

**REQUEST FOR AMENDMENT BY ALL REGULATORY
AUTHORITIES OF THE HANSA CAPACITY
CALCULATION REGION**

ON

**CCR HANSA TSOs PROPOSAL FOR A METHODOLOGY
FOR A MARKET-BASED ALLOCATION PROCESS OF
CROSS-ZONAL CAPACITY FOR THE EXCHANGE OF
BALANCING CAPACITY IN ACCORDANCE WITH
ARTICLE 41(1) OF THE COMMISSION REGULATION (EU)
2017/2195 OF 23 NOVEMBER 2017 ESTABLISHING A
GUIDELINE ON ELECTRICITY BALANCING**

24 July 2020

I. Introduction and legal context

This document elaborates an agreement of all Capacity Calculation Region (“CCR”) Hansa Regulatory Authorities, reached on 24 July 2020, on the Hansa CCR TSOs’ proposal for a methodology for a market-based allocation process of cross-zonal capacity for the exchange of balancing capacity within the CCR Hansa.

The all Hansa CCR TSOs (“Hansa TSOs”) have developed this proposal pursuant to Article 41(1) of Commission Regulation (EU) 2017/2195 of 23 November 2017 establishing a guideline on electricity balancing (“EB Regulation”).

Article 41(1) of the EB Regulation states that no later than two years after entry into force of the EB Regulation, all TSOs in each CCR may submit a proposal for methodology for a market-based allocation process of cross-zonal capacity for the exchange of balancing capacity or sharing of reserves (“MBM proposal”).

The Hansa TSOs are the German TSOs, TenneT TSO GmbH and 50Hertz Transmission GmbH, the Dutch TSO, TenneT TSO NL BV, the Danish TSO, Energinet, the Swedish TSO, Svenska kraftnät, and the Polish TSO, Polskie Sieci Elektroenergetyczne S.A. Pending EEA Joint Committee Decision on the incorporation of EB Regulation into the EEA Agreement, the Hansa TSOs cooperate with the Norwegian TSO, Statnett, on the development of the regional terms, conditions, and methodologies, which the Hansa TSOs are obliged to submit for regulatory approval.

The all CCR Hansa Regulatory Authorities (“Hansa NRAs”) are therefore Bundesnetzagentur (“BNetzA”), Autoriteit Consument & Markt (“ACM”), Danish Utility Regulator (“DUR”), Energimarknadsinspektionen (“Ei”), and Urząd Regulacji Energetyki (“URE”). Pending EEA Joint Committee Decision on the incorporation of EB Regulation into the EEA Agreement, Reguleringsmyndigheten for energi (“NVE-RME”) has been participating in the discussions with the CCR Hansa NRAs on an informal basis.

A draft proposal was consulted by the Hansa TSOs through ENTSO-E from 20 September 2019 until 21 October 2019.

The Hansa TSOs’ MBM proposal for the CCR Hansa - dated 18 December 2019 - was received by the last Hansa NRA on 24 January 2020.

On 24 July 2020, the Hansa NRAs reached an agreement to request an amendment of the Hansa TSOs’ MBM proposal.

This agreement of the Hansa NRAs shall provide evidence that a decision on the proposal does not need to be adopted by ACER pursuant to Article 5(7) of the EB Regulation. Therefore, this agreement is intended to constitute the basis on which the Hansa NRAs will each subsequently request amendments to the MBM proposal for CCR Hansa.

The legal provisions that lie at the basis of the proposal and this agreement by the Hansa NRAs on a RfA can be found in the Articles 3, 4, 5, 6, 36, 38, 39, and 41 of the EB Regulation.

II. The TSOs' proposal

The MBM proposal for CCR Hansa covers the situations, where two or more Hansa TSOs want to exchange balancing capacity or share reserves across one or more CCR Hansa bidding zone borders and want to use cross-zonal transmission capacity for this purpose.

The MBM proposal covers one of three possible ways to allocate capacity for the exchange of balancing capacity or sharing of reserves; the other two being a co-optimized allocation process (Art. 40 EB Regulation) and an economic-efficiency analysis (Art. 42 EB Regulation) based process.

The MBM proposal only covers the allocation of transmission capacity for the exchange of balancing capacity or sharing of reserves. The MBM proposal does not cover the specifics of the balancing markets, from which the CCR Hansa TSOs' will get the balancing capacity or reserves.

