

Forwards Capacity Allocation (FCA)

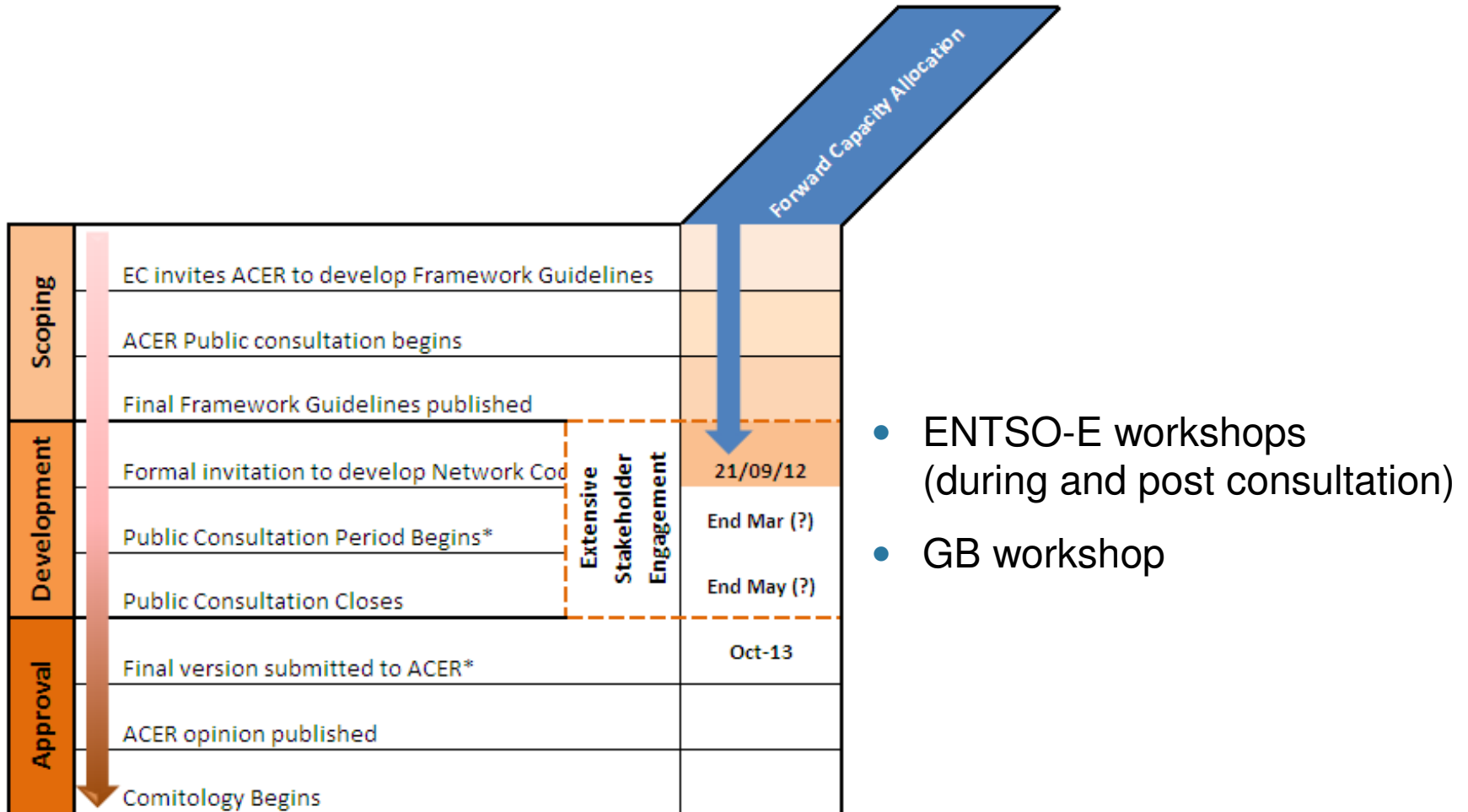
Code Drafter: Will Kirk-Wilson

10th May

Introduction

- Forwards current status
- Target model
- Interaction with CACM
- Forwards overview
- Page turn of key sections

