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**Draft explanatory document to the Proposal for the
establishment of fallback procedures for Capacity
Calculation Region Hansa
in accordance with Article 44 of the Commission
Regulation (EU) 2015/1222 of 24 July 2015 establishing a
Guideline on Capacity Allocation and Congestion
Management**

14th of April 2017

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1. Introduction

The Commission Regulation (EU) 2015/1222 of 24 July 2015 establishing a guideline on Capacity Allocation and Congestion Management (hereafter referred to as “CACM Regulation”) sets out rules to ensure optimal use of the transmission infrastructure, operational security and optimizing the calculation and allocation of cross-zonal capacity.

One of the steps to implement the CACM Regulation is to establish robust and timely fallback procedures to ensure efficient, transparent and non-discriminatory capacity allocation in the event that the single day-ahead coupling process is unable to produce results for each Transmission System Operator (hereinafter “TSO”), in coordination with the other TSOs in the Capacity Calculation Regions (hereinafter “CCRs”).

Pursuant to Articles 44 of the CACM Regulation, all TSOs in the CCR Hansa have established a Proposal for fallback procedure. This document provides additional information to the Proposal.

The Proposal for establishment of fallback procedures in CCR Hansa has to be submitted for approval to all regulatory authorities (hereinafter “NRAs”) within the CCR Hansa no later than 16 months after the CACM Regulation entered into force. Due to a delayed regulatory approval of the proposal for Capacity Calculation Regions, TSOs requested to extend this deadline by 6 months.

This document is meant to ease the approval process of the Proposal by all NRAs in CCR Hansa. The terms used in this document follow the definitions of Article 2 of the Proposal for establishment of fallback procedures.

In regards to Norway, the CACM Regulation is not yet implemented as Norwegian law due to delay in implementing the Regulation (EC) No 714/2009. No decision has been made from the Norwegian government in time of writing, but there are no indications that there are obstacles to implementing the CACM Regulation. This document is written under the assumption from Statnett that Norway will have a situation where CACM Regulation is implemented prior to the implementation deadline for this methodology.

2. Geographical application of this Proposal

The Proposal applies to the bidding zone borders within the CCR Hansa.

3. Legal requirements and interpretation

This chapter contains a description of the relevant legal references in the CACM Regulation including their interpretation in order to formulate a Proposal for fallback methodology.

3.1 Legal references and requirements

A number of relevant preamble of the CACM Regulation are cited, that should be taken into account to properly interpret the articles stated further below.

Article 7(1)(h) in the CACM Regulation states that with regard to single day-ahead and intraday price coupling, NEMOs shall in particular be responsible for the following tasks:

“establishing jointly with relevant NEMOs and TSOs back-up procedures for national or regional market operation in accordance with Article 36(3) if no results are available from the MCO functions in accordance with Article 39(2), taking account of fallback procedures provided for in Article 44”

According to Article 8(2), TSOs shall:

“establish and operate fallback procedures as appropriate for capacity allocation in accordance with Article 44”.

Article 44, TSOs shall in coordination:

“By 16 months after the entry into force of this Regulation, each TSO, in coordination with all the other TSOs in the capacity calculation region, shall develop a Proposal for robust and timely fallback procedures to ensure efficient, transparent and non-discriminatory capacity allocation in the event that the single day-ahead coupling process is unable to produce results. The Proposal for the establishment of fallback procedures shall be subject to consultation in accordance with Article 12.”

Article 50(1) states that:

“In the event that all NEMOs performing MCO functions are unable to deliver part or all of the results of the price coupling algorithm by the time specified in Article 37(1)(a), the fallback procedures established in accordance with Article 44 shall apply”

Furthermore, according to Article 50(2):

“In cases where there is a risk that all NEMOs performing MCO functions are unable to deliver part or all of the results within the deadline, all NEMOs shall notify all TSOs as soon as the risk is identified. All NEMOs performing MCO functions shall immediately publish a notice to market participants that fallback procedures may be applied.”

As a general point, all methodologies and Proposals developed under the CACM Regulation should align with the objectives of the CACM Regulation. More specifically, Article 9(9) of the CACM Regulation requires that:

“The Proposal for terms and conditions or methodologies shall include a proposed timescale for their implementation and a description of their expected impact on the objectives of this Regulation.”

3.2 Interpretation and scope of Proposal

The legal framework stated above needs to be given an interpretation in order to formulate a legally sound Proposal of fallback methodology, to define the scope of this Proposal and to make the Proposal implementable.

