

EuroPEX Response to ERGEG public consultation

on

**Draft Framework Guideline on Draft Framework Guidelines on
Capacity Allocation and Congestion
Management for Electricity**

9 November 2010

Table of Contents

I.	Introduction.....	3
II	Ensure Optimal Use of Transmission Network Capacity in a Coordinated Way.....	4
II.1	Capacity Calculation Methods	4
II.2	Definition of Zones for CACM.....	4
III	To Achieve Reliable Prices and Liquidity in the Day-Ahead Electricity Market	6
III.1	Capacity allocation methods for the Day-Ahead market.....	6
III.2	Pricing.....	7
III.3	Scheduling.....	7
IV.	To Achieve Efficient Forward Market.....	8
IV.1	Capacity allocation methods for the forward market	8
IV.2	Timeframes, volumes and secondary market with relevance for PTR and FTR.....	8
V.	To Design Efficient Intraday Market Capacity Allocation.....	9
V.1	Capacity allocation methods for the intraday market	9
VI	General Issues, Requirements and Provisions	10
VI.1	Cross-border re-dispatching/countertrade	10
VI.2	Capacity products coexistence and firmness	10
VII	Questions for Consultation	11
VII.1	General Issues.....	11
VII.2	Section 1.1: Capacity calculation	11
VII.3	Section 1.2: Zone delineation.....	12
VII.4	Section 2: Forward markets.....	12
VII.5	Section 3: Day Ahead allocation	13
VII.6	Section 4: Intraday allocation.....	13

I. Introduction

1. EuroPEX appreciates the efforts of ERGEG and the expert group in drafting the Draft Framework Guidelines (FG) on Capacity Allocation and Congestion Management (CACM) for Electricity and the accompanying initial impact assessment and welcomes the opportunity to provide its views on the draft framework guideline.
2. The CACM FG is focused on methods to calculate capacities (e.g., ATC/NTC or FB) and on the definition of zones to solve problems with congestions in the grid. However, the developments over the last years, namely the growth of renewable generation and its impact on grid congestions should not be ignored. As this trend will certainly continue and even intensify, we believe that the CACM FGs would be the right place to start the discussion on how to create comprehensive rules to deal with this challenge. It is not clear that the proposed measures (improved capacity calculation methodology and redefinition of zones) will be able to solve the current and future problems without additional measures to deal with the impact of renewables.
3. The present document provides comments and suggestions for improvement of the proposed text of the CACM FG. Additional remarks that could also contribute improving the CACM FG for a better integrated European electricity market are also given. Responses to questions are limited to those we understand to be of crucial relevance for power exchanges.
4. We believe that FG on CACM should be strictly limited to the matters of capacity calculation, capacity allocation and congestion management in different timeframes and should avoid mixing its scope with issues related to governance and the transparency and integrity of markets. These matters are dealt with elsewhere.

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

II.1 Capacity Calculation Methods

For §1.1.1 and §1.1.2:

5. EuroPEX position is that Flow-Based (FB) has potentially some advantages over ATC approaches from a theoretical perspective. However, so far these advantages have not yet been demonstrated in practice. Hence implementation of FB can only be considered as the preferred solution to implement once its advantages have been demonstrated to be material in practice (with simulation results, and not just by desktop analysis) and for whole European market.
6. The network codes should provide that any move to FB requires adequate evaluation and consultation of the effects with regard to market liquidity, quality of price formation and a clear and straightforward trading environment for traders.
7. Additionally, there is a need to assure that any implementation of FB regions within Europe does not create obstacles for further market integration within and between regions. We are particularly concerned that FB regions will impede a path of gradual extensions of regions (with ATC it is easier for regions to grow or shrink). Consequently, the network codes should require demonstration that any changes to capacity determination is in line with the roadmap to a single European market.
8. The fact that “caution should be taken in order to minimize any adverse impacts on other zone” should apply to both ATC and FB approaches. ATC should not be restricted to either the long or the short term: it is an acceptable solution for all time frames pending agreement on a better one.

II.2 Definition of Zones for CACM

For §1.2.1:

9. It is important to clarify whether “support adequate dealing with internal congestion” means “support adequate dealing with congestions arising within a bidding area” or “support adequate dealing with congestions arising within a country”. Since the paragraph precisely tries to distinguish both aspects, this is unclear.

