ENTSO-E Response

Draft Framework Guidelines on Capacity Allocation and Congestion Management for Electricity Consultation

10 November 2010

Introduction

ENTSO-E and its members welcome the opportunity to comment on the draft framework guidelines of the ERGEG Capacity Allocation and Congestion Management document (FG on CACM).

ENTSO-E recognises the process by which the document has been developed and asks that all remarks are carefully considered and included in the FG on CACM document, especially in places where the ERGEG position is not consistent with the AHAG stakeholder project groups, who have been delivering substantial work in this area.

Our response is structured into "general remarks" (which relate to all sections) and is followed by "specific remarks" which cover the relevant topic areas, and a final section which includes the question responses.

Section I: General Remarks

1. Status of this Guideline – As noted in our previous response, ENTSO-E feels that it is important to clarify the **status of this framework guideline**. Clarification is required as to how the FG relates to:

- The network codes themselves;
- The initial Impact Assessment;
- Other legislation and regulations existing.

ENTSO-E considers that the framework Guideline should not rely on these documents but be able to contribute as a stand alone instrument.

According to Regulation 714/2009, the non-binding Framework Guidelines (FG) set out clear and objective principles providing guidance to the development of Network Codes (NC) by ENTSO-E. These NC detail the rules and standards which will be binding after approval of the NC itself. It is clear that the FG should aim at providing objective principles, rather than detailing the content of the relevant NC.

The FG are elaborated based on the related Initial Impact Assessment (IIA) which should be read in parallel to these FG. This IIA contains background information, policy options and definitions. It is however important to clarify the legal value of the IIA as it is strictu sensu not part of the public consultation with the stakeholders and hence not subject to review or comment. Moreover, the IIA has no binding provisions. Hence, all references made to the IIA are not part of the public consultation and should be directly incorporated into the FG if relevant for setting the framework to the network code development.

2. **Definitions** – ENTSO-E is of the opinion that it is important to include definitions at this early stage, to ensure that there are neither misunderstandings nor misinterpretations. At present, concepts are used without definitions (For example “Loop flows”, "heavy meshed areas", “transmission market”, “scarcity and oversupply”). There are also many other terms that require clear definition. It is therefore of utmost importance to use common definitions of key terms used in the FG and associated documents. Due to the complex nature of the energy market clarity of content must be ensured at all times. (cfr. 11)

3. Furthermore, ENTSO-E considers that the FG should not address the requirements on **transparency and information management** and therefore all transparency issues should be transferred to the Transparency Guideline. Hence, all references to information and data management subject to publication requirements currently stipulated in these FG should be transferred to the Transparency Guidelines. Requirements for TSO data exchange can remain within the FG.

4. ENTSO-E additionally considers it important to clearly define the **roles and responsibilities** of stakeholders and also the regulatory role within the guideline. It is not clear at present as to where the regulatory framework and associated stakeholders will each be responsible and accountable.

5. Finally, ENTSO-E is of the opinion that the FG should strive to **harmonise** but be written in a way that is **flexible enough to allow interim solutions** (where fully compatible and transitory). The FG should focus on high level principles and objectives and leave options open for interim solutions that not necessarily compliant with all requirements of the target model.

Section II: Specific Remarks

1) Capacity calculation methods

Relates to consultation questions 8, 9, 10 and 11

a) General support for the proposal

ENTSO-E welcomes that what we see as the key issues, i.e. capacity calculation methods, common calculation process and common grid model, are addressed in the draft FG on CACM and note that there is a significant improvement compared to the former draft; especially regarding what is expected in Network Code development and the contents of the related Network Code. Coordination among TSOs in the capacity calculation process and common grid model are essential elements for fulfilling the overarching objective of the FG.

The FG is expected to facilitate further harmonisation between regions as regards the capacity calculation methods and procedures, given the mutual interdependencies of cross-border transfer capacities.

b) Capacity calculation methods (1.1.1 - 1.1.5)

In line with the PCG conclusions for the target model and further work by the AHAG Capacity Calculation Project, Available Transfer Capacities (ATC) and Flow Based (FB) are the two methodologies which can be considered for capacity calculation. A certain flexibility and pragmatic stepwise approach and development should be allowed to reach the target model. The same kind of flexibility should be allowed for different time frames when capacity calculation methods are applied. Furthermore, it should be left to the Network Code to define the criteria for highly meshed and less meshed networks. Examples in the FG of highly meshed and less meshed networks should be removed to avoid being too prescriptive.

