

November 2023

## UFE Response to All TSOs' proposal on amendments to the methodology for determination of capacity calculation regions

UFE welcomes the opportunity to convey its reactions to this all TSOs' consultation on the stepwise merger of the Core and Italy North capacity calculation regions (CCRs).

From a general standpoint, UFE recalls that (i) it supports the idea of an as much coordinated as possible capacity calculation process within the EU borders and at the borders of the EU with third countries but also that (ii) any further addition of borders in a CCR or CCR mergers must be assessed against the possible joint influence of other borders on power flows and against the possible negative impacts on the capacity calculation processes at regional level and its ongoing evolutions. In this perspective, UFE is favorable to the efficient extension of the flow-based capacity calculation and to extend coordination to the largest geographical extent whenever relevant. However, such an approach must not overlook the need for caution to avoid negatively impacting or jeopardizing priority processes, such as the operational existing CORE capacity calculation process and EU SDAC and SIDC processes.

As a preliminary comment, UFE considers it difficult to give an informed opinion. Indeed, the consultation document mentions that the impact analyses (with quantitative elements) or the identification of interactions with existing processes still remain to be carried out. It would have been preferable to first analyse the pros and cons and detail them along with the proposal when submitting to consultation. **Stakeholders and market players need to be put in a position to assess the risks posed to existing business processes, as well as the different impacts of the merger in terms of available/allocated capacity at each border.**

UFE however can share some remarks as in fact both the timeline and approach for the merger proposed are quite surprising.

- In terms of timeline, the information was in fact shared only very recently within the Italy North Forum and at the last MESC meeting. Neither did the works about the prioritization of projects shared in MESC and MCSC identify this issue as being a

priority. Therefore, some information about the reason of such a rush of this initiative, as well as on the ACER letter of 17th July 2023 mentioned in the consultation document, would be much appreciated, especially since TSO were only able to perform basic assessment due to the very short time given for this amendment.

- In any case, UFE considers that the implementation of this project should not be prioritized before further assessment within the project prioritization exercise on which market participants should also be consulted. In this perspective, impacts on Euphemia should be strongly considered, both in terms of welfare improvements and computational performance (time to first solution, PRBs, optimality gap, ...). Notably, as the merger will create the unique combination in the SDAC of flow-based constraints and PUN orders in the IT North bidding zone, the impact on performance in the price determination and pun search sub-problems should notably be carefully assessed and publicly published.
- In terms of approach, the stepwise choice (segmentation between Day-Ahead first and extension to Intra-Day afterwards) also calls for comments. This is a first, and beyond the consideration on the rush, this approach could be legally challenged and potentially give rise to legal uncertainty. Indeed, assigning a given bidding zone border to two different CCRs depending on the timeframe seems to contradict Article 15(2)(b) of CACM, which states that “each bidding zone border [...] shall be assigned to one capacity calculation region”. This provision is admittedly without prejudice of the possibility, as stated in CACM Article 20(5), to consider two adjacent CCRs developing a common flow-based approach for a given timeframe as one region for this purpose, but we understand this should not lead to the formal creation of a distinct CCR.
- Furthermore, a first step would have been to finalize the implementation of a flow-based CCM in the Italy North CCR before proposing a merger between the two CCR, even if it is a partial merger.
- No information is provided on the extent to which this partial merger implies a review of existing methodologies for the day-ahead timeframe: will Italy North simply accept the CORE methodologies, with only minor changes or will there be substantial modifications (in which case what are the foreseen modifications). Furthermore, governance issues should not impact or delay ongoing and existing processes.

- It would have been useful to describe the links/interactions with the implementation of all the other CCR-related obligations according to CACM, FCA, EB, SO as well as any other applicable European legislation to fully appreciate the benefits and challenges of the proposed methodology.
- In spite of the obvious central position of Switzerland in the proposed Central Europe CCR, the amendment proposal very rapidly addresses the issue of its treatment in the various applicable methodologies and refers to contractual arrangements with no further details. UFE considers that beyond political issues and as matter of market efficiency and operational security, CACM should define a framework for the inclusion of third countries in the coordinated capacity calculation process and also for congestion management and that Switzerland should be taken into account as much as possible in the operational processes mentioned above.
- Market participants would also need:
  - a proper and long enough (18 months) parallel run, including the impacts on the key performance indicators of EUPHEMIA;
  - to have the operational transparency at the same level as for the CORE region;
  - to understand how the Savoy-Piedmont interconnector will be managed (the same way as Alegro?).

UFE notes and supports that the proposed approach shall not set a precedent under the current legal framework for defining any other configurations of CCRs comprising only selected timeframes.