

Public Consultation on cross-zonal capacity allocation methodologies for Hansa, Core and Baltic CCRs

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Public Consultation on cross-zonal capacity allocation methodologies for Hansa, Core and Baltic CCRs

in accordance with Articles 41(1) and 42(1) of the Commission Regulation (EU) 2017/2195 of 23 November 2017 establishing a guideline on electricity balancing

This consultation is addressed to all interested stakeholders, including regulatory authorities and transmission system operators.

Replies to this consultation should be submitted to by **2 May 2021, 23:59 hrs (CET)**.

Questions should be addressed to ACER at:

ACER-ELE-2021-005@acer.europa.eu for Hansa CCR

ACER-ELE-2021-007@acer.europa.eu for the Core CCR methodology pursuant to Article 41(1) of the EB Regulation

ACER-ELE-2021-008@acer.europa.eu for the Core CCR methodology pursuant to Article 42(1) of the EB Regulation

ACER-ELE-2021-009@acer.europa.eu for Baltic CCR

Introduction

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* Company

* Address and phone

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* Is your input into this consultation confidential?

- YES
- NO

ACER will publish all non-confidential responses.

ACER will process personal data of the respondents in accordance with Regulation (EU) 2018/1725 of the European Parliament and of the Council of 23 October 2018 on the protection of natural persons with

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Objectives

This consultation aims to gather views and information from stakeholders regarding the compliance of the following four proposals of the Hansa, Core and Baltic transmission system operators ('TSOs') with Commission Regulation (EU) 2017/2195 (the 'EB Regulation'):

- the methodology for a market-based allocation process of cross-zonal capacity in Hansa CCR in accordance with Article 41(1) of the EB Regulation;
- the methodology for a market-based allocation process of cross-zonal capacity in Core CCR in accordance with Article 41(1) of the EB Regulation;
- the methodology for a market-based allocation process of cross-zonal capacity in Baltic CCR in accordance with Article 41(1) of the EB Regulation;
- the methodology for a cross-zonal capacity allocation process based on economic efficiency in Core CCR in accordance with Article 42(1) of the EB Regulation.

The European Union Agency for the Cooperation of energy regulators ('ACER') will use the input from the consultation to inform its decisions on these Proposals, in accordance with Article 6(10) of Regulation (EU) 2019/942.

Related documents

[Regulation \(EU\) 2019/942](#) of the European Parliament and of the Council of 5 June 2019 establishing a European Union Agency for the Cooperation of Energy Regulators ('ACER Regulation').

[Regulation \(EU\) 2019/943](#) of the European Parliament and of the Council of 5 June 2019 on the internal market for electricity (recast) ("Electricity Regulation).

[Regulation \(EU\) 543/2013](#) of 14 June 2013 on submission and publication of data in electricity markets and amending Annex I to Regulation (EC) No 714/2009 of the European Parliament and of the Council Text with EEA relevance.

[Regulation \(EU\) 2017/2195](#) of 23 November 2017 establishing a guideline on electricity balancing.

[ACER Guidance Note on Consultations](#)

[ACER Decision 22/2020](#) on the market-based allocation process of cross-zonal capacity for the exchange of balancing capacity for the Nordic CCR and its [Annex I](#)

CCR Hansa methodology for a market-based allocation process of cross-zonal capacity for the exchange of balancing capacity in accordance with Article 41(1) of EB Regulation

[Hansa_MB_CZCA_TSOs_proposal.PDF](#)

[Hansa_MB_CZCA_NRAs_referral.pdf](#)

CCR Core methodologies for (a) a market-based allocation process of cross-zonal capacity for the exchange of balancing capacity in accordance with Article 41(1) of EB Regulation, and (b) an allocation process of cross-zonal capacity for the exchange of balancing capacity based on economic efficiency in accordance with Article 42(1) of EB Regulation

[Core_MB_CZCA_TSOs_proposal.pdf](#)

[Core_EE_CZCA_TSOs_proposal.pdf](#)

[Core_MB_and_EE_CZCA_NRAs_referral.pdf](#)

CCR Baltic methodology for a market-based allocation process of cross-zonal capacity for the exchange of balancing capacity in accordance with Article 41(1) of EB Regulation

[Baltic_MB_CZCA_TSOs_proposal.pdf](#)

[Baltic_MB_CZCA_NRAs_referral.pdf](#)

Legal background

Pursuant to Article 41(1) of the EB Regulation all TSOs of a capacity calculation region may propose a methodology for a market-based allocation process of cross-zonal capacity. The deadline for submission is two years after the entry into force of the EB Regulation, which was 18 December 2019.

