- Consultation Response –

Public consultation on ACER's 2023 market monitoring report on cross-zonal capacities and the 70% margin available for cross-zonal electricity trade (MACZT)

Brussels, 22 September 2023

To what extent do you agree with the conclusions illustrated in ACER's 2023 market monitoring report on cross-zonal capacities and the 70% margin available for cross-zonal electricity trade (MACZT)?

No answer provided.

What changes would you suggest for future editions of ACER's cross-zonal capacity report?

Among the available options identified by ACER to achieve the 70% target, we would suggest clarifying the meaning of "expedient grid investment". This is because, despite the Regulation (EU) No. 943/2019 states that grid investments are one of the tools to tackle congestion, nevertheless, as defined in ACER Recommendation 01/2019, network development and investments are a long-term solution, which as such, is not consistent with the imminent 2026 deadline. Furthermore, as grid investments are implemented, Member States will have to reach the 70% target with respect to a wider network. On the contrary, resolving congestions in the short-term requires an increase in remedial actions, together with the optimisation of the grid system and of the distributed resources that are already in place. This to say, it would be more appropriate to stress the importance of short-term solutions to settle congestions and reach the 70% minimum target by 2026.
Furthermore, while minimum targets (e.g., min 70% MACZT both in case of NTC or FB setup) are important, it is also key to focus on:

1) Assessment of frequency of Cross-Zonal/Cross-Border congestions leading to Congestion Revenues and Day-Ahead price differences between e.g., adjacent Bidding Zones.
2) Assessment of max installed grid transmission capacity between Bidding Zones/Cross-Border versus average and max production and consumption within each Bidding Zone (country).
3) When combining facts given by (1) and (2), review to what extent grid investments per MS and TSO are made to reduce CZ/CB congestions and enhance grid transmission

capacity in/out of given BZ compared to total production/consumption as a minimum to uphold EU minimum requirements on CB/CZ capacity compared with total production/consumption. Preferably, grid investments should be higher in case CZ congestions are shown to be ("structural") persisting and frequent, a condition which results in a loss of both overall supply and demand welfare.

4) Establishment of, as indicated in the ACER report, a clear methodology to also assess CB/CZ capacity allocation (NTC and FB) in the Intraday (SIDC Continuous and once established in SIDC IDAs) timeframe since the 70% minimum target applies both for DA and ID and the importance of trading closer to delivery is constantly growing due to the shift towards more and more intermittent RES-driven power system.

In addition, we would suggest enforcing a common methodology to be used by ACER/NRAs/TSOs for their reporting. It is in our view that there should be a common method and aligned set of criterions applied in ACER's methodology and in the methodology used in national reports by TSOs and NRAs.

Based on the data presented in Chapter 1 of ACER's report, do you believe that the current development of cross-zonal capacities across the EU is sufficient to enable the integration of European electricity markets?

No, considering that many EU borders still do not reach the 70% minimum target, the current development of inter-zonal capacities, namely the amount of grid investments rolled out, is not yet sufficient to enable the full integration of the European electricity market. Nonetheless, the degree of integration also depends not only on the relatively available capacity versus the min 70% requirement but also on the development of the absolute available capacity versus given country/regional overall production/consumption. Therefore, further grid development is of utmost importance for cross-border trading. As proved both historically and even more clearly during the energy crisis, the limited amount of cross-zonal capacity leading to reduced energy flows has been one of the main input triggering price peaks and, thereby reducing social welfare.

Considering the results of the monitoring exercise of 2022, do you believe that enough progress is being made across the EU to fulfil the 70% cross-zonal transmission capacity target by 2026?

No answer provided.

Please clarify your answer.

Given that most EU borders have not achieved the 70% target yet, it may be concluded that further progress is still needed for the fulfilment of the objective. However, we need to highlight that according to Regulation (EU) No. 943/19, Member States can use action plans and/or derogations to only within a set number of years reach the stipulated requirement. Therefore, to assess whether sufficient progress has been made so far to achieve the 70% minimum target, it would be critical to in such cases verify this progress with respect to the

action plans and derogations adopted by given Member States. To conclude, the results of the monitoring should be made clearer by taking into consideration both the fulfilment of the min 70% requirement as of now and the progress towards the intermediate targets set through the action plans and derogations.

In ACER's report, several elements are presented as critical limitations to the achievement of the 70% cross-zonal transmission capacity target. Please rank them by order of relevance.

Lack of a mechanism to share remedial actions costs: 4.

Lack of sufficient remedial actions: 3.

Suboptimal bidding zone configuration: no answer.

Lack of sufficient grid developments: 5.

Unilateral capacity reductions applied by TSOs: 3.

Do you see any other threat to the achievement of the 70% target?

Before answering to this question, we would like to make a clarification on why we have not given a numerical answer to point 3 of the previous question. Whereas we believe that a suboptimal bidding zone configuration may have an impact on the 70% cross-zonal transmission capacity, any bidding zone review exercise must look at equally merging and splitting bidding zones, with the impacts on markets efficiency being properly taken into account.

Answering to the current question, Europex believes that other possible threats to the achievement of the 70% target are:

- Lack of coordinated capacity calculation methodologies on some borders.
- Lack of data or data not properly provided according to ACER requirements.
- An extensive application of individual validations adjustments that impact the capacity offered.
- Also see our 4 points listed under the question "What changes would you suggest for future editions of ACER's cross-zonal capacity report?"

What would be the key enabler(s) for reaching the 70% target by 2026?

Possible key enablers for reaching the 70% target by 2026 are:

- **Grid development.**

- **The full application of coordinated capacity calculation methodologies on all borders and in both directions.**
- **The continuous fine tuning of a common grid model comprehending all the Member States.**

Have you been affected by unilateral capacity reductions, such as allocation constraints or individual validation adjustments?

Not applicable.

Do you believe that enough transparency and justification is provided by TSOs in the application of validation adjustments, or other similar unilateral reductions of cross-zonal capacities?

No, we firmly believe that increasing transparency to all stakeholders is always a positive element to achieve a full energy markets integration. However, we would need more time and more details to be given in background material in order to answer it more specifically.

Do you consider that ACER's current MACZT monitoring exercise on regions that apply a CNTC capacity calculation methodology provides a complete assessment?

No. According to the results of the report, for regions applying CNTC capacity calculation methodology, ACER is able to estimate MACZT relating only to the CNEC which limits the capacity calculation. However, according to ACER Recommendation 01/2019 this should have been only *"an interim solution in NTC coordination areas".* Therefore, it would be necessary to include all the CNECs in capacity calculation. Moreover, for the Member States whose CNECs do not limit capacity calculation, it is not possible to assess the fulfilment of the 70% target on the borders. The same occurs in case the limiting CNEC is located in a non-EU Country.
As such, the assessment regarding the 70% target is not complete for regions applying CNTC capacity calculation methodology due to a number of data issue and lack of an appropriate framework for assessing CZC allocation in a NTC versus FB model.

Do you believe that additional cross-border transmission capacity would have played a critical role in coping with the effects of the energy crisis of 2022?

Yes, additional cross-border capacity would have allowed further energy flows from low-price bidding zones to high-price bidding zones providing a possible relief from price peaks. Indeed, the cross-zonal capacity is a core element to mitigate price volatility across the EU and consequently increase socio-economic welfare.

Do you see a risk for re-dispatching costs to offset the potential gains from increased cross-border transmission capacity and further market integration?

No answer provided.

Please clarify your answer.

While it is necessary that the size of the bidding zone is sufficiently large in order to create adequate liquidity, sufficient cross-border capacity needs to be provided without creating greater re-dispatching costs impacting on consumers.
To conclude, there may be the risk for re-dispatching costs to offset the potential gains from increased cross-border transmission capacity and further market integration. Therefore, it would be important to find possible balanced solutions in order to mitigate this trade off as best as possible.

Any other comment

We are in favour of a more integrated energy market, so it is necessary to implement all the possible actions and efforts in order to reach the min 70% margin available for cross-zonal electricity trade, and in both the Day Ahead (SDAC) and Intraday (SIDC) timeframe. To this end, it would be strategic in short-term the development of further coordinated and shared (multi BZ/MS/regionally) remedial actions to optimize the current networks, while in the medium-term increasing the CZ and supportive internal BZ grid investments by TSOs in Member States where the available capacity is deemed insufficient.
In this light, it is extremely important for all stakeholders to be as transparent as possible in their processes and to cooperate with each other, as the common goal is to improve market integration and reduce price volatility, thereby increasing social welfare.

About

Europex is a not-for-profit association of European energy exchanges with 34 members. It represents the interests of exchange-based wholesale electricity, gas and environmental markets, focuses on developments of the European regulatory framework for wholesale energy trading and provides a discussion platform at European level.

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