

ACER consultation on the cross-border capacity allocation methodologies for the exchange of balancing capacity in the Hansa, Core and Baltic regions**EFET response – 2 May 2021**

The European Federation of Energy Traders (EFET) welcomes the opportunity to provide comments on ACER consultation on the cross-border capacity allocation methodologies for the exchange of balancing capacity in the Hansa, Core and Baltic regions in accordance with Article 41(1) and Article 42(1) of the Electricity Balancing Regulation 2017/2195.

General comments on capacity reservation by the TSOs for balancing purposes:

Since the early stage of drafting of the Electricity Balancing network code, we have opposed the concept of reservation of cross-border transmission capacity by the TSOs for balancing purposes. Though by the time of the adoption of the Electricity Balancing Guideline (EB GL), the concept was rebranded as “cross-zonal allocation of capacity”, its effects remain the same.

The cross-border reservation of transmission capacity by the TSOs for balancing purposes poses a serious risk to the availability of cross-border transmission capacity in the preceding trading timeframes. By allocating transmission capacity specifically for use in the balancing timeframe, TSOs remove available capacity from the allocation in the other timeframes, thereby restricting market participants’ ability to adjust their positions across borders in the most economically efficient manner, and to contribute to overall system balance.

The use of cross-border transmission capacity is a key element of European market integration in the forward, day-ahead and intraday timeframes. A major objective of integration projects such as the EU Harmonised Allocation Rules for forward transmission rights, as well as single day-ahead and intraday coupling are to improve the access and use of such transmission capacity by the market. Reserving capacity (from the forward timeframe until the intraday market) for use by the TSOs in the balancing timeframe would turn the clock back on those improvements.

General comments on the so-called “market-based” and “economic efficiency methodologies for capacity reservation by the TSOs for balancing purposes in the Core, Hansa and Baltic regions:

First, the so-called “market-based” method for capacity reservation by the TSOs for balancing purposes is based on a tool optimising actual balancing capacity bids with forecasted day-ahead bids. The allocation process is based on the forecasted market value of cross-zonal capacity for energy bids. The comparison with the actual value of balancing capacity bids is therefore reliant on estimations made by TSOs based on values from the past and not for the delivery day under consideration.

We therefore consider that the “market-based” designation chosen for this cross-zonal capacity reservation process is incorrect. While this process reduces complexity, notably in

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terms of the functioning of the Euphemia algorithm, compared to the co-optimisation method according to article 40 EB GL, it is **based on a fundamental uncertainty as to the value of cross-zonal capacity in the day-ahead market**. Changes in the bidding behaviour of market participants compared to what the TSOs have modelled or are expecting should not be underestimated.

In the so-called “economic efficiency” method for the reservation of capacity by the TSOs for balancing purposes, all the elements of uncertainty highlighted above remain true. In addition to this, TSOs would need to forecast balancing capacity bids for the capacity reservation process based on “economic efficiency”, adding another layer of uncertainty¹.

Second, **ignoring the intraday market** in the cross-zonal capacity reservation processes (“market-based” and “economic efficiency” method, just as well as co-optimisation), in practice forecloses opportunities for market participants to adjust their positions in intraday across borders and will lead to changes in the bidding process. This contradicts some of the most fundamental principles in the EB GL itself:

Recital 12 “The integration of balancing energy markets should facilitate the efficient functioning of the intraday market in order to provide the possibility for market participants to balance themselves as close as possible to real time.”

Article 3.2.e “When applying this Regulation, Member States, relevant regulatory authorities, and system operators shall ensure that the development of the forward, day-ahead and intraday markets is not compromised.”

Article 39.2 EB GL explicitly requests the inclusion of the intraday timeframe into the calculation of the market value for the exchange of energy “where relevant and possible”. Presumably, the relevance is undisputable and even though it is difficult to estimate the value contribution of the intraday timeframe, an estimate of zero is just as arbitrary as any other value but certainly wrong. Furthermore, the reasoning made in previous TSOs explanatory documents that the traded volumes in the intraday timeframe are small compared to SDAC is questionable, particularly given that intraday trading volumes certainly exceed volumes exchanged for balancing.

Third, the methodology for calculating the market value of cross-zonal capacity reserved for the exchange of balancing energy or sharing of reserves in the current proposals relies on the selection of “reference periods” and possible “adjustment factors”. Neither of the two components is specified further. We therefore strongly doubt that the current proposals are in line with Articles 41.1(b) and 42.1(b) of the EBGL that explicitly request a “detailed description of how to determine [...] the forecasted market value of cross-zonal capacity for the exchange of energy” (adding “a detailed description of how to determine [...] the forecasted market value of cross-zonal capacity for the exchange of balancing capacity” in article 42.1(b)). Referring to concepts of “reference periods” and “adjustment factors” and postponing the definition of such elements to the balancing capacity cooperation (BCC) proposals is insufficient.

