ENTSO-E FCA Network Code

Date: 30 January 2013
Time: 10h00 – 16h00
Place: ENTSO-E premises, Brussels

Stakeholder Advisory Group meeting Minutes

Participants:

Chairman	Christian Dobelke	ENTSO-E
DT Convenor	Mark Lane	ENTSO-E
Member	Marco Foresti	ENTSO-E
Member	Márk Csete	ENTSO-E
Member	Kirk-Wilson William	ENTSO-E
Observer	André S. Estermann	ENTSO-E
Member	Johan Ruope	CEER/EI
Member	Charles Verhaeghe	ACER
Member	Martin Povh	ACER
Observer	András Hujber	EC
Member	Petter Longva	IFIEC
Member	Mukund Bhagwat	IFIEC
Member	Marcel Cailliau	EURELECTRIC
Member	Håkan Feuk	EURELECTRIC
Member	William Webster	EFET
Member	Nicolas Barbannaud	EFET
Member	Set Persson	Vattenfall
Member	Rickard Nilsson	EuroPEX
Member	Damian Bach	Britned

1. Welcome and Introduction

Christian Dobelke gives a welcome speech and informs the Stakeholder Advisory Group members about the interest of Damian Bach from Britned to join the SAG on behalf of HVDC merchant interconnectors (including for instance Baltic cable, Moyle, NorNed, IFA, etc.). No objections are raised and everybody agrees with the acceptance of Damian Bach's request.

In addition, Mr. Dobelke presents the planned activities of ENTSO-E in the upcoming months concerning the Forward Capacity Allocation network code, including an explanation of the internal approval process leading to the launch of the public consultation in late March - early April.

2. ENTSO-E - Explanation of main changes/updates of 2nd NC draft

ENTSO-E presents a table circulated within the SAG containing a summary of the changes of the 2nd draft compared to the preliminary draft and explaining the rationale for such changes. Members consider useful this document as it helps to get an quick overview about the changes. Marco Foresti presents the major changes that were introduced by the DT with the objective of taking into account some of the points raised by stakeholders at the previous SAG meeting. The group generally welcomes such changes. András Hujber asks why the network code foresees six months adaptation time for Market Participants (MP) in case of introduction of flow based capacity calculation. ENTSO-E explains that as the allocation constraints are different in this case, it may require modification on MP's IT systems. ENTSO-E recalls the workshops which were held in the CEE region for MP when explicit flow based capacity allocation was expected. Members ask if there is border-border or non-neighbouring flow base allocation is foreseen. ENTSO-E replies as it is not developed yet the network code does not preclude any of them. Members ask to try to clarify it in the next version of the code.

3. Stakeholders general feedback on 2nd draft NC

IFIEC: welcomes the opportunity to comment the 2nd draft code. IFIEC questions the necessity of having this Network Code. The forward market should essentially be a financial market after the phase-out of Physical Transmission Rights. The main aim of forward capacity calculations is to help market participants understand market price development. In the future, power flows and the demand for grid capacity will be very unstable due to an ever increasing share of power from intermittent sources. Forward capacity calculation is therefore not going to have significant value for market participants. IFIEC still thinks there is no need for long term transmission rights (LTR) but financial products should be introduced all over Europe. LTRs are only bridges from a less liquid market to a more liquid market. However, the Association supports the current version of the FCA network code as it allows the introduction of financial hedging products like CfDs. The representative mentions the long term gas model and the Nordic electricity model that the Europe should follow, which is fully in line the IFIEC's model.

EFET: orally shares their feedback. They explain that the more cross zonal capacity is offered on the bidding zone border the bigger competition we have which is definitely favourable for end users. As far as the 2nd draft FCA network code is concerned it is still unclear how the splitting of the capacity is done, thus more detail is required in this section. ENTSO-E replies that the drafting team (DT) is modifying this section and will try to rephrase and include more details into it. EFET emphasizes that TSOs should not organise the secondary market but leave it for other parties and MPs. The TSOs should be informed only about the last owner of the LTR. Critical views are expressed about the current firmness regime included in the code. LTR must be firm otherwise the level of risk carried by market participants make the products of little value. TSOs are best suited to manage such risk rather than transferring it completely on market participants.

