

European Regulators' Group for Electricity and Gas (EREG)
28 rue le Titien
1000 Bruxelles
Belgium

4 November 2010

**Draft Framework Guidelines on Capacity Allocation and Congestion Management
for Electricity Consultation - Swissgrid Response**

Dear Sir or Madam,

Swissgrid welcomes the opportunity to comment on the draft framework guidelines of the EREG Capacity Allocation and Congestion Management document (FG on CACM). Please find therefore attached the response from Swissgrid on that consultation.

Our response is structured into two parts: The first part "comments on the draft of framework guidelines" contains on the one hand "general remarks" - which relate to all sections - and is followed by "specific remarks" which cover the relevant topic areas within the draft of framework guidelines. The second part finally contains the question responses.

Best regards,
swissgrid ltd.

Alexander Wirth
Head of European Affairs

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Marketproducts and Analysis

Part I: Comments on the draft of framework guidelines

General Remarks

ERGEG has defined the following documents as relevant for the consultation:

- The Draft FG on CACM
- The questionnaire on the FG on CACM
- The initial impact assessment

Swissgrid would welcome a clarification on the status of the paper “initial impact assessment”. On the one hand ERGEG has defined the paper as relevant for the consultation and refers to it in the draft FGs. On the other hand it is explicitly excluded from consultation. Thus, while apparently forming an integral part of the future framework, stakeholders have no possibility to officially comment on its contents. As the legal status in connection to the FGs was not clear to us, we considered references to the impact assessment as not relevant from the legal point of view and hence did not include them in the response.

As a second general remark, Swissgrid believes that FGs should achieve a regulatory harmonisation by focussing on high level principles and objectives, while being flexible enough to allow for interim solutions that may not yet be fully compliant with all requirements of the target model.

Specific Remarks

1 Ensure Optimal Use of Transmission Network Capacity in a Coordinated Way

Capacity calculation methods

To 1.1.1: In the present guidelines, the discussed methods are those of “Available Transmission Capacity” (ATC) and “Flow-based Allocation” (FBA).

The comparison is quite difficult, because on the one hand, there is extensive operational experience in Europe with ATC - the method’s pros and cons are widely known. On the other hand, there is not yet any operational experience with FBA.

We would propose to take into account several requirements before considering the FBA implementation:

- The size of zones is somewhat homogeneous and shouldn’t exceed a certain threshold.
 - With exceedingly large price zones, the generation pattern (generation shift key, GSK) becomes hard to estimate and hence FBA could not predict flows reliably. In some cases, if the GSK assumes generation to take place in one part of a zone while it actually takes place in a completely different part of the zone, the Power Transfer Distribution Factors (PTDFs) and thus the flows may be reversed: Instead of alleviating, they may further overload a critical network branch and threaten system security.
 - Moreover, large price zones would distort the market by (falsely) assuming that exchanges inside a price zone do not affect network constraints (critical branches in the FBA model) in its own or in other zones. .
- FBA is introduced on all borders, in order to avoid biased results

- The distribution and the use of congestion rent is defined in a transparent and fair manner beforehand
- The price effects of FBA on all countries involved is known
- A realistic test phase is completed successfully.

Capacity calculation process

To 1.1.6: NRAs should ensure an adequate availability of data for the common grid model. A regulatory framework has to be established in order to enable the exchange of data between TSOs and the circulation of data from generators. Otherwise TSOs might not be able to provide the common grid model with necessary data.

To 1.1.9: Swissgrid recommends modelling the entire five synchronous transmission grids of ENTSO-E: Continental Europe, Scandinavia, the Baltic Countries, Great Britain and Ireland.

Common grid model and base case

No comments

Objective #1-2: Definition of Zones for CACM

To 1.2.1 -1.2.5: In addition to the criteria mentioned, the delimitation of zones should also take into account the impact a zonal definition has on other zones, e.g. by implying unpredictable generation and flow pattern.

