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## **Nordenergi response to ERGEG consultation on draft Framework Guidelines on Capacity Allocation and Congestion Management for Electricity**

Nordenergi, the joint collaboration between the Nordic associations for electricity producers, suppliers, and distributors, welcomes the timely public consultation of the first draft Framework Guideline (FG) on Capacity Allocation and Congestion Management for Electricity.

In general, the FG addresses all the important questions, although the draft could benefit from further clarification and a closer adherence to the previously agreed PCG target models for example on the intraday time frame. The FG should be more precise to give the TSOs sufficient guidance.

The FGs proposed also seem to be in accordance with EU-legislation and more specifically with the Congestion Management Guidelines, although the interaction with other upcoming guidelines and codes such as the guideline on fundamental transparency or next year's guideline on balancing could benefit from further explanations to ensure consistency.

### **Nordenergi responses to the specific questions**

#### ***General Issues***

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

The current draft guidelines will give the TSOs a suitable framework on crucial issues to develop network codes. At the same time National Regulatory Authorities (NRAs) have been given the responsibility to monitor the implementation of the network codes and to ensure compliance. This role of NRAs is crucial for the protection of participants in the wholesale electricity market. However, the guideline currently gives only a small or no role for ACER. In Nordenergi's opinion, ACER also has an important role to play in the context of EU-wide issues, which should be specified in the guidelines. In general it should be ACER's task to further promote market integration by ensuring that national TSOs and NRAs interpret the guidelines in a correct manner and the ensuing network codes in a consistent, similar manner across Europe.

### Capacity products coexistence and firmness – 5.5

In cases where the whole interconnection capacity is assigned e.g. to a Power Exchange this Power Exchange will have a monopoly on operation of cross-bidding area trade. Nordenergi welcomes the clear statement that in such cases a specific regulatory oversight is needed.

### 10-year Network Development Plan – 5.1

Nordenergi endorses the requirement for TSOs to explain what they intend to do, to more permanently relieve (structural) congestions. However, in addition TSOs should describe ex post how they have tackled the congestions.

Furthermore, Nordenergi wants to stress that this should apply to all TSO, and not only for those TSOs obliged to present 10-Year Network Development Plans according to the third electricity directive.

*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?*

As the FG will set the frame for the TSOs to develop their network codes, the European target models would benefit from a clearer definition. Clear targets will facilitate the way towards European harmonisation, eventually allowing appropriate intermediate steps leading to a target.

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

Nordenergi would welcome more detailed description of the target models in each time frame to ensure consistency in the targets chosen. More detailed answers can be found in the respective questions.

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

This issue is addressed especially for capacity calculation and for intraday trading. In addition, the FG should add a separate item on interim steps for each major subject i.e. also day-ahead and forward market. However, taking into account the different starting points, it is more important to define the targets and when the targets should be achieved, and to clarify that all eventual interim solutions must be compatible with and lead to the achievement of the target models.

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

Nordenergi finds that the guideline has to give clearer definition on force majeure to allow European harmonisation, as in the past the concept has already been a subject of disputes. Otherwise, there is risk of diverging definitions, which would be an obstacle to European market integration. Besides, Nordenergi sees no reasons for separate definitions for DC and AC interconnectors.

*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?*

Nordenergi finds that firmness should be defined for all products mentioned in the guideline (forwards, day ahead and intraday) either in a separate chapter or in a provision linked to the respective products. The definition should be extensive and also describe how holders of capacity rights should be compensated in case of curtailment.

Nordenergi does not agree with the difference made between firmness concerning explicit and implicit allocated capacity (5.10.) Physical firmness may be preferred, but in some cases impossible to obtain, so with both explicit and implicitly allocated capacity financial firmness should be guaranteed.

Congestion rents, of course, shall be used for guaranteeing firmness of allocated capacity rights, as described in 5.7. However, it should be stated explicitly that the other purpose to cover is more permanent relieving of congestions by investments in increasing transmission capacity.

