid having to work with multiple technical solutions and multiple submission of the same data to such different technical solutions.

7. Would you have any comments related to the part specifying the common rules for identifying capacity eligible to participate in the capacity mechanism?

We would like to emphasize the need to apply eligibility criteria for foreign capacity providers that would be as close as possible to the ones that are applicable to the domestic ones, also in terms of de-rating of different types of assets by including their individual per technology reliability standard (if applied for domestic resources). Only such approach may ensure the non-discrimination principle, provided in art. 26 IEM Regulation.

8. What is your general feedback on the proposal and would there be anything you would like to add?

- We are rather disappointed with the quality of the methodology presented by the ENTSO-E. We fully understand the challenging timeline for ENTSO-E to develop the pan-European methodologies under the Electricity Regulation, in particular on ERAA and on cross-border participation in CRM. However, we strongly regret that this challenging timeline results in the lack of time and resources to draft a fit-for-purpose methodology. Therefore we believe that market participants' opinion should be comprehensively taken into account when developing final methodology.

- Moreover, the proposal reiterates a lot of primary legislation that is redundant: art.9, art.11.1/2, art.14.1/2/3...
- The proposal contains a lot of vague / non-enforceable provisions, e.g.:
 - Definition of 'near-scarcity'(Article 2.(v)) : the exact volume of demand increase [...] which would cause a scarcity situation should be specified
 - Definition of 'total possible import' (Article 2.(y)) : the assumptions for the definition of what is "technically possible" should be further detailed. (What is the reference: thermal capacity, N-1, ...?)
 - Art.23.1: the exact framework for the applicability of the "best practices" should be more detailed.
- The proposed methodology should specify that foreign assets participating to cross-border capacity mechanisms should also include the assets in very well interconnected third countries that are part of the synchronous grid of Continental Europe as long as they can provide a comparable contribution to security of supply.

Eurelectric pursues in all its activities the application of the following sustainable development values:

Economic Development

- Growth, added-value, efficiency

Environmental Leadership

- Commitment, innovation, pro-activeness

Social Responsibility

- Transparency, ethics, accountability



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