Regarding the relationship between the size of zones and market power: It is sometimes believed that a larger price zone implies more liquidity, better competition and hence less market power. This is not true, however. On the contrary, large price zones rather protect the dominant and potentially abusive position of incumbents. This is because in the end, market power always and only depends on the physical network topology: If a generator is the only one able to physically deliver power to a load pocket, he is in a dominant position. If his bid is not selected in the day-ahead market, he may use his dominant position in the redispatch market instead. However, this abuse of market power is not visible to other market participants nor to the regulator, since the redispatch market is not transparent: It does not create a locally high price signal (indicating the need for extra generation or transmission capacity) and its cost are uplifted to all network users.

Moreover, large price zones are susceptible to gaming: Market parties can submit schedules that seem acceptable based on large price zones, which are however not feasible given the actual network constraints. In this case, the abusive market party will get paid twice while perfectly obeying the logic and the rules of large price zones: First for submitting the schedule to the market, and second for redispatching to alleviate the network constraint created by its own (infeasible) schedule. This is called DEC gaming (decremental bid gaming) and was a well known technique in the zonal electricity market of California prior to the crisis (California adopted a nodal market design after the crisis).

Smaller price zones prevent those market power and gaming effects by considering the actual network constraints already in the day-ahead market and by making visible attempts to abuse market power immediately through high price signals.

Finally, it is sometimes argued that little redispatch cost within a (large) price zone is a justification for keeping that (large) price zone. This argument should be carefully examined, though, for two reasons: First, low redispatch cost may indicate artificially low cross-border capacities (to prevent outside competition). Second, low redispatch cost may indicate low competition inside a price zone, i.e. the network inside a price zone is still used by incumbents according to historical patterns. In both cases, smaller price zones would foster competition while maximising available network capacities.

To 1.2.6: Following the draft, TSOs have to submit an analysis of the current zone delimitation on a yearly basis. Swissgrid proposes to substitute “yearly” by “regularly” to better acknowledge specific network situations and market party needs. The definition of regularly can be worked out within the Network Codes by the TSOs.

2 Objective #2: To Achieve Reliable Prices and Liquidity in the Day-Ahead Capacity Allocation

Capacity allocation methods for the day-ahead market

To 2.1: The statements regarding block bids may be too detailed for the framework guidelines and may rather be covered by the network code.

To 2.2: Swissgrid supports this paragraph. Putting a responsibility on the TSOs to provide all necessary data in order to enable all necessary monitoring and regulatory supervision is fully in line with the activity based regulatory oversight promoted by Swissgrid. As a precondition for being able to deliver such data, all necessary information needs to be provided to TSOs. Therefore, an obligation to forward all relevant data to the TSOs should be imposed on third parties (e.g. PXs). Robust contractual arrangements will ensure the necessary data delivery to the TSOs.

Pricing

No comments

Scheduling

To 2.5: This section should be transferred to the section “Capacity products coexistence and firmness”, since the topic of scheduling is not in focus here. We recommend to clarify the paragraph regarding firmness: Implicit day-ahead trades are firm after the publication of prices and final positions (rather than after gate closure), since additional trades are not considered until the matching is done, i.e. not after gate closure.

3 Objective #3: To Achieve Efficient Forward Market

Capacity allocation methods for the forward market

From Swissgrid's point of view it should be studied in more detail for which time frames FTRs are needed once national markets are integrated (coupled), and to what extent they could be replaced by financial hedging products not related to congestion rents.

Additionally the organisation for financing and issuing FTRs should be described in more detail, e.g. regarding the use of congestion rents, TSO revenue adequacy and the role model of TSOs and Power Exchanges.

Timeframes, volumes and secondary market with relevance for PTR and FTR

To 3.5: The capacity calculated by the TSOs should be based on a transparent method that is approved by the regulators. Nevertheless the calculation of capacity itself should remain a TSO task, since only TSOs can calculate the related risk, assess trade-offs between the availability of capacity and system security and they are ultimately responsible for any failures, either physically or financially. The definition of long-term and short-term products should be made by the TSOs, e.g. based market participants' sur-

veys. In this respect, apart from the calculation method, a regulatory approval of the capacity products should not be necessary.

