

## Energy Traders Europe supports an ambitious merger of the Italy North and Core capacity calculation regions

Brussels, 15 November 2024 - We thank the Central Europe (CE) TSOs for their consultation on the future Central Europe capacity calculation methodology (CCM) in day-ahead, to be implemented by 2027.

We understand that some important elements presented in this consultation are still at an early stage of reflection. We hope that the long lead-time until the implementation of the CE CCM in day-ahead will allow constructive discussions between market participants and TSOs in the months to come. And we call on the TSOs to provide more details in their submission to the regulators in a few months.

### Key messages

An ambitious merger of the Italy North and Core regions by 2027 requires:

- **a practical solution to take account of the Swiss network** - and avoid a "doughnut approach" at the heart of Central Europe
- **a rationalisation of the use of allocation constraints** - down to what is strictly necessary in a flow-based environment
- **a strong transparency framework** - to ensure the market can best react to events on the electricity networks

## Detailed comments

### Integration of the Swiss network in the Central Europe capacity calculation

First, we remind the CE and Swiss TSOs, as well as all concerned parties, of our support for a comprehensive political solution between Switzerland and the European Union which would allow both flow-based capacity calculation and market coupling with Switzerland.

Second, and until a comprehensive political agreement is found, we welcome the intention of the CE TSOs to take account of the Swiss network as much as possible in the capacity calculation process. It is important to build on the positive cooperation movement started between Swissgrid and the Italy North TSOs, and to extend this to the whole CE region – albeit with a much more complex flow-based calculation process.

Third, the two options presented by the TSOs are credible alternatives, but they still raise many questions at the moment. For instance:

- **NTC extraction option:** this option has the merit of being a tested concept (used in the Core CCR until recently for intraday allocation), with no changes necessary to the allocation process.  
Even with this process though, questions remain around the limits placed on the extraction, if, e.g., extraction is only calculated for Swiss borders (vs. for all borders in the ID NTC extraction for Core, for instance). This raises a potential problem of unequal treatment between the borders.
- **Explicit flow-based option:** this option is more complex in the calculation process, with some changes needed also in allocation; and it comes with the negative precedent of the explicit flow-based try-out in CEE in the mid-2000s. As per the NTC extraction option, some important questions remain in relation to priority and equal treatment of CE vs. Swiss capacities, in particular with regard to RAM splitting.

# CONSULTATION RESPONSE

As things stand, we believe that more discussion is required to opt for a solution. On our side, we will surely need more details from the TSOs to take a position for a specific option, including projections on capacity volumes, additional calculation timing, extension and complexity of allocation processes, etc.

Once more details are known and a collective choice for one option is made, the TSOs should organise a proper parallel run for a minimum of 12 months (to correctly capture seasonality) to confirm the projections of the initial assessment and allow the market to familiarise themselves with the new setup.

## Allocation constraints used by certain TSOs

PSE and Terna request the possibility to apply allocation constraints, the details of which are included in Annex 1 to the CCM. A few thoughts on these requests:

- **Poland/PSE:** We note that the PSE request and justification for the use of allocation constraints has not changed since 2019 – as part of the core CCM. We are surprised of the disclaimer that “*CE TSOs are not able to validate the legitimacy of PSE’s needs for allocation constraints*”. Indeed, it appears that over the past 5 years, PSE has not managed to bring concrete evidence to convince its counterparts of an actual need to use allocation constraints.

At this stage, it seems incongruous that the level of information provided by PSE still doesn’t allow a proper check on the legitimacy of the need for allocation constraints, even by its own peers. Obviously market participants have even less information at hand to judge PSE’s needs than the CE TSOs.

**We call on PSE to provide better details and a true analysis of alternatives to the use of allocation constraints in the final submission of the CCM to NRAs, so that all CE regulators can do their task of checking the appropriateness of PSE’s request.**

# CONSULTATION RESPONSE

- **Italy North/Terna:** We note the intention by Terna to use allocation constraints – as they currently do as part of the Italy North CCM. The main justification put forward by Terna is “*to take into account operational security constraints related to margins, voltage control and dynamic system stability within the Italian grid*”. As noted at multiple occasions, only the North zone – not the whole Italian peninsula – is part of the CE CCR. Hence, only the grid constraints pertaining to the North zone of Italy should be taken into account in the CE CCM.  
**We call on Terna to make sure that the rules of the CE CCM, as well as its use of allocation constraints in practice, strictly segregate between the grid constraints in the North zone of Italy – which can affect CE capacities – and the grid constraints in the rest of Italy – which should not affect CE capacities.**

As a general note, the lack of clarity in the allocation constraints framework (the CCM and its Annex 1), in the use of allocation constraints in practice, and in the justifications for their activation by the few TSOs still making use of them is the main reason for market participants’ distrust in this practice. Market participants – and NRAs – should be able to judge the merits of applying allocation constraints in general and using them in each particular occasion. It is not the case today for either PSE or Terna.

## Transparency framework to improve information sharing

We are very satisfied to see the demanding transparency requirements currently applicable to the Core CCM taken up in the CE CCM. We support Article 27 as proposed.

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