Pursuant to Article 42(1) of the EB Regulation all TSOs of a capacity calculation region may propose a methodology for a cross-zonal capacity allocation process based on economic efficiency. The deadline for submission is two years after the entry into force of the EB Regulation, which was 18 December 2019.

The TSOs of CCR Hansa (Denmark, Germany, the Netherlands, Poland and Sweden) have developed the proposal for a methodology for a market-based allocation process of cross-zonal capacity, pursuant to Article 41(1) of the EB Regulation, submitted it to all regulatory authorities of the CCR Hansa for approval by 24 January 2020. These regulatory authorities requested amendments on this proposal on 24 July 2020 and TSOs submitted their amended proposal ('Hansa MB Proposal'), dated 13 October 2020, to the respective regulatory authorities by 27 November 2020. The regulatory authorities could not reach an agreement within the two months deadline; hence, on 27 January 2021 the Hansa Proposal was referred to ACER for a Decision.

The TSOs of CCR Core (Austria, Belgium, Czech Republic, Croatia, France, Germany, Hungary, Luxemburg, the Netherlands, Poland, Romania, Slovakia and Slovenia) have developed the proposal for a methodology for a market-based allocation process of cross-zonal capacity, pursuant to Article 41(1) of the EB Regulation and the proposal for a methodology for a cross-zonal capacity allocation process based on economic efficiency, pursuant to Article 42(1) of the EB Regulation, submitted them to all regulatory authorities of the CCR Core for approval by 2 March 2020. These regulatory authorities requested amendments on these proposals by September 2020 and TSOs submitted their amended proposals to the respective regulatory authorities on 22 December 2020. The regulatory authorities could not reach an agreement within the two months deadline; hence, on 22 February 2021 the Core MB and EE Proposals were referred to ACER for Decisions.

The TSOs of CCR Baltic (Estonia, Finland, Latvia, Lithuania, Poland and Sweden) have developed the

proposal for a methodology for a market-based allocation process of cross-zonal capacity, pursuant to Article 41(1) of the EB Regulation, submitted it to all regulatory authorities of the CCR Baltic for approval by 20 December 2019. These regulatory authorities requested amendments on this proposal on 18 June 2020 and TSOs submitted their amended proposal to the respective regulatory authorities on 31 August 2020. The regulatory authorities requested further amendments on the amended proposal on 30 October 2020 and TSOs submitted their amended proposal ('Baltic MB Proposal') to the respective regulatory authorities on 31 December 2020. The regulatory authorities could not reach an agreement within the two months deadline; hence, on 26 February 2021 the Baltic MB Proposal was referred to ACER for a Decision.

ACER must adopt the decisions on Hansa MB, Core MB and EE, and Baltic MB Proposals in accordance with Article 6(2) of the ACER Regulation by 27 July, 22 August and 26 August 2021, respectively. In the context of adopting these decisions, ACER seeks the opinion of stakeholders on the issues listed below. Other comments and concerns are also welcome.

Topic 1: Timeframe for the market-based cross-zonal capacity allocation process

Pursuant to Article 41(1) of the EB Regulation the methodology for the market-based cross-zonal capacity allocation shall apply *"where the contracting is done not more than one week in advance of the provision of balancing capacity"*. Additionally, Article 38(5) of the EB Regulation requires that the TSOs *"allocate cross-zonal capacity for the exchange of balancing capacity or sharing of reserves only if cross-zonal capacity is calculated in accordance with the capacity calculation methodologies developed pursuant to Regulation (EU) 2015/1222 and (EU) 2016/1719"*.