Current status

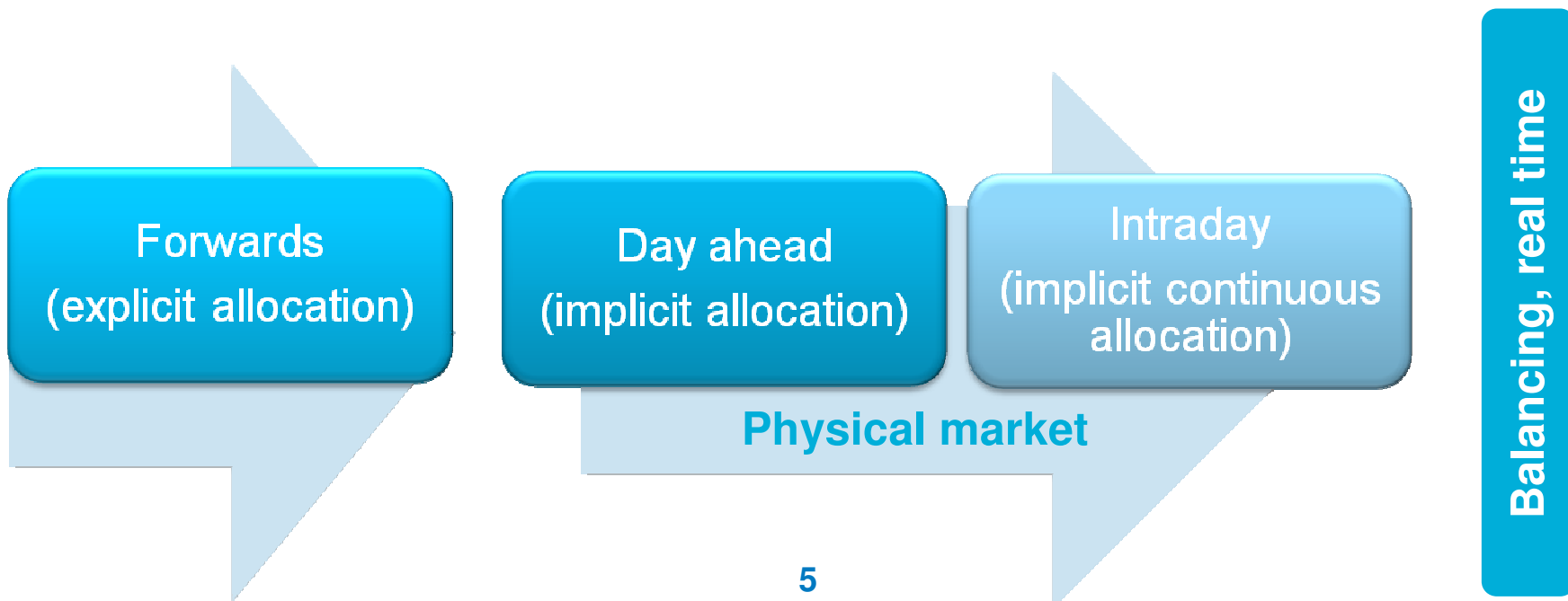


ENTSO-E consultation

- Runs from end of March to end of May
- Online consultation tool to feedback comments
- Online consultation tool is 'clunky' do not underestimate how much time it will take to feedback comments.
- Comments tagged to article and require suggested alternate text
- CACM responses were >2000, therefore tracked change version of code not accepted

Target model

- Create pan-European electricity market by removing barriers for cross border trading subject to network constraints
- Code high level, detail to come later



Interaction with CACM (Capacity Allocation and Congestion Management)

- Large overlap between CACM and forwards.
- CACM is currently with Commission pending going into comitology.
- If code text is highlighted grey, it comes from the CACM code and so is not possible to change.
- Changes are being made to CACM that will need to be replicated into the forwards code.
- Not clear whether FCA will be combined with CACM or standalone code. As drafted it is stand alone.

Forwards market overview

	Bidding zone/border	Capacity Calculation Region	Other	Pan European
Harmonised allocation rules				✓ **
Single allocation platform				✓
Firmness rules		✓		(Acer posn)
Capacity calculation		✓		
Bidding zone review	✓	✓	✓	✓
Choice of PTR/FTR/CfD	✓	(Acer posn)		
PTR/FTR payouts	✓			(Acer posn)

* *ACER position*

* **Pan-european allocation rules, but regional specificities allowed*

Interaction with CACM TSO/SO exemption text

Currently code refers to System Operator. However this concept is going to be replaced by TSO and a common piece of text (below) is likely to be inserted at the top of the code (art 1). Although this text is still to be finalised.