*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.*

Efficient capacity allocation and congestion management will facilitate market integration, leading to more competition and benefits for end consumers.

The cost and benefits of zone delimitations need to be further assessed. The guideline addresses cost primarily and not exhaustively in the terms of redispatching and countertrade, neglecting the effects of longer term uncertainty on generators and energy intensive consumers. Perceived uncertainty with regards the stability of zones will affect the long term investments. In addition, fluctuating price zones will impact on the establishment of an integrated retail market and the ensuing complexities are difficult to explain to customers and politicians.

### **Section 1.1: Capacity calculation**

In general, Nordenergi asks for a clarification of the definition of “locational information” in 1.1.1. In our opinion, that information might prove to be difficult to obtain, as intraday trading is growing and so is the flexibility of production, production planning, and scheduling not to mention the growing share of intermittent renewable. In general, Nordenergi emphasises, that the FG should consider the upcoming fundamental data transparency guideline to ensure consistency and avoid duplications and multiple reporting obligations.

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

Flow based calculation (FB) with a common grid model for an entire synchronous area until now is mostly a theoretical concept. Therefore it is appropriate – as proposed – to give all stakeholders “sufficient time for their preparation”. However, if in the preparation towards a more widespread introduction of FB major costs are revealed compared to benefits, such as for example a reduction of the available cross border capacity for trading, the use of ATC, or other alternative methods should be considered. Nordenergi wants to stress that even though FB is part of the target model it may not be used as a reason for delaying single price coupling in Europe.

Nordenergi welcomes that the ATC method is to be accepted for less meshed systems such as the Nordic region.

Nordenergi also welcomes the requirement to publish capacity methodologies and emphasises the importance of stakeholder input and feedback

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

Yes.

*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 neighbouring TSOs and ATC based to the others)?*

While understanding that the TSOs need to have some flexibility to deal with a situation of combining both methodologies and writing the code at issue, the guideline should nevertheless define clear criteria for an acceptable solution such as non-discrimination between borders and transparency in addition to the already mentioned social welfare and operational security. ACER must play an important role to ensure coordination and compatibility of such local solution with European standards.

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

In principle, the TSOs should always allocate the maximum available capacity to the day-ahead market, as the day-ahead market sets the reference price. However, given the development towards increased shares of intermittent renewable, recalculations of available capacity to allow optimal utilization of the cross border capacity in the intraday time frame might become more important to accommodate unforeseen changes in the generation picture. Therefore we support provision 1.1.8 and ask to move towards coordination and harmonization of existing recalculation practices in Europe.

In any case, Nordenergi emphasises the importance of timely publication of volumes of capacity offered by TSOs for each timeframe. This should be done for each interface between bidding areas

### **Section 1.2: Zone delineation**

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

See question 13.

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

Nordenergi pays a special attention to definition of zones for CACM. Among the Nordic countries, day-ahead implicit auctions have been applied for several years. The issue of internal (within a control area) structural congestions and the necessity of reflecting these congestions in the creation of an appropriate number of bidding areas, when the congestions have not been eliminated by new investments in transmission infrastructure, has been intensively debated and analysed. Nordenergi supports that the definition of zones shall further contribute towards correct price signals and to stimulate trade and competition.

In order to realise an efficient market, bidding areas should be as large as possible and defined from fundamental attributes and not restricted by national borders. In the same time they must be structured so that possible internal congestion within a bidding area does not affect the use of interconnectors between bidding areas except for force majeure, some extreme situations or during a limited period (to be defined!) when grid investments are on-going. The draft Framework Guidelines seem to take a rather short term perspective emphasizing the efficiency in the use of existing grid and do not consider the long term effects on investments and other aspects of social welfare.

