

## Questions & Answers on the Agency' Decision No. 06/2016

18 November 2016

<p><b>What is the issue at stake?</b></p>	<p>On 17 November 2015, the NRAs received an 'All TSOs' proposal for Capacity Calculation Regions (CCRs) in accordance with Article 15(1) of the CACM Regulation.</p> <p>This CCRs Proposal is the 'All TSOs' proposal to define the number and shape of regions. It includes in particular:</p> <ul style="list-style-type: none"> <li>a) existing bidding zone borders within and between Member States to which the CACM Regulation applies,</li> <li>b) future bidding zone borders due to interconnections operated by legal entities certified as TSOs which are under construction and planned to be commissioned before 2018; and</li> <li>c) the bidding zone border between Germany/Luxembourg and Austria.</li> </ul>
<p><b>Why did the Agency get involved?</b></p>	<p>On 17 May 2016, i.e. exactly six months after the CCRs Proposal was submitted to all NRAs for their approval, the Agency was informed that the NRAs, despite their best endeavours, could not reach a unanimous decision on the CCRs Proposal and that, therefore, the Agency should adopt a decision concerning the CCRs Proposal within six months, in accordance with Article 9(11) of the CACM Regulation and Article 8(1) of Regulation (EC) No 713/2009.</p>
<p><b>What were the points of disagreement among the NRAs?</b></p>	<p>The NRAs could not agree on whether the inclusion of a German-Austrian bidding zone border in the CCRs Proposal should be approved.</p>
<p><b>Were there any points of agreement among the NRAs?</b></p>	<p>Yes.</p> <p>Actually, they agreed on all issues except the inclusion of the German-Austrian bidding zone border.</p> <p>In particular, all NRAs agreed on most aspects</p>

	in the CCRs Proposal and to merge the CWE and CEE regions to create a CORE region, subject to appropriate governance arrangements
<b>Why did the Agency decide to merge the CWE and CEE regions into one region?</b>	In this respect, the Agency confirmed the agreement reached by all NRAs. Given the strong interdependency between the two regions, the CCRs Proposal can only be compliant with point 3.1 of Annex I to Regulation (EC) No 714/2009 and the objectives a), b), c), d), f) and j) in Article 3 of the CACM Regulation if the two regions are merged into one region.
<b>What will be the impact of this merger on the ongoing regional projects and more broadly on the ambitious deadlines set in the CACM Regulation?</b>	The Agency acknowledges that the merger could be challenging and have an impact on the ongoing regional projects and there may be a risk of not meeting the ambitious deadlines set in the CACM Regulation. However, the Agency considers that the following aspects mitigate these concerns: <ul style="list-style-type: none"> <li>- Article 9(9) of the CACM Regulation explicitly allows TSOs to propose the appropriate implementation timescale for each methodology;</li> <li>- the CACM Regulation does not prohibit the TSOs to propose the implementation of the requirements through a step-by-step approach and sub-regional projects, provided the latter are consistent with the common methodologies developed at regional level;</li> <li>- the efforts and progress achieved already in the framework of the ongoing regional projects should actually foster the development of common methodologies at the level of the merged region.</li> </ul>
<b>Why did the Agency decide to confirm the “All TSOs” Proposal to include the DE-AT bidding zone border?</b>	The Agency confirmed the “All TSOs” proposal to include the DE-AT bidding zone border because of the structural congestion on the DE-AT border, which significantly impacts not only cross-border exchanges in the neighbouring countries but also the way TSOs operate the system (in particular with the development of PSTs).
<b>Can the Agency define a DE-AT bidding zone border in the framework of the CCRs definition process?</b>	Yes, as the CCRs definition process involves the definition of bidding zone borders and the inclusion of a DE-AT bidding zone border enables compliance with Regulation (EC) No 714/2009 and with the objectives of Article 3 of the CACM Regulation. Besides the DE-AT border, the CCRs Proposal includes new, currently non-existing bidding zone borders (e.g. between Belgium and