“Any obligation addressed to Transmission System Operators under this network code shall be performed by Transmission System Operators of each Member State. In the event that multiple TSOs operate within a Member State, Member States may exempt one or more TSO from one or more obligations under this network code provided that each obligation is addressed to at least one TSO in that Member State”

Common articles

Title 1-2

- Limited point in commenting on these articles as (in theory) common across all codes, therefore unlikely to change much.
- Consultation – everything consulted for min of 4 weeks (Art 4)
- Approvals – everything subject to NRA approval, although 2 levels depending on scope of requirement (Art 7)
- Delegation of roles – Can delegate, but remain responsible (Art 9)
- Stakeholder committee – Establish pan european committee (Art 10)

Capacity Calculation

Title 3 – Chapter 1

- Largely same text as CACM (indicated by grey).
- Will be extensively changed to align with CACM, following EC changes.
- Same capacity calculation regions as CACM.
- However now:
 - Preference for ATC, not FB
 - Parallel statistical process allowed as worried CACM Cap Calc process will not release enough capacity as based on scenarios which can easily conflict, subject to NRA approval.

Bidding Zones

Title 3 – Chapter 2

- Same text as CACM (indicated by grey).
- Same bidding zones as CACM
- However if borders disappear, right holders entitled to refund based on initial price paid

Splitting of cross zonal capacity

Title 3 – Chapter 3, Art 40-42,44,55

- Splits total capacity of border into products available to market (eg MW -> annual/monthly etc. products)
- Methodology:
 - subject to NRA approval (not numbers themselves)
 - by Capacity Calculation Region.
- Specifically can split capacity into intraday as code is silent on this (ie neither permitted, nor prohibited).
- Coordinated Capacity Calculator splits capacity, validated by System Operator (note art 55 uses ensure)

Forward Capacity Allocation

Title 3 – Chapter 4

- Meat of code, covers:
 - Exemption for Nordic market
 - Defines products that can be offered (PTRs/FTRs/CfDs)
 - Rules for products e.g. defines UIOSI
 - Revenue adequacy
 - Auction process
 - Capacity resales
 - Secondary trading

Forward Capacity Allocation

- Cross Zonal Transmission Risk Hedging

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Title 3 – Chapter 4, Art 45

- Code allows TSOs to not issue PTRs or FTRs, subject to NRA deciding “*if forward financial electricity markets are well developed and have shown their efficiency*”
- This is to cater for Nordic market which uses CfDs. However Commission has suggested that Nordic TSOs might be required to do something for market parties.
- However in such cases TSOs can still (at their own discretion) issue PTRs or FTRs.
- Unlikely to be relevant for our market

Forward Capacity Allocation

- Products types

Title 3 – Chapter 4, Art 46-47

- Products can be either PTR (with UIoSI) or FTR options/obligations
- Border specific
- Product length is “at least annual and monthly timeframes” ie does not preclude longer.
- Not allowed to issue PTR and FTR on same border in parallel, although not sure rational behind this?
- Are ACER/EC pushing for FTRs?

Forward Capacity Allocation

- PTRs

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Title 3 – Chapter 4, Art 46,48,51,70 + UIOSI defn

- All PTRs required to have UIOSI
- UIOSI payout defined as day ahead market spread, respecting revenue adequacy (losses?)
- Revenue adequacy limits payouts to Day Ahead congestion income (see slide following)
- Harmonised UIOSI rules

Forward Capacity Allocation - Nominations

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Title 3 – Chapter 4, Art 52-53 + definitions

- Nominations rules by border.
- “Progressively harmonise” requirement.
- Limited pressure to harmonise as perception is that ACER, EC and market parties pushing FTRs (options).

Forward Capacity Allocation

- Revenue adequacy

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Title 3 – Chapter 4, Art 51 (only), + defn

- Introduce concept of revenue adequacy to limit PTR and FTR payouts to Day Ahead congestion income.
- Not in FG, but introduced to pass costs of adverse flows, ramping constraints etc. onto interconnector users.
- ACER don't like this and are pushing for its removal
- ACER think market parties should NOT be exposed to costs of ramping constraints, adverse flows and are saying ENTSO-E is not in line with FG
- Covers UIOSI.

