



Public consultation on the Agency's proposed amendments to the
**all TSOs' proposal for a methodology for a co-optimised allocation
process of cross-zonal capacity for the exchange of balancing capacity
or sharing of reserves**

Fields marked with * are mandatory.



This consultation aims to gather views and information from stakeholders regarding the compliance of the transmission system operators ('TSOs') proposal for a methodology for a co-optimised allocation process of cross-zonal capacity for the exchange of balancing capacity or sharing of reserves (the 'Proposal') with Commission Regulation (EU) 2017/2195 (the 'EB Regulation'). TSOs developed the Proposal in accordance with Article 40(1) of the EB Regulation. The European Union Agency for the Cooperation of energy regulators ('Agency') will use the input from the consultation to inform its decision on the Proposal, in accordance with Article 6(10) of Regulation (EU) 2019/942.

This consultation is addressed to all interested stakeholders, including regulatory authorities, nominated electricity market operators and transmission system operators.

Replies to this consultation should be submitted by 10 March 2020 23:59 hrs (CET).

1 General Consideration

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* 1.5 Should the following answers to this public consultation be treated as confidential?

- Yes
 No

The Agency will publish all non-confidential responses, and it will process personal data of the respondents in accordance with Regulation (EU) 2018/1725 of the European Parliament and of the Council of 23 October 2018 on the protection of natural persons with regard to the processing of personal data by the Union institutions, bodies, offices and agencies and on the free movement of such data, taking into account that this processing is necessary for performing the Agency's consultation task. For more details on how the contributions and the personal data of the respondents will be dealt with, please see [the Agency's Guidance Note on Consultations](#) and the specific privacy statement referred to this consultation.

2 Background Information

Related documents:

- [Regulation \(EU\) 2019/942 of the European Parliament and of the Council of 5 July 2019 establishing a European Union Agency for the Cooperation of Energy Regulators \(recast\)](#)
- [Regulation \(EU\) 2019/943 of the European Parliament and of the Council of 5 June 2019 on the internal market for electricity \(recast\)](#)
- [Regulation \(EU\) 543/2013 of 14 June 2013 on submission and publication of data in electricity markets and amending Annex I to Regulation \(EC\) No 714/2009 of the European Parliament and of the Council Text with EEA relevance](#)
- [Regulation \(EU\) 2017/2195 of 23 November 2017 establishing a guideline on electricity balancing](#)
- [All TSOs' proposal for a methodology for a co-optimised allocation process of cross-zonal capacity for the exchange of balancing capacity or sharing of reserves in accordance with Article 40\(1\) of the Commission Regulation \(EU\) 2017/2195 of 23 November 2017 establishing a guideline on electricity balancing](#)

- [Explanatory document to all TSOs' proposal for a methodology for a co-optimised allocation process of cross-zonal capacity for the exchange of balancing capacity or sharing of reserves](#)
- [ACER Guidance Note on Consultations](#)

Background

Pursuant to Article 40(1) of the EB Regulation, TSOs must jointly develop the Proposal, then submit the Proposal to the Agency for approval by 18 December 2019. The deadline for submission is two years after the entry into force of the EB Regulation, which was 18 December 2017.

The Agency must adopt a decision in accordance with Article 6(10) of the ACER Regulation by 17 June 2020. In the context of adopting this decision, the Agency seeks the opinion of stakeholders on the issues listed below. Other comments and concerns are also welcome.

3.1 Consultation topic 1: Implementation timeline

The Proposal describes a methodology for a co-optimised allocation process. Legally, the methodology is implemented once TSOs submit the new requirements for the SDAC algorithm to NEMOs. The implementation of the functionality for a co-optimised allocation process into the SDAC algorithm, i.e. the integration of the methodology to the algorithm, is then the responsibility of all NEMOs in accordance with Article 37(5) of the CACM Regulation.