	Germany/Luxembourg and between Hungary and Slovenia), whose inclusion was endorsed by all NRAs.
<b>Is the Agency not pre-empting the Bidding Zone Review process?</b>	As highlighted in the Decision, the definition of the bidding zone borders in the context of the determination of CCRs is without prejudice to the outcome of a subsequent bidding zone review. The present Decision will therefore have to be reviewed should the final decision taken in the framework of the bidding zone review process result in a different configuration of bidding zones from the one emerging from the definition of bidding zone borders in this Decision.
<b>Is the introduction of a DE-AT bidding zone border not a step back for the completion of the Internal Energy Market?</b>	No, it is exactly the opposite. The introduction of a new DE-AT bidding-zone border will be an important step forward for the Internal Energy Market, as it will eventually enable competitive access to transmission lines and promote non-discriminatory trade in electricity in the CWE and CEE regions. It will therefore contribute to competition and market integration by creating a level-playing field for market participants on the European wholesale market. In fact, other European countries - Norway, Italy and Sweden - have implemented internal bidding zone borders in order to improve the functioning of their market.
<b>How can the Agency claim that there is a structural congestion on the DE-AT border while the thermal XB capacity on this border seems to amount to 11 000 MW?</b>	The Agency estimates that the total thermal capacity of the cross-border relevant interconnectors is 8755 MW, however for several reasons the border between Germany and Austria becomes congested at a much lower volume of DE-AT electricity exchanges: <ol style="list-style-type: none"> <li>1. The majority of electricity exchanges on DE-AT border are physically realised through other interconnectors which become congested at a much lower level of DE-AT electricity exchanges. When DE-AT electricity exchanges exceed this value, TSOs on other interconnectors are forced to reduce capacity on those interconnectors or to apply remedial actions.</li> <li>2. Most of the interconnectors on the DE-AT border are located in the west part of Austria (West Tirol) and there is a weak connection between the west part and the main part of Austria. This means that electricity exchanges between Germany and Austria disproportionately burden the interconnectors</li> </ol>

	<p>between Germany and the main part of Austria (i.e. those connected through St. Peter transformer station). Therefore even if all DE-AT exchanges were physically realised through the DE-AT border, the interconnectors on the border between Germany and the main part of Austria or internal network elements between West Tirol and the main part of Austria would get congested at a much lower level of electricity exchanges (3158 MW according to the Agency's estimate).</p>
<p><b>Isn't the structural congestion rather within Germany?</b></p>	<p>The Agency deems it important to clarify that the purpose of implementing a coordinated capacity allocation procedure on the DE-AT border is to address usual and structural congestion on that (congested) interconnection in accordance with Regulation (EC) No 714/2009, and not to solve an internal structural congestion elsewhere in the network. In the Agency's views, the issue of internal structural congestions elsewhere in the network – in Austria, Germany or any other Member State – falls outside the scope of this Decision.</p>
<p><b>What is the Agency's answer to the claim that with the installation of PSTs the problem of Loop Flows in CEE is actually solved?</b></p>	<p>The Agency is of the view that the impact of the DE-AT cross-border exchanges on the network elements in other parts of the CWE and CEE regions will not significantly change with the installation of phase-shifting transformers (PSTs) (on average, about 59% of the physical flows resulting from the DE-AT cross-border exchanges are not realised through the DE-AT border, but are flowing as loop flows through other borders). The use of a PST to alter the physical flows over a congested network element should be seen as a remedial action which allows accommodating more electricity exchanges causing a physical flow over such element. In the absence of capacity allocation on the DE-AT border, the PST would facilitate exchanges between Germany and Austria whose welfare gain is unknown. On the other hand, a coordinated capacity allocation on the DE-AT border would enable the PST to facilitate electricity exchanges at regional level, bringing then a higher social welfare. For this reason, the installation of a PST should not be considered as an efficient alternative to a coordinated capacity allocation in the case of structural congestion problems.</p>

<p><b>Is it the implementation of a coordinated capacity allocation procedure on the DE-AT border the only possible remedy?</b></p>	<p>In the Agency's view, a coordinated capacity allocation procedure is the only remedy able to ensure, in the short term, compliance with the principles set out in Regulation (EC) No 714/2009 and its Guidelines (transparent, non-discriminatory and market-based congestion management procedures which give efficient economic signals to market participants and the transmission system operators involved).</p> <p>In the Agency's view, other short-term alternative measures (PSTs, redispatching, Flow-Based), regardless of possible further improvements, do not satisfy the same principles.</p>
<p><b>Will the implementation of a coordinated capacity allocation procedure on the DE-AT border be effective to address the congestion problems in the CWE and CEE regions?</b></p>	<p>The Agency firmly believes that the implementation of a coordinated capacity allocation procedure will contribute to improving the situation in the CWE and CEE regions and help the Internal Energy Market progress. This improvement should be particularly significant once a coordinated flow-based capacity allocation methodology is introduced, as all the transit flows induced by the DE-AT border will finally be taken into account.</p> <p>The Agency acknowledges that this measure will not solve all the problems of the Core region. In particular the increasing amount of north-to-south exchanges within Germany causes severe structural physical congestions within Germany and in the neighbouring countries and this indicates that additional measures would be needed. While this issue falls outside the scope of this Decision, the Agency recommends that it is further investigated and seriously addressed in a coordinated way, i.e. in the framework of the bidding zone review process or in any other appropriate framework.</p>
<p><b>Is the Agency's Decision binding?</b></p>	<p>Yes.</p> <p>If the Agency's Decision is appealed before the Agency's Board of Appeal, such appeal does not automatically suspend the application of the Decision. However, the Board of Appeal may, if it considers that the circumstances so require, suspend the application of the Decision according to Article 19(3) of Regulation (EC) No 713/2009.</p>