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ACER public consultation on the SAP, CID and FRC amendments for long-term flow-based allocation

A Eurelectric response paper

November 2022

Eurelectric represents the interests of the electricity industry in Europe. Our work covers all major issues affecting our sector. Our members represent the electricity industry in over 30 European countries.

We cover the entire industry from electricity generation and markets to distribution networks and customer issues. We also have affiliates active on several other continents and business associates from a wide variety of sectors with a direct interest in the electricity industry.

We stand for

The vision of the European power sector is to enable and sustain:

- A vibrant competitive European economy, reliably powered by clean, carbon-neutral energy
- 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;

accelerating the energy transition in other economic sectors by offering competitive electricity as a transformation tool for transport, heating and industry;

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.

Dépôt légal: D/2022/12.105/46

WG Market Integration & Network Codes

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Introduction

Introducing long-term flow-based allocation requires amendments to the relevant terms and conditions or methodologies under Commission Regulation (EU) 2016/1719 establishing a Guideline on Forward Capacity Allocation (‘FCA Regulation’). To this aim, all transmission system operators ('TSOs') have submitted to ACER the following proposals for amendments:

- all TSOs’ proposal for amendment of the establishment of a Single Allocation Platform (SAP) in accordance with Article 49 of the FCA Regulation and for the cost sharing methodology in accordance with Article 59 of the FCA Regulation (‘**SAP Proposal**’);
- all TSOs’ proposal for amendment of the Congestion Income Distribution (CID) methodology in accordance with Article 57 of the FCA Regulation (‘**FCA CIDM Proposal**’); and
- all TSOs’ proposal for amendment of the methodology for sharing costs incurred to ensure firmness and remuneration of long-term transmission rights in accordance with Article 61 of the FCA Regulation (‘**FRC Proposal’**)

ACER has six months (until 28 March 2023) to take decisions on the above Proposals. The objective of this consultation is to gather views and information from stakeholders to inform ACER’s decision-making.

This consultation is addressed to all interested stakeholders in the EU and EEA, including regulatory authorities, market participants and transmission system operators.

Please respond to this survey by 23 November 2022 23:59hrs (CET).

In case you have questions related to this survey, please contact Martin Viehhauser (martin.viehhauser@acer.europa.eu).

Context

On 28 September 2022, following ACER’s request, all TSOs submitted to ACER three Proposals for amendments to the following existing terms and conditions or methodologies approved by all national regulatory authorities (‘NRAs’) or by ACER:

- The initial ‘all TSOs’ proposal for a set of requirements and for the establishment of the SAP in accordance with Article 49 of FCA Regulation and for SAP Cost Sharing Methodology in accordance with Article 59 of FCA Regulation’ was approved by all NRAs on 18 September 2017.
- The initial ‘all TSOs’ proposal for a congestion income distribution methodology in accordance with Article 57 of the FCA Regulation’ was approved by all NRAs on 22 May 2019.
- The initial ‘all TSOs’ proposal for a methodology of sharing the costs of ensuring firmness and remuneration of LTTRs in accordance with Article 61 of the FCA Regulation’ was approved by ACER on 4 October 2021 (ACER Decision 12/2021, replacing ACER Decision 25/2020).

The TSOs will propose amendments to the harmonised allocation rules (‘HAR’) pursuant to Article 51 of the FCA Regulation by 1 March 2023.

Amendments of the above methodologies are needed to enable the implementation of two ongoing projects for flow-based cross-zonal capacity calculation and allocation, in the Core and Nordic Capacity Calculation Regions (CCRs). In the Nordic CCR, the long-term capacity calculation methodology under Article 10 of the FCA Regulation (FCA CCM) was approved on 30 October 2019 (ACER Decision 16/2019). The FCA CCM of the Core CCR was approved on 3 November 2021 (ACER Decision 14/2021).
As the two methodologies are based on flow-based cross-zonal capacity calculation, they can only be fully implemented once capacity calculation results are allocated with long-term flow-based allocation.