Paragraph 1.1.5 is a duplication of Regulation 714/2009 Article 15.2 and ENTSO-E recommends that this should not be addressed in these legally non-binding FG on CACM. However, it is important that NRAs co-operate on European and regional level when approving capacity calculation schemes.

c) Capacity calculation process (1.1.6 - 1.1.8)

According to paragraph 1.1.7 a comprehensive description and publication containing a detailed and clear explanation of the elaboration of the common grid model, of the security assessment method and of the level of security margins and where appropriate the critical branches shall be ensured. ENTSO-E recommends that this requirement should take into account that the electricity grid has been defined as critical infrastructure and some considerations may follow from this definition. e.g. the publication of certain information regarding critical infrastructure may need to take place ex-post in accordance with or to align with national security requirements.

d) Common grid model and base case (1.1.9 - 1.1.10)

It is generally acceptable to state that the Common Grid Model(CGM) should cover at least the transmission grid of the synchronous areas e.g. continental Europe, Nordic countries and Britain & Ireland. However, ENTSO-E recommends that **simplifications** to this scope **should be allowed where appropriate**. The justification for this is that in most cases the relevant grid needed for capacity calculation is the grid on EHV level or the grid operated and managed by the TSOs. Furthermore, the model of the whole synchronous area might not be needed, where only certain parts of the grid model have relevance to the results of capacity calculation. Of equal importance is a comprehensive view of all connected generation as there is a need for relevant information regarding generation units connected to transmission and/or distribution grid. For this purpose, ENTSO-E recommends that the FG sets the framework for DSOs and owners of generation and consumption units to deliver relevant information/data to the TSOs on a confidential basis. This would be an essential input to the CGM.

e) Other remarks to capacity calculation:

In paragraph 1.1.4 we recommend that the wording "different capacity algorithms" should be substituted by "different capacity calculation methods". Furthermore, we question whether there some missing word(s) in second row of paragraph 1.1.4 "interconnections of one same control area / zone"?

The AMF within the FB method which is referred to in paragraph 1.1.8 is specifically applied in the CEE region. The provision should either be extended to include also other FB methods (beyond AMF / FB) or should be more general.

2) <u>Definition of Zones for CACM</u>

Relates to consultation questions 12 and 13

a) General support to the proposed solution

ENTSO-E fully supports the general concept of reviewing zones. It should generally be possible to redefine zones as structural congestions might move in time. There are, however, several issues which need to be taken into consideration when determining new zones. ENTSO-E recommends that these issues shall be addressed in the Network Code, where issues to be considered and analysis to be made to establish a new zone may be defined in more detail.

As a general principle, the delineation of zones should be implemented in such a way as to provide efficient price signals for both network and generation investment.

ENTSO-E would like to contribute to the review concept described in the FG by highlighting some of the associated issues in the following section.

b) Challenges associated with a precise topology based definition of zones

- Stability of zone over time
  Changes in load and generation patterns may lead to different zonal delimitations and welfare impacts. Delimitations should be determined in such a way that conceivable scenarios for tfuture electricity supply are considered. This will help to stabilize the zonal delimitation and give reliable investment signals in the electricity market.
- Ambiguity
  There may be cases where several alternative delimitations are possible or conflicting criteria apply (e.g. for liquidity reasons larger zones may seem appropriate whereas grid constraints may indicate the necessity to further subdivide zones)
- Contractual Conflicts
  Newly defined price zones may come into conflict with contractual arrangements based on existing zones (e.g. contract between suppliers and customers in different zones who were previously located in the same zone)
- Competition
  Smaller zones may be affected by a decrease of price stability
- Correct price signals
- Market mechanisms and non-discrimination
  Providing equal priority for all parties
- Grid planning and capacity calculation
- Principles regarding who pays for congestion
- Congestion Revenue Sharing
  Existing congestion revenue sharing schemes would have to be adapted to a revised delimitation of zones
- Implementation costs

c) Responsibility for the determination of zones

According to the draft FG (1.2.1) zones are defined by TSOs who shall propose the delimitation of zones for subsequent review by NRAs (FG 1.2.3). In our view, zone delimitation belongs to the congestion management rules and ENTSO-E recommends based on appropriate criteria to the public authorities, i.e. NRAs. TSOs should not be exposed to any liability risks regarding zone delimitations. As a general rule, the obligation to determine zones should therefore be assigned to National Regulatory Authorities (NRA)/NRAs while giving an advisory role to TSOs. ENTSO-E would therefore recommend to replacing the phrase the *'review by NRAs*' by *approval by NRA*s'.