According to Article 37(2) and (3) of the CACM Regulation, NEMOs must propose a revised price coupling algorithm no later than 5 months after TSOs have submitted new requirements. In the revised price-coupling algorithm, NEMOs will establish an implementation timeline for integrating the functionality for a co-optimised allocation process, based on the methodology described in the Proposal.

While the implementation timeline of the functionality for a co-optimised allocation is ultimately to be determined by NEMOs, TSOs suggest in the Proposal the following implementation steps:

1. TSOs shall publish an implementation impact assessment by 12 months after the decision on the methodology for co-optimised allocation;
2. conditional to a positive outcome of the implementation impact assessment, TSOs will submit a new set of requirements for the algorithm by 12 months after the publication of the assessment (24 months after the decision on the methodology for co-optimised allocation has been taken).

The Agency generally agrees to the requirement of an implementation impact assessment. However, according to the Proposal, such impact assessment is not subject to approval. It requires a 'positive

outcome' in many listed categories for the continuation of the implementation process. The requirement of a positive outcome is not further specified and the Agency believes that the outcome of an impact assessment under such terms is bound to be negative, due to ongoing challenges for the SDAC algorithm at the time when TSOs will conduct the impact assessment.

The Agency disagrees that a negative impact assessment should stop the implementation process. Once NEMOs receive the impact assessment together with the submitted requirements from TSOs, they are capable to conclude on a feasible and adequate implementation of a co-optimised allocation within their proposal for the algorithm methodology pursuant to Article 37 of the CACM Regulation.

The Agency proposes to amend Article 13 of the Proposal to ensure a more effective implementation of the methodology for co-optimised allocation.

Q1.1: Please share your view concerning the proposed implementation process.

All NEMOs agree with the Proposal of the TSOs to preliminary proceed with an impact assessment and welcome the opportunity to collaborate in this process. Indeed, the complexities related to an effective implementation of the concept of co-optimization and the wide variety of potential alternative market designs to implement it calls for a more punctual definition of the details related to the alternative options and a thorough assessment of the expected implications on both the efficiency of the outcome and challenges for the implementation. In this perspective, All NEMOs consider of utmost importance that the submission of the requirement following the co-optimization methodology is conditional to a positive outcome of such proposed impact assessment. This is in particular relevant for article 13.2 letters (b) and (d).

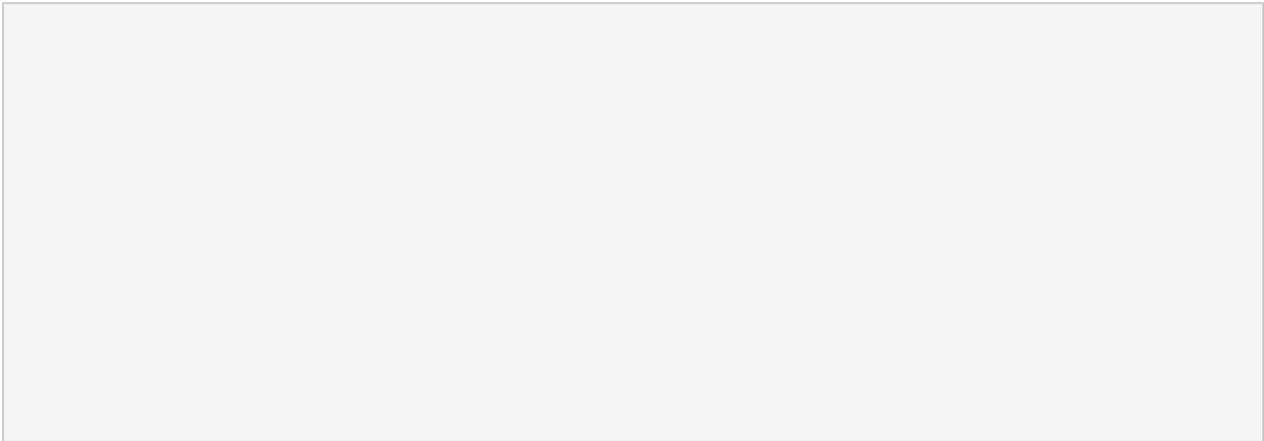
According to Article 13 of the proposed methodology, the impact assessment will be based on high-level analyses of various aspects, many of which are related to issues concerning TSOs activities and business. This sets a scope for assessment broader than NEMOs business and activities. In this perspective a negative impact assessment would undermine the usefulness of any proposal and, as such, cannot be disregarded as ACER is proposing. This is even more relevant for the assessment of the impact that the co-optimization requirement would have on the day-ahead coupling algorithm: it is of utmost importance to ensure that the proposed methodology does not jeopardize the stability and efficiency of the SDAC operation and evolution as it would make no sense to implement a methodology which conflicts on a practical ground with the compliance to another methodology, the Algorithm methodology in this case.