Given that implementation of the capacity calculation methodology of the CACM Regulation is expected before the capacity calculation methodology of the FCA Regulation, ACER understands that the timeframe for the market-based cross-zonal capacity allocation methodology – at least for the first applications – is the day-ahead one.

Moreover, Article 6(9) of the Electricity Regulation requires that *"[c]ontracts for balancing capacity shall not be concluded more than one day before the provision of the balancing capacity and the contracting period shall be no longer than one day, unless and to the extent that the regulatory authority has approved the earlier contracting... Where a derogation is granted, for at least 40 % of the standard balancing products and a minimum of 30 % of all products used for balancing capacity, contracts for the balancing capacity shall be concluded for no more than one day before the provision of the balancing capacity"*. Therefore, ACER understands that earlier contracting is only allowed if all the regulatory authorities (for the TSOs exchanging balancing capacity) provide derogation, but even in this case, only up to a certain percentage.

For the abovementioned reasons, ACER considers that the timeframe for the market-based cross-zonal capacity allocation methodology is the day-ahead one, and proposes to specify this through the gate closure time definition in Article 3 of the MB Proposal: *"this gate closure time shall be set not more than one day before the provision of the standard balancing capacity product, when applying the market-based allocation process"*.

In the day-ahead timeframe, the market-based cross-zonal capacity allocation for the exchange of balancing capacity or sharing of reserves should take place after the day-ahead capacity calculation and

before the subsequent day-ahead capacity allocation (i.e. single day-ahead coupling). ACER considers that the tight timeline between the publication of the results of the day-ahead capacity calculation and the SDAC gate-closure time, allows only for one market-based cross-zonal capacity allocation for the exchange of balancing capacity or sharing of reserves per CCR (although for multiple products at the same time). Moreover, ACER considers that multiple, sequential market-based cross-zonal capacity allocations would raise issues of level-playing field and cross-zonal capacity allocation efficiency, as the available cross-zonal capacity would be allocated on a first come first served basis. Therefore, ACER proposes to require a single gate closure time for all balancing capacity procurement processes that would apply the same market-based cross-zonal capacity allocation methodology, and a single optimisation process for it for all applicable products at the same time.

Question 1.1

Do you agree with ACER's approach to define the day-ahead as the timeframe for the market-based cross-zonal capacity allocation methodology?

If not, please share your concerns for the proposed approach, as well as your answers to the issues raised by ACER above.

APG agrees with the approach proposed by ACER. In particular, APG shares ACER's interpretation of Article 38(5) of the EB Regulation. The implementation of the capacity calculation methodology of the FCA Regulation may not be available for the first applications of the market-based CZCA methodology. Hence, for the procurement of balancing-capacity, the day-ahead timeframe is the only choice for an application of the market-based CZCA. Most importantly, the availability of the capacity calculation methodology of the FCA Regulation shall not prevent the application of the market-based CZCA methodology for balancing-capacity procurement that takes place day-ahead.

Question 1.2

Do you agree with ACER's conclusions that a single gate closure time for every application the market-based cross-zonal capacity allocation in a CCR is necessary to allow a non-discriminatory application(s) in the restricted time period for possible application?

Please share any concerns you may have regarding the process.

APG is concerned that a single gate closure time for every application also requires BSPs to decide whether to offer balancing capacity for aFRR, mFRR, or RR, depending on the markets affected by the application. Sequential gate closure times allow BSPs to re-optimize their portfolios and to offer free (non-procured) balancing capacity on subsequent markets. I.e. a single gate closure time increases the risk of reduced liquidity - with the latter being one of the major reasons for TSOs to join a balancing capacity cooperation. Within the market-based CZCA methodology we see sufficient possibilities to transparently evaluate the allocation of cross-zonal capacity, also among different use-cases. Furthermore, regardless of the content of this proposal, we do not see this point within the scope of the discussed methodology.