For §1.2.2:

10. Unless there are compelling reasons otherwise, the definitions of zones should be the same for all timeframes.

For §1.2.3 and §1.2.4:

11. EuroPEX proposes drafting the paragraph as follows:

“The TSOs shall propose the delimitation of zones for subsequent review by NRAs. In cases where it can be shown that there is no significant internal congestion within or between control areas, one or several control areas may constitute one zone. *However, the overall impact in terms of welfare – including on other control areas/zones - must be investigated and demonstrated to be acceptable, meaning that the benefits on some zones should not create negative effects of larger scale on other areas.* TSOs shall repeat the assessment when network topology is significantly changed. NRAs shall assess the delimitation of zones against the criteria of overall welfare gain.”

12. Indeed, the aim should be to gain in the overall picture (whereas the current phrasing only accepts no significant impact – be it positive or negative).
13. Besides trade stimulation and competition, it is also important that prices provide the best long term incentives for future investments (production and transmission infrastructures). Any change in the zone definitions should be judged against this criteria as well (“welfare gains” in this section are quite weakly defined, and it remains unclear if long term effects are duly taken into account, in particular for what concerns the repartition of this welfare amongst the market players)
14. There is also a need for further clarification of the criteria that the NRAs will apply to assess delimitations of zones. The definitions of “overall welfare gain” should also be clarified. Furthermore, NRAs should take into account other factors, in particular stimulation of trade, competition, liquidity and quality of price formation.
15. It is also crucial that zone changes are made in a careful and planned way, avoiding frequent change in order to minimize disruption to the market (such as contracts modifications, hedging models...).

For §1.2.5:

16. The specific conditions under which TSOs are permitted to limit cross-border capacity to solve internal congestion should be clarified (and also the implications of non-compliance). Without this there is a risk of a general permit for non-compliance.

For §1.2.6:

17. EuroPEX members understand that the following should be added: “in case a change in the zone delimitation is foreseen, it is of the utmost importance that sufficient time is given for the market to prepare (notably with respect to forward contracts that relate to underlying prices or physical delivery in those zones).”

III To Achieve Reliable Prices and Liquidity in the Day-Ahead Electricity Market

III.1 Capacity allocation methods for the Day-Ahead market

For §2.1:

18. EuroPEX proposes drafting the paragraph as follows:

“In the day-ahead time-frame, the CACM network code(s) shall foresee that the TSOs, in cooperation with PXs and according to the respective Governance provisions, implement capacity allocation on the basis of implicit auctions via a single price coupling algorithm which determines at the same time the volumes and prices in all relevant zones (bidding areas). ~~If there is not enough capacity between the zones to enable all requested trade, calculated zone prices will differ.~~ *The term “single” (price) coupling algorithm means a single process of determining prices for all bidding areas in Europe. The algorithm shall allow for all the products that are deemed suitable and feasible” (i.e., to keep it more general than only referring to blocks).*”

19. The sentence “*If there is not enough capacity between the zones to enable all requested trade, calculated zone price will differ*” above should be deleted since it is a potentially misleading and inadequate definition of single price coupling.

For §2.2:

20. This point can only apply to the data that the TSOs possess. Other market data can be (or are already) provided by PXs and market parties directly to the regulators, for the purpose of market supervision, and should be governed by appropriate regulatory instruments (such as the Transparency and Integrity Framework Guidelines) and not by the Network Codes.

III.2 Pricing

For §2.3:

21. It is not up to the CACM network codes to “ensure those day-ahead hourly electricity prices are based on the marginal pricing principle”. One should read instead that *“the codes shall ensure that the day-ahead capacity is allocated through markets which are based on hourly marginal pricing”*. TSOs do not have the authority to require changes to market rules but a market that wishes to be part of the market coupling must comply with this requirement.

For §2.4:

22. There is a need to clarify the manner in which the CACM methods provide *“the necessary elements for the establishment of forward price references”*. What are these necessary elements?

III.3 Scheduling

For §2.5:

23. The key point to be mentioned in the CACM is not the firmness of trades (which is a PX’s responsibility) but the firmness of the capacity allocated and the cross-border schedules determined in the price coupling, which allows the PXs to ensure the firmness of the trades.

IV. To Achieve Efficient Forward Market

24. This section should be about the obligations on TSOs and not the Forward Market in general. For example, TSOs need only to determine the volume of offered PTRs and the initial offering of FTRs - whereas the total FTRs traded and other financial hedging instruments traded by market participants are not limited by the physical capacity.
25. The obligation on TSOs to offer PTRs or FTRs is not interpreted to apply everywhere, but rather only where adequate financial long term hedging markets are not in place (consistent with EC Regulation 714/2009).