Fallback procedures apply in the event that the single day-ahead coupling process is unable to produce results. The results meant are specified in Article 39 (2) of the CACM Regulation and relate to the output of the day-ahead price coupling algorithm i.e. prices, net positions and status of orders.

A Partial Coupling is a situation where it is not possible, for a specific day, to allocate the Cross Zonal Capacities (CZCs) via the implicit allocation for one or several areas and/or interconnectors before the relevant Partial Coupling Deadline. A Full Decoupling is a situation where it is not possible, for a specific day, to allocate the CZCs via the implicit allocation process, where a time limit has been reached and the Market Coupling Results cannot be published before the Full Decoupling Deadline. Full definitions are described in chapter 4.

The TSOs are to develop a Proposal for a robust and timely fallback procedure to ensure efficient, transparent and non-discriminatory capacity allocation. A robust fallback procedure is understood as procedure, which is independent, and not subject to the errors in Market Coupling (MC) function. A timely procedure can be operated in time and parallel with the MC function, so the fallback procedure can be applied immediately after the announcement of partial coupling or full decoupling. A non-discriminatory and transparent methodology is understood as a methodology, which should be open for all market participants and providing sufficient guidance and insight into the procedure.

According to article 44, the TSOs in CCR Hansa are to coordinate the fallback Proposal, and it is assumed to imply that the TSOs are not obliged to choose the same fallback procedure, but to

coordinate the delivery of the Proposal according to article 44 and in the implementation period. The TSOs in CCR Hansa have developed the Proposal in cooperation and agreed to propose a common fallback methodology on a voluntary basis.

Article 7(1)(h) is understood as the Nominated Electricity Market Operators (NEMOs) and TSOs shall jointly establish back-up procedures, and the fallback procedure is one of these elements. According to article 44, the TSO shall propose the fallback methodology, whereas the procedure is to be jointly implemented by the TSOs and NEMOs.

4. Present fallback procedures

In this section, the present fallback solution in place within the CCR Hansa area is described, starting with an introduction to the European market coupling.

The timings, formats and procedures are specified in the implementation between relevant NEMOs and TSOs, and done in close cooperation with adjacent CCRs applying shadow allocation rules.

4.1 The Multi Regional Coupling (MRC)

In the Multi-Regional Coupling (MRC), prices are calculated in the PCR Matcher-Broker system (PMB) using the Euphemia algorithm, which all involved NEMOs have developed in close cooperation. The PMB system is designed so that the calculation will start automatically when all the needed data is received, being all Network Data (Cross-Zonal Capacities and Allocation constraints) and Order Data (Order books).

The NEMOs take turns being the Coordinator – or responsible party – for the calculation. The NEMOs each spend two weeks as the Coordinator, two weeks as a hot backup (being able to take over the role as Coordinator on short notice) and two weeks off. NP always does a shadow calculation of the prices locally, but it is the calculation from the Coordinator that delivers the valid results to all the other parties.

4.2 MRC Fallback procedures

MRC fallback procedures identify two overall fallback situations: Partial coupling or full decoupling.

In case of partial coupling, one region might experience problems and therefore has to be decoupled from the rest of MRC, which continues to be coupled. The following deadlines apply to the submission of Network Data and Order data, respectively:

1. If one power exchange has not submitted the Network Data by 11:45 CET, this will lead to a Partial Decoupling of the area(s) missing in the MRC-system
 - For example: if NP has not submitted the Network Data by 11:45 CET this will lead to a Partial Decoupling of the Nordic/Baltic region,
2. If one power exchange has not submitted the Order Data by 12:40 CET, this will lead to a Partial Decoupling of the region/area(s) missing in the MRC-system
 - For example: if NP has not submitted the Order Data by 12:40 CET this will lead to a Partial Decoupling of the Nordic/Baltic region.

Under normal circumstances, all NEMOs will receive the prices and flow results of the common price calculation in the MRC-system. Each NEMO checks the results for max/min prices, thresholds etc. and either confirms or rejects the results. If this confirmation is not received before 13:50 CET this will lead to a full decoupling.

In case of full decoupling all MRC regions and bidding zones are decoupled from each other. Following partial coupling or full decoupling, local procedures are activated in order for the individual regions or bidding zones to allocate capacities and calculate a price.

4.3 Current situations on borders in CCR Hansa

In case of activation of the MRC fallback procedures, the current procedure on the bidding zone borders DE/LU-DK1 and DE/LU-DK2 is Shadow Auctions.