The MBM proposal includes a balancing capacity procurement optimization to find the optimal amount of cross-zonal capacity to be allocated to the exchange of balancing capacity or sharing of reserves. The optimization inputs are the bids for standard balancing capacity, the balancing capacity demand of each TSO and the forecasted market value of the exchange of energy.

The forecasted market value of capacity for the exchange of energy is set to be the price difference between the bidding zones in the day-ahead market of the nearest reference day (reference day being either the working day before, or the last week-end day or the last Sunday or bank holiday).

The actual market value of capacity for the exchange of balancing capacity or sharing of reserves is set to be the reduction in balancing procurement costs.

The maximum capacity for exchange of balancing capacity or sharing of reserves is set to be 10 pct. of the available offered capacity to the day-ahead market the previous calendar year.

The MBM proposal is set to be implemented at the moment the CCR Hansa NRAs have approved it.

III. Agreed Hansa NRAs' position

The Hansa NRAs cannot approve the proposal for the reasons, which are detailed below and request the Hansa TSOs to amend the proposal and to incorporate the following assessments of the Hansa NRAs pursuant to Article 6(1) of the EB Regulation.

IV. Requests for amendments of the proposal

General comments

Overall, we ask TSOs to review the wording and content of the MBM proposal and, to the extent possible, align them with the approved CO CZCA methodology (Annex I to ACER Decision 12-2020) and other approved regional market-based methodologies. In case the TSOs intend to deviate substantially from the general content of the approved methodologies or decide to add

novel features to the allocation process, we ask TSOs to provide detailed explanations as to why this has been deemed necessary and/or more efficient.

In this context, and taking into account the MBM methodology for the Nordic CCR, Hansa NRAs ask Hansa TSOs to monitor the efficiency of the forecasting methodology and to submit a report to the NRAs regularly, e.g. at least once a year.

The mark-up and/or adjustment factors are very important when optimizing for how much cross-zonal capacity should be allocated for the exchange of balancing capacity. The mark-up and/or adjustment factors should therefore be an integral part of the methodology, rather than what Article 7(8) of the MBM suggests. Hansa NRAs urge the TSOs to choose mark-ups or adjustment factors which adjusts for the shortcomings and errors in the proposed forecast of the market value of capacity for the exchange of energy. Specifically, Hansa NRAs request that the MBM proposal provide more detail on the definition and use of adjustment factors in three distinct ways: first, by specifying on what basis Hansa TSOs applying the methodology for market-based allocation determine whether there is a need to use adjustment factors (i.e. under which conditions is the forecasted market value of cross-zonal capacity deemed inaccurate and therefore needs an adjustment); second, whether this is an ongoing assessment or rather a periodical review; third, by clarifying how the level of the adjustment factor is determined once the need for the application of adjustment factors is established.

Hansa NRAs suggest to delete the term “BCC” across the document and replace it with the wording: “TSOs applying this market-based methodology...” in line with the CO CZCA methodology and other regional proposals.

About the release of non-used CZC: variations of this text appear a few times throughout the document. Hansa NRAs suggest to improve the text in Article 3(6) (in line with the CO CZCA methodology) and delete in other parts of the proposal.

Baltic Cable AB was designated as a TSO in Germany in January 2020 and will probably be part of CCR Hansa during the autumn of 2020. Hansa NRAs therefore suggest that Hansa TSOs liaise with Baltic Cable AB in order to be ensure that Baltic Cable AB can agree on the content of a revised terms MBM proposal to be submitted for regulatory approval as a consequence of this request for amendment.

Specific comments

Article 1(2): should be adjusted, since there is no such definition in Article 15 of the CACM. Regulation.

Article 1(4): can be deleted.

Article 2(1): the references to Regulation (EC) 714/2009 and to Directive 2009/72/EC should be changes to, respectively, Regulation (EU) 2019/943 and Directive (EU) 2019/944.

Article 2(2): can be deleted.

Article 2(3): simpler wording could be “the following additional definitions shall also apply”.

Article 2(3): suggest to change wording to “reference day”.

Article 2(3): suggest to change the definition of mark-ups. It is not a “correction” but rather an addition to the forecasted value of CZC to reduce the impact on the DA-market.

Article 2(3): use the definition on “economic surplus” provided in Annex I of the ACER Decision on the MBM methodology for the Nordic CCR.

Article 3: suggest as title: “Principles for applying market-based cross-zonal capacity allocation”.

Article 3(2): needs to be refined, should at least include some deadlines (how much in advance of market go-live?).