¹ See also our response [ACM consultation on the Core TSOs’ methodology proposal for an allocation process of cross-zonal capacity for the exchange of balancing capacity or sharing of reserves based on an economic efficiency analysis](#)

Fourth, in the context of the implementation of article 16 of the recast Electricity Regulation approved as part of the Clean Energy Package (Regulation (EU) 2019/943), the TSOs will need to allocate to the market a minimum of 70% transmission capacity respecting operational security limits after deduction of contingencies. As the transmission capacity reserved by the TSOs through the “market-based” or the “economic efficiency” allocation processes would be used by the TSOs themselves for the exchange of balancing capacity or the sharing of reserves, we would welcome a clear statement by the TSOs that this capacity will not be counted within the minimum 70% threshold.

Fifth, in the context of the CORE CCR, the region is to transition to the Flow-Based Day-Ahead Market Coupling (FBDA) by February 2022. In FBDA, network constraints are related to firm energy net positions, as some flows are necessary to ensure secure grid conditions. However, since there is no certainty about the activation of the procured balancing capacities, their impact on energy net positions is unknown. Given that article 33.7 EB GL forbids that reliability margins are increased to accommodate the uncertainty linked to the activation or non-activation of the contracted reserves (FRR or RR), we do not see how the “market-based” or the “economic efficiency” processes could be applied in a FBDA environment.

Finally, article 38.8 of the EB GL requires a regular assessment of the need to reserve capacity for balancing purposes. In line with the spirit of this article, we would have expected a thorough assessment of the need to reserve cross-zonal capacity for balancing purposes in the Hansa, Core and Baltic regions. There was, however, no real discussion or presentation by the TSOs of the need, benefits and drawbacks of cross-zonal capacity reservation for balancing purposes in general, let alone on the so-called “market-based” or “economic efficiency” approaches for such reservation.

To date, we remain unconvinced of the necessity of such a market design feature. Contrary to the methodology on capacity reservation for balancing through co-optimisation according to article 40 EB GL, the development of the present methodologies for a “market-based” or “economic efficiency” reservation of cross-zonal capacity for the exchange of balancing capacity or sharing of reserves according to articles 41 and 42 EB GL is not an obligatory requirement. Given the overall lack of justification for cross-zonal capacity reservation for balancing purposes, and the missing impact assessment regarding the effects of a so-called “market-based” or “economic efficiency” reservation of capacity by the TSOs for balancing purposes in particular, **we invite ACER to reject the methodologies, and/or individual TSOs and NRAs from the Core, Hansa and Baltic regions to refrain from implementing these cross-border capacity reservation process according to articles 41 and 42 EB GL.**

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

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.

Besides our fundamental disagreement with the concept of so-called “market-based” reservation of capacity by the TSOs for balancing purposes, we fail to understand ACER’s willingness to define a precise gate closure for the procurement of balancing capacity in these

methodologies. Our understanding of the interplay between the Electricity Regulation 2019/943 and the Electricity Balancing Regulation 2017/2195 is as follows:

- Article 6(9) of the Electricity Regulation indeed mandates the procurement of balancing capacity at most a day before delivery. Nevertheless, possibilities for derogations to this rule can be requested by individual TSOs and approved by their NRAs. This possibility for derogation applies to individual TSOs and NRAs. This may mean balancing capacity procurement in certain control areas will occur before the day-ahead timeframe.
- Article 32 of the Electricity Balancing Regulation does not mandate a single gate closure time for balancing capacity procurement for all TSOs of a CCR, nor does article 41 mandate a single point in time at which the process of the market-based reservation of balancing capacity should be carried out for the entire CCR. We note that article 38 of the Electricity Balancing Regulation refers to the possibility for “two or more TSOs” to establish one of the processes for reservation of balancing capacity as per articles 40, 41 or 42, not necessarily all TSOs of a CCR.

As a consequence of the above, we do not see a mandate for ACER to set a single point in time per CCR at which balancing capacity is procured from BSPs in the methodologies for market-based reservation of transmission capacity for balancing purposes for the TSOs.

In addition to this question of mandate, we would have fundamental questions about setting the timeframe for the market-based reservation of capacity by the TSOs to day-ahead:

- We do not see how the market-based reservation of capacity by the TSOs would then be different (in process and objective) from the co-optimisation process for the reservation of capacity by the TSOs.
- We see an important threat in setting transmission capacity reservation process by the TSOs in the same timeframe as that of procurement and activation of balancing energy.