EURELECTRIC: gives a presentation (see slides) in which they highlight that all the calculated – maximum – capacity should be allocated by the Transmission System Operators (Article 37). Additionally, they emphasize that NRAs should have the opportunity to require TSOs to issue LTRs even in case financial markets are considered to be liquid (Article 39). The exemption from issuing LTRs should not be done automatically. They recall the previous SAG meeting held 26 November 2012 where they mentioned that TSOs should issue synthetic FTR obligations as a combination of CfDs (Article 44). ENTSO-E asks further clarification on the characteristic of "synthetic FTR obligations". EURELECTRIC promises concrete text proposal on this Article and explanation on this possible product. On the product section a specific definition is required for "Liquid financial markets on both sides of bidding zone borders". ENTSO-E answers that most likely the new version of the code will not contain the word liquid financial markets as this would be impractical to define. Moreover, since the FWGL focus on the existence of "appropriate hedging opportunities", a definition could not solve the problem. ENTSO-E rather believe that is up to regulators to carry out an assessment of such "appropriateness", since it may be subject to interpretation depending on the market parties considered. Another major point is mentioned by EURELECTRIC is the firmness section of the network code. The long term transmission rights shall be firm and compensation should be based on market spread without any cap. Consequently there is no need to introduce a“long term firmness deadline. ENTSO-E explains its position on firmness which was agreed on Market Committee level. This position is reflected in the 2nd draft text and it seems unlikely to change substantially before the public consultation. However, ENTSO-E understands the message of EURELECTRIC and will raise this issue within its membership. The next concern of the association is the Allocation Rules section as it is still quite empty and does not contain any details. It is advised to check the gas network code on CAM which could be a good example what level of detail is anticipated by Stakeholders. As far as the Nomination Rules are concerned they should be written in the code. ENTSO-E acknowledges the necessity of improvement in the Allocation Rules section and will have a look at the gas network code. The drafting team will also take a look at the whist-list of ACER and try to include as many as possible to the next version. However, as the harmonisation of the Nomination Rules for Physical Transmission Rights (PTR) is not foreseen, thus incorportaion of them to the code is not possible. Last but not least, Revenue Adequacy should not be relevant to “The common coordinated Long Term Transmission Rights Volume Determination Methodology” (Article 28). ENTSO-E replies this section will be reviewed by the DT and most likely the Revenue Adequacy constraint will be deleted.

EuroPEX: gives a short presentation (see slides), and in addition begins by recognizing many of EURELECTRIC’s positions as very positive, not least the recognition of both PTR UIOSI/FTR Options and financial markets including CfDs (FTR Obligations) as compliant FCA methods that could be decided upon locally/regionally. The association recalls its previous big concern that many of the current sections of the FCA code do not contain methodologies and rules, but rather refer to that being developed after certain months of the entry into force of the network code. It urges ENTSO-E not to repeat that weakness in the CACM NC and find that the time available is sufficient to agree upon and then include methodologies and rules in to the FCA code from the start. The Articles linked to generation and load data provision appear out of scope in this FCA NC both because such provisions are in another NC, and looking at the details it is hard to see how such requirements could be imposed on entities owning production resources or have significant load, and more importantly how it could work since nobody knows what will be consumed or produced months in advance, nor can anyone be required to commit to consume or produce on a given level in advance. ENTSO-E clarifies that such provisions come from the CACM code (thus highlighted in grey) and there is no intention to duplicate them for the long term. The establishment of he Single Allocation Platform is not sufficently clear i.e. there is no infromation about the procurement procedurewhich should be assumed as needed to carry out . Also the section on Secondary Trading is not clear enough and should specify how a Registry Function shall be put in place to allow bilateral/OTC trade and trade via PX/MTF platforms, regardless of products being offered. Finally, it is stressed that the specific requirements to justify financial markets (including CfDs) as FCA method applied linked to given borders and regions, and to perform an assessment of its applicability as FCA method, is not reasonable in such a discriminatory way, but rather such assessment should, if at all, be required to be done regardless of which FCA method (PTR, FTR Options, CfDs/FTR Obligations), already exist or is planned to be established linked to given borders/regions.