Topic 2: Forecasted market value of cross-zonal capacity

Pursuant to Article 39(1) of the EB Regulation *"[t]he market value of cross-zonal capacity for the exchange of energy and for the exchange of balancing capacity or sharing of reserves used in a [...] market-based allocation process shall be based on the [...] forecasted market value[.] of cross-zonal capacity."* Pursuant to Article 39(5) of the EB Regulation *"[this] forecasted market value of cross-zonal capacity shall be based on one of the following alternative principles:*

(a) the use of transparent market indicators that disclose the market value of cross-zonal capacity; or

(b) the use of a forecasting methodology enabling the accurate and reliable assessment of the market value of cross-zonal capacity.”

Moreover, pursuant to Article 41(1)(b) of the EB Regulation the methodology for the market-based cross-zonal capacity allocation shall include *“a detailed description of how to determine [...] the forecasted market value of cross-zonal capacity for the exchange of energy...”*

Finally, pursuant to Article 42(1)(b) of the EB Regulation the methodology for the cross-zonal capacity allocation based on economic efficiency shall include *“a detailed description of how to determine the forecasted market value of cross-zonal capacity for the exchange of balancing capacity or sharing of reserves, and an assessment of the market value of cross-zonal capacity for the exchange of energy...”*

All three MB Proposals describe in each of their Article 7 on the determination of the forecasted market value of cross-zonal capacity for the exchange of energy use a forecasting method based on a reference day (in all three the default reference day is the previous working/weekend/holiday day). However, they further address this requirement differently:

- The Baltic MB Proposal applies the day-ahead market price difference for each bidding zone border of the reference day with the addition of a mark-up. The Baltic TSOs propose to apply two different mark-ups to ensure accuracy (and prevent over-allocation) of this value when using it to determine the volume of allocated capacity for the exchange of balancing capacity. The proposed mark-up values are 1€/MWh in case of a positive market spread and 0.1€/MWh in case of a negative or zero market spread. Finally, the Baltic MB Proposal includes also a paragraph to adjust further the mark up in case of an identified significant forecast error.
- The Hansa TSOs have proposed to use the day-ahead market price difference for each bidding zone border of the reference day complemented with a possibility for TSOs to apply adjustment factors and mark ups.
- The Core TSOs have proposed to use the shadow price associated to the critical network elements limiting the exchange of the reference day, complemented with a possibility for TSOs to apply adjustment factors and mark ups.
- The Hansa and Core MB Proposals do not further specify a process on how to apply any mark up or adjustment factor but require to include and justify their concept and computation in the methodology pursuant to Article 33(1) of the EB Regulation, submitted by two or more TSOs exchanging balancing capacity. Further, the Hansa and Core MB Proposals allow under Article 7(4) in each Proposal to choose a different reference day than the default one to allow a more accurate forecast. However, the foreseen process for such deviation is not clarified in the Proposals.

First of all, ACER would like to highlight that a detailed description of the determination of the forecasted market value of cross-zonal capacity for the exchange of energy is a requirement for this methodology according to the EB Regulation, and there is no legal basis for including any part of it in the methodology pursuant to Article 33(1) of the EB Regulation, which is different in scope both geographically (the methodology pursuant to Article 41(1) of the EB Regulation is submitted and approved at CCR level, while the methodology pursuant to Article 33(1) of the EB Regulation is submitted by two or more TSOs exchanging balancing capacity) and in applicability (TSOs sharing reserves may apply the methodology pursuant to Article 41(1) of the EB Regulation, but they do not submit/apply the methodology pursuant to Article 33(1) of the EB Regulation).

Secondly, ACER considers aligning all three MB Proposals with the Baltic one, since the approach proposed in the Baltic MB Proposal ensures transparency for the market participants (easy and clear for them to reproduce it) and prevents over-allocation by favouring the day-ahead energy exchange over the balancing capacity exchange for the cases of reduced accuracy (including also a correction to the mark-up for significant forecast errors). Moreover, this is also the approach followed in ACER Decision 22/2020 on the market-based allocation process of cross-zonal capacity for the exchange of balancing capacity for the Nordic CCR, which together with a close monitoring and possibility for future amendments, is proposed by ACER also for the current methodologies.