d) Cost recovery due to redispatching/countertrading

ENTSO-E recommends that the FG addresses the cost recovery issue also in the context of zone definition where full and timely cost recovery needs to be ensured by NRAs.

e) Market Zone review Process and Criteria

The FG provision to carry out a yearly survey on zonal delimitations (1.2.6.) will introduce an onerous and disproportionate duty on TSOs due to the complexity and time needed to carry out the survey and the resource commitment that this will entail. Changes in zonal delimitations have to be investigated carefully before implementation because of the far reaching impact on market design concepts (like market coupling), forward markets and contracts, balancing area concepts and social welfare distribution. Also with regard to necessary timelines for preparation of such changes, we consider that yearly survey cycles are inappropriate. Therefore, ENTSO-E recommends adjusting paragraph 1.2.6 to stipulate that TSOs should at least every three years undertake the necessary analysis to consider whether zone delimitation or some other network constraint management methodology is an appropriate way to address structural congestion in the Extra High Voltage (EHV) network. For systems where the load flow patterns vary significantly between seasons and years, typically in hydro dominated systems, a more flexible approach may be adopted, where, by agreement with the NRA, zonal delimitation can be considered at the most appropriate time (e.g. more frequently than the 3 year minimum) is needed.

The contents of the associated investigations should be further clarified. In this context, some of the evaluation criteria mentioned in the FGs could be specified in a more detailed manner. In particular, the scope to investigate the welfare impact of one market area on other zones could be further described (paragraph 1.2.3). This approach seems reasonable if the underlying idea is to avoid that determining certain (smaller/larger) zones induces inefficiencies elsewhere outside the studied area. From this, however, the question arises of how and based on which criteria the impact on other zones should be evaluated and up to which extent the impact is classified as “negligible” (cf. paragraph 1.2.3). ENTSO-E recommends that these issues should be addressed in the Network Code.

ENTSO-E recommends that further clarity in zone delimitation could be added by establishing one zonal delimitation (i.e. one bidding area) for all timeframes in paragraph 1.2.2. This implies that each bidding area would remain in place across all timeframes. In case there is no congestion between two bidding areas at a given time frame, the price of both bidding areas would be identical and one price zone would emerge from these two bidding areas. In other words, price zones may change at the different timeframes (depending on congestion for example), but the definition of bidding area will be the same across all timeframes. ENTSO-E does not recommend having different bidding areas for different time frames because it would increase complexity and contradict further market integration.

3) Capacity allocation methods for the day-ahead market

Relates to consultation question 16

a) General support for the proposed solution

ENTSO-E supports the proposed model for day-ahead allocation. One single price coupling algorithm would clearly constitute the most efficient method of allocation. It should be noted, however, that the task of implementing a common price coupling across Europe is a considerable challenge. It is therefore important that the guidelines on day-ahead allocation allows for a realistic timescale for implementation.

Even though ENTSO-E generally agrees with the proposed methods for day-ahead capacity allocation certain points still have to be commented and therefore some remarks are provided below.

b) Implicit auctions and governance (section 2.1)

ENTSO-E fully supports the proposed model for day-ahead capacity allocation, implicit auctions.

ENTSO-E would not recommend using the wording "*in cooperation with PXs*" as this is subject to interpretation. Indeed PXs are important partners in the implementation of day-ahead solutions but the roles and responsibilities of parties will need to be defined in accordance with a more general governance framework. The FG should set out and establish a clear delineation between the public interest and purely commercial activities involved with market coupling initiatives. In this respect, ENTSO-E fully supports the two-tier approach to governance proposed by the AHAG DA&GOV group and endorsed by the last Florence forum in June 2010, supporting robust contractual agreements between TSOs and PXs in implementing market coupling initiatives. It should be remembered that PXs do not have specifically identified roles and responsibilities within the third package,which the FG appears to anticipate in the coming legislation on governance. Instead of crossing into other areas ENTSO-E recommends that the FG on CACM foresees a the establishment of a Network Code written to complement the Governance guideline concerning the essential aspects of congestion management and the obligations placed on TSOs for its efficient discharge.

c) Data provision (section 2.2)