In short, while we were already not convinced of the added value or practicability of the market-based capacity reservation process in the original proposal of the TSOs, we would see even less of a point to establish this tool as per ACER’s idea, as it would be redundant with the co-optimisation process and risks interfering with the RR, mFRR and aFRR processes. In addition, we do not want these methodologies to be used as a tool to restrict the derogation possibilities to the day-ahead procurement of balancing capacity of article 6(9) of the Electricity Regulation. As consequence, we are reinforced in our resolution **that ACER should simply reject the article 41 methodologies, or that TSOs and NRAs should refrain from implementing them.**

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.

We refer to our response to question 1.1. Setting a single gate closure time for all the processes would preempt individual TSO and NRA decisions on balancing capacity procurement from BSPs. Besides, we see significant potential disturbance with the balancing energy procurement and activation processes.

Topic 2: Forecasted market value of cross-zonal capacity

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?

We agree with ACER that the Baltic methodology provides a stronger and more transparent basis to determine the forecasted market value for the exchange of energy. We are more comfortable with such detailed criteria than the vague formulations of the Core and Hansa methodologies. However, changes in the bidding behaviour of market participants compared to what the TSOs have modelled or are expecting should not be underestimated. As we also mentioned in earlier points, ignoring the intraday market, in practice, forecloses opportunities for market participants to adjust their positions and will lead to changes in the bidding process.

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.

We appreciate that ACER seeks to improve the determination of the forecasted market value for the exchange of energy, and the use of shadow prices associated with limiting CNEs in the Core region may indeed add value. However, we would need a more precise proposal and a clear indication how the shadow prices would be taken into account to take a firm position on the matter.

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?

We agree with ACER and refer to our response to question 2.1 on this matter.

Article 7.4 of the Core EE Proposal mentions the application of “adjustment factors” that shall be included and justified in the “methodology for the establishment of common and harmonised rules and processes for the exchange and procurement of balancing capacity according to article 33.1 EB GL”². To us, the description of adjustment factors belongs to the MB CZCA methodology and not to the one related to article 33.1 EB GL

- The adjustment factors are inherent to the CZC allocation mechanism that is chosen rather than to the methodology defining the BCC.
- Moreover, the concept of sharing of reserves is not covered by the article 33.1

² See also [EFET response to the ACM consultation on the CORE TSOs proposal of an economic efficiency method for the reservation of cross-zonal capacity for balancing purposes](#)

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?

Article 7.3 of the Core EE Proposal mentioned the application of “reference periods” for the assessment of the forecasted market value of CZC. It is unclear how an “appropriate reference period” will be defined, especially when market participants will not be part of the consultation prior to the actual application of the methodology.

In addition, we strongly doubt that the reference to “reference periods” without further specification is in line with Article 42.1(b) EB GL that explicitly requests a “detailed description on how to determine [...] the forecasted market value of cross-zonal capacity for the exchange of energy”. Referring to the concept of “reference periods” and postponing the definition of such elements to the BCC proposals is insufficient.

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

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?

We welcomed in the MB methodologies the clarification by TSOs that the 10% limit is applied over CZCA for all of the balancing products, not 10% for each of aFRR, mFRR and RR, possibly summing up to 30%³.

We welcomed the clarification by TSOs that individual BCCs can set only a lower threshold than the maximum 10% of available cross-zonal capacity referred to in article 41.2 EB GL.

We have no opposition to ACER clearly including the 10% maximum threshold in the methodologies, though it is clear to us from the EB GL that the maximum threshold is directly applicable in this case.

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.

We absolutely oppose the possibility for the methodologies to foresee the possibility to go over the clear 10% threshold foreseen in article 41.2 EB GL. Including a “dynamic process” for the

³ See also [EFET response to the ACM consultation on the Hansa TSOs proposal of a market-based method for the reservation of cross-zonal capacity for balancing purposes](#) and [EFET response to the ACM consultation on the CORE TSOs proposal of a market-based method for the reservation of cross-zonal capacity for balancing purposes](#)

adjustment of the maximum volume should only foresee a downward adjustment from the maximum 10%.

Question 3.3

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

We welcomed in the Core EE Proposal the clarification by TSOs that the 5% limit is applied over CZCA for all of the balancing products, not 5% for each of aFRR, mFRR and RR, possibly summing up to 15%.

We welcomed the clarification by TSOs that individual BCCs can set only a lower threshold than the maximum 5% of available cross-zonal capacity referred to in article 42.2 EB GL.

Topic 4: TSO-BSP settlement scheme

Question 4

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

We stand firm on the use of the marginal (pay-as-cleared) principle⁴. However, we welcome the pragmatic approach of ACER with regard to existing balancing cooperation processes (in particular that between Germany and Austria) in order not to disrupt existing mechanisms and provide the possibility of keeping pay-as-bid settlement as long as such projects are not extended.

Other comments

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.

Please see our general remarks.

⁴ See also [EFET response to the ACER consultation on the TSOs methodology for balancing energy pricing](#)