Topic 1: Single Allocation Platform (SAP) Proposal

The SAP Proposal lays down the functional requirements, governance, liabilities and cost sharing methodology for the SAP. The most relevant amendments in the SAP Proposal relate to the functioning of the SAP's algorithm for allocating cross-zonal capacities in the form of long-term transmission rights ('LTTRs'), i.e. Article 39 and Annex to the SAP Proposal.

Possible impacts on market participants

The SAP methodology contains requirements for the functioning and the governance of the SAP. The harmonised allocation rules (HAR), to be amended and consulted separately next year, govern the interactions between the SAP and the market participants. Some functional requirements defined in the SAP Proposal may have implications for the requirements of the HAR, and therefore on market participants.

Q1.1
Do you have any comments on the proposed requirements for the long-term allocation algorithm (i.e. Article 39 and Annex to the SAP Proposal)?

Comments on article 39:

Article 39.14: we welcome the fact that the details of the algorithm shall be published on the operator website.

Comments on the Annex to the SAP proposal:

General comments on the annex:

The SAP proposal update is mainly related to the introduction of a Flow Based Auction (FBA) for the allocation of Long-Term Transmission Rights (LTTR). This is a natural consequence of ACER decision 14-2021 where ACER decided to introduce a Flow Based Capacity Calculation methodology for the long-term timeframe in the CORE region, without covering a possible NTC extraction (out of the Flow Based Domain) for the allocation of LTTR to perform a "classical" NTC auction, as we have today. The NTC extraction would allow to compute the available quantity of LTTR to be auctioned border per border. On the contrary, in the absence of such NTC extraction, there is the necessity to allocate the LTTR via a FBA, for all the borders at the same time. Indeed, the allocated quantity at one border will impact the available quantity at another other borders, due to the FB constraints to be respected. This creates a majLTTR in the market design for the allocation of LTTR that should be carefully implemented and monitored.

In January 2021, market parties were invited to share their concerns related to the establishment of such Long-Term Flow Based Allocation (LTFBA). Eurelectric, together with EFET, presented their concerns as well as a proposal to mitigate them. The main concern with such a LTFBA is the risk that borders where the market spread between the two bidding zones is low will have very low allocated volumes, since borders with a high market spread will naturally be favored by the optimization function of the FB allocation algorithm. It means that market participants willing to buy LTTR at those borders will lack solutions/tools to hedge their spread risk. This is according to us not in line with the principle that non -discriminatory access to the grid should be provided to Market Participants, as reminded in article 1.2.a.i. of the Annex.

We would like to remind you that LTTR are hedging instruments aiming at providing a tool to hedge against the variation of the price spread between two bidding zones. The more a spread is volatile, the more interest there is for a market participant to buy it. This is translated into the bid price of the market participant by the risk premium they are putting on top of the current intrinsic spread value. The more the volatility, the higher this risk premium will be, independently from the current intrinsic market spread value.

Therefore, we believe that the choice of going for a Flow Based Allocation, combined with the proposed optimization function (article 39.15) may be a suboptimal solution for the allocation of LTTR to the market. Instead, we had offered at the workshop of January 24th ideas to avoid very low capacities awarded on some borders with a long-term PTDF domain far from the actual ones, based on market indicators or by ensuring that a minimum quantity will at least be allocated at each border (in order to improve welfare, previous ATC capacities should be a feasible outcome, so the long-term PTDF matrix should be built accordingly).

The feedback given by ENTSO-E was that these proposals were not envisaged for the go live of the LTFBA. Taking note of this decision, we nevertheless urge ACER and ENTSO-E to perform a close monitoring of the impact of this LTFBA on the level of allocated capacities per border and on the ability for Market Participants to meet their hedging needs. A detailed follow up of each border should be performed, in order to identify if some borders are indeed suffering from low/zero volumes allocated. We understand from the public workshop held on November 17th that it is unclear whether the request for such monitoring should be included in the SAP or in the EU HAR. We expect ACER's feedback on this question as well as a relevant article in either SAP or EU HAR.