ENTSO-E 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 ENTSO-E. 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. TSOs should not be placed in situation where they can be penalised or held accountable for not publishing information not supplied or facilitated by third parties

d) Price references for the forward market (section 2.4)

ENTSO-E agrees that it is important that the day-ahead prices can serve as price references for the forward market. The basis for this is that the day-ahead price is the most robust, and provides a reasonable proxy for the real time value of the capacity.

e) Firmness of day-ahead implicit trades (section 2.5)

ENTSO-E considers it more relevant that the implicit day-ahead trades are firm after publication of prices and positions, rather than after gate closure. Trades are not "accepted" until the matching is done, i.e. not after gate closure. The paragraph could be reformulated in this respect in order to avoid misinterpretations.

f) Harmonised gate closure times

One of the most important aspects to agree on when implementing day-ahead implicit auctions is harmonisation of gate closure times. ENTSO-E would recommend that the FG addresses this issue by suggesting to determine and include proposals for a harmonisation of gate closure times in the CACM network code(s).

4) Capacity allocation methods for the forward market

Relates to consultation questions 14 and 15

a) General support of the proposed solution

ENTSO-E supports the structure of the Draft FG on CACM in relation to Forward Markets and agrees that there is need for cross border risk hedging mechanisms that provide market participants with the possibility to manage uncertainty and day-ahead markets price volatility.

ENTSO-E considers that Transmission Rights issued by the TSOs and linked to the cross-border capacities are a good solution as an effective risk hedging product. CfDs issued by third parties – not related to cross-border capacities - could coexist in parallel with Transmission Rights and be considered a valid alternative to Transmission Rights in those regions where financial markets are fully developed and have shown their efficiency.

b) Options for enabling risk hedging for cross border trading (section 3.2)

ENTSO-E welcomes the options that are recommended in the FG for the CACM network codes. ENTSO-E supports a progressive evolution towards PTRs + UIOSI and to FTRs in the case of mature and liquid markets on both sides of an interconnection.

ENTSO-E considers that both types of Transmission Rights (PTRs and FTRs) should be linked to the underlying cross-border capacity values.

The evolution towards FTRs is supported by ENTSO-E, however, this should be subject to certain preconditions, such as the implementation of market coupling and a proven interest of market participants as well as the resolution of firmness risk issues for TSOs

ENTSO-E agrees that cross border financial hedging instruments (like CfDs or other derivatives) offered by third parties in liquid financial markets could be a valid alternative to Transmission Rights issued by TSOs (either PTRs or FTRs).

c) Need to stress TSOs' responsibility in allocating Transmission Rights

ENTSO-E considers that the responsibility of the TSOs in the allocation of Transmission Rights, as products linked to the cross border capacity, should be explicitly stated in the FG to avoid any misinterpretation. For further clarity it would be useful to clearly delineate cross border financial hedging instruments (like CfDs or derivatives) offered by third parties from Transmission Rights issued and allocated by TSOs.

d) Importance of harmonisation at regional level

With regard to the need of coordination of congestion management methods and harmonisation of auction rules inside the different European regions, ENTSO-E considers that this should be explicitly mentioned in the FG as per the CM Guidelines.

In this process, the creation of Regional or Inter Regional Auction Offices which act as a single point of contact for long term capacity allocation should be strongly promoted.

e) Comments on the nature of transmission rights (section 3.3)

In relation to the nature of transmission rights, ENTSO-E thinks that this issue should be definitively closed in the FG on CACM stating that both PTRs and FTRs, as *Transmission Rights*, will be considered as options. ENTSO-E recommends that in the FG the so called FTRs obligations are not put at the same level as FTRs options. The question of whether and how such FTR obligations should be introduced could be analysed further in the NC drafting process.

As stated in previous consultations, ENTSO-E agrees that hybrid solutions combining PTRs + UIOSI and FTRs at the same interconnection would split liquidity, increase complexity and should not be considered in the future.

Regarding the last sentence of section 3.3 that refers to the convenience of using Transmission Rights between regions with more and less developed financial forward markets, ENTSO-E thinks that this sentence could be separated or would fit better at the end of section 3.2.

f) Need of precise definitions

In line with the comments under the general remarks section, ENTSO-E considers that within the scope of this chapter:

- PTRs are rights linked to cross border capacity and managed by TSOs that provide the option to transport a certain volume of electricity in a certain period of time between two price zones, and can be resold automatically by means of a UIOSI mechanism when they are not nominated.