Forward Capacity Allocation

- Auction process

Title 3 – Chapter 4, Art 54-58

- Capacity priced using marginal pricing principle
- Allocation platform shall provide invoicing or self billing
- Market Participant shall:
 - provide “sufficient collateral”
 - be registered in accordance with rules
 - not affect, distort or restrict competition in the internal energy market.

Forward Capacity Allocation

- Capacity resales

Title 3 – Chapter 4, Art 60

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- Relabelled Resales as Return, to avoid being caught by MIFID
- Resales priced at marginal price of auction

Forward Capacity Allocation

- Secondary trading

Title 3 – Chapter 4, Art 54, 61, 65, 66

- Required in FG but ACER unsure what they meant. w3
- Within code Secondary trading platform is a bulletin board to ensure it is not covered by REMIT.
- Eligibility of market parties to engage in Secondary trading defined by allocation rules and can be withdrawn by allocation platform.
- If market party sells right, has to notify allocation platform and SO, although SO will always be counterparty to right
- Code does not preclude other parties establishing a secondary platform (which then has requirements put on them by the code), but requires TSOs to create one. 21

Slide 21

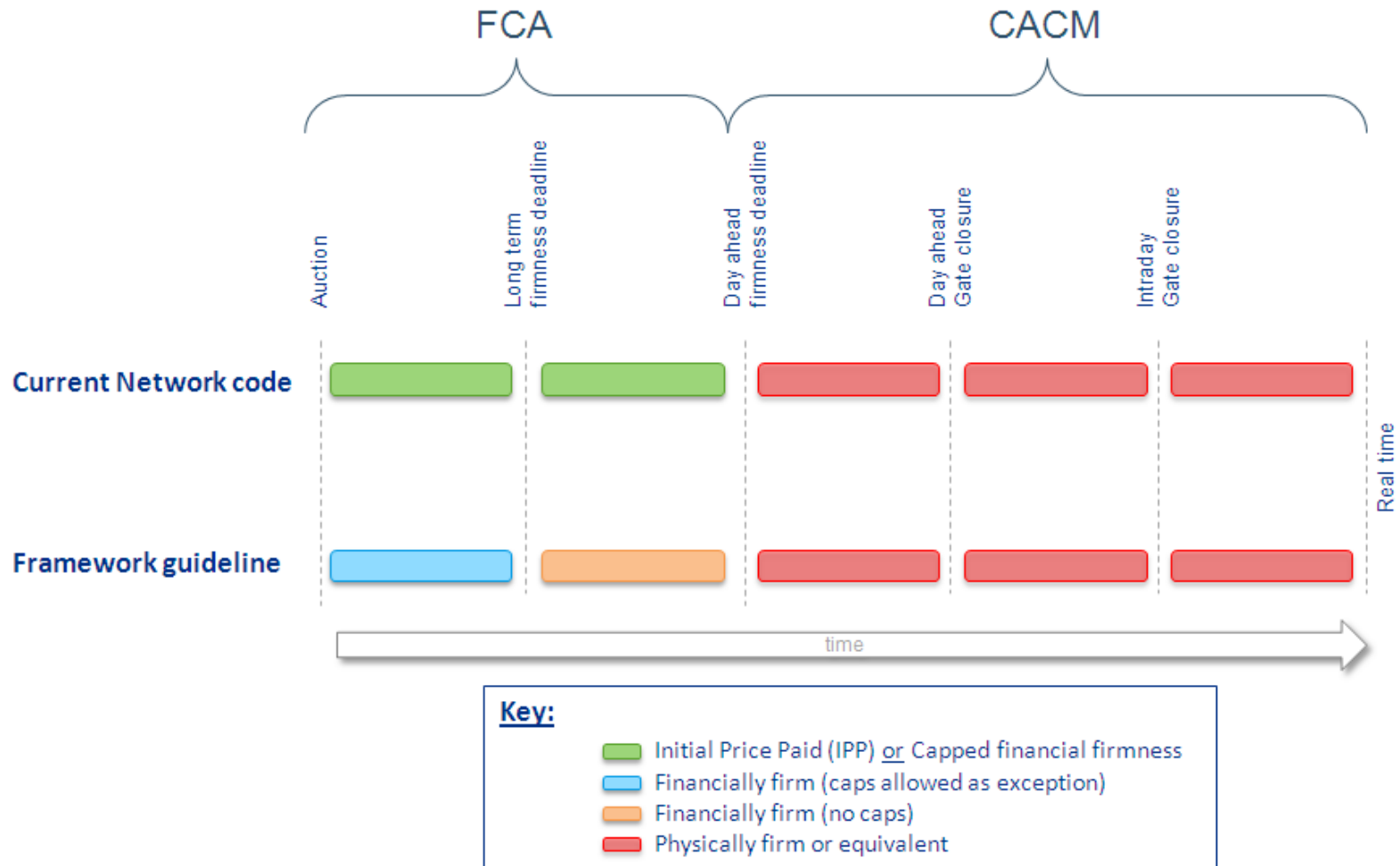
w3

“In line with the point 2(12) of the CM Guidelines, the CACM Network Code(s) shall foresee that the TSOs provide a single platform for anonymous secondary trading at the European level.”

william.kirkwilson, 12/03/2013

Firmness

Title 3 – Chapter 7, Art 73-78



- Carve out for outages of long duration (specifically mentions DC subsea cables)
- Long term firmness deadline is equivalent to nomination deadline for PTRs.

Single platforms and implementation

Title 3 – Chapter 5, Art 54, 65-66,67

- Pan European platform,
- Established by all SOs who issue PTRs/FTRs
- ACER pushing for earlier implementation

Developing the single platform*



Developing auction rules



Allocation rules

Title 3 – Chapter 6, Art 70

- Harmonised Allocation Rules for PTRs and harmonised allocation rules for FTRs based on same principles and apply the same wording where possible.