On this ground, all NEMOs want to comment on ACER's statement that "the outcome of an impact assessment under such terms is bound to be negative, due to ongoing challenges for the SDAC algorithm at the time when TSOs will conduct the impact assessment".

The statement from ACER seems to ignore that such analysis should be based not on the current properties of the SDAC algorithm, but rather on a prospective evaluation of what the SDAC algorithm will be in the future. Indeed, the existing SDAC algorithm is already subject of an intense R&D programme designed to improve the scalability of its functionalities to more demanding conditions. Furthermore, the overall timing stemming from the TSO

proposals and the consequent timing for finalizing detailed design, implementation and go-live (which should be defined by all NEMOs following the approval of the methodology) imply that the relevant version of the SDAC algorithm should be the one to be implemented in the future years. In this sense it is our understanding that the assessment proposed by TSO at this stage, as for the impact on SDAC algorithm, will be prospective and, by definition, would be qualitative and concerning evolutionary solutions. If the impact assessment were to conclude that “by its technical nature” the requirement of co-optimization is or risks being inconsistent with the implementation of the CACM requirements for SDAC, NEMOs disagree with ACER conclusion “Once NEMOs receive the impact assessment together with the submitted requirements from TSOs, they are capable to conclude on a feasible and adequate implementation of a co-optimised allocation within their proposal for the algorithm methodology pursuant to Article 37 of the CACM Regulation”. From all NEMOs point of view, it is not meaningful to start a process, which proves, from the starting point, to be non-beneficial for many aspects, and, finally, puts at risk the implementation of the SDAC coupling process and SDAC algorithm functionalities which are fundamental to the implementation of the CEP. In general, any initiative with a negative impact assessment should be reconsidered - in terms of postponement /conditionality of its implementation at a time when the SDAC algorithm functionalities introduced in the last version of the Algorithm Methodology will be effectively put in production - or eventually discarded.

Q1.2: Please share your view concerning the proposed implementation timeline of 12+12 months for submitting new requirements for the SDAC algorithm.



3.2 Consultation topic 2: cost compensation cap concerning firmness remuneration for TSOs

Article 10(5) of the Proposal sets cost compensation cap between TSOs for the remuneration of costs for ensuring firmness of procured balancing capacity in the case of curtailment of firm cross-zonal capacities caused by force majeure or emergency situations. Neither the legal basis nor the consequences such cost compensation cap might have are clarified. The Proposal does not include regulatory oversight for defining such cost compensation cap.

The Agency proposes to amend Article 10(5) of the Proposal by either deleting the provision of a cost compensation cap or elaborating on the possible design of such cost compensation cap if it is deemed a necessary provision.

Q2: Please share your view concerning this issue.

3.3 Consultation topic 3: elastic demand and possible substitutions between different types of reserve capacity

Article 8(3) of the Proposal enables TSOs to apply a price sensitive demand for possible substitutions between different types of balancing capacity with the aim to minimise procurement costs. While the Agency welcomes the aim of minimising the cost of procurement of balancing capacity, the possible drawbacks of such method are not sufficiently clear at this moment and further preconditions are needed for the possibility of introducing such concept.