- FTRs are rights linked to cross border capacity and issued by TSOs that can be implemented when the day-ahead markets at both sides of an interconnection are implicitly coupled and that provide to the market participants with the right to receive a financial compensation equal to the positive market price differential.

g) Support of the UIOSI mechanisms (section 3.4)

ENTSO-E supports the automatic resale scheme of PTRs that is provided in the FG, and would only suggest to say that the financial resale to be given to market participants would be the clearing price of the auction *in which the capacity is resold*, in case of explicit auctions, or the *day-ahead* price differential, in case of implicit auctions.

h) TSOs' role determining volumes of long-term rights (section 3.5)

The determination of the volumes of the Transmission Rights (either PTRs or FTRs) for each long-term timeframe is naturally a TSO responsibility due to the relationship with the technical capabilities of the network. ENTSO-E agrees that the TSOs will provide to the NRAs all the information in this regard, however, the approval should be limited to the methodology applied to calculate volumes and not the values themselves.

i) Conditions for participating in the explicit auctions and secondary markets

The conditions for market participants to acquire Transmission Rights both in the explicit auctions and secondary markets should be defined in the NC.

j) Organisation of secondary markets (section 3.6)

TSOs can facilitate a platform for secondary trading. Secondary markets of PTRs and FTRs are a TSO responsibility; the provision of the platform itself could, however, be transferred to a service provider.

5) Capacity allocation methods for the Intraday market

Relates to consultation questions 17 and 18

a) Support for the Target Model

ENTSO-E fully supports an Intraday capacity allocation model based on continuous implicit trading.

In particular, ENTSO-E supports the inclusion of reliable capacity pricing as one the key features of the allocation mechanism. It is important to develop a robust method for pricing of capacity in the solutions for continuous trading currently being considered. Features such as automatic matching and appropriate block bids and sophisticated products are also welcome and are currently part of the work of the AHAG Intraday group.

b) Need for a single continuous algorithm and a one to one relationship between SOB and CMM

ENTSO-E realizes that there is no mention in the FG to the need of a one-to-one relationship between the Capacity Management Module (CMM) and the Shared Order Book (SOB) and that one unique algorithm performs the matching of the different orders. The work of the AHAG Intraday project has shown that it is essential to have all PXs liquidity (order books) integrated in the SOB.

ENTSO-E would recommend including this point in the FG and so that the emerging cross-border intraday market can develop along these lines and act as single market.

c) Governance in line with DA (two-tier approach and contractual framework)

The FG states in 4.3 that the NC shall foresee TSOs or PXs to implement intraday allocation. This statement contradicts the EC/714/2009 Regulation which gives a clear responsibility to TSOs on congestion management and capacity allocation. Indeed PXs are important partners in the implementation of intraday solutions but the roles and responsibilities of parties will need to be defined in accordance to a more general governance framework. In this respect, the emerging consensus appearing at the AHAG DA & Gov project around the two-tier approach (comitology governance guideline + contractual agreement between TSOs and PXs) should be considered as an adequate way forward for intraday.

More generally, ENTSO-E advocates for a clarification of the respective roles of TSOs and PXs (for example, capacity allocation, distribution of congestion revenues, etc. are TSOs roles, whereas products sold by PXs are the responsibility of PXs).

d) Need for EU-wide harmonization

Although ENTSO-E recognises the fact that several regional agreements will likely need to coexist in the way towards the target model, we wish to emphasise the need to progressively evolve toward a harmonized Pan-European solution. The role of intraday markets is expected to become even more important with the increasing integration of intermittent renewable energy which makes the need of a wider geographical scope even more clear. The fact that some regions might opt for a different model (e.g. implicit auctions) need a careful assessment. The consequence of regional solutions incompatible or not fully compatible with the target model would reduce the liquidity of the Cross-Border intraday market and would most likely constitute a barrier for market participants of these regions to take part in the Pan-European intraday market. This would also have an impact on other regions which, due to the lack of harmonization, might not benefit from the liquidity of these regions.

In addition, the sound development of a multilateral Cross-Border balancing mechanism in Europe, would be facilitated by the previous implementation of a harmonized intraday market in Europe.

As a conclusion, the FG and the NC should strive for EU-wide harmonization.

e) Integration of OTC Trades

In paragraph 5.5 the role of OTC trades within Day Ahead and Intraday timeframes is not clear. This issue will need to be tackled in the FG and subsequent NC.