Regarding the Core MB Proposal, ACER would like to collect stakeholders' views on the TSOs' proposal to use the shadow prices as the basis of the forecasted market value of cross-zonal capacity for the exchange of energy.

Question 2.1

Do you agree aligning the determination of the forecasted market value for the exchange of energy in all three methodologies with the one in the Baltic MB Proposal?

Do you have any comments on the selection of the reference day, the concept of adjustment factors or the concept of the proposed mark up?

Using the market spread to determine the forecasted market value for the exchange of energy allows for a transparent allocation of cross-zonal capacity which in the end is important for BSPs in order for them to make informed bidding decisions. As such, APG in principle supports ACER's proposal to align the MB proposals with the Baltic one.

However, APG would like to raise concerns regarding the following to topics:

(1) Selection of the Reference Day/Adjustment "Factor": for accurate forecasting of the market value for the exchange of energy it is important to select a reference day which resembles the respective delivery day as closely as possible. For this, the Proposal should include provisions which allow TSOs to deviate from the default reference day in order to avoid short term effects which distort the forecasting accuracy: e.g. planned /unplanned outages or unit maintenances, price peaks in input prices (e.g. gas), large differences in weather (e.g. heat waves or high wind generation) need to be taken into account. As the perfect reference day does not exist, additional adjustments (not necessarily "factors") of the market value can improve the accuracy.

(2) Mark-Ups:

(a) As APG understands ACER's proposal, the mark-ups shall be mandatory and shall always favor the energy market. This proposal is based on the implicit assumption that the forecasted market value for the exchange of energy is generally disadvantageous to the energy market, i.e. would always lead to an under-allocation to the energy market. This can, however, not be determined ex-ante. On the other hand, when the forecasting of the market value for the exchange of energy turns out to be overly advantageous for the energy market, any mark-up would additionally distort the correct/efficient allocation, and "mark-downs" would in fact be necessary. As APG understands that this is not desired, APG proposes to add the provision that only mark-ups may be applied optionally in case ex-post analyses show that they can improve the efficient allocation of cross-zonal capacity.

(b) The mark-ups defined in the Baltic MB Proposal seem to be randomly chosen and in their absoluteness raise the question whether they will have to be adapted in the upcoming years e.g. as they need to be adjusted for inflation or as the price levels on the markets change. In this regard, relative mark-ups may be more transparent and future-proof (if mark-ups are proven necessary at all after a suitable monitoring-phase).

Question 2.2

Please provide your views on the selection of the shadow price associated to the critical network elements limiting the exchange, as basis for the determination of the forecasted market value for the exchange of energy.

In contrast to the market spread, using a shadow-price approach could potentially lead to a more accurate forecast. However, there are several disadvantages which APG would like to emphasize: besides being relatively intransparent especially for market participants - e.g. due to data which is not publicly available or available only after a significant delay of several days - also the actual application lacks transparency: the calculation of the shadow prices including their translation into the market value requires many steps and is based on several assumptions. This additional effort, however, does not guarantee that the final forecasting result is more accurate when compared to the market spread approach. The shadow price approach may be better suited for application when the flow-based market coupling is a well-established procedure and equally well understood by all stakeholders in the entire CORE region. I.e. APG favors the market spread approach which increases transparency, applicability and hence the overall efficiency of balancing markets as the obstacle for the establishment of cooperations is lower. In addition, the decision regarding shadow prices or market spread does not affect system operations and security: how the final allocation of cross-zonal capacity is taken into account for calculating the flow-based domain is independent from how the market value of cross-zonal capacity for the exchange of energy is calculated.

