

Core TSOs' proposal for the first amendment of the Long-term capacity calculation methodology of the Core capacity calculation region

A Eurelectric response paper

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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.

Eurelectric has repeatedly expressed doubts about the likelihood that theoretical benefits of Long-Term Flow-Based Allocation (LTFBA) will materialise with its actual implementation, calling for a renewed analysis of its benefits. We believe that the auction surplus resulting from a flow-based calculation of cross-zonal capacities in the forward timeframe does not necessarily imply a gain in economic efficiency, as required by the FCA Guideline. The forward timeframe is naturally subject to higher uncertainties, which will be reflected in flow-based calculations, leading to non-optimal results. For instance, we note that (a) the need for linear parameters (especially GSKs) in flow-based may lead to high reliability margins in a context where uncertainty is already high, and that (b) it is impossible to value the relieving effect of certain exchanges on CNEC flows due to the optional nature of LTTRs, which forbids netting.

The risks inherent to flow-based implementation in the forward timeframe remain a cause for concern to market participants. Indeed, limited progress has been achieved to ensure that sufficient interconnection capacities are available at every border and to mitigate the increase in collateral requirements, notwithstanding the proposal to implement a collateral price cap in the Harmonised Allocation Rules for LTTRs. **We believe that further mitigation measures are needed to decrease the collateral burden in a scenario of LTFBA.** For example, Eurelectric has supported bid filtering performed ex post on the basis of market results.

We acknowledge ENTSO-E's proposal to implement an ATC extraction step at the end of the long-term capacity calculation process in the CORE LT CCM. **The implementation of an ATC extraction is a welcome step to gather additional information about the actual benefits and effects of a flow-based approach in forward markets.** Indeed, uncertainties about the capacity calculation model and concerns that flow-based calculation would result in low cross-zonal capacities in the forward timeframe need to be defused before the full implementation of flow-based can be considered.

Eurelectric would like to underline that such **ATC extraction should also maintain the current sequential allocation of capacities, avoiding a soaring collateral burden.** Such an approach would provide more time to work on an enduring solution to the collateral issue in case a flow-based allocation is implemented in the future, namely exploring a bid filtering performed ex post on the basis of market results.

Eurelectric notes that, in the short term, concerns about low available capacities would remain with a flow-based calculation despite the ATC extraction. Eurelectric therefore calls for the following improvements in order to avoid pitfalls:

- **TSOs should implement a set of measures (e.g., finetuning of minRAM application, outage removal, peak-only, absence of IVAs) to ensure that the flow-based domain from which ATCs are extracted is large enough.** In addition, TSOs should ensure that the total amount of extracted capacities are at least in the same order of magnitude as current NTCs.
- **Accompanying simulations need to provide more clarity about the way individual borders will be affected and how market fragmentation will be prevented.** Indeed, simulations for the CORE region reveal a steep decline in capacities allocated on certain borders, with a reduction by over 90 % in both directions of the DE-AT border. This risks cutting off market participants from cross-border hedging options, with knock-on effects on market liquidity in the affected bidding zones.

In light of the damage that an inconsiderate implementation of LTFBA could cause to the internal electricity market, the above concerns need to be addressed as a matter of priority.

If these conditions are fulfilled, the planned ATC extraction can help gathering additional evidence about the feasibility of flow-based in forward markets. With regard to Art. 22(1.c), we consider that the actual go-live date of flow-based allocation should be based on the results of this test and should be conditional to the implementation of enduring solutions to the collateral burden and low capacity observed on certain borders. **To proceed with flow-based implementation, the ATC extraction step should provide robust evidence that flow-based will increase economic efficiency compared to a Net Transfer Capacity approach.** Sufficient time should be taken to assess the results of the yearly auction to be performed at the end of 2025 and the monthly auctions planned throughout 2026.

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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