

Evaluation report

Public consultation on amending the harmonised electricity cross-zonal capacity allocation methodology

PC_2024_E_08

29 January 2025

1. Introduction

On 31 July 2024, ACER received a proposal (the 'Proposal') from all Transmission System Operators (TSOs) to amend the harmonised methodology for cross-zonal capacity allocation for the exchange of balancing capacity or sharing of reserves¹ (HCZCAM) in accordance with Article 38(3) of Commission Regulation (EU) 2017/2195 ('EB Regulation').

This methodology provides a harmonised approach for effective allocation of cross-zonal capacity for the exchange of balancing capacity or sharing of reserves. Having an optimised allocation of cross-zonal capacity is important to foster the integration of balancing capacity markets, lower the costs of procuring balancing capacity (hence the costs for tariff payers) and ensure the security of electricity supply.

The methodology harmonises the processes (i.e. market-based and co-optimisation) that compare the market value of cross-zonal capacity between balancing capacity and day-ahead electricity markets. These processes then allocate the available cross-zonal capacity to each market in a way that maximises overall welfare.

The current methodology was approved by ACER in July 2023². Amending the methodology is necessary to clarify the governance of the market-based process, covering both its implementation and operation. This aims to ensure the process runs efficiently and encourage more TSOs to apply it.

Additionally, TSOs proposed to:

- Establish a process and governance framework to set different maximum limits for exchanging balancing capacity or sharing reserves.
- Amend the provisions to distribute congestion income among TSOs.
- Allow the possibility of delaying the implementation of the harmonised market-based process beyond 31 July 2026.

ACER publicly consulted on the Proposal between 16 September and 14 October 2024. ACER received 6 responses to the public consultation. This document provides ACER's summary and evaluation of these responses.

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https://www.acer.europa.eu/sites/default/files/documents/Individual%20Decisions_annex/ACER_Decision_11-2023_on_HCZCAM-Annex%20I.pdf.

2

https://www.acer.europa.eu/sites/default/files/documents/Individual%20Decisions/ACER_Decision_11-2023_on_Harmonised_Cross-Zonal_Capacity_Allocation_Methodology.pdf.

2. Evaluation of responses

This section summarises all the respondents’ comments and how these were considered by ACER. The table below provides the respective views from the respondents, as well as a response from ACER clarifying how their comments were considered in the present Decision.

ACER would like to point out that for the sake of brevity and clarity of this document some arguments brought forward in the responses were summarised.

Respondents’ views	ACER’s views
1. Please provide any comments on the HCZCAM Proposal.	
<p>EDF and Eurelectric support the use of a reduced number of different platforms and advocates for the largest possible harmonization between platforms notably in terms of interfaces with market participants.</p>	<p>ACER agrees.</p>
<p>EDF and Eurelectric ask for clarification on how the definition of interdependency of applications proposed by TSOs applies to CCRs using a cNTC approach at CNEC level with an interdependency between borders of the CCR (e.g. Italy North).</p>	<p>ACER shares the view that the description of the concept and the conditions to establish an interdependency between different applications could be improved. Under Article 6(b) of the revised proposal, it is now clarified that an application TSO may in any event participate in just one application, implying that the procurement of the different SPBC needs to be co-optimised within a single run of the cross-zonal capacity allocation optimisation function software. This requirement intends to encompass both elements of the previous definition, namely the influence in terms of cross-zonal capacity allocation and the procurement of one or more SPBC outside the geographic scope of the considered application.</p>
<p>Eurelectric considers that a more detailed methodology for the forecasting approach should be prepared and consulted on an all-TSO level, preferably as part of the HCZCAM, instead of leaving it fully open per balancing capacity platform. EDF and Eurelectric recommend including some principles for the price forecasting methodology:</p>	<p>ACER notes that the same input was provided to the public consultation run in the context of the decision-making process leading to the adoption of ACER Decision No 11/2023 (PC_2023_E_02). ACER invites Eurelectric to refer to the evaluation of responses of that</p>

