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Italy North TSOs' proposal on a long-term capacity calculation methodology (FCA Article 10)

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EFET response – 13 March 2020

The European Federation of Energy Traders (EFET*) welcomes the opportunity to provide our comments on the draft methodology for long-term capacity calculation (LT CCM) proposed by Italy North TSOs.

As previously mentioned, notably in EFET responses to other CCRs' forward capacity calculation methodology proposal[1], forward capacity calculation and allocation is critical to allow market participants to hedge their long-term positions across borders and make sure that they are not exposed to short-term price volatility and imbalance costs. Hence, it is crucial that the calculation methodology for the forward timeframe is robust.

As we see it for the moment, the draft proposal does not show a clear commitment to the first objective listed in article 3 of the Forward Capacity Allocation (FCA) Regulation, i.e. "*promoting effective long-term cross-zonal trade with long-term crosszonal hedging opportunities for market participants*".

Very importantly, there is no article in the methodology to determine the common list of remedial actions, as requested in article 14 of the FCA Regulation. This leaves entire room to TSOs to define the set of available RAs in their control areas, and does not mandate the consideration of costly remedial actions. We believe that costly remedial actions should be systematically considered in the capacity calculation, to the same extent that they are considered in the coordinated security assessment. Where economically efficient, costly remedial actions should be taken in order to allocate the maximum of cross-zonal capacity to the market. Congestion "rents" and redispatch "costs" are both financial redistributions elements that should be considered on an equal footing in order to optimise regional welfare.

You will find below our detailed comments on individual articles of the draft methodology.

[1] EFET responses to the SWE, Hansa, CORE and SEE TSOs consultations on a proposal for a common long-term capacity calculation methodology, respectively dated 15 April, 15 May 2019,10 July and 2 September and available at: https://efet.org/Files/Documents/Downloads/EFET_ENTSO-E%20consult%20SWE%20LTCC_15042019.pdf, https://efet.org/Files/Documents/Downloads/EFET_Hansa_CCM_15052019_final.pdf, https://efet.org/Files/Documents/Downloads/EFET-MPP_TSOs%20consult%20CORE%20LTCC_10072019-2.pdf and https://efetmembers.org/Files/Documents/DownloadsMember/EFET_TSOs%20consult%20SEE%20LTCC_02092019.pdf

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Comments on individual articles:

- **Article 4.1**: *A statistical approach based on historical cross-zonal capacity for day-ahead or intraday timeframes calculated in a coordinated manner in the Italy North Region is applied in order to properly take into account all sources of uncertainty related to the long-term capacity calculation timeframes.*
- **Article 5**: *Selection of historical day-ahead or intraday cross-zonal capacity data.*
  In order to allow the CCC to perform the relevant CCC-FCA process, the following relevant input data shall be gathered:
  a. the allocated NTC time series of the past years for each border/direction of the TSOs of the Italy North Region and Technical Counterparties. In order to minimize the uncertainty in the allocated NTC timeseries, the most recent NTC sample coming from DA and ID capacity calculation processes will be considered for each historical market time unit;
  b. the NTC reductions (maintenance and Allocation Constraint) time series of the past years for each Italy North and Technical Counterparty's border/direction;
  c. Commissioning date of new investments during the past years for each Italy North and the Technical Counterparty border;
  d. the real time reduction and capacity curtailment time series of the past years for each border/direction. Such data will be used for filtering out NTC samples affected by reduction in real time and curtailments (for which TSOs will assume that allocated capacity was not secure at all);
  e. Additional information linked to the DA and ID capacity calculation processes that will be considered as filtering parameters in the statistical analysis;

We would like to draw the TSOs' attention to a number of concerns related to the application of a statistical approach to capacity calculation:

- Changing market fundamentals (including grid topology and weather) means that situations change, and the past may not repeat itself. A proper assessment and forecast of possible changes in these fundamentals should be part of the operational security analysis.
- Forward capacity calculation should primarily be based on technical requirements. The past behaviour of market participants should not influence the quantity of forward capacity calculated and allocated, as it has no relevance to the operational security limits and contingencies at the moment of allocation.