4 Objective #4: To Design Efficient Intraday Market Capacity Allocation

Capacity allocation methods for the intraday market

To 4.2: So far there is no definition of “continuous” in this context. Swissgrid is of the view that “continuous” should be interpreted in a way that it also includes the TSOs allowance to give capacity to the market at certain points in time (“gates”), while traders can place bids and offers continuously whether there is capacity or not. This solution combined with automatic matching and sufficient liquidity allows for a merit order for certain periods of time, i.e. pricing of capacity. The pricing of capacity could thereby allow a more efficient allocation of intraday capacity, since capacity is allocated to those parties who value it most.

To 4.3: Allocation of capacity is done by TSOs and not by PXs. Swissgrid therefore recommends that the following sentence should be added at the end of the paragraph: “The allocation of capacity is done by the TSOs.”

To 4.6: What is meant by “efficient arbitrage with the dayahead and balancing time-frames”? If it means that traders should optimise their trading position also against the balancing market, this section should be deleted, since the balancing market is system driven and not trading driven. Traders’ optimisation against the balancing market for commercial purposes should therefore be avoided.

To 4.7: The section “in particular related [...] and timeframes”: should be deleted, since it is too detailed for the FGs. Specifications on that level of detail should be made within the Network Codes.

5 General Issues, Requirements and Provisions

10-Year Network Development Plan

In the 10-Year Network Development Plan, TSOs shall make transparent where congestion usually occurs and how, where and when it is physically relieved by enhancing the network capacity.

Cross-border redispatching/countertrade

No comments

Capacity products coexistence and firmness

To 5.7: Regardless of whether firmness is ensured physically or financially, the related costs must ultimately be recoverable through regulated tariffs. TSOs are not allowed to obtain any financial benefits from congestion management: This is true for the guidelines on EU-level (according to Reg. 714/2009 and 1228/2003) as well as for the Swiss legislation (Electricity Supply Act, Art. 17(5)). We therefore propose to adapt the first sentence in that section as follows: “Congestion rents shall be used, inter alia, for ~~guaranteeing the firmness~~ the compensation payments for curtailed PTRs ...”.

To 5.9 and 5.10: In order to resolve the uncertainty of when the allocated capacity can be used (by nominating the associated capacity right), the point in time when transfer rights become firm should be specified. Swissgrid believes that a clear distinction should be applied to capacity rights held before and after nomination:

- If *allocated* capacity is reduced, traders still should be incentivised to pursue other alternatives. The default of allocated capacity should therefore not be compensated with the full market spread but with the initial auction price. Otherwise traders could tend not to look for alternatives since their pay-off is the same as when the capacity was used.
- If *nominated* capacity is reduced, traders are not able to react anymore. Compensation payments should therefore incentivise TSOs to take appropriate measures.

In the case of Force Majeure events, TSOs should always (before and after nomination) be entitled to curtail allocated and/or nominated capacities. As already stipulated in the FG, market price spread compensation for explicitly allocated capacities should not be awarded in cases of Force Majeure. In such cases financial compensation shall reflect the initial price paid for the capacity. For implicitly allocated capacities, the market participants will not be affected.

Implementation

No comments

Part II: Questionnaire

General issues

Question 1: *Are there any additional issues and / or objectives that should be addressed in the Capacity Allocation and Congestion Management IIA and FG?*

In the introduction the topic of cross-border balancing is explicitly excluded from these FG, since it is planned to handle this issue within the FG for balancing. Nevertheless cross-border balancing may have an impact on capacity calculation (e.g. the question of capacity reservations). Is it planned to include these issues in the balancing guidelines? Else, they should be mentioned in the FG CACM.

