
ENTSO-E recommendations for Market Design Trilogue negotiations

ENTSO-E congratulates the Bulgarian Presidency, the European Parliament and the European Commission on the successful conclusion of the first four legislative files of the Clean Energy for all Europeans Package.

As the trilogues on the market design files are kicked-off under the Austrian Presidency, ENTSO-E would like to highlight our positions on the most pressing issues of the forthcoming negotiations. Summary of ENTSO-E recommendations

Focus on CACM-implementation, not on arbitrary capacity targets

Electricity Regulation, Article 14 related to capacity calculation

The present proposals for Article 14 include an arbitrary 75% threshold for minimum capacity for each bidding zone border. There is no clear definition of the 75% threshold and no assessment of the operational and economic consequences has been conducted. This is detrimental as it could jeopardize our market model. Such a threshold will not solve the underlying issue which is to build more grids especially from north to south in continental Europe. Forcing an artificial threshold will push the limit for security of supply and substantially increase re-dispatch costs paid by the consumers.

Before any new legislation requirements are put forward on capacity allocation, ENTSO-E strongly recommends continuing the implementation of the Third Energy Package and specifically the Commission Regulation 2015/1222 on Capacity Allocation and Congestion Management (CACM) together with NRAs and Member States.

In addition to implementing the CACM, the TSOs are committed to improve transparency. The TSOs will take steps to go beyond the legal requirements on transparency, improve distribution and data quality and better explain how capacities are calculated and optimised. If capacities need to be reduced, transparent explanation of the reasons and measures taken to mitigate contingencies will be presented.

Implementing existing Regulation for Regional TSO cooperation

Electricity Regulation Articles 31-44 related to regional cooperation of TSOs

The legislative proposals in the Clean Energy Package (CEP) introduce new requirements for regional cooperation of TSOs. The main instrument to drive further regional TSO cooperation are and should be the Network Codes and Guidelines that have recently been adopted and are presently in implementation. These Guidelines formalise an ambitious, flexible and forward-looking framework for coordinating operational planning with the support of Regional Security Coordinators (RSCs).

Rather than duplicating such technical provisions, the Clean Energy Package should complement the ongoing strengthening of regional TSO co-operation through a framework of regional regulatory and energy policy coordination – i.e. Regional Energy Forums – involving NRAs and Member States. ENTSO-E welcomes the Council's acknowledgement of this concept in its amendment to Article 37.

It is of utmost importance that decision-making processes, as they are presently defined in the CACM and System Operation Guidelines (SOGL) are maintained and are not blurred across different entities. TSOs are ultimately responsible and liable for system security. Their ability to fulfil this responsibility must be fully upheld. In this regard, ENTSO-E supports the Council's proposal for *Coordinated Actions* of TSOs, which are understood as actions set up by RSCs under the procedures agreed with NRAs in the corresponding region, while we propose some adjustments for such procedures in Articles 38 and 39.

Focus on implementing the Electricity Balancing Guideline to achieve well-functioning balancing markets

Electricity Regulation, Article 5 on balancing markets

ENTSO-E sees a very significant opportunity in enhancing and integrating balancing markets to deliver cheaper balancing services to European consumers. The key instrument to achieve this, is the implementation of the Electricity Balancing Guideline (EBGL), which was recently adopted into law. Its provisions set an ambitious yet realistic and consensual pathway to integrate European balancing markets.

ENTSO-E is concerned that some of the proposed provisions in Article 5 are in contradiction to the EBGL. They could result in excessive costs for end-consumers and be detrimental to secure operations. We are particularly concerned about proposals for regional reserve sizing and procurement, derogations from balancing responsibility, lack of prequalification requirements to bid into balancing markets and limitations to trade balancing services in the forward markets, thus shifting the trade of such services to the day-ahead and intraday timeframe, when such services are often more expensive.

On the latter point, we are particularly concerned about the EP's proposal in Art. 5.8 which would limit the long-term trading of balancing reserves to maximum 5%. The 5% limit is inconsistent with the EBGL and would create risks and inefficiency for smaller countries/bidding zones which would need to rely almost entirely on internal resources. ENTSO-E would therefore support the Council's proposals which is largely aligned with the provisions of the EBGL.