Should TSOs want to perform a forward-looking analysis of where the market is likely to head at the time of long term allocation, they can check forward market prices (which are already available for the year ahead before the TSOs perform the operational security analysis and the forward capacity calculation) in order to confront their assessment of the likely directions of trades and future flows with the market appreciation. Forward prices represent the view of the market at any moment in time, based on all information available at that moment, of the expected delivery price for a given period. We take note of the concerns of TSOs to have at

their disposal "trustable" market quotations and suggest them to liaise with power exchanges and forward OTC price index providers for that matter. Where historical data does not match forward prices in terms of likely direction, TSOs should be particularly cautious.

- **Article 7:** *Reliability margin long-term capacity calculation approach is taken into account by statistical assessment based on historical cross-zonal capacity for day-ahead or intraday timeframes calculated in a coordinated manner in the Italy North CCR. Italy North TSOs and the Technical Counterparty shall not apply any additional reliability margin in the long-term market time frames*

We understand that the proposal is to use the same reliability margins for the dayahead and forward timeframe. According to article 22.2 of the CACM Regulation, referred to in article 11 of the FCA Regulation, "The methodology to determine the reliability margin shall set out the principles for calculating the probability distribution of the deviations between the expected power flows at the time of the capacity calculation and realised power flows in real time." This means that reliability margins serve to cover uncertainty between the time of calculation and the time of delivery. Hence, using the same methodology to determine reliability margins in DA and forward would be welcome, using the same exact margins does not seem appropriate: a specific calculation should be performed for each timeframe. We request more clarity from the TSOs on this point.

- **Article 8.1.b:** *The hourly profile for the bilateral yearly NTC is computed by considering: […] the hourly bilateral NTC reductions profile (which reflect the hourly outage planning impact on the yearly profile as described in the Article 6.4 of this proposal) and the hourly Allocation Constraint profile coordinated during the yearly OPC process.*
- **Article 9.1.c:** *The monthly timeframe statistical methodology aims at updating the yearly NTC profile already described in the previous paragraphs. In other words, the monthly NTC profile will be calculated by considering: […] recalculated Allocation Constraints values based on most updated input data.*

We oppose the inclusion in the methodology of a provision opening the possibility for TSOs to include allocation constraints (i.e. import/export limits) in the forward timeframe without proper justification, and control and approval of regulators.

- **Article 10.2:** *In accordance with article 15 of the FCA Regulation, referring to article 26 of the CACM Regulation, the Italy North TSOs and the Technical Counterparty shall coordinate the validation and the right to correct cross-zonal capacity relevant to the Italy North TSO's BZBs for reasons of operational security during the validation process. In exceptional situations cross-zonal capacities can be reduced by all Italy North TSOs and the Technical Counterparty. These potential situations are at least:*
    a. *an occurrence of an exceptional contingency or forced outage as defined in article 3 of the SO Regulation;*
    b. *an occurrence of a mistake in the input data, that leads to an overestimation of cross-zonal capacity from an operational security perspective;*

It should be made clear in the methodologies that such reductions can only happen before the capacity is allocated. When the TSOs cannot guarantee the capacity already allocated, be it for reasons of exceptional contingency or data mistake, then this already allocated capacity should be curtailed and compensated according to article 53 FCA GL and the relevant provisions of the EU HAR.

- **Article 10.3:** *In each quarterly report, the Italy North CCC shall provide all the information on the reductions of cross-zonal capacity, separately for coordinated and individual validations. The quarterly report shall include at least the following information:*
    c. the identification of exceptional contingencies or forced outages;
    d. the volume of reduction of cross-zonal capacity;
    e. the detailed reason(s) for reduction.

We would recommend making clear that the report be made available to the public as well (i.e. not just the NRAs), for transparency reasons.

- **Article 13:** *According to FCA Regulation Art 10.4(b), the long term capacity calculation methodology in the Italy North CCR increases the economic efficiency of the capacity calculation. The uncertainties in long- term cross-zonal capacity calculation are better addressed with the same level of system security.*

Article 13 appears to be a justification of the statistical approach to LTCC chosen by the Italy North TSOs (on this, see our comment on articles 4.1 and 5), rather than actual capacity calculation rules. It would rather fit in the explanatory document than the methodology itself.