The shadow auction is handled by an allocation office, currently -Joint Allocation Office (JAO), and is an explicit allocation of physical transmission rights (PTR) in the day-ahead market timeframe. The local NEMO, currently NP, receives capacities from the TSOs and provides the required pre-coupling data to the MRC Day-ahead platform. In addition, JAO receives the pre-coupling data, either by the TSOs or by the NEMOs.

On the SE4-PL border the results of day-ahead market coupling are known usually at approx. 13:00 CET the day the day-ahead implicit auction is held. If the market coupling results are not available by 15:45 CET, i.e. commercial flow is not nominated by NEMOs to TSOs, then the day ahead commercial flow equals to zero. Available transmission capacity (ATC) on SwePol Link not used for the purpose of the day-ahead market coupling or in case of unavailability of the market coupling results by 15:45 CET, goes back to the relevant TSOs for operational security purposes until intraday capacity allocation is implemented.

5. Proposed fallback procedure - Shadow Allocation Rules

Common practice in the rest of Europe in a fallback situation is to cancel the day-ahead implicit auction at the deadline 13:50 CET, and to either apply shadow auction or let market participants use the intraday market to trade their power production and consumption.

The alternative with leaving all volume planned for day-ahead to the intraday market might be challenging for the market participants. Several minor market participants do not have the possibility to trade as they do not have 24/7 personnel available and are not a member on an intraday trading platform.

Hence, it is questionable whether leaving all market participants on their own without any day-ahead prices is a realistic option as several market participants will not be able to sell/buy the needed volume in the intraday timeframe, and the market prices in the intraday market will not be representative.

The recommendation is to apply shadow auctions as a coordinated fallback procedure for all TSOs in CCR Hansa. Using a common fallback procedure in the CCR enhances transparency and efficiency of day-ahead market operation.

The current Shadow Allocation Rules including the annexes contain the terms and conditions for the allocation of Transmission Rights, on the borders specified in the Shadow Allocation Rules Annex 1. In particular, the Shadow Allocation Rules set out the rights and obligations of Registered Participants as well as the requirements for participating in Shadow Auctions. The rules describe the process of the Shadow Auction, including the determination of Marginal Price as a result of Shadow Auction and invoicing/payment.

For the purposes of these Shadow Allocation Rules, the Allocation Platform shall be the party signing the Participation Agreement with the Registered Participant. It is being understood that the Registered Participant will accede these rules by the signature of the Participation Agreement.

The Shadow Allocation Rules¹ have been in public consultation in the time period 07-07-2016 to 20-07-2016, and is available at the website of the Allocation Platform.

¹ Current version of Shadow Auction Rules: <http://jao.eu/support/resourcecenter/overview>

The following chapters describe the overall processes behind shadow auctions and the current timelines.

The timings, formats and procedures are to be specified in the implementation between relevant NEMOs and TSOs, and is to be done in close cooperation with adjacent CCRs applying shadow allocation rules.

5.1 Announcement of decoupling from Multi Regional Coupling (MRC)

Within MRC, several fallback procedures exist, applying either to all borders of a single bidding zone or specific borders in order to manage unforeseen incidents and/or a known unavailability of the MRC for the next coupling session(s). A Full Decoupling known during the Daily Market Coupling Session will be declared from the PCR Incident Committee (IC) of MRC in case the Market Coupling Results cannot be published within the fixed time limit (currently 13:50 D-1) due to issues detected only during the current Market Coupling Session.

If the IC triggers Shadow Auctions during a daily session of the MRC, Shadow Auctions will be launched in parallel of the resolution of the problem of the MRC but the Shadow Auction results will only be considered if a MRC decoupling is declared. The parallel process is done in order to have the shadow auctions results ready for publication as soon as decoupling is decided upon and, in the meantime, leaves time to TSOs and NEMOs to remedy the situation and try to publish Market Coupling (MC) results before the critical deadline.

If the activation of the Shadow Auctions is known in advance for one or several daily sessions of the MRC, the Allocation Platform informs as soon as possible individually, by an email, the Registered Participants that the Shadow Auctions are performed with the corresponding new time schedule. The Offered Capacity for the Shadow Auctions and the information related to the time schedule will be published in the Auction Specification on the Allocation Platform's website.

5.1.1 Default Bid

Registered Participants willing to participate in Shadow Auctions shall place default Bids for Shadow Auctions. A default Bid, once identified as such by the Registered Participant, shall apply automatically to each subsequent relevant Shadow Auction.

