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All EU transmission system operators

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By e-mail only

Subject: Steady improvement ladder for a robust ERAA 2024

Dear Sir/Madam,

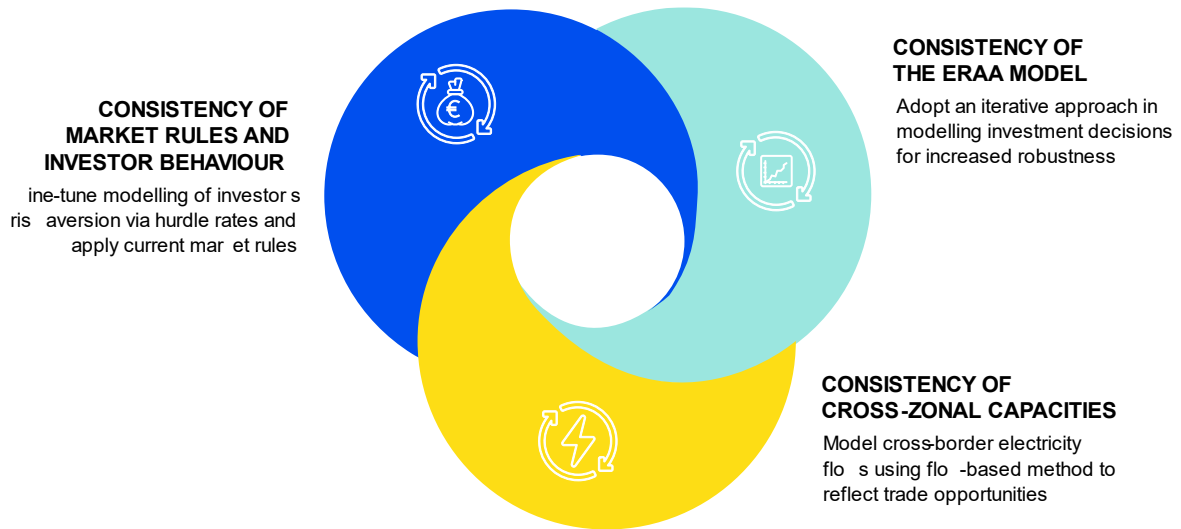
We write to share our observations on the ENTSO-E European Resource Adequacy Assessment (ERAA). Considering that providing early input on ERAA 2023 contributed to improve its robustness, ACER and regulatory authorities would again like to offer guidance to facilitate a successful new edition (ERAA 2024).

Over the years since the first ERAA in 2021, constructive cooperation and multiple interactions between ENTSO-E, ACER, regulatory authorities and the European Commission have resulted in incremental methodological improvements and a closer alignment with the requirements of ERAA as outlined in the Electricity Regulation. We acknowledge the efforts to improve the ERAA and recognise that ERAA 2023 represents an important achievement of ENTSO-E and the TSO community in delivering an increasingly robust assessment of resource adequacy in Europe. Despite considerable progress, it is our view that the ERAA still has not reached the required level of maturity. This is illustrated for example in the fact that climate years and cross-zonal capacities are not considered in a consistent manner across the ERAA model.

A robust pan-European security of supply assessment is a much-needed input for Member States. Hence, the ERAA must model markets and networks in a realistic and consistent manner. The lack of consistency remains its main weakness and compromises the robustness of the ERAA. Hence, strengthening the consistency of the assumptions and modelling approaches used should be a priority for ERAA 2024.

Similarly to previous editions, we have identified the 2024 priorities with a view on ERAA evolution as a gradual improvement ladder, where improvements are prioritised according to their impact. In particular, we have identified needed improvements for ERAA 2024 in three priority areas:

Figure 1 Priorities for ERAA 2024



- #1: Strengthening the consistency of the ERAA model

The current ERAA model measures the economic viability of resources using the so-called ‘system cost minimisation’ method. Such an approach gave rise to significant computational constraints and to inconsistencies between the capacity entry and exit decisions and the estimated adequacy risks. To overcome these difficulties, ACER recommends adopting the ‘iterative approach’. It is based on the expected producer revenues and costs (already applied by some TSOs in Europe) and provides a more realistic representation of asset-level investment decisions. Until the ‘iterative approach’ is implemented, ENTSO-E should strive to minimise the inconsistencies.

- #2: Strengthening the consistency of cross-zonal capacities

The ERAA must appropriately model how cross-border capacities are actually allocated in the Core and the Nordics capacity calculation regions. Currently, only one of the ERAA modules uses the flow-based capacity calculation method. Relying on net transfer capacity values for regions that no longer apply the flow-based method fails to reflect the underlying reality. Applying the flow-based approach would enable the ERAA model to better reflect cross-border trade opportunities and the underlying welfare gains. In failing to consider these benefits, the ERAA model remains inconsistent and misrepresents the security of supply risks facing Europe.

- #3: Strengthening the consistency of market rules and investment behaviour

We deem it necessary that ERAA consistently represents both the existing market rules and real-world investment behaviour. The former includes, among other aspects, proper

consideration of maximum clearing prices, that is, the technical bidding limits of the day-ahead and intra-day markets. The latter includes risk aversion and policy risks. Past editions of the ERAA modelled investment behaviour transparently using the weighted average cost of capital (WACC) and hurdle rates. While this approach is fit for purpose, we see scope to enhance it further. ENTSO-E should periodically review the hurdle rates in a transparent and coordinated manner to maintain the consistency of the assumptions.

ACER and the regulatory authorities consider that improvements in the above three key areas will enhance the reliability of ERAA 2024.

Furthermore, on the scenario framework we want to draw attention to the topic of additional sensitivity analysis in the ERAA. Sensitivities can provide valuable policy information, but the definition of such sensitivities must follow a transparent, inclusive process that involves regulators and stakeholders. Clearly, additional sensitivities should not come at the expense of the essential improvements or hamper increasing the number of target years modelled (currently 4 years) to reach the legal mandate of 10 years.

Finally, ENTSO-E's efforts to increase transparency should continue and be enhanced. For example, stakeholders and regulators have repeatedly requested the publication of ERAA results indicating the distribution of energy not served per hour. Such information is key to understand the extent to which a scarcity event constitutes a serious threat to the security of supply. We encourage ENTSO-E to publish this information already along with the ERAA 2023 edition.

We look forward to continuing our close collaboration with ENTSO-E and the TSO community on this important deliverable for the long-term security of supply in Europe.

In case you have any questions, please do not hesitate to contact us:

-Redacted-

Yours sincerely,

- SIGNED -

Christian Zinglensen

ACER Director

- SIGNED -

Clara Poletti

Chair of ACER Board of Regulators