ACER: (see slides) underlines four main issues. First, clarification is needed on the process to determine whether TR should be allocated. ACER thinks where TRs are already allocated, no need to decide on whether appropriate cross-zonal financial hedging is offered. In parallel, where NRAs consider that appropriate hedging tools are offered, they may decide the TSOs not to allocate TRs. Regarding the review of this decision, it should not be done in every two years automatically but upon request of the initiative of NRAs or System Operators. Secondly, the Revenue Adequacy principle is not foreseen by the FWGL at all. Furthermore, this principle may affect the application of the provisions of the FWGL about Use It or Sell It (UIOSI) and thus may induce inconsistencies between the code and the FWGL. ENTSO-E responses that the Revenue Adequacy principle is necessary, as it might happen that due to ramping and losses the congestion income received from day ahead allocation does not cover the payout that TSOs should pay because of UIOSI. Thirdly, the Firmness section is clearly not in line with the FWGL as there should not be any kind of cap by default only the special cases (curtailment announced before the nomination deadline, curtailments of long duration, curtailment announced before a reasonable lead-time defined by the concerned NRAs, taking into the account the liquidity of the relevant markets and the possibility for grid users to adjust their cross-border positions) thus this section is not supported by ACER either. ENTSO-E recalls its answer given to EURELECTRIC before. Lastly, the code foresees at least three and a half years for the start of the operation of the single platform for allocation because of approval very lengthy process. Having in mind the cross regional roadmap of ACER it is proposed to start the preliminary steps of the establishment even before the FCA NC comes into the force and therefore the process in the code should be simplified and shortened. Moreover ACER mentions that objectives of the code need clarification and the approval and elaboration processes are too complicated (approving firmness and requirements, and then the rules, rather than only the rules, 6 months after the entry into force of the code, including firmness regime. The issues which are negotiated between ACER and ENTSO-E and have implication on FCA should be adjusted.

EC: FCA NC should provide for TSOs in all regions to offer long term cross-border transmission products or equivalent instruments.

Role of TSOs in secondary trading should be clarified: depending on the nature of the transmission products offered secondary trading could well be organised by existing trading platforms. In order to be efficient it is advised to consider the publication of common data on the Central Information Transparency Platform foreseen by the draft Transparency Regulation.

Britned: thanks for the acceptance of its membership. They share the view that the code should contain more detail especially on capacity calculation and the platform sections. The association is very interested on the firmness regime as it has a huge impact on them. Britned highlights the risk associated with the idea of having full firm long term products without any cap.

ENTSO-E: hearing the feedback from each Stakeholder, the drafting team will look at ACER wish-list and try to include as many as practicable of them to the next version of the code but the detailed Allocation Rules cannot be prepared within 6 months, and it is not ENTSO-E's intention. The gas CAM network code will be analysed as well. Concerning the Single platform and the splitting methodology, the drafting team will try to include more details, however, on the definition of synthetic FTR obligations, i.e. CfDs, ENTSO-E asks the concrete proposal of the Associations, which Eurelectric volunteered to return with. The firmness standpoint of ENTSO-E derives from the risk associated with full firmness (fully market spread compensation) which could lead to end users bearing the associated costs via possible grid tariff increases. However, EFET's proposal on this section is welcome. The drafting team will also try to minimise the number and timing of regulatory approvals accelerating the delivery of methodologies/rules/platforms.

4. Detailed Stakeholders comments on key FCA NC sections

Allocation Rules:

As it was discussed in the morning session, Stakeholders would like to have more details about the harmonised allocation rules for the different types of FCA methods possible to apply. These should be generally based on ACER's wish-list and common definitions are required, especially for force majeure. It is also advised that gate opening times, auction specifications and participation requirements to be included into the FCA network code.

Firmness:

ENTSO-E shows the current text of the firmness section. ACER, EURELECTRIC, EuroPEX, and EFET express their concerns and unhappiness again due to the introduction of caps and the possibility of initial price paid compensation rule. They also note that the long term firmness deadline is not needed. IFIEC supports the current proposal of ENTSO-E as it does not impose risk on end users. ENTSO-E recalls its answer about its position that was given earlier at this meeting already. In addition, ENTSO-E explains that nowadays TSOs have to redispatch because of the unpredictable wind generation which already cause huge expense on their side while ensuring allocated capacities.

5. ACER consultation on Long Term on Forward Risk-Hedging Products and Harmonisation of Long-Term Capacity Allocation Rules

ACER notes that the conclusions of the public consultation are in line with the ones preliminarily presented at the 2nd SAG meeting late November 2012. They will be approved by Board of Regulators early February and will be published on ACER's website.

6. Next steps and Any Other Business

Keeping in mind that the Market Committee of ENTSO-E is to approve the code for public consultation on 27 February 2013 and intend to launch the public consultation early April. SAG Members agreed that it would not be possible to organize physical meetings before mid-February which would have been needed to have an effect on what the ENTSO-E drafting teams submit for approval within ENTSO-E. Instead, it is considered more effective to exchange NC updates from ENTSO-E and stakeholders feedback with text proposals especially on the most important sections. ENTSO-E will circulate the main changed articles by 8 February 2013 to the SAG asking members' comments on them. The ENTSO-E internal drafting team will meet on 11-12 February again where the code will be adjusted again of which result will be also sent to SAG by 15 February.