Question 2: *Is the vision of the enduring EU-wide target model transparently established in the IIA and FG and well suited to address all the issues and objectives of the CACM?*

Cf. general comments (reference to IIA)

Question 3: *Should any of the timeframes (forward, day-ahead, intraday) be addressed in more detail?*

Detailed process descriptions for the different timeframes will have to include the respective conditions for different borders. Therefore it seems adequate to address the timeframes in more detail in the ENTSO Network Codes.

Question 4: *In general, is the definition of interim steps in the framework guideline appropriate?*

Cf. General comments. Interim steps usually are necessary if certain preconditions for the target solution are not yet fulfilled. This should then be seen in the context of the respective border which will presumably include specific features which do not have to be defined in detail in the FGs.

Question 5: *Is the characterisation of force majeure sufficient? Should there be separate definitions for DC and AC interconnectors?*

No comments

Question 6: *Do you agree with the definition of firmness for explicit and implicitly allocated capacity as set out in the framework guideline? How prescriptive should the framework guideline be with regard to the firmness of capacity?*

Cf. part I of Swissgrid's response:

- Comments on section 2 "Scheduling" for firmness on implicitly allocated capacity
- Comments on section 5 "Capacity products coexistence and firmness" for firmness on explicitly allocated capacity

Question 7: *Which costs and benefits do you see from introducing the proposed framework for Capacity Allocation and Congestion Management? Please provide qualitative and if applicable also quantitative evidence.*

Swissgrid expects that benefits will arise from a higher degree of coordination of European Congestion Management processes which will be linked to the target framework. However it is difficult to provide any quantitative evidence at the moment as crucial elements as for example the Flow Based Model have not

yet been implemented in any region. Further analysis of the benefits is needed in order to balance them against the costs which TSOs will have during the implementation of the proposed framework.

Section 1.1: Capacity calculation

Question 8: *Is flow based allocation, as set out in the framework guideline, the appropriate target model? How should less meshed systems be accommodated?*

Cf. part I fo Swissgrid's response in section 1.

Question 9: *Is it appropriate to use an ATC approach for DC connected systems, islands and less meshed areas?*

A criterion could be to use ATC at interconnections if the schedule equals the flow on that border (i.e. no loop flows).

Question 10: *Is it necessary to describe in more details how to deal with flow-based and ATC approach within one control area (e.g. if TSO has flow-based capacity calculation towards some neighboring TSOs and ATC based to the others)?*

See answer to question 9.

Question 11: *Is it important to re-calculate available capacity intraday? If so, on what basis should intraday capacity be recalculated?*

Basically, capacity calculation should be refreshed as often as needed, especially during the intraday market. However, it could be difficult to obtain all the necessary inputs quickly enough for such an update.

Section 1.2: Zone delineation

Question 12: *Is the target model of defining bidding zones on the basis of network topology appropriate to meet the objectives?*

Cf. part I of Swissgrid's response in section 1 "Ensure Optimal Use of Transmission Network Capacity in a Coordinated Way.

Question 13: *What further criteria are important in determining the delineation of zones, beyond those elaborated in the IIA and FG?*

No comments

Section 2: Forward markets

Question 14: *Are the preferred long-term capacity products as defined in the framework guideline suitable and feasible for the forward market timeframe?*

Cf. part I of Swissgrid's response in section 3 "Capacity allocation methods for the forward market".

Question 15: *Is there a need to describe in more detail the elaborated options for the organisation of the long-term capacity allocation and congestion management?*

Cf. part I of Swissgrid's response in section 3 "Capacity allocation methods for the forward market".

Section 3: Day Ahead allocation

Question 16: *Are there any further issues to be addressed in relation to the target model and the elaborated approach for the day-ahead allocation?*

No comments

Section 4: Intraday allocation

Question 17: *Are there any further issues to be addressed in relation to the target model and the elaborated approach for the intraday allocation?*

The one-to-one relationship between CMM and SOB is part of the target model and should explicitly be mentioned in the FG.

Cf. part I of Swissgrid's response in section 4 "*Capacity allocation methods for the intraday market*"

Question 18: *Does the intraday target model provide sufficient trading flexibility close to real time to accommodate intermittent generation?*

No comments