The Agency seeks the opinion of stakeholders to take an informed decision on this specific issue.

Q3: Please share your view concerning this issue.

All NEMOs already expressed their concerns related to the introduction of the co-optimization mechanism due to the significant impact on the DA algorithm such introduction would imply. Without repeating all the arguments already raised in the response to the TSOs consultation on co-optimised allocation process of cross-zonal capacity for balancing exchanges, it is worth recalling that the co-optimisation concept foresees changes in the SDAC, potentially disruptive and highly affecting algorithm performances, in particular scalability.

On this basis, all NEMOs believe that if the co-optimization principles have to be implemented, it should be done by maximizing its efficiency, in order to really co-optimize energy and balancing. In this perspective, the introduction of the concept of elastic demand of balancing capacity is fundamental in order to achieve the integration of the balancing markets and promoting the possibilities for the exchanges of balancing services while using market-based mechanisms.

For this reason, all NEMOs believe that the way forward cannot rely in

lowering the quality of the requests, nor finding approximate solutions which, by definition, could not lead to the best solution which is expected from a co-optimization.

3.4 Consultation - Other comments

Q4: If you would like to comment on other topics please indicate clearly the related Article, paragraph of the proposal and add a sufficient explanation.

All NEMOs request to be involved in the next steps regarding this methodology. For the workshop on the 26th Feb we were invited with a very short notice that resulted that the NEMOs representation was not adequate, as most of the NEMO experts dedicated to algorithm were already allocated to another workshop on the same date.

NEMOs reiterate their position already shared in “Response to TSOs consultation on co-optimised allocation process of cross zonal capacity for balancing exchanges” from July 2019 and available in <http://www.nemo-committee.eu/assets/files/nemo-committee-response-to-czc-consultation.pdf> As a summary of what already defended by NEMOs let us recall in this document that:

Regarding the Cross-zonal capacity reservation for balancing exchanges, NEMOs consider that in general it will be difficult to justify from an economic point of view the withdrawal of cross-zonal commercial capacity from the day-ahead or intraday timeframes just to facilitate potential cross-zonal balancing exchanges.

Recalling Art. 16(4) of Regulation 2019/943, it is clearly mandating TSOs to maximize the offer of all the cross-zonal capacity available to market participants, i.e. to the SDAC and SIDC: “The maximum level of capacity of the interconnections and the transmission networks affected by cross-border capacity shall be made available to market participants complying with the safety standards of secure network operation”. NEMOs consider that the reservation of cross-border capacity for balancing exchanges would go against this principle.

[Articles 7, 8 and 9 of the proposed methodology] The co-optimised allocation of cross zonal capacity in the proposed methodology would imply significant changes to the price coupling algorithm and the related SDAC processes.

[Articles 6(1), 7(1)(c) and 7(2) of the proposed methodology] The co-optimised allocation of cross zonal capacity may introduce potential inefficiencies in the bidding process because the balancing service provider will have to determine on which market they will place their bids and if they would like to compete on balancing capacity market or on the day-ahead energy market. As article 6(1) of the proposed methodology does not impose further limitations on the maximum volume of CZC to be allocated for the exchange of balancing capacity or sharing of reserves, this allows TSOs total freedom to restrict all the capacity available for SDAC. SDAC is a well-established and highly liquid market essential for market participants. The inclusion of balancing reserves implies new mechanisms that are neither demanded by market participants nor requested by TSOs. It's expected that the volume of energy interchange in order to satisfy the cross border

balancing will be very small in comparison to the volume traded in SDAC /SIDC. The forecasted capacity to be reserved for balancing actions may or may not be used later. As a result, reserved capacity for balancing purposes in the co-optimization process would have been withdrawn from SDAC/SIDC and may not be effectively used afterwards, leading to an inefficient use of transmission capacities potentially available.

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