Provisions for Gate Closure Times and Imbalance Settlement Periods should be coherent with legislation currently in implementation

Electricity Regulation, Article 7 on gate closure times and imbalance settlement periods

ENTSO-E is convinced of the increasing importance of intraday markets and of balancing markets, in particular to enhance RES market integration. However, ENTSO-E is deeply concerned with the European Parliament's proposal to move to a gate-closure time (GCT) of 15 minutes before real time across all bidding zones and to set the imbalance settlement period (ISP) to 15 minutes by 2021.

European regulations, notably the CACM Regulation and Electricity Balancing Guideline are gradually harmonising provisions on ISPs and GCTs across Europe taking into account the physical specificities and constraints of the European systems. Ignoring the physical differences and the necessary time for TSOs to balance the system, which the European Parliament's proposal is doing, would have severe consequences for both the EU electricity system and consumers.

TSOs and NRAs should be allowed to return congestion income to consumers

Electricity Regulation, Article 17 related to congestion income

ENTSO-E continues being concerned with proposals for Article 17 regarding the use of congestion income. The Commission proposes to scrap the possibility for TSOs to use congestion income to reduce the level of transmission tariffs.

ENTSO-E fully supports the EC's objective to invest in and maintain cross-border transmission capacity for the benefit of European welfare. At the same time, it is equally essential to maintain the option for using congestion income to flow back to energy consumers to reduce the economic burden for consumers, who have paid for these investments through their tariffs.

If congestion income cannot be used for tariff reduction, this could actually have adverse effects for the funding of future cross-border investments: regulators have to keep consumer tariffs in reasonable balance. New investments add to consumer's tariff burden, while cash flows back to consumers from congestion

income allow regulators to keep tariff increases in check. If this mechanism is disabled, regulators will find it much more difficult to include new investment projects into consumer tariffs.

Conversely, congestion income is inadequate as a tool to finance transmission-infrastructure projects since congestion income is highly volatile in short-term and transmission projects, which depreciate over several decades, need a stable long-term return.

Both the Parliament and Council's texts offer significant improvements by allowing congestion income to be used to lower tariffs. However, ENTSO-E is concerned with the EP's proposal to use congestion income for lowering tariffs only after a TSO has achieved its 75% capacity threshold (cf Article 14) as such a condition would significantly limit TSOs possibility to use congestion income for lowering consumer tariffs. Therefore, ENTSO-E supports the Council's proposal for Art. 17, allowing TSOs and NRAs to return the congestion income to consumers.

Allow TSO ownership of assets providing ancillary services that are an integral part of the transmission grid

Electricity Directive, Article 54 on ownership and provision of ancillary services by TSOs

The Commission's proposals for Art. 54 would prevent TSOs from owning and/or controlling assets that provide ancillary services. Exceptions for non-frequency ancillary services (steady state voltage control, inertia, fast reactive current injection, black-start capability) would be possible but only after a long and costly process.

However, already today, to fulfil their responsibility to maintain grid stability, TSOs own or operate facilities which de facto provide ancillary services, either as a main purpose or as a by-product of their operations, without any negative impact on the market. These facilities include for instance compensating devices, reactors, HVDC cables, capacitors, transformers, or even power lines, all of which are essential elements of the transmission grid.

The EC's proposals would constrain TSOs ability to operate the grid, to ensure security of supply, to connect grid users and would ultimately increase system costs and reduce operational efficiency.

While we do support the general intention of Article 54, namely to open the ancillary services market to the largest possible range of competitors, those assets that are an integral part of the transmission system and where NRAs have given their approval, should be exempted from these requirements.

In this regard, both the EP and the Council text provide important improvements to the initial EC proposal.