We also want to remind that when ACER consulted about the possibility to implement Flow Based for the forward capacity calculation, Eurelectric and EFET expressed strong reservations[1]. Then, when ACER presented the conclusion of their study (proving the added value of Flow Based in the forward time frame, as per Article 10.5 of FCA guideline) at the MESC meeting of September 2021, we expressed strong reservations with regards to the expected benefits of such change, which were only presented in some slides (the economic study was not published nor consulted and were only showing that a lower total volume allocated was providing the same surplus). Moreover, this economic study has been performed with data of 2020 which corresponds to a year with depressed prices (covid...). We therefore suggest updating the study with data of 2022 (auction of November 2021), showing the market the allocation by border that would have resulted, and consider doing these studies for a few later yearly and monthly auctions (for instance, the yearly auction for 2024 as well as the monthly auctions of 2024). In addition to the monitoring of allocated volumes per

[1] https://efet.org/files/documents/210730%20EFET%20Eurelectric%20CR%20Core%20LT%20CCM%20ACER.pdf

border, we also suggest performing a return on experience/monitoring study of the effective benefits of this methodology, once implemented.

Last but not least, during the summer, JAO performed a quick survey following a major issue they encounter in the establishment of such auction. JAO explained that due to the fact that more than 20 borders would have to be allocated during the same FB auction, the amount of collateral requirements for market participants would be significant. Currently those collateral requirements are manageable since the different borders are auctioned at different timing. In order to manage the collateral requirements, JAO considers that a bid selection would be needed and proposed different options to perform this bid selection. None of the options proposed are satisfying, due to the fact that performing a bid selection would be detrimental to the good functioning of the auction and to reaching the potential benefits for the welfare of such auction. In other words, performing this auction on a limited/filtered merit order would lead to a de-optimization of the welfare.

Therefore, Eurelectric encourages ACER, JAO to engage into discussion in order to find a solution for this issue which does not consist in a bid selection. In the absence of such solution, we would suggest reconsidering the choice of centralized auction and rather investigate alternative ways to auction the capacity in the forward time frame, border per border. Following the public workshop of November 17th, we understand that this issue will be addressed in the EU HAR. We hence expect a proposal in the upcoming EU HAR consultation in December 2022.

Detailed comments:

- Article 1.1.e: where will the deterministic rules to select the solution chosen, be published?
- Article 1.2.a.iii: we welcome the need to ensure transparency on the algorithm and related deterministic rules. We suggest to clarify that this transparency should be ensured to all stakeholders, including Market Participants.

Q1.2
Do you have comments on other provisions of the SAP proposal?

On Article 38: Eurelectric would like to remind its support to the issuance of LTTR beyond one year-ahead horizon.

Topic 2: Proposal for long-term congestion income distribution (FCA CIDM Proposal)

The most relevant amendment in the FCA CIDM Proposal is the proposed process for distributing long- term congestion income in the CCRs with long term flow-based capacity calculation. In case of the flow-based approach, the TSOs propose to distribute long-term congestion income per CCR according to the proportional distribution of the day-ahead congestion income, calculated in accordance with the congestion income distribution methodology in accordance with Article 73 of the CACM Regulation.

Possible impacts on market participants
ACER expects that the proposed amendments in the FCA CIDM Proposal would most likely have negligible and only indirect impacts on market participants via TSOs' tariffs.

Q2
Do you have any comments on the FCA CIDM Proposal? No comment

Topic 3: Proposal for sharing costs for firmness and remuneration of LTTRs (FRC Proposal)

The most relevant amendment in the FRC Proposal is the new Article 4 on sharing of remuneration costs of eligible LTTRs among bidding zone borders (BZBs) for CCRs with long-term flow-based capacity calculation. Article 4 mainly reflects the principles set out in Article 3 of the FRC methodology as approved by ACER Decision 12/2021.

Possible impacts on market participants
ACER notes that the proposed amendments in the FRC Proposal would most likely have negligible and only indirect impacts on market participants via TSOs' tariffs.

Q3
Do you have any comments on the FRC Proposal? No comment

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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