ENTSO-E would recommend utilising the following approach:

- Facilitate a flexible approach concerning OTC in the interim phase allowing explicit access in parallel with the implicit continuous allocation;

- PX products are developed that make implicit allocation for OTC trades equally efficient as explicit OTC access, so that specific access for OTC Trades to the capacity management module is no longer needed.

f) Gate closure time definition

FG should also state that the NC shall foresee the definition of a harmonised Gate Closure Time (GCT) that meets the requirements of renewable energy integration while maintaining system security.

g) Seamless coordination between different timeframes (instead or arbitrage)

The notion of "efficient arbitrage" between intraday and day ahead market is not appropriate (4.6). The intraday market should seamlessly extend the DA market so as to facilitate and minimise imbalances. The balancing market should provide sufficient incentives in order to efficiently balance the market position after the intraday market. Nevertheless, the relevance of the ID market and its relation to DA market depends very much on the national rules for balancing groups.

ENTSO-E recommends the approach to refer to a seamless coordination between different timeframes instead of arbitrage.

h) Other comments on Intraday

A reference to the obligatory use of intraday capacity once allocated will need to be included in the FG and NC. In order for the CMM to work in an efficient way, all allocated trades (capacities) should be obligatory used since they will automatically have an impact on the CMM (netting). This statement is obvious in the case of implicit trades but it might have some relevance in the interim, when explicit OTC access to the CMM is recommended.

6) <u>Firmness</u>

Relates to consultation question 6

a) Risk Exposure of TSOs and recovery of Firmness costs

ENTSO-E is of the clear view that regardless of whether firmness is ensured physically or financially, the distribution of costs falling to TSOs must ultimately be recoverable from the market through appropriate and timely regulatory settlements.. This principle is fully in line with the ERGEG paper on "Firmness of nominated capacity" (E08-EFG-29-05, 15 July 2008) and should be reflected as well in the FG.

ENTSO-E reinforces in this context that TSOs are not allowed to obtain any financial benefits from congestion management (according to Reg. 714/2009 and 1228/2003) and therefore accordingly they should not be expected to absorb any costs associated with firmness.

b) Firmness Deadline

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. ENTSO-E believes that a clear distinction should be applied to capacity rights held before and after nomination.

ENTSO-E generally agrees that after nomination, capacities are firm except for emergency situations (Art. 5.6). Further to the above in the specific case of Force Majeure events, TSOs should always (before and after nomination) be entitled to curtail allocated and/or nominated capacities.

c) Compensation in case of curtailment

As a general principle, ENTSO-E is of the view that when defining the compensation in case of curtailment an appropriate balance of risks must be established between market participants, TSOs and end users. All market parties including TSOs, need to be appropriately incentivised to reduce overall risk and cost to the market.

Before Nomination at DA (only explicit allocated transmission rights)

For curtailments before nomination, ENTSO-E is of the view that compensation should be based on the initial purchase price of the capacity. This is in line with the CMG principle of not compensating consequential losses.

Curtailments usually happen under critical physical situations and it is therefore important to ensure that the compensation mechanisms do not create or lead to adverse incentives for market participants. Such incentives may occur under critical grid situations where cross border capacities are limited and hence high price differences occur. In such situations market participants should contribute to ensuring system stability rather than imposing further negative effects on an already stressed grid.

After Nomination at DA (including of implicitly and explicitly allocated transmission rights

ENTSO-E acknowledges the principle that NC shall foresee that implicitly allocated capacities are physically firm as far as technically possible and only subject to any curtailment after all other measures have been applied, e.g. redispatching/countertrading.

Concerning explicitly allocated rights after nomination ENTSO-E also acknowledges the examples in some regions of the implementation of physical firmness regimes, whereas other regions continue to compensate based the initial purchase price. ENTSO-E is firmly of the view this inconsistency is driven in large part by inconsistency in regulatory regimes concerning the market cost impacts of firmness regimes.

ENTSO-E agrees that for nominated explicit capacity rights, the target set by the FG and foreseen in the NC is that capacity should be to the greatest extent physically firm or otherwise a compensation based on day-ahead market spread is provided to market participants, however, ENTSO-E expressly states that this is wholly conditional upon the following:

- That TSOs are able to pass through, via appropriate regulatory revenue mechanisms, the costs of providing physical and financial firmness regimes.
- That similar obligations are established toward NRAs both individually and collectively to support the firmness regimes implemented by TSOs.
- That robust day-ahead reference prices exist both sides of the interconnection (ideally market coupling).
- That until these pre-conditions are met, ENTSO-E recommends that the NC shall foresee that compensation based on the initial purchase price is applied.

