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UFE's answer to ACER's consultation on the draft methodologies for the European resource adequacy assessment and for calculating the value of lost load, the cost of new entry and the reliability standard

1. On ERAA Proposal

1.1 Do you think that policies and measures contributing to indirectly restricting wholesale price formation (as referred to in Article 10(4) of Reg. (EU) 2019/943) should be reflected in ERAA?

☒ Yes

☐ No

1.2 Please elaborate on your previous answer

UFE agrees that these measures should be reflected in the ERAA: in order to ensure the representativeness of the assessment, it should reflect to the best possible extent the actual market design that is in place or planned to be implemented over the ERAA time horizon. Article 23(5b) of Regulation 2019/943 requires the ERAA to include an economic assessment of the likelihood of retirement, mothballing or new-build of new capacities including sensitivities on wholesale prices; these sensitivities could be used to model and assess the impact of the measures referred to in Article 10(4) of Regulation 2019/943.

1.3 How should policies and measures contributing to indirectly restricting wholesale price formation be reflected in ERAA?

From an investment point of view, wholesale price formation should be taken into account in the economic assessment of capacities whose profitability is directly impacted by wholesale prices (e.g. thermal capacities, demand-side response, etc.). However, the impact of measures which potentially restrict price formation on adequacy should not be overestimated, as adequacy is a complex issue which does not boil down to bidding limits. One of the most obvious examples is that the profitability of a growing number of capacities (including renewables benefitting from support schemes, but not only) is not primarily driven by wholesale prices.

Union Française de l'Électricité

1.4 What would be the impact on price formation during scarcity hours?

By definition, this is for the ERAA to determine. Two steps need to be distinguished: to what extent the measures influence price formation, and to what extent the impact on price formation leads to an actual impact on adequacy. One should not prejudge the answer to any of these two questions.

1.5 Do you think that, actions taken by a regulatory authority or designated competent authority aimed to eliminate identified policies or measures which could serve to restrict wholesale price formation (as referred to in Article 10(5) of Reg. (EU) 2019/943) should be reflected in ERAA?

☒ Yes

☐ No

1.6 Please elaborate on your previous answer

For the reasons stated in Q. 1.2., UFE is in favour of taking these actions into account within the ERAA.

1.7 Do you think that scenarios for ERAA should reflect the timeline for adopting measures to eliminate any identified regulatory distortions or market failures as a part of the State aid process included in the implementation plans as referred to in Article 20(3) of Reg. (EU) 2019/943?

☒ Yes

☐ No

1.8 Please elaborate on your previous answer

UFE is in favour of taking into account the status and, to the extent possible, the planned evolution, of the regulatory framework over the entire study horizon and therefore the measures foreseen in the implementation plans. However, only measures effectively planned (i.e. legally enacted) should be taken into account: the ERAA should not speculate on whether certain measures will be taken (or removed) or not. Moreover, UFE reminds that ERAA aims at objectively identifying adequacy issues but is not an evaluation of the regulatory framework or policy choices: it should therefore not interfere with the other processes defined by the Regulation, including in articles 20 and 21.

Union Française de l'Électricité

1.10 How do you expect the measures referred to in questions 1.1 and 1.5 would affect price formation, especially during scarcity situations (i.e. when unserved energy occurs)?

Again, this is for the ERAA to determine and two steps need to be distinguished: to what extent the measures influence price formation, and to what extent the impact on price formation leads to an actual impact on adequacy. One should not prejudge the answer to any of these two questions.

1.11 The Proposal for ERAA mentions that Replacement Reserve (RR) is fully available to avoid unserved energy, whereas FRR is fully unavailable for this purpose. Do you agree with this proposal?

☐ Yes

☒ No

1.12 Please elaborate on your previous answer

UFE considers that ERAA should not take into account balancing reserves, including the Restoration Reserve, as such reserves are dimensioned and used to face short-term events, not to solve adequacy issues, and are not relevant from the market perspective retained in the ERAA since they cannot be offered in the day-ahead/intraday markets. Moreover, the ERAA has a time granularity of 1 hour, while FRR volumes are deployed for a period of maximum 15 minutes. The ERAA simulations are therefore not able to replicate or see the short-term frequency fluctuations that are present in reality. The FRR volumes modelled in the ERAA should therefore only be represented as capacity that cannot be deployed for adequacy but has to remain free to deal with these short-term frequency fluctuations.

1.13 What do you think should be the FRR purpose (and use) at times of unserved energy and how should ERAA reflect this use?

As stated above, balancing reserves are used to face short-term events and are not involved in solving adequacy issues.

1.14 Do you think taking into account unused (normatively estimated based on the historical difference between available and activated for other purposes, see example below) Frequency Restoration Reserves (FRR) upwards as resource to be used in ERAA with the aim to reduce unserved energy (which ultimately materialises as imbalance)?

☐ Yes

☒ No

Union Française de l'Électricité

1.15 Please elaborate on your previous answer

UFE strongly opposes such an approach, considering that ERAA should only take into account adequacy capacities and not balancing reserves, which are not dimensioned for that purpose. The potential remaining capacity (i.e. not activated for balancing purposes) does indeed not automatically fall into adequacy purposes. Furthermore, UFE believes using such a historical and statistical approach – by definition uncertain for the future – will ultimately weaken the relevance of the study.

1.17 Do you have any views for the selection of a relevant and representative set of climate years as input for the Monte Carlo approach?

In our opinion, a limited set of climate years risks being insufficiently relevant and representative, as it risks the omission of more extreme weather events that do not occur every 1, 5 or even 10 years: a broader set should thus be considered.

As regards more generally the samples taken into account as input for the Monte-Carlo approach (not only for the climate years), it would be relevant, given the current context, to include the effect of extreme events such as the COVID-19 pandemic, which can significantly affect the demand on one side and the availability of generation assets on the other side.