In the Core EE Proposal, the Core TSOs have proposed in Article 7 to use for the forecasted market value of cross-zonal capacity for the exchange of energy the average day-ahead market price difference for each bidding zone border of the reference period complemented with a possibility for TSOs to apply adjustment factors and mark ups. For the default mark-up the same approach as for the Baltic MB Proposal is followed, but the Core TSOs propose to also have the possibility to include and justify the concept of mark-up and adjustment factor and their computation in the methodology pursuant to Article 33(1) of the EB Regulation, submitted by two or more TSOs exchanging balancing capacity. Further, the Core EE Proposal allows under Article 7(4) to choose a different reference period than the default one to allow a more accurate forecast. However, the foreseen process for such deviation is not clarified in the Core EE Proposal.

Finally, regarding the forecasted market value of cross-zonal capacity for the exchange of balancing capacity or sharing of reserves, the Core EE Proposal suggests that it should be based on bids submitted in selected reference period(s) (by default the previous procurement period). Adjustment factors may be applied to improve the forecast and shall be justified and specified in methodology pursuant to Article 33(1) of the EB Regulation.

Question 2.3

Do you agree with following in the Core EE Proposal the same principles for the forecasted market value of cross-zonal capacity for the exchange of energy as in MB Proposals?

Please also provide your views on the selection of the reference period.

Yes, both approaches (MB and EE) should be as transparent and consistent as possible, but for any application the actually available data must be taken into account. I.e. the shadow-price approach may not be feasible for applying the EE Proposal.

Regarding the selection of the reference period: this is the simplest and most transparent way to improve forecasting - especially compared to adjustment factors or mark ups. However, APG is concerned that a detailed definition in the MB Proposal may prevent a meaningful selection of reference periods when the MB Proposal is applied.

Question 2.4

Do you agree with the approach proposed in the Core EE Proposal for determining the forecasted market value of cross-zonal capacity for the exchange of balancing capacity or sharing of reserves?

Do you have any comments on the selection of the reference period?

Topic 3: Maximum volume of the allocated cross-zonal capacity

Pursuant to Article 41(1)(d) of the EB Regulation the methodology for the market-based cross-zonal capacity allocation shall include *“the process to define the maximum volume of allocated cross-zonal capacity for the exchange of balancing capacity or sharing of reserves pursuant to paragraph 2”*.

Pursuant to Article 42(1)(d) of the EB Regulation the methodology for the cross-zonal capacity allocation based on economic efficiency shall include *“the maximum volume of allocated cross-zonal capacity for the exchange of balancing capacity or sharing of reserves pursuant to paragraph 2”*.

The Hansa MB Proposal does not describe such a process, however it provides the TSOs with the possibility to define such process in the methodology pursuant to Article 33(1) of the EB Regulation.

The Core MB Proposal limits the maximum volume to 10% of the average amount of calculated cross-zonal capacities for the SDAC fallback mechanism and also includes the possibility to specify further limits in the methodology pursuant to Article 33(1) of the EB Regulation.

The Baltic MB Proposal lists all the limitations that may be applied pursuant to the various provisions of the SO Regulation, but does not describe a process for defining the maximum volume of allocated cross-zonal capacity.

ACER understands that Article 41(1)(d) of the EB Regulation requires this methodology to also include the process for defining the maximum volume of allocated cross-zonal capacity, so it proposes the amendment of the Proposals to describe such a process.

ACER suggests to use as a default value the 10% of the cross-zonal capacity calculated for the day-ahead timeframe pursuant to the capacity calculation methodology of the CACM Regulation, in accordance with Article 41(2) of the EB Regulation. However, ACER proposes to also describe a dynamic process for the adjustment of this maximum volume to account for the cases where the maximum volume is not sufficient to satisfy the TSO demand, taking into considerations cases of structural local shortage, imposing additional reporting requirements, following the same approach as in ACER Decision 22/2020 on the market-based allocation process of cross-zonal capacity for the exchange of balancing capacity for the Nordic CCR.

The Core EE Proposal in its Article 6 describes the process to define the maximum volume of allocated cross-zonal capacity for the exchange of balancing capacity or sharing of reserves, starting with the

maximum limit of 5% (or 10% for new interconnectors) as envisaged in Article 42(2) of the EB Regulation, which may be further reduced by the methodology pursuant to Article 33(1) of the EB Regulation.

