

Response of NORDENERGI, EFET, EURELECTRIC and MPP to the NordREG consultation on the CCM in the Nordic CCR



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NORDENERGI, EFET, EURELECTRIC, MPP welcome the opportunity to comment on the proposed methodology. We recognise the feedback provided from the Nordic TSOs in the annexes of the supporting document but regret to observe that, the major concerns from the stakeholders have not been duly reflected in the proposal, and even when stated taken into account, they are not substantially reflected in the legal proposal. As part of our consultation reply, we therefore refer to our previous consultation answer¹.

NORDENERGI, EFET, EURELECTRIC, MPP key issues

- 1) The Capacity calculation must work. A new methodology needs to be a proven solution, which improves efficiency and social economic welfare compared to current methodology and alternative solutions. Further, it must be ensured that the needed components are in place, such as the Common Grid Model.
- 2) There is no consistent methodology to prevent that inclusion of bidding areas' internal congestion is accepted as default. Moving internal congestion to the border should only be possible as a limited exception. This is a clear requirement in European legislation. There needs to be a methodology for approving exceptions, if exceptions are to be considered

¹ See Response of EFET, EURELECTRIC, NORDENERGI and MPP to the TSOs' consultation on Capacity Calculation Methodologies, dated 19 July 2017, available at: http://www.efet.org/Files/EFET_Eurelectric_MPP_Nordenergi-TSOs%20consultation%20CCM_IU%20CCM_28082017.pdf

- 3) Transparency needs to be ensured both in the current development process and if/when the flow based methodology is put into operation. During operation, the transparency requirements currently in place in CWE-area should be taken as a minimum requirement. Also the transparency with respect to future development of Capacity Calculation Methodology must be ensured.

General comments

During the process so far, the signatories have repeatedly asked for an evaluation of the difference between a CNTC and FB methodology, with real actual outcomes/flows as a reference. Such a calculation has however not been provided. Thus, since we miss an objective reference point, it has not been possible to fully assess the CNTC method in relation to the now proposed flow based methodology.

NORDENERGI, EFET, EURELECTRIC, MPP remain concerned that the proposal for such a significant regulatory change, that will have a wide range of impacts (e.g. the need to change/revise trading systems, analytical tools, transparency and behavior of market participants) are made based on estimated welfare gains calculated from a short period modelled with rudimentary tools and with no solid analysis of the risks involved. The estimated welfare gains are relatively close to zero and very small in relation to the total value of the electricity traded. Finally, the welfare gains only cover the gains related to the day-ahead market. However negative impacts on welfare gains because of reduced liquidity of future markets (which are caused by increased complexity in the day-ahead market) are ignored.

As for all simulations and socioeconomic calculations, these estimates come with some degree of uncertainty. Based on the preliminary simulations, it seems reasonable to tentatively conclude that the gains are not significant, and the risks relatively unknown. Thus, given the magnitude of this change, the relatively limited estimated social gains, the lack of a properly designed solution for intraday, and the diverging opinions between a significant share of stakeholders and the TSOs on the relevance of a flow based method for the Nordic System, NORDENERGI calls for a careful assessment of the proposal and at least await the outcome of the full 18 months of parallel runs before committing to a transition to flow based capacity calculation in the Nordic CCR.

NORDENERGI, EFET, EURELECTRIC, MPP would like to encourage NordREG to facilitate a transparent discussion on the pros and cons of both sides, publicly disclosing the distributive effects among stakeholders. We would like to see an open and transparent argumentation that takes system benefits and costs as starting point and includes assessments of the risk factors going forward.

The CACM guideline refers to “rules for avoiding undue discrimination between internal and cross-zonal exchanges to ensure compliance with point 1.7 of Annex I to Regulation (EC) No 714/2009”. It remains unclear to us, how it is ensured that the proposed methodology does not discriminate between internal and cross zonal exchanges or avoids moving internal congestions to the border. NORDENERGI, EFET, EURELECTRIC, MPP welcome the Nordic NRAs assessment and recommendations on this issue. ACER has re-stated this issue in their Recommendation 02/2016 and they repeated it again in their 6th annual report on the monitoring of the internal electricity market released in October 2017.

NORDENERGI, EFET, EURELECTRIC, MPP would like once again to call regulators' attention to the difficulties of introducing flow based capacity calculation also in the intraday market. Experience in the CWE region has proved that this is even more challenging than for day-ahead. However, as uncertainty on outcome is per definition greater the longer time there is to the delivery hour, maximising the capacity allocated at the day-ahead stage comes at the cost of lost flexibility (as the grid utilisation is higher).

In European Regulation No 714/2009 the objective is described as (1b) “facilitating the emergence of a well-functioning and transparent wholesale market with a high level of security of supply in electricity.” Furthermore, NORDENERGI, EFET, EURELECTRIC, MPP would like to have the NRAs assessment on how the proposed methodology are able to meet the requirement of CACM article 3 (b), (d) and (g) also without a parallel implementation in the intraday time frame.

With reference to the limited estimated socioeconomic gain for the day-ahead market, NORDENERGI, EFET, EURELECTRIC, MPP would advise postponing the implementation until adequate analysis and parallel runs are performed, and considering a parallel implementation in the intraday market would be ready.