Force majeure cases

As already stipulated in the FG, ENTSO-E recommends that for explicitly allocated capacities market price spread compensation 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.

d) Force majeure definition

ENTSO-E recommends that the FG might preferably state that the NC shall include a definition for Force majeure applicable to capacity allocation processes.

7) Other comments

a) Ten Year Network Development Plan (5.1)

With regard the TYNDP and the obligation to indicate where and how congestion occurs, it must be indicated that the TYNDP is a document that deals only with priority infrastructures (i.e. infrastructures focused on pursuing the goals indicated by the EC: integration of renewable energy sources, open grid access and usage for market participants and security of supply), mainly those of 400 kV, so not all the congestions could be identified in it but only those related to priority projects. On top of that, inside the TYNDP the congestions are going to be identified on a regional or zonal basis, but not element by element.

Section III: Preliminary responses to ERGEG Consultation Questions

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?**

Please refer to sections I and II of the response above.

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?**

Please refer to sections I and II of the response above.

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

Please refer to sections I and II of the response above.

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

Please refer to sections I and II of the response above.

The FG should focus in general in the definition of the target models for the different timeframes. However, in some specific cases - such as intraday - it might make sense to define some interim steps (where fully compatible and transitory) in the FG.

Question 5. Is the characterization of force majeure sufficient? Should there be separate definitions for DC and AC interconnectors?

ENTSO-E welcomes the discussion of this relevant topic in the context of the FG. Given the importance of this issue. the FG shall foresee that a full and comprehensive definition of Force Majeure is included in the NC(s). Such a common definition of Force Majeure would support the enhancement of CACM arrangements.. In this context the already existing ERGEG-Definition “A Force Majeure event means any unforeseeable event or situation, the causes and consequences of which are beyond the reasonable control of TSOs.” [E08-EFG-29-05] seems too narrow and should be extended. Furthermore, “emergency situations” (Art. 5.6.) have to be defined and clearly distinguished from “Force Majeure”.

There is no obvious reason to separate the definitions applicable to AC and DC interconnections.

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?

Please refer to section II – chapter 6 - of the response above.

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.

The framework guidelines for Capacity Allocation and Congestion Management together with the envisaged Network Codes (Day-ahead, Intraday, Capacity Calculation and Forwards) will provide with the required top down approach for the implementation of EU-wide target model. The benefits of the implementation of an EU-wide target model are numerous and would allow, generally speaking, for a more efficient utilisation of the European grid infrastructure and of the generation facilities.

As for the costs, the introduction of new models and market schemes is inevitably associated with implementation costs (IT infrastructure). TSOs should be able to recover these costs (e.g. via national grid tariffs). In this context, a FG provision ensuring full cost recovery for TSOs would be welcome. As mentioned, this is especially critical for all costs related to firmness provision and compensations for curtailments.

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

Although, it is not in commercial operation yet in any European border the different tests carried out indicate, that the flow based calculation method could be the preferred approach for meshed networks.

Less meshed network with no significant interdependent flows could potentially be handled either in FB or ATC although from a cost-benefit and transparency point of view the ATC approach might be preferred (in less meshed network the outcome would be the same anyway).

Detailed descriptions of the capacity calculation methods should preferably be included in the NC to ensure in different implementation projects.

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

DC cables, island and less meshed areas could be handled by ATC. But in implicit allocations, the commercial exchanges over ATC borders have to be taken into account in FB model within the allocation in the target model.”.

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)?

Today in ATC, TSO have to split capacity between borders: TSO can split the available physical margin on critical branches between borders. This will still be possible if some borders are handled in FB and other in ATC. Whatever the interim methodology until the European target is reached, it is important to treat the borders fairly: i.e. borders in FB should not have priority over ATC borders nor the opposite.

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

In order to reflect actual operational conditions, expected/unexpected changes and to support grid security updated - ID forecasts are important. Therefore, the ID available capacity should be updated more frequently (e.g. to reflect the most recent information on wind injections). In this context, both increased and decreased capacity values are possible once the forecasts are updated. Same approach can be used in case of significant changes in the power system (grid availability or significantly changes in the generation pattern).

The intraday process (security assessment and capacity calculation) should start on the basis of Day-Ahead Congestion Forecast (DACF) data and then Intraday Congestion Forecast (IDCF). The coordinated approach is of utmost importance.

