

## Response to the ENTSO-E draft methodologies and common rules for cross-border participation in capacity mechanisms

Brussels, 13 March 2020

### **Would you have any comments related to the part specifying the General provisions?**

WindEurope would welcome more detailed definitions, especially on 'scarcity'.

In its explanatory document on its proposed methodologies and common rules and terms of reference related to cross-border participation in capacity mechanisms, ENTSO-E defines scarcity hours as *"hours during which the market will direct available power to the bidding zone considered and the available resource (including generation, storage, demand flexibility and imports), is not enough to cover the demand of the studied bidding zone"*.

This is a general definition and the draft consultation (article 2) does not seem to provide further information on this point as ENTSO-E is defining scarcity as *"a situation during which ENS (Energy Not Served) strictly greater than zero (...) because national production, demand reduction measures and total possible imports are insufficient to meet demand"*.

We fear the current definition is too general and could be interpreted in many different ways. As 'scarcity' is a principle at the core of resource adequacy, it is crucial for ENTSO-E to provide more details on this point.

### **Would you have any comments related to the part specifying the methodology for sharing the revenues?**

The article 11 of the methodology on the scope of the revenue sharing methodology states that *"the sharing of the revenues should provide incentives for the development of transmission capacity"*; this statement therefore includes the development of interconnectors. Nevertheless, it seems that the TSO Revenue Sharing proposed in the methodology goes against this principle and we would welcome ENTSO-E to take the following arguments into account:

- In its article 13§4 (determination of the sharing key), the draft methodology plans to share the congestion rents between TSO(s) owning the interconnector and the TSO organising the capacity mechanism. In case the TSO organising the capacity mechanism is not the (or one of the) owner of the interconnector, **why should it receive payment?** We would welcome some clarification from ENTSO-E on this point.

Moreover, renewable power plants generate electricity at very low short-run marginal cost. The future energy system will have a high share of renewable and it seems safe to assume that members states will continue implementing capacity mechanisms; hence more capacity mechanisms and more close to zero marginal cost generations. It is fair to assume that a significant revenue for interconnectors could come from cross-border participation to capacity mechanism through the congestion rent. If this congestion rent is split between the operator of the capacity mechanism and the TSO(s) owning the

interconnector, it could **reduce the incentives to build new interconnectors, particularly those done under merchant conditions.**

- The **likelihood of concurrent system stress between the considered neighbouring countries is counted twice** in the methodologies:
  - 1- First, in the methodology for calculating the maximum entry capacity for cross-border participation. According to the Electricity Regulation (article 26§7), the calculation of the maximum entry capacity available for the participation of foreign capacity *“shall take into account the expected availability of interconnection and the likely concurrence of system stress in the system where the mechanism is applied and the system in which the foreign capacity is located”*. Therefore, ENTSO-E takes this into account in its calculation proposal of maximum entry capacity in the methodology proposal.
  - 2- Second, if we look at article 13§2 of the draft methodology, in the two options proposed, the total revenue (de facto based on the maximum entry capacity according to the article 12 of the methodology) is multiplied by *“one minus the likelihood of concurrent system stress between the considered neighbouring countries”*.

This double-counting of the probability of system stress is reducing the interconnector revenue from cross-border participation to capacity mechanism and we believe it does not properly value the service interconnectors provide to the electricity system.

- According to article 26§9 of the Electricity Regulation 943/19, the revenues coming from cross-border participation in capacity mechanism should be treated as congestion income. Indeed, these revenues arising from cross-border capacity mechanism participation can only be used for (based on article 19§2 – congestion income):  
*“(a) guaranteeing the actual availability of the allocated capacity including firmness compensation; or (b) maintaining or increasing cross-zonal capacities through optimisation of the usage of existing interconnectors by means of coordinated remedial actions, where applicable, or covering costs resulting from network investments that are relevant to reduce interconnector congestion.”*

In the article 13 of ENTSO-E draft proposal, TSO organising the capacity mechanism receive part of the revenue coming from the participation to cross-border capacity mechanism.

This seems to be **incompatible with the Clean Energy Package provisions** mentioned above: revenues generated by cross-border capacity mechanism participation can only be used for maintaining/increasing the availability of existing interconnectors or building new interconnectors.

### **Would you have any comments related to the part specifying the common rules for determining when a non-availability payment is due?**

We welcome the fact that ENTSO-E aims at ensuring that:

- capacity mechanisms are used only for adequacy reasons i.e. capacity providers not to use capacity remuneration mechanisms as a way to make ‘windfall’ profits (article 19 of the draft methodology); and
- non-availability payments incentivise capacity providers to commit only to obligations they can fulfil, even in case of simultaneous scarcity situations.

According to article 19§2 of the Electricity Regulation 2019/943, the revenues for the TSOs should be allocated with priority to *“guaranteeing the actual availability of the allocated capacity including*

*firmness compensation*". Therefore, non-availabilities may occur due to a lack of interconnection capacity. In these situations, we believe that capacities contracted in the neighbouring bidding zone should not bear any non-availability penalty and that TSOs should compensate for those penalties. Hence, a compensation should be financed with the TSOs' revenues.

We would also welcome some details with regards to 'force majeure situations and exemptions' when non-availability payments would be excluded by TSOs (mentioned in the article 19 of the draft methodology).

**What is your general feedback on the proposal and would there be anything you would like to add?**

WindEurope welcomes the overall draft methodology of ENTSO-E on cross-border participation in capacity mechanisms, especially the common definitions and processes facilitating the coordination between TSOs and Capacity Mechanism operators for implementing direct cross-border participation, while respecting the specificities of each capacity mechanism.

We would like to emphasise the importance of a coordination, transparency and stakeholder consultations between the different methodologies from the Clean Energy Package ENTSO-E is drafting as they are intertwined and they will interact with each other and also to ensure consistency.

WindEurope believes that foreign capacity providers and interconnectors allowing capacity to be transported cross-border should be properly valued. Nevertheless, we are concerned that the proposed methodology does not properly recognise this value (see above response to question 10).