<ul style="list-style-type: none"> • A regular and thorough evaluation of the forecasting methodology to ensure the process allows for welfare creation. • Considering at least the price indices that are available on forward markets for the considered delivery period. • Excluding simplistic approaches, e.g. the same day in the previous week/month/year, unless it can be clearly justified by a cost-benefit analysis. • A thorough statistical analysis based on historical data should be performed to identify the explanatory variables which best account for the observed price differentials. • The forecasting process should include features that can hardly be captured in historical data, such as weather information, grid element or production unit outages. 	<p>public consultation³, in particular pages 12-14, for ACER’s views on the matter.</p>
<p>Eurelectric highlights that TSOs do not necessarily have to perform the forecasts themselves (nor through TSO-owned entities such as RCCs), as numerous options are available from vendors or independent entities, particularly for the day-ahead market.</p>	<p>ACER agrees and reflected this possibility under Article 6(k) of the revised Proposal. At the same time, ACER emphasises that the operation of the forecasting tool should remain with TSOs or a company owned by them.</p>
<p>Energy Traders Europe proposes setting up a dry run for any change of the forecasting methodology to demonstrate a minimum level of forecasting accuracy before it is applied.</p>	<p>ACER considers that each balancing capacity platform should have the freedom to decide on the processes which should be implemented to validate any improvements in the forecasting methodology.</p>
<p>Regarding the gate closure time, EDF, Energy Traders Europe and Eurelectric consider that 3 months are generally not sufficient to make the necessary IT developments. They stress that the gate closure time should be set at least 12 months before implementation. EDF, Energy Traders Europe, Eurelectric and Green Power Denmark requests that the consultation lasts for at least one month.</p>	<p>ACER notes that the timings are all mentioned as “at least”. ACER agrees with the respondents that information relating to important market changes, such as gate closure time, should be delivered to the market participants with an adequate lead time and sufficient time for consultation. In this respect, ACER extended the minimum consultation period from two weeks to</p>

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https://acer.europa.eu/sites/default/files/documents/Individual%20Decisions_annex/ACER_Decisions_HCZCAM_RCC_sizing_RCC_procurement_Annex_II.pdf.

	<p>four weeks, as reflected in Article 6(o) of the revised Proposal.</p>
<p>EDF recommends adopting a cautious approach for the increase of the cross-zonal capacity limit beyond 10%. EDF also reckons that the triggering elements for such increase are not clearly defined. All in all, in EDF's view, the share of cross-zonal capacity for exchanging balancing capacity or sharing of reserves should remain limited to ensure that it would not have had more value for exchanging energy.</p>	<p>ACER would like to clarify that, in accordance with the second sub-paragraph of Article 41(2) of the EB Regulation, a limit higher than the default of 10% is allowed for the proposed market-based allocation process. However, ACER understands that Article 41(2) of the EB Regulation should be read in conjunction with Article 41(1) and Article 39(6) of the EB Regulation, which requires that an increase of the default limit is subject to a review of the efficiency of the forecast and is approved by the relevant regulatory authorities. This is reflected under Article 7(b) of the revised Proposal. By principle and regardless of a maximum limit, a cross-zonal capacity allocation process allocates cross-zonal capacity to the exchange of energy if this implies a higher value.</p>
<p>Regarding the derogation option for already operational applications, EDF is in favour of moving as fast as possible toward a harmonised methodology applying clearer principles. On the contrary, Green Power Denmark welcomes the derogation option and considers it important that the development of harmonised European methodologies does not penalize existing market arrangements or discourage regional developments. This is particularly relevant for the Nordics where there has been traditionally a strong regional collaboration leading to voluntary cross-border markets prior to any regulatory requirements.</p>	<p>In its revised Proposal, ACER strove to find a compromise between the different views, which is represented by a stepwise implementation of the harmonised market-based requirements. ACER considers that its revised Proposal allows to achieve a meaningful and, to the extent possible, flexible harmonisation of the market-based allocation process by focusing first on the elements which bring more added value to the TSOs currently subject to an application proposal under Article 38(1)(b) of the EB Regulation, while still maintaining an obligation to implement all requirements of the HCZCA methodology by a set deadline.</p>
<p>Nordic TSOs are strongly in favour of European harmonisation of the electricity markets, if it is driven by the main aim of generating additional welfare and benefits for the good of European consumers. Nordic TSOs question whether this can be the case for the harmonised cross-zonal capacity allocation methodology.</p> <p>For the case of the Nordics, the complexity of the market-based algorithm does not seem proportionate to the expected increase of welfare as the largest welfare increases in the Nordics result from small reservations.</p>	<p>ACER considers that the solution laid down under Article 10 of the revised Proposal addresses the concerns of the Nordic TSOs. More specifically, it allows Nordic TSOs to focus first on implementing the requirements which are expected to bring more benefits to the Nordics balancing capacity market, while making the implementation of the remaining ones (i.e. improvements to the forecast and forecast validation processes) dependent on the adoption of an application proposal under Article 38(1)(b) of the EB Regulation in other regions.</p>