Recalculation of intra-day capacity has some important consequences and prerequisites:

- Prerequisite: continuously updated ID congestion forecast files done on at least a regional basis
- Consequences: significant ID cross-border trade implies that the previously done feasibility check carried out in D-1 as a part of each TSO security analysis is no longer valid, and all TSO must recalculate the system security in a coordinative manner. This would need to be a regular process..

There are 3 levels of capacity calculation for ID allocation:

- Level 0: no calculation (except exceptional reduction in case of major outage) and allocate in ID unused capacity after D-1 allocation.
- Level 1: D-1 calculation based on DACF. level 1 should be the minimum target.
- Level 2: D-1 calculation based on DACF and then ID calculation based on IDCF. Concerning level 2, a cost vs. benefit study should be made in order to assess the usefulness of ID capacity calculation, knowing that TSO already have to perform security analysis throughout the day. ID capacities should be calculated intraday on merged IDCF (intraday congestion forecast files).

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?

Please refer to Section II – chapter 2 - of the response above.

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

ENTSO-E acknowledges the comprehensiveness of the criteria already contained in the FG and would like to add the following points:

- Long term Stability of the zonal delimitation: for market participants and investors in generation facilities price zone stability would decrease their perception of the market uncertainty
- Representativeness of the physical grid topology: the zonal delimitation should be based on grid topologies which represent actual and future loadflow patterns
- Unambiguity of zonal delimitation: The delimitation should be unambiguous and robust, also considering various generation / consumption scenarios and the impact of TYNDP projects.
- Necessity to harmonize market arrangements: Market arrangements and grid tariffs would have to harmonized at least within a market zone (e.g. RES subsidies for zones encompassing more countries)
- Social and Global welfare should be overarching principles reaching beyond congestion rents and energy prices (e.g. by including environmental cost, transition & implementation costs)
- A prioritization of conflicting criteria should be provided (e.g. for liquidity reasons larger zones may seem appropriate while grid constraints may indicate the necessity to split the zones)

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

Please refer to section II – chapter 5 - of the response above.

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?

Please refer to section II – chapter 5 - of the response above.

ENTSO-E considers that the detail provided in the FG is adequate and the Forwards Network Code should be used to further elaborate on the options.

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?

ENTSO-E considers that the Framework Guidelines should approach the different parts (market timeframes) with a framework or overview perspective, rather than going to deep into details. In this respect the current version addresses most relevant issues.

However, in order to be more in line with the AHAG process, and in order to avoid confusion, ENTSO-E recommends that the FG on CACM in written to complement the Governance guideline currently being drafted by the Commission and further identify the scope and content of the DA code in this area.

<u>Section 4: Intraday allocation</u>

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

ENTSO-E would like to stress the need to include in the FG and NC a clear reference to a single continuous algorithm and a one to one relationship between SOB and CMM. As mentioned previously, this point is especially relevant in order to avoid market segmentation and ensure the integration of all liquidity in the same order book.
Other relevant points that would need to be addressed are, amongst others, Gate Closure Times (GCT), obligatory use of intraday capacity and how to deal with OTC in the interim towards the target model.

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

Generally speaking, the implicit continuous trading model provides with sufficient trading liquidity to accommodate intermittent generation. In order to contribute to RES integration, it is especially important to develop a mechanism for pricing capacity so that capacity is allocated the market participants with highest paying willingness.

It is especially important in terms of accommodating intermittent generation that Intraday implicit continuous trading model is implemented at an EU-wide level, and in such a way that the liquidity of all market areas is integrated in a Shared Order Book so that intermittent producers can efficiently correct their imbalances. In particular, the definition of a single algorithm and a one to one relationship between CMM and SOB is critical for this purpose. In addition, a harmonized Gate Closure Time (GCT) that meets the requirements of wind energy integration while maintaining system security needs to be defined together with the adequate imbalance settlement schemes (intermittent generators should be incentivised to solve their imbalances in the intraday markets and not in the balancing mechanism).

Another relevant aspect for intermittent generation integration is the sound development of a multilateral Cross-Border balancing mechanism in Europe. This would require the previous implementation of a harmonized intraday market in Europe. The existing situation at the Intraday timeframe in Europe makes in many cases extremely difficult the implementation of a multilateral Cross-Border balancing mechanism (e.g. different or non existing intraday markets, different Gate Closure Times…).