Question 3.1

Do you agree taking in the MB methodologies as a default value for the maximum volume of allocated cross-zonal capacity the 10% of the cross-zonal capacity calculated for the day-ahead timeframe pursuant to the capacity calculation methodology of the CACM Regulation?

If not what other options would you consider?

Yes, APG agrees that the default value for the maximum volume of allocated cross-zonal capacity should follow the cross-zonal capacity calculated for the day-ahead timeframe pursuant to the capacity calculation methodology of the CACM Regulation. However, it shall be ensured that short-term effects regarding the day-ahead timeframe are mitigated for the determination of the maximum volume (e.g. by using average values). This increases the transparency with regard to the final amount of allocated cross-zonal capacity.

Question 3.2

Please provide your views on having a dynamic process for the adjustment of the maximum volume in cases of unsatisfied TSO demand.

APG supports ACER's proposal to follow the same approach as in ACER Decision 22/2020.

Question 3.3

Do you have any comments on the maximum volume of the allocated cross-zonal capacity in the Core EE Proposal?

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Topic 4: TSO-BSP settlement scheme

All four Proposals specify that the settlement of standard balancing capacity bids for each application of the methodology for cross-zonal capacity allocation between TSOs and BSPs shall be based on cross-zonal marginal pricing (pay-as-cleared).

However, the Core Proposals foresee also a possibility for TSOs to use a different rule for the settlement of standard balancing capacity bids between TSOs and BSPs: pay-as-bid. This possibility is only allowed until the proposal to harmonize the methodology for the allocation process of cross-zonal capacity for the exchange of balancing capacity according to Article 38(3) of the EB Regulation is applicable.

ACER understands that including the pricing rule as a principle is important, as it also affects the actual market value of the cross-zonal capacity allocated for the exchange of balancing capacity or sharing of reserves (through the change in the economic surplus).

Following the discussion with the regulatory authorities and TSOs, ACER understands that this exemption is foreseen because of an already existing project, namely the balancing cooperation between Germany and Austria, which implements pay-as-bid as a settlement rule. The intention is to only keep this regime in order not to burden the balancing service providers with additional changes in a time period, where the expected changes in the balancing markets are already significant. ACER acknowledges that unnecessary changes should be avoided and existing projects should be assisted in moving to the new regime, and agrees with allowing this settlement rule for a transitory period. However, ACER considers that in case this cooperation is extended or merged (i.e. through an amendment of the respective methodology pursuant to Article 33(1) of the EB Regulation), the pay-as-cleared principle should be applied in the new cooperation.

Therefore, ACER proposes to explicitly provide the possibility of keeping the pay-as-bid settlement rule for this existing project and only for as long as it is kept in its current form.

Question 4

Please share your views regarding the possibility of allowing existing projects to deviate from the marginal (pay-as-cleared) principle.

APG supports the possibility to enable the existing projects to perform a stepwise transition into the new framework of the MB Proposal. Entering into cooperations - especially in uncharted terrain like balancing capacity - inherently includes a certain degree of risk, for the TSOs (e.g. regarding new effects/interactions for system operations) as well as for BSPs (e.g. bidding in a new market environment), but may lead to benefits for all stakeholders if done gradually and correctly. In addition, being able to apply the pay-as-bid settlement rule would also benefit future, entirely new balancing cooperations (e.g. for mFRR), which is why APG suggests to provide for both options (pay-as-bid and pay-as-cleared) in the MB Proposal.

Moreover, the application of either methodology pursuant to Article 41 or to Article 42 of the EB Regulation, and in particular the calculation of the market value of cross-zonal capacity for the exchange of balancing capacity or sharing of reserves, can be performed equally well with either settlement rule. I.e. APG does not see the necessity to limit TSOs in a balancing cooperation to only one settlement rule in a methodology which lays down rules for the allocation of cross-zonal capacity. In this regard, APG wants to re-iterate its position that settlement and pricing rules for balancing capacity are not within the scope of the discussed methodologies.