Paragraph 1.2.4 states that "Several zones are possible in case of structural congestion within the control areas, which cannot be solved by methods of countertrade / redispatch or where the welfare gain is higher with smaller zones". This will require a clear definition of welfare (see also answer to question 7). Besides, also structural congestion must be defined more tightly in the current congestion management guidelines and structural congestion should always be reasoned.

It must also be ensured, that transparency requirements for counter trade will be adequate, preferably included in Comitology Guidelines on Fundamental Electricity Data Transparency.

Nordenergi welcomes the reporting of information about congestion to the NRAs and ACER and that the TSOs shall submit yearly analysis of zones. Review of zones and their eventual reorganisation should only be possible after such a yearly analysis and with at least a year advance warning to avoid negative impacts on the functioning of the markets.

Nordenergi would welcome more guidance in this FG to the TSOs and NRA on how the zones are to be established and a surveillance role for ACER as changes in price zones impact on the whole integrated market. Every creation of a new price zone needs to be preceded by a transparent cost benefit analysis, not only involving redispatching/countertrading cost. Amongst the criteria to be added in the decision making process, Nordenergi suggests:

- Long term stability of zones, to improve security for investments for generation and large consumers.
- Impact on the market liquidity (all time frames), existence of instruments for hedging,
- A preference for large zones to avoid possible market power.
- A clearer definition of “structural congestion”.

## **Section 2: Forward markets**

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

Nordenergi supports that physical transmission rights must be abandoned once price coupling is introduced, otherwise there is an overwhelming risk for inefficient utilization of the transmission grid. Nordenergi advocates for a gradual development towards financial products all over Europe once price coupling is introduced, as all the physical capacity should be offered to the day-ahead market. CfD-products are well suited, though not liquid enough, for the Nordic market and it needs to be studied further whether FTRs could be used instead or together with CfDs. While Nordenergi supports harmonizing the selection of forward products we emphasize not to replace existing products hasty when they suite better markets needs than FTRs

*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?*

Nordenergi finds that it should not be the obligation of the TSOs to set up a platform for secondary trading, but it must be seen at as a market activity. It should be described more in detail how FTRs (or PTRs) are to be implemented where no liquid financial forward market exists. More details are needed to ensure harmonised implementation across Europe. ACER should have a controlling role for example concerning publication of available long term capacity rights (3.5.).

## **Section 3: Day Ahead allocation**

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

Nordenergi fully endorses the use of “implicit auctions via a single price coupling algorithm”. Concerning governance this guideline and future network codes should be consistent with the upcoming Commission comitology guideline on day-ahead governance.

## **Section 4: Intraday allocation**

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

Nordenergi supports an intraday solution with a continuous trading platform, like ELBAS, as described in target model. We find that provision 4.3, that asks for implicit continuous allocation in combination with implicit auctions if there is sufficient liquidity, is not fully compatible with the PCG target model in its current form.

As the TSOs should allocate the maximum available capacity to the day-ahead market coupling, intraday trading only concerns the unused amounts of remaining capacity. These - as a rule – mostly smaller amounts can be allocated in continuous trading allowing maximum flexibility to adjust production and consumption before balancing starts. In case the TSOs can make significant additional capacity available because of some unforeseen event, the guideline could benefit from a definition of “significant additional capacity” in order to set a common European threshold for market based allocation.

In any case, the chosen intraday solution should be compatible with future solutions for cross border balancing trade and not preclude any assessments to be made in the elaboration process of the upcoming balancing framework guideline.

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

Nordenergi finds that European wide implementation of continuous trading will lead to sufficient flexibility. Any changes adding more complexity and risk to the continuous trading model will be detrimental to the liquidity of the intraday trade and should be carefully assessed.

Any additional needs for flexibility should be within short term by integration of balancing markets and long term by the investment in enough grid to cope with intermittent renewable.

Nordenergi looks forward to stay involved in the finalization of this FG. We stay fully committed to share our Nordic knowledge and experiences with regulators, TSOs, Power Exchanges and consumer representatives in this process.

Yours sincerely,



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