NORDENERGI, EFET, EURELECTRIC, MPP call regulators to recognise that the performance of the proposed Capacity Calculation methodology is dependent on other methodologies being prepared or in implementation. The TSOs are expected to develop a methodology for the use of redispatch/counter trade and the Common Grid Model is under development. However, we are worried about the messages from TSOs on delays in the development of CGM and TSOs reluctance to give all the information needed to the RSC or to approve the RSC's calculation results.

In addition, we learnt from the CWE flow based process that ensuring transparency was and continues to be a time-consuming struggle. We do not see substantive reasoning why transparency in the Nordics should start at a lower level than in CWE. Furthermore, we learnt from the CWE process that

the needed transparency measures should be included explicitly in the legal proposal in order to avoid interpretive confusion later on.

We also would like to underline that the CWE flow based project was accepted by the CWE regulators under the condition that several open issues still need to be resolved (see “Position Paper of CWE NRAs on Flow-Based Market Coupling of March 2015”). Several of these open issues are still not resolved. For example the efficiency of the critical branch selection rule still has to be demonstrated or improved. The current state of CWE flow based market coupling can therefore not be considered as a standard for the Nordic market.

Finally, we wish to further underline the importance of an extensive period of parallel runs to allow further stakeholder dialogue on the methodological development.

Specific comments on the legal proposal

Whereas, several points

- There are several violations of European legislation, with sentences such “taking the significant grid constraints into consideration”. Regulation 714 and CACM are very clear that internal congestions must not affect cross-border trade. The grid constraints inside bidding areas must not affect cross border trade, except if deemed necessary in exceptional cases such as violation of operational security, after efficient remedial actions has been depleted.

Title 2 Calculation of the inputs to capacity calculation for DA and ID timeframe

- The underlying reasoning for using the flow based calculation is to increase transmission capacities between bidding areas, especially in meshed networks. Hence, the flow based calculation must not lead to *decreases* in capacities and trade. The findings from the CWE region are worrying, and it should be clearly mentioned in this legal proposal that a go-live of the flow based calculation is dependent on an overall increase in capacities

Article 3 Methodology for determining reliability margin

- 3.5: Should ensure that stakeholders have access to the (results from analysis) from the database upon request.
- 3.8. Results from the calculations on how RM develops over time shall be presented to stakeholders upon request.

Article 6 Methodology for determining allocation constraints

- The Methodology must be presented in the legal proposal in detail. Currently, the Article is far too loose. How are the constraints to be recognised and how are they approved? How big an effect can an individual constraint have? In which time frame must the constraint be removed from the calculation? It is not acceptable that internal constraints be included in the capacity calculation without defining a clear deadline after which they have to be handled with re-dispatch and/or grid investments.

Article 8 Methodology for determining remedial actions to be considered in capacity calculation

- It is not the task of individual TSOs to define remedial actions, but a task that must be done jointly and by the RSC. The remedial action *must* be coordinated between all TSOs.
- 8.2. mentions that “Costly RAs may only be applied in the case that they are available, more efficient, and do not compromise operational security.” This is wrong. It should read that (Costly) Remedial Actions *must* be used when they are not less efficient and don’t compromise operational security. We refer to article 12 of the updated Channel CCM for appropriate formulation.
- 8.5: The review shall be presented to the market/stakeholders.

Article 11 Rules for avoiding undue discrimination between internal and cross-zonal exchanges

- In exceptional cases, where discrimination due to internal constraints is accepted, one cannot emphasise enough that it must be both economically efficient *and* necessary due to operational security.
- A methodology to define when discrimination could be considered economically efficient must be included in this legal proposal. A list of limiting internal constraints must also be included in the methodology. It should contain a justification of why and under which circumstances they can be included in the calculation, and when they will no longer be included.
- 11.3. recognises the possibility to handle constraints by dividing bidding zones. The reference to reviewing and possibly changing bidding zones should be removed from the CCM: the CCM should calculate cross-zonal capacities given a certain bidding zone configuration. The process to initiate and perform a bidding zone review is dealt with in CACM regulation article 32.
- In 11.3. we would also like to see how recurrently is understood. Does it mean all occasions other than faults and maintenance?

- In 11.4. the inclusion of internal constraints has the proof burden wrong. Internal constraints shall not be included in the capacity calculation, unless the inclusion is proven economically efficient and vital for operational security.

Article 12 Rules for taking into account previously allocated cross-zonal capacity

- We'd like to see a definition how Capacity allocated for nominated Physical Transmission Rights (PTRs) is to be taken into account. The PTRs, as long as they are applied, must be of the form UIOSI, and hence not limit the capacity offered to the market. If the purpose is to say that they define the minimum capacity domain, it should be mentioned.

Article 17 Methodology for the validation of cross-zonal capacity

- The process proposed is far too loose and risks that TSOs will include every possible constraint. Further, we question that proposal which gives TSOs a possibility to do any validation as it endangers the efficiency of and delays capacity calculation. The validation should solely be the RSC's responsibility.

Title 9 Amendments and stakeholder involvement

- There are no Articles on how the proposed methodology can be amended nor how stakeholders will be included in the future development process of the Capacity Calculation Methodology and the underlying methodologies.
- If these are already addressed in CACM, it should be referred in this document to avoid misunderstandings.

Table 2

- We miss the comparison with CNTC
- We miss the inclusion of a risk analysis and cost estimates
- The implementation milestones don't include stakeholder participation
- The Parallel runs should continue for 18 months. We also consider the proposed evaluation criteria loose and inadequate.

At last, our four organisations are at the disposal of NordREG and any other interested party for follow-up questions or clarifications:

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