Each day the Registered Participants may update their Bids on the allocation platform. In the event that the Shadow Auctions are triggered during a daily session, the Allocation platform shall import the shadow Bids and informs straight away, and announce the Registered Participants that:

- They can no longer update their shadow Bids,
- Shadow auctions are running as precautionary measure for the case decoupling is finally decided.
- Shadow auctions results will only be published in case decoupling is decided.

5.1.2 Results

After the expiration of the Bidding Period for a Shadow Auction, the Allocation Platform shall determine the provisional Shadow Auction results if Shadow Auctions are announced in advance or the final Shadow Auction results if Shadow Auctions are triggered during a daily session of MRC.

5.1.3 Nomination

The holder of PTR may nominate it for its physical use. The non-nominated Transmission Rights at nomination deadline are not financially compensated.

The NEMOs will reopen their order books for a limited time, which is defined by the NEMO local trading rules.

5.1.4 Cancellation of shadow auction

In case the Allocation Platform cancels a Shadow Auction and all Bids already submitted and any results of the respective Auction shall be deemed null and void. The Allocation Platform shall inform all Registered Participants without undue delay, of the Shadow Auction cancellation by notification published in the Auction Tool and on webpage of Allocation Platform and by e-mail.

The cancellation may be announced in the following cases:

1. before the Capacity is deemed to be allocated in case the Allocation Platform faces technical obstacles during the Shadow Auction process like a failure of standard processes; and
2. during the contestation period, in the event of erroneous results due to incorrect Marginal Price calculation or incorrect allocation of Transmission Rights to Registered Participants or similar reasons.

Capacity is deemed to have been allocated to a Registered Participant from the moment the Registered Participant has been informed of the Auction results and the Contestation Period is closed if relevant.

5.1.5 Back up to shadow auctions

If Shadow Auctions are unable to produce results the cross-border capacities allocated in the day-ahead timeframe shall be set to zero, and the capacity shall be released to the intraday market.

The Allocation Platform shall inform Registered Participants of possible deviations from the standard processes and the application of a fallback procedure via email and the Allocation Platform's website and using the Auction Tool.

The Allocation Platform shall, to the extent reasonably practicable, organise a fallback procedure in case of failure of a standard process.

5.1.6 Capacities for shadow auction

ATCs for Shadow Auctions are received daily from each TSO, and the Allocation platform shall publish the ATC.

TSO shall communicate to the Allocation Platform maximum ramping values to be applied for the concerned borders. For borders where ramping rules apply, the new ramping value shall be communicated two (2) weeks in advance.

5.1.7 TSO Designation

On the borders between Denmark and Germany the Transmission Rights shall be attributed to one or where applicable two of the respective TSO Borders. When signing the Participation Agreement, Registered Participants shall determine to which TSO border Transmission Rights shall be attributed.

6 Impact on objectives of the CACM Regulation

This chapter contains a description of how the draft Proposal meets the aims of the CACM Regulation as stated in Article 3. The main purpose is to achieve an efficient market coupling also in the situation when the normal market coupling process fails. This must be organized to ensure market flows as close to the normal situation as possible. In this Proposal, achieving operational security is paramount.

The CACM Regulation has the objective to ensure optimal use of the transmission infrastructure, operational security and optimizing the calculation and allocation of cross-zonal capacity. In this respect, the Fallback procedure opens up for a transparent and efficient use of transmission capacity in

critical situations. A market-based utilization of transmission capacity is beneficial for connected bidding zones, and this contributes positively to operational security.

In regard to the aim of the CACM Regulation to promote effective competition in the generation, trading and supply of electricity, this draft Proposal has taken into account the importance of creating a level playing field for market parties active on cross-zonal markets. Effective competition is to be reached via a common cross-zonal market and common processes for this market.

By having explicit auctions, the objective of fair and non-discriminatory treatment of the market parties is ensured. It will also represent a fair and orderly organization of this market, as this guarantees equal access to cross-zonal capacity.

7 Timeline for implementation

According to Article 9 (9) of the CACM Regulation, Proposals for terms and conditions shall include a proposed timescale for their implementation.

The fallback procedures as proposed in the legal document do not have critical interdependencies to other methodologies developed under the CACM Regulation.

The Fallback procedures shall be binding for all CCR Hansa bidding zone borders 12 months after the procedures have been approved by the relevant NRAs.

8 Assessment and summary of stakeholders' comments

To be announced.