Topic 5: Other comments

Question 5

If you would like to comment on other topics please indicate clearly the related Proposal, Article, paragraph of the proposal and add a sufficient explanation.

(1) Comment regarding Article 8, paragraph 1 of CORE TSOs' Methodology for a market based allocation process of cross-zonal capacity for the exchange of balancing capacity or sharing of reserves in accordance with article 41 of the Commission Regulation (EU) 2017/2195 of 23 November 2017 establishing a guideline on electricity balancing:

The current provision for calculating the market value of cross-zonal capacity for the exchange of balancing capacity or sharing of reserves disregards one - if not the main - effect of allocated cross-zonal capacity: in addition to cross-border procurement allocated cross-zonal capacity also guarantees a minimum amount of cross-border activation of balancing energy.

This guaranteed minimum amount also provides a safety net against the activation of expensive bids of standard products for balancing energy (within the platforms pursuant to Articles 19, 20, and 21 of the EB Regulation), especially when there is the risk of bid prices reaching the technical price limit in a pay-as-cleared settlement regime. This safety net not only mitigates the risk for TSOs but also - and in particular - the risk of BRPs facing very high imbalance settlement prices. If the methodology for allocating cross-zonal capacity does neglect such major cost and welfare effects, the occurring risks have to be mitigated elsewhere. This most likely has to come in the form of restricting market parties in pricing (limits) or similar measures. Such measures could be reduced (e.g. application only for a short time) or maybe abandoned overall, if sufficient cross-zonal capacity can be allocated to avoid high-price effects. For this, the prerequisite is to allow the inclusion of all relevant factors in the assessment of the value of cross-zonal capacity for the balancing process – this specifically includes expected differences in balancing-energy prices.

The EB Regulation itself sets the precedence that expected bids of a subsequent market may be taken into account when calculating the market value of cross-zonal capacity on a preceding market: Article 39(2) of the EB Regulation states that “where relevant and possible, expected bids of market participants in the intraday markets” may be taken into account when calculating the actual market value of cross-zonal capacity for the exchange of energy.

Since the link between the balancing energy and the balancing capacity markets is stronger than the link between the intraday and the day-ahead timeframe, APG argues that taking the expected market value of cross-zonal capacity for the exchange of balancing energy into account when calculating the actual market value of cross-zonal capacity for balancing capacity is not only more correct but also covered by the EB Regulation.

(2) Comment regarding Article 14 of CORE TSOs’ Methodology for a market based allocation process of cross-zonal capacity for the exchange of balancing capacity or sharing of reserves in accordance with article 41 of the Commission Regulation (EU) 2017/2195 of 23 November 2017 establishing a guideline on electricity balancing:

The currently applicable CORE DA CCM does not hold any requirements on how to consider allocated cross-zonal capacity for the exchange of balancing capacity or sharing of reserves. Since the consideration of allocated cross-zonal capacity for the exchange of balancing capacity or sharing of reserves has an impact on cross-zonal capacities for SDAC, an amendment of the CORE DA CCM is needed. The current legal and regulatory framework does not require such an amendment, which in turn could block or prolong the implementation of the methodology pursuant to Article 41 of the EB Regulation. In order to facilitate a timely implementation of the methodology pursuant to Article 41 of the EB Regulation (including necessary adaptations of the CORE DA CC process), the decision on the methodology pursuant to Article 41 of the EB Regulation should contain the obligation for CORE TSOs to submit a proposal for an amendment of the CORE DA CCM. This proposal for amendment shall contain details on how allocated cross-zonal capacity for the exchange of balancing capacity or sharing of reserves is considered in the CORE DA CC process. In addition, this proposal for an amendment of the CORE DA CCM shall be submitted by a certain defined and enforceable deadline (e.g. two to three months after approval of the methodology pursuant to Article 41 of the EB Regulation). In addition, the MB Proposal should contain provisions on an alternative way to properly include allocated cross-zonal capacity in capacity calculation methods (e.g. in existing intraday processes), in case an amendment for the CORE DA CCM cannot be or is not submitted by the CORE TSOs in due time.

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