Article 3(3)-3(5) shall not be part of this methodology. Instead the rules on the bidding shall be covered in a proposal pursuant to Article 33(1) of EB Regulation.

Article 3(6): suggest to move to Article 10 on firmness, in line with CO CZCA methodology. Also see comment under Article 10.

Article 4: Hansa NRAs request that Article 4 is modified so as to mirror, to the extent relevant, the notification process in the Nordic MBM.

Article 5: it would be preferable to have an illustration of the timeline for the process included in the explanatory document.

Article 5: suggest to either split Article or to change its title. Article 5(2) is outlining the process for allocating CZC for the exchange of balancing capacity and/or sharing of reserves, rather than describing the timeframe.

Article 5(2)(c)(iv): the term “CZC domain” is unclear and should therefore be explained within the methodology

Article 6(2): can be deleted.

Article 6(3): specify how such additional lower limits are to be defined.

Article 6(5): can be deleted. Follows already from Article 41(2), 2nd paragraph in the EB Regulation.

Article 7: suggest to split this into two articles, and when doing to aligning the wording with COCZA methodology and regional methodologies:

- “determination of the **forecasted** market value of cross-zonal capacity for the exchange of energy in single day-ahead coupling” (addressing particularly the issue of mark-ups, adjustment factors and the definition of the reference day/period)
- “determination of the **actual** market value of cross-zonal capacity for the exchange of balancing capacity or sharing of reserves” (resembles most parts of the current Article 7)
- the procurement optimization function is within the scope of this MBM. A determination of the actual market volume should therefore specify the inputs, objectives and constraints to the algorithm unless Hansa TSOs choose a two-step approach which would presuppose that the cross-zonal capacity allocation function needs to be described more precisely

Article 7(8): adjustment factors and mark-ups must be specified in this Proposal, rather than in a proposal pursuant to Article 33(1) of EB Regulation.

Article 8(3): rather than ensuring that the actual market value of CZC for the exchange of balancing capacity or sharing of reserves exceeds the forecasted market value of CZC for the exchange of energy, as the MBM proposal currently states, the balancing capacity procurement optimization function should have as its objective the maximisation of the expected total economic surplus for the sum of the expected exchange of energy and the exchange of balancing capacity or sharing of reserves.

Article 8(5): an add-on to the balancing capacity prices between two bidding zones is not allowed according to Article 18(6) of Regulation 2019/943. Hansa NRAs therefore request Hansa TSOs to delete such CZC reservation cost in line with the ACER Decision on Nordics CCR Market-based allocation process methodology.

Article 10: modify in line with Article 10(2) of the CO CZCA methodology: 'According to Article 38(4) of the EB Regulation, cross-zonal capacity allocated for the exchange of balancing capacity or sharing of reserves shall be used exclusively for the product where it was allocated for, being aFRR, mFRR or RR. In accordance with Article 38(9) of the EB Regulation, if the cross-zonal capacity allocated for the exchange of balancing capacity or sharing of reserves has not been used for the associated exchange of balancing energy, it shall be released to all TSOs for the exchange of balancing energy with shorter activation times or for operating the imbalance netting process'

Article 10(4): can preferably refer to article 33(7) of EB Regulation.

Article 11: update reference in footnote to Regulation 2019/943.

Article 12: specify that Hansa TSOs applying the methodology for market-based allocation shall publish the forecasted market value of cross-zonal capacity in a transparent manner.

Article 12(2): seems to be out of scope in this proposal; such a provision would need to be included in a proposal pursuant to Article 33(1) in the EB Regulation – with the right reference, namely Article 12(3)(f) of EB Regulation rather than Article 12(3)(e).

Article 12(6): wrong reference, should be Article 59 of Directive (EU) 2019/944.

Article 13: should be specified that the implementation of the MBM would also presuppose regulatory approval of proposals pursuant to Articles 33(1) and 38(1) of EB Regulation. Moreover, "Agency" should be added in the last line of the article after "European Union".

V. Conclusion

The Hansa NRAs have assessed, consulted, closely cooperated and coordinated to reach the agreement that they cannot approve the Hansa TSOs' proposal according to Article 41(1) of the EB Regulation.

According to Article 6(1) of the EB Regulation, the Hansa NRAs hereby request an amendment to the proposal, which shall take into account the assessment stated above and shall be submitted by the Hansa TSOs no later than two months after receiving the last Hansa NRA's request for amendment.

The Hansa NRAs have agreed to inform their respective TSOs on the request for amendment of the proposal on the basis of this agreement by 24 July 2020.