- Work just starting on harmonising rules.
- Allows regional specificities where appropriate.
- Shall contain harmonised:
 - Definitions
 - Provisions for eligibility, entitlement, suspension, renewal, collusion and costs,
 - Secondary trading
 - Capacity returns
 - UIOSI

Congestion income and cost recovery

Title 3 – Chapter 8-9, Art 79-84

- System Operators pay for single platform and secondary trading bulletin board
- Otherwise same as CACM i.e. costs are covered by System Operator and recovered through appropriate regulatory mechanisms

Transitional arrangements

Title 4, Art 85-90

- Transitional platforms, rules and firmness arrangements allowed prior to the introduction of the single platform.
- Can exist in parallel with single platform/rules for 24 months.

How to get involved

- Get in touch with me.
- Joint European Standing Group (JESG)
- FCA Industry meetings:
 - ENTSO-E consultation – 28th March to 28th May
 - ENTSO-E workshop – 8th May (but future ones scheduled)
 - JESG code page turn – 16th and 17th May
- CACM Industry meetings:
 - DECC/Ofgem

Further Information

■ Target model

- Overview doc: <https://www.entsoe.eu/major-projects/network-code-development/>
- Framework Guidelines for both CACM and Forward Capacity Allocation:
http://www.acer.europa.eu/portal/page/portal/ACER_HOME/Public_Docs/Acts%20of%20the%20Agency/Framework%20Guideline/Framework_Guidelines_on_Capacity_Allocation_and_Congestion_M

■ CACM

- ENTSO-E's Network Code website: <https://www.entsoe.eu/major-projects/network-code-development/capacity-allocation-and-congestion-management/>
- Ofgem: <http://www.ofgem.gov.uk/Europe/EEM/Pages/EEM.aspx>
- ACER Recommendation:
http://www.acer.europa.eu/Official_documents/Acts_of_the_Agency/Recommendations/ACER%20Recommendation%2001-2013.pdf
- (Annex): https://www.entsoe.eu/fileadmin/user_upload/library/resources/CACM/ACER_Annex_to_Recommendation_01-2013_on_the_Network_Code_on_CACM.pdf

■ Forwards

- ENTSO-E's Network Code website: <https://www.entsoe.eu/major-projects/network-code-development/forward-capacity-allocation/>
- ENTSO-E Consultation Portal: <https://www.entsoe.eu/consultations/>

Any questions?



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