Nordic TSOs have already advocated for a more realistic implementation timeline of the HCZCAM. Nonetheless, the possibility of a maximum 2-year derogation does not change the situation with only few interested applications in Europe. It will still mean high development and implementation costs with limited additional welfare in return.

Nordic TSOs consider that, with the potential implementation of co-optimisation on the horizon, the chance of more TSOs starting to amend relevant methodologies and develop common rules to accommodate common market-based capacity markets seems even more unlikely.

ACER considers that the progress recently achieved towards a potential future implementation of co-optimisation (marked by the adoption of ACER Decision No 11/2024⁴) does not prevent the market-based allocation process from playing a significant role in the years to come. On the contrary, ACER has recently witnessed renewed interest towards this solution across several Member States in continental Europe. As such, in the present Decision (recital 97), ACER recommends all TSOs and regulatory authorities which currently do not have an approved application proposal pursuant to Article 38(1)(b) of the EB Regulation to engage with their neighbouring counterparts to discuss the preparatory steps needed for a potential application of the market-based process in the respective Member States and the expected timeline to achieve this objective.

Energy Traders Europe claims that the cross-border reservation of transmission capacity for balancing purposes poses a serious risk to the availability of cross-zonal transmission capacity in the preceding trading timeframes. In this respect, it opposes the possible increase beyond 10% for any reason other than allowing TSOs to meet their balancing capacity demand.

Green Power Denmark states that cross-zonal capacity should preferably be prioritised for the day-ahead and intraday timeframes. If co-optimisation would be implemented, there should be a firm and transparent maximum level of cross-zonal capacity for the exchange of reserves.

ACER highlights that the cross-zonal capacity allocation processes allocate the relevant cross-zonal capacity to the market where it is most beneficial, considering the information available at the time of allocation. Therefore, such allocation is by default beneficial and efficient. ACER considers that cross-zonal capacity should be allocated to the timeframes where its market value is the highest, not based on a chronological order.

ACER clarifies that, pursuant to the EB Regulation, the 10% default limit is only applicable to the market-based approach and not to co-optimisation.

Energy Traders Europe strongly recommends maintaining the possibility of sequential bidding processes instead of having a common gate closure time for different SPBC (aFRR, mFRR and RR). Additionally, it sees scope for harmonising the timing of these auctions across the different balancing capacity cooperations.

ACER deems that the HCZCAM allows cross-product linked bids between SPBC ensuring that balancing capacity is procured where it creates the most socio-economic welfare. The joint auction of all balancing capacity products traded in a cross-border setting is necessary to allow for an optimal cross-zonal capacity allocation between all balancing products.

⁴ https://acer.europa.eu/sites/default/files/documents/Individual%20Decisions/ACER_Decision_11-2024_Algorithm_Methodology.pdf.

ACER considers the co-optimised allocation, where cross-zonal capacity is allocated without efficiency losses through possible forecast inaccuracies, as the most efficient approach regardless of the current market design in some Member States. Especially with sufficient linking possibilities, ACER considers subsequent markets as not necessary.

Annex I: List of respondents

No.	Organisation	Country
1.	EDF	France
2.	Energinet (on behalf of the Nordic TSOs)	Denmark
3.	Energy Traders Europe	Belgium
4.	ENTSO-E (on behalf of all TSOs)	Belgium
5.	Eurelectric	Belgium
6.	Green Power Denmark	Denmark