1.18 Do you have any other major observation on the ERAA Proposal? (if so, please indicate clearly the related Article, paragraph of the proposal, and add a sufficient explanation)

UFE welcomes the fact that strategic reserves – which are capacity mechanisms – are included in the ERAA proposal.

Regarding the economic viability check, the profitability of the assets shall include risk aversion considerations. Besides, the economic viability check shall be designed to reflect the constraints affecting the investment, moth-baling and retirement of generation assets, especially Demand Side Response constraints described in Article 3(3.d). However, in general, given the inherent difficulty to properly model investment risk, the inclusion of new assets based on their estimated economic viability should always be carefully considered. In particular, a sensitivity analysis where no new capacity is included on the basis of the economic viability test should always be performed.

Furthermore, the hypotheses for the development of networks are those of the TYNDP which are usually much too optimistic and, as recalled above, the use of the 70% threshold for calculating the exchange capacities is not adequate for the ERAA, because it does not reflect the physical capabilities of the network and could be impossible to apply in practice. The assumptions in terms of bidding zone delineation and the risk that this configuration is changed in the forthcoming years should also be properly addressed.

Union Française de l'Électricité

2. On VoLL/CoNE/RS Proposal

2.1 In the CoNE Proposal, an initial list of technologies is set up; only technologies which fulfil criteria to become candidate Reference Technologies are then thoroughly studied. Do you agree with the way some technologies (e.g. Demand Side Response (DSR), RES, storage, etc.) are considered in the methodology for calculating the CoNE (Title 3 of VoLL/CoNE/RS Proposal)?

☒ Yes

☐ No

2.2 Please elaborate on your previous answer

UFE considers that all standard technologies which are not banned by European or national regulation should be included in the Reference Technologies (conversely, this means that the technologies which are banned by national regulations or planning could be excluded).

2.4 Do you agree with the provisions of Article 15 of the VoLL/CoNE/RS Proposal according to which a Member State can rely on their own relevant, recent and representative WACC estimates, or should there be a binding common methodology to calculate the WACC for all Member States?

☒ Yes

☐ No

2.5 Please elaborate on your previous answer

Given the different market realities in the different Member States, the main objective should be to use the same methodology to obtain WACC estimates, but not necessarily to obtain the same WACC estimate values. Member States should be able to use already available data as long as this data is recent, relevant and the data source is transparent.

2.6 Do you think that the main technical parameters used to calculate CoNE should be harmonised across MSs?

☐ Yes

☒ No

Union Française de l'Électricité

2.7 Please elaborate on your previous answer

Technical parameters may vary from one Member State to another due to taxes, environmental constraints, regulation, composition of the generation mix, that differs in each Member State. Technical parameters should be defined at national level.

2.8 What are the main technical parameters used to calculate CoNE that could be different?

Such parameters could be, for instance, the net capacity or the net efficiency, which could depend from the plant setting and the usual weather conditions (temperature).

2.9 Do you think that renewal or prolongation of existing resource capacity should be considered as a candidate technology that can address the required capacity needs and thus be taken into account in the calculation of the reliability standard (Annex 2(iii) of VoLL/CoNE/RS Proposal)?

☒ Yes

☐ No

2.10 Please elaborate on your previous answer

In France, it is possible that no need for new capacity (except policy units such as renewables) is identified in the next few years. However, prolongation / refurbishment of existing capacities may be required to reach the reliability standard. Such a configuration should be taken into account in the methodology.

2.11 Do you agree with the provisions Annex 3 of the VoLL/CoNE/RS Proposal that a range of values of VOLL and CONE should be used to define the reliability standard?

☒ Yes

☐ No

2.12 Please elaborate on your previous answer

UFE considers that the calculation of the CONE and the VoLL necessarily involves significant uncertainties. Confidence intervals must therefore be provided and a clear distinction must be made between the outputs of the methodology, which should be ranges, on the one hand, and the Member States' reliability standards that will be based on these ranges and depend on the Member State's energy policy, on the other hand.

Union Française de l'Électricité

2.13 How should the methodology define the approach for extracting a single value from each range when defining the reliability standard?

It should not. The methodology should define generic principles that ensure a reasonable harmonization in the way the VoLL, the CONE and the reliability standard are defined, in order to comply with the Electricity Regulation requirements, but without being overly prescriptive. Trying to extract a single value from each range would give the false appearance of scientific exactness, and hide the actual uncertainties surrounding the value of the VoLL, the CONE and the reliability standard. Given these uncertainties, the responsibility of extracting a single value from these ranges is by definition a political one, which lies with Member States.

3. On both Proposals

3.4 Do you think that the proposed involvement of stakeholders in both Proposal is sufficient to guarantee robustness and transparency on scenario assumptions, input datasets, modelling approaches (e.g. with respect to the links with national energy policy targets and plans, DSR modelling), etc.?

☐ Yes

☒ No

3.5 Please elaborate on your previous answer

Full transparency should be provided on both the input data used to build the scenarios and on the ERAA model itself. This requirement could be adequately fulfilled through an open source approach (which is not contradictory with the protection of commercially sensitive information if need be).

4. Please provide any further comment

UFE acknowledges the need to identify the potential resource adequacy concerns at Union level by assessing the overall adequacy of the electricity system to supply current and projected demand. However, we would like to point out that, if the modelling should indeed be common to all Member states, it should not be detrimental to the detailed modelling of country specificities. As the methodologies rely on scenarios and forecasts – themselves based on (at least partly) uncertain entry data assumptions –, UFE also stresses the need to ensure a reasonable harmonization without being overly prescriptive nor giving the false appearance of scientific exactness, the methodologies' ultimate translation remaining a political choice for Member states.