

All NEMO Committee's answer to

Consultation of the Cross-zonal Capacity Allocation Harmonised Methodology and Explanatory Document pursuant to the Art. 38(3) of EB Regulation

here: <https://consultations.entsoe.eu/markets/czca-harmonised-methodology-art-38-3-eb-regulation/>

4. Any views on the CZCA Harmonised Methodology proposal are welcomed:

All NEMOs welcome the opportunity to provide their feedback to the TSOs' consultation on the CZCA methodology proposal.

All NEMOs are aware that the TSOs' proposals comply with specific requirements stemming from EB regulation. Along the last couple of years All NEMOs have also contributed sharing their views and expertise on the topic of s.c. co-optimization with TSOs, given that co-optimization would necessarily imply drastic changes in the way the Single Day Ahead algorithm and market coupling processes are currently designed. In particular:

- a) NEMOs contributed to the "Implementation Impact Assessment" document published by TSOs on 17/12/2021 relative to potential implementation of a co-optimized approach for CZCA, with particular reference to the chapter 9 dedicated to the "Technical feasibility of implementation" of the proposed methodology;
- b) in the following 6 months, NEMOs cooperated with TSOs in a joint study aiming at clarifying possible co-optimization requirements and related technical implications, both on atheoretical level and at a prototype level;
- c) lastly, following reception from TSOs on 16/06/2022 of their formal proposal for a set of requirements to implement co-optimization in the SDAC algorithm, on 14/07/2022 NEMOs provided a formal reply to TSOs.

In line with the above, NEMOs would like to contribute sharing their views on the proposed methodology.

In terms of process, it should be reminded that the day-ahead market is today – and for many further years will be – the main reference for reliable price formation, for efficient congestion management and for ensuring a well-functioning Internal Electricity Market open to all market participants throughout the EU. This is particularly relevant in the new difficult era opened by the Russian-Ukraine crisis, which is potentially a threat to the reliable operation of the power markets. This is also acknowledged by ACER, which states that *“the current wholesale electricity market design ensures efficient and secure electricity supply under relatively ‘normal’ market conditions. As such, ACER’s assessment is that the current market design is worth keeping. “(…)” Whilst the current circumstances impacting the EU’s energy system are far from ‘normal’, ACER finds that the current electricity market design is not to blame for the current crisis. On the contrary, the market rules in place have to some extent helped mitigate the current crisis, thus avoiding electricity curtailment or even blackouts in certain quarters.”*¹.

In particular, NEMOs would like to emphasise again