IV.1 Capacity allocation methods for the forward market

For §3.3:

26. Further to what is proposed, it is very important considering that the same methodology should be applied in both directions of the same border. However, there seems to be no reason to prohibit some market models unless it clearly risks distorting the market. For example, a mix of different types of hedging products should not be forbidden, as long as the same methodology of allocation is applied for both directions on a given border.

IV.2 Timeframes, volumes and secondary market with relevance for PTR and FTR

For §3.5:

27. EuroPEX proposes drafting the paragraph as follows:

“Volume of long-term capacity rights shall be determined by TSOs in accordance with the technical capabilities of the network and for each long-term timeframe. The CACM network code(s) shall ensure that the TSOs submit (at least indicative) levels of capacity offered in each time frame sufficiently in advance before the respective allocation takes place, in order to allow national regulatory authorities (NRAs) to review and approve them *and in order to allow market participants to estimate the price differential based on this allocated capacity.*”

28. The above proposal refers to the point that this information must be made publicly available, not only to NRAs.

For §3.6:

29. It is worth reminding that in the PCG target model, it was clearly agreed that PXs could facilitate such secondary capacity rights trading platforms (especially if FTRs are put in place). We propose then the following wording: TSOs must make possible a platform for anonymous trading at least at regional level, but it need not necessarily be provided by TSOs. Platforms for trading capacity products (irrespective of whether physical or financial) and clearing can also be provided by PXs.

V. To Design Efficient Intraday Market Capacity Allocation

V.1 Capacity allocation methods for the intraday market

For §4.3:

30. EuroPEX proposes drafting the paragraph as follows:

“As the first step, the CACM network code(s) shall foresee that the TSOs ~~or~~ *and* PXs, in accordance with the relevant Governance framework, implement continuous implicit allocation for the intraday trading. ~~When there is sufficient liquidity, implicit auctions may be implemented.~~ *The cross-border Intraday Market should not prevent optional compatible National/Regional Intraday Markets relevant to local conditions.* In case of coexistence of both solutions, they should be coordinated, provided that implicit auctions have adequate gate closures to provide necessary flexibility for the market.”

For §4.4:

31. The key point to be mentioned in the CACM is not the firmness of trades (which is a PXs responsibility) but the firmness of the capacity allocated and the cross-border schedules determined in the ID implicit continuous allocation trading, which allow the PXs to ensure the firmness of the trades.

For §4.6:

32. What should be mentioned in the CACM is that the intraday capacity allocation mechanism shall avoid market discrimination; the scope and market structure of intraday trading does not pertain to the scope of the CACM.

For §4.7:

33. This point can only apply to the data that the TSOs possess. Other market data can be (or are already) provided by PXs and market parties directly to the regulators, for the purpose of market supervision, and should be governed by appropriate regulatory instruments (such as the Transparency and Integrity Framework Guidelines) and not by the Network Codes.
34. Furthermore, in the paragraph, it should be read that “*In that sense the TSOs shall ensure capacity allocation should be based on an appropriate matching methodology or algorithm between the different products (simple or sophisticated)*”. TSOs do not have the authority to require changes to market rules or to manage the matching of the energy market, which remains strictly a PX responsibility for their own markets; nonetheless, a market that wishes to be part of the market coupling must comply with this requirement.

VI General Issues, Requirements and Provisions

VI.1 Cross-border re-dispatching/countertrade

For §5.4:

35. This chapter introduces a new concept (generation capacity reservation) and EuroPEX proposes that it should either be removed or clarified. It is not obvious that this pertains to capacity allocation or congestion management activities.

VI.2 Capacity products coexistence and firmness

For §5.5:

36. EuroPEX proposes deleting the last part of the paragraph since this does not pertain to capacity allocation or congestion management activities, but rather to governance discussions (to be dealt for example in the governance guidelines):

“The CACM network code(s) shall ensure that there is no discrimination between the OTC and organised markets. However, where the whole interconnection capacity (for a given timeframe) is assigned e.g. to a Power Exchange in order to implement implicit allocation of capacity auctions, this shall be duly taken into account. ~~This shall result in the independence and non-discriminatory organisation of the Power Exchange in~~

~~question, including also a proper regulatory oversight (effectively, this can be achieved by the “unbundling” of the respective activities, i.e. physical market and financial market) in order to avoid any discriminatory treatment of different market participants or products.”~~

VII Questions for Consultation

VII.1 General Issues

Q4: In general, is the definition of interim steps in the framework guideline appropriate?

37. It should be indicated that interim steps should be in line with the Target Model in the different Timeframes, to avoid creating situations that could potentially block the development of the Target Model. Proposals for interim steps should justify how they comply with the timely achievement of the Target Model.

Q6: *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?*

38. The guidelines should be as prescriptive as possible on the firmness of capacity, which is essential to ensure security of trading and thereby market development. At a minimum, it should be clarified that all implicitly allocated capacity in Day-ahead or Intraday timeframe must be firm without exception. It is not feasible for a power exchange to adjust contracts to resolve imbalance due to curtailed cross border flows.

VII.2 Section 1.1: Capacity calculation

Q8: *Is flow based allocation, as set out in the framework guideline, the appropriate target model? How should less meshed systems be accommodated?*

39. Flow-based allocation cannot be set as the appropriate target model until the current issues are resolved and the benefits for the market clearly proven. Furthermore, there is no definition whether explicit or implicit FBA is expected. Implicit FBA is the Target Model for the whole European market, not just for separate regions. The implementation of explicit FBA in some regions without coordination with other regions could block the regional interconnection of market coupling projects not only inside a single region but between regions as well (for example, the different expected calculations methods in

CEE and CWE regions) and it could block the roadmap to a single European market.. There is currently no coordination between regions regarding used or planned calculation methods.

Q10: 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)?

40. Yes, it is necessary. For example, explicit FBA model is such a complex model that if some markets decide to couple, the exclusion of respective borders from this model would make this allocation/calculation impossible. Another important fact is how to solve the situation if some markets in the region, where explicit FBA is used, would like to couple with markets in region where ATC/NTC allocation is used and vice versa. Furthermore, it is necessary to prove that FBA calculation used for Day-ahead capacity calculation does not dramatically reduce the amount of calculated capacity in the Intraday Timeframe capacity calculation method.

Q11: Is it important to re-calculate available capacity intraday? If so, on what basis should intraday capacity be recalculated?

41. It is important, once all the Day-Ahead nominations are finished, to recalculate the cross-border capacities in order to maximize the physical line utilization, while maintaining the same security standards.

42. It is important to prove that the used day-ahead capacity calculation method does not cause that it will be impossible to calculate the capacity for Intraday

VII.3 Section 1.2: Zone delineation

Q13: What further criteria are important in determining the delineation of zones, beyond those elaborated in the IIA and FG?

43. It is crucial to include the criteria of facilitating trade, liquidity development and the quality of price formation in the determination of bidding zones – the associated long-term welfare benefits are indeed very important.

VII.4 Section 2: Forward markets

Q14: Are the preferred long-term capacity products as defined in the framework guideline suitable and feasible for the forward market timeframe?

44. A mix of different types of hedging products should not be forbidden on the different timeframes as long as the same methodology of allocation is applied for both directions of a given border.

45. The obligation on TSOs to offer PTRs or FTRs is not interpreted to apply everywhere, but rather only where adequate financial long term hedging markets are not in place (consistent with EC Regulation 714/2009).

VII.5 Section 3: Day Ahead allocation

Q16: Are there any further issues to be addressed in relation to the target model and the elaborated approach for the day-ahead allocation?

46. The CACM should not go against a fair and clear division of tasks between TSOs and market operators/PXs. In particular, it should take into account that while TSOs are primarily responsible for capacity calculation and allocation, tasks of spot market management (including price-setting) and associated market rules definition pertain to PXs. The proposed governance guideline is the appropriate place to clarify this point.
47. Likewise, issues of transparency and market monitoring pertain to the Transparency and Integrity comitology process, rather than to the CACM and the Network Codes. ATC/NTC should be the interim solution of allocation because it easily allows interconnecting individual or regional coupled markets. The target model could be implicit FBA only if its benefits for the market are proven.

VII.6 Section 4: Intraday allocation

Q17 Are there any further issues to be addressed in relation to the target model and the elaborated approach for the intraday allocation?

48. The CACM should not go against a fair and clear division of tasks between TSOs and market operators/PXs. In particular, it should take into account that while TSOs are primarily responsible for capacity calculation and allocation, tasks of spot market management (including price-setting) and associated market rules definition pertain to PXs. The proposed governance guideline is the appropriate place to clarify this point.
49. Likewise, issues of transparency and market monitoring pertain to the Transparency and Integrity comitology process, rather than to the CACM and the Network Codes.

Q18 Does the intraday target model provide sufficient trading flexibility close to real time to accommodate intermittent generation?

50. The two layers Target Model, with the optional second layer, provides National and Regional regulators with all the flexibility that they need to adapt the Intraday Markets to their National or Regional requirements