



EFET response to ACER consultation PC_2020_E_14 on the long-term capacity calculation methodology for the Baltic Capacity Calculation Region



24 August 2020

The European Federation of Energy Traders (EFET) would like to thank the Agency for the Cooperation of Energy Regulators (ACER) for the opportunity to comment on the proposal for a long-term capacity calculation methodology for the Baltic Capacity Calculation Region (CCR). Our comments are available below.

3.1 Topic 1: Establishing an independently functioning methodology in compliance with the FCA and CACM Regulation

The Proposal establishes long-term capacity calculation in Baltic CCR which is dependent on the BRELL agreement and the capacity calculation inputs described in the Baltic CCR's capacity calculation methodology pursuant to Article 20 of the CACM Regulation. The long-term capacity calculation methodology needs to establish the whole calculation process (i.e. capacity calculation inputs, process and validation) independently from other documents, especially if these are confidential. Otherwise, ACER cannot ensure compliance with the FCA Regulation when adopting this methodology. Therefore, in ACER's view, the methodology needs significant improvements, namely to establish it as a stand-alone methodology (independent from other documents) and add the necessary provisions to fulfil the requirements of the FCA Regulation (which often refers also to CACM Regulation).

ACER was informed that such independent methodology fully compliant with FCA Regulation would violate the existing BRELL agreement. Namely, the total transfer capacities determined in accordance with the BRELL agreement are not compliant with the cNTC process pursuant to Article 29(8) of the CACM Regulation. Therefore, this present a challenge where either the BRELL agreement needs to be changed or the implementation of such methodology needs to be postponed until such agreement is no longer valid.

After consulting Baltic TSOs, NRAs and European Commission, ACER understands that the grid in the Baltic states could be considered a synchronous island, which is synchronised with a much bigger synchronous area which is outside of the EU. Therefore, ACER understands that currently an agreement with the non-EU TSOs of the BRELL synchronous area is needed to maintain efficiently operational security in the grid of the Baltic member states. Besides the existing physical interdependencies, ACER has been informed and understands that in current context, renegotiating the BRELL agreement does not only depend on Baltic States but requires agreement of BRELL partners. This process may take time, in particular with a view to other complex questions to be solved in the BRELL context. With the foreseen

synchronisation of Estonia, Latvia and Lithuania with synchronous area Continental Europe in 2025 the currently established BRELL agreement will not be needed anymore.

To ensure a Baltic LT CCM, which is compliant with the provisions and requirements of the CACM and FCA Regulations, while avoiding endangering operational security in the Baltic CCR until the synchronisation of the Baltic member states with the synchronous area Continental Europe, the implementation of the Baltic LT CCM might need to be postponed until such synchronisation which is expected to be due in 2025.

Q1 - Do you agree with the above described conclusions regarding the need to establish compliance with the FCA Regulation and the following conflict with the existing BRELL agreement?

- Yes
 No

Q2 - Do you have any concerns regarding the postponement of the implementation deadline for the legally compliant Baltic LT CCM?

No.

3.2 Topic 2: Flow based vs coordinated net transmission capacity approach

As mentioned under Topic 1, the described process in the Proposal for the chosen cNTC capacity calculation is not following the required steps described in Article 29(8) of the CACM Regulation. In this aspect, the CACM Regulation does not leave much choice and freedom as it allows only two well defined capacity calculation approaches:

- 1. cNTC approach, which is specified in detail in the steps in Article 29(8) of the CACM Regulation; or*
- 2. flow-based approach which is specified in detail in the steps described in Article 29(7) of the CACM Regulation.*

A concern when following the described cNTC process is an interdependency between bidding zone borders in a CCR. Such interdependency is present when cross-border exchanges on two or more bidding zone borders impact the same critical network element(s) simultaneously. The Proposal describes the calculation of the total transfer capacity on a HVDC bidding zone border depends which depends on network elements within AC network on each side of the HVDC bidding zone border. Since these network elements are very likely to also limit the cross-border capacities on AC bidding zone borders, this implies that capacity on HVDC borders and capacity on AC borders is interdependent as it affects the same critical network elements.

In case of such interdependency, the cNTC approach requires the method for efficiently sharing the power flow capabilities of critical network elements among different bidding zone borders in accordance with Article 21(1)(b)(iv) and Article 28(8)(d) of the CACM Regulation. However, so far no good method for such efficient sharing between interdependent bidding zone borders has been identified as this can be done efficiently only within the single coupling algorithm. Therefore, in case of interdependencies TSOs have rather opted for flow-based approach to address these interdependencies, including the advanced hybrid coupling for the HVDC borders. Hence, ACER suggests taking into account these interdependencies of

bidding zone borders by using flow-based approach in the Baltic CCR. Using flow-based in the Baltic CCR to address this issue of interdependent bidding zone borders would therefore result, by default, in a more economically efficient outcome when calculating and allocating cross-zonal capacities in the Baltic CCR.

Q3 - Please provide your comments regarding the application of a flow-based approach for the Baltic LT CCM or alternatively how the capacity of critical network elements can be efficiently split between interdependent bidding zone borders in case of cNTC approach.

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.

We have repeatedly mentioned during the drafting of the FCA Guideline that we do not believe a flow-based calculation methodology would make sense for the forward timeframe and therefore, we would not support the proposed change to a flow-based approach in the Baltic CCR.

Interdependencies between bidding zone borders exist in all CCRs and across CCRs. While a flow-based calculation methodology may theoretically improve the way in which such interdependencies are taken into account, other elements of flow-based capacity calculation in the forward timeframe induce great levels of uncertainty, in particular the quality of the grid models and the base-case scenarios on which calculations are performed. Until such problems are resolved, there is no guarantee that a flow-based model would indeed improve the accuracy of capacity calculation, let alone yield comparable level of capacity available to the market in the forward timeframe.