European and national resource adequacy assessments are both relevant and complement each another

Electricity Regulation, Articles 18-19 related to resource adequacy assessments

Resource adequacy assessments are a fundamental part of the work performed by TSOs to ensure security of supply. ENTSO-E believes, that European and national adequacy assessments should complement each other in a transparent continuous improvement process using the same methodology in the interest of European citizens. The decision in favour or against market design enhancements like capacity remuneration mechanisms should in any case not be taken solely on the basis of either national or Europe-wide assessments. In all cases, such judgement needs to be made based on all available assessments and information.

What is more, ENTSO-E is opposed to a strict conditionality between the introduction of capacity mechanisms and Member States' implementation of their adequacy implementation plan, as suggested by the EP (Article 18a (new)). Member States may indeed need to rely on a capacity mechanism while they are still implementing measures to enhance system adequacy. Some of the requirements of the implementation plan would not be in the full control of the Member State concerned (e.g. development of interconnection capacity,

bidding zone configuration) while for others, their practicality has not been sufficiently investigated, such as shortage pricing function.

As a consequence, pan-European and national resource adequacy assessments should be based on the same ENTSO-E methodology, challenge and complement but not replace or overwrite one another.

Capacity mechanisms need to comply with certain design principles, but law should not generally favour strategic reserves over market-based mechanisms

Electricity Regulation, Article 23 on design principles for capacity mechanisms

ENTSO-E supports the view that the full implementation of market design changes minimises the need for capacity mechanisms. However, capacity mechanisms may still remain a necessary element of the market design, depending on how successfully market signals and innovation will deliver the needed flexibility and system adequacy in line with political targets on security of supply.

In this context, we fully agree that such mechanisms need to respect a range of design principles as set out under Art. 23 in the Commission's proposals. Conversely, we do not support the EP's general preference for strategic reserves over capacity markets. It should be clarified in this context that strategic reserves are likewise a form of capacity mechanisms.

All forms of capacity mechanisms are designed to respond to different needs and resource adequacy specificities and the legislator should not, in general terms, favour one mechanism over another. The EP also suggests that strategic reserves might only be dispatched once TSOs have exhausted all their balancing resources. This would result in a significant challenge as the reserves must be kept available for any possible outage in the grid to guarantee its stability and prevent black-outs. We therefore urge trilogue negotiators to rather adopt the Council text in this respect, which would correctly allow to activate such resources once the concrete risk of crisis situations has been identified, and not only after such crisis have materialised.

Network Codes and Guidelines are indispensable tools to achieve the Energy Union

Electricity Regulation Articles 54-58; ACER Regulation Article 5

Since its establishment, ENTSO-E, ACER, the EC, with the support of a wide range of stakeholders drafted and adopted eight network codes and guidelines. These codes and guidelines have been important tools to implement the Third Energy package provisions, thus ensuring the actual integration of the IEM and making sure the system can uptake increasing amounts of renewables safely and in line with the 2020 targets.

As the EU set out new ambitious energy policy targets for 2030, the importance of network codes and guidelines will remain an essential tool to implement the Clean Energy Package and, more broadly the Energy Union.

In this context, codes and guidelines will remain an indispensable implementing tool of technical provisions and methodologies. As such, these codes and guidelines should be adopted as implementing acts, not least also because much of the responsibility for implementation will rely upon actors at national level, may they be TSOs, DSOs, NRAs, etc.

Ensure the EUDSO Entity is a reliable partner and acts independently from market interests

Electricity Regulation, Articles 49-53 related to the EUDSO entity

ENTSO-E considers the cooperation with the DSOs a priority and is keen to deliver value to European customers, through an efficient and trustworthy interaction with the future EU DSO Entity. The EUDSO

Entity will be entrusted with a range of responsibilities, including the joint drafting of network codes with ENTSO-E.

For this purpose, it is important that the governance framework of the entity is efficient and fit for purpose. TSOs and DSOs are responsible for tasks that are relevant for the entire system, like data management, development of demand response, development of distributed flexibility products. All of these tasks require strong cooperation between both DSOs and TSOs.

What is more, the text needs to ensure that the deliverables at EU-level – like network codes – are not biased by commercial interests.