



– Consultation response –

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

Brussels, 30 March 2021 | Europex welcomes this opportunity to respond to ACER's public consultation on cross-zonal capacity allocation methodologies for Hansa, Core, and Baltic CCRs. Regarding the timeframe, we agree with ACER's approach to define the day-ahead as the timeframe for the market-based cross-zonal capacity allocation methodology and with 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.

### **Forecasted market value of cross-zonal capacity**

We agree on 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. Overallocation to balancing capacity procurement should be avoided, as it risks compromising the DA market and withdrawing capacity in an unwarranted way (contravening the requirement set out in EB GL Article 3(2)e). In this respect, the use of mark-ups to the initial forecasted market value, as well as an additional correction possibility as described in the Baltic MB proposal, appear appropriate to help address the uncertainty in the forecast. It is also important to maximise the transparency of the methodology.

Further, we 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. The default mark-up follows a similar approach as for the Baltic MB proposal and the same principles should apply to protect the capacity available for the day-ahead market and ensure a transparent approach. Regarding the approach proposed for determining the forecasted market value of cross-zonal capacity for the exchange of balancing capacity or sharing of reserves, the use of adjustment factors to the forecast should only be used to improve accuracy, and care should be taken not to over-allocate or give unjustified preference to the exchange of balancing capacity.

We are not convinced about the proposal to use 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 and would need more information about how it could work, as it introduces additional complexity. A transparent methodology is needed for the forecast, with the ability to make appropriate mark-ups or adjustments to improve accuracy and prevent overallocation of capacity for balancing capacity (which would come at the cost of reducing capacity otherwise available to SDAC).

## **Maximum volume of the allocated cross-zonal capacity**

10% should be regarded as the maximum share of CZ interconnector capacity (or single CNE if flow based CMM) that under any circumstances would be permitted for allocation to balancing capacity or reserves. The reserved capacity for balancing should be kept as low as possible and any share up to the maximum limit must only be reserved away from SDAC if it can be proven to provide a higher overall social welfare. Withdrawing cross zonal (including on CNE level if FB model) capacity from the day-ahead and intraday markets can have severe negative impacts on price formation in the organized competitive markets (i.e. SDAC and SIDC) and, as such, on the total social welfare for all Europe.

As a general principle, we believe that the indicated 10% should represent the maximum allowed upper boundary also for the Article 40 “co-optimization” methodology, which does not include a clear upper limit for cross-zonal capacity (or CNE if FB CCM) allocation for balancing capacity or reserves, but obviously must be the case just like for the other two applicable methods.

We do not see the case for a dynamic process to increase the maximum volume threshold in cases of unsatisfied TSO demand. The default limit of 10% of the cross-zonal capacity calculated for the day ahead timeframe, as set out in Article 41(2) of the EB Regulation, should be respected. The approach referred to in the ACER Decision 22/2020 on the Nordic MB methodology, allowing an increase in the limit up to 20% in case of a structural shortage of BSP bids in a bidding zone, is only possible because the MB allocation process, including the procurement of balancing capacity, takes place on the day before its provision, meaning the default limit may no longer apply (Article 41(2) EB GL). However, we find that this maximum volume should only be subject to change following a review by the NRA in accordance with EB GL Article 39(6), rather than an ‘automatic’ process triggered by scarcity of bids. Furthermore, we believe clarification is needed that the limit applies to each individual cross zonal interconnector (or CNE), e.g. not to be given allowance on a cumulative basis with the effect that any single CZ IC (or CNE) would be permitted to be allocated a higher percentage than the stipulated default maximum.

The approach should clearly demonstrate that it respects the maximum limits established article 42(2) EB GL. Withdrawing capacity from the day-ahead and intraday markets has a dramatic impact in the social welfare for all Europe. Thus, the reserved capacity for balancing should be kept as low as possible. In this respect, we welcome the possibility in the proposal for TSOs to set lower limits.

## **TSO-BSP settlement scheme**

TSO-BSP settlement scheme should be harmonised resembling the TSO-TSO settlement scheme, i.e. it should not deviate from the pay-as-cleared principle. Once existing projects end, any allowed deviation from the target model should also end. Further, we find that there should not be any allowance for TSOs to collect the implicit difference between best offer price (not accepted) in the given bidding zone where the TSO demand for balancing capacity was placed, and the marginal, and accepted, balancing capacity offer from adjacent or non-adjacent bidding zones.

## About

Europex is a not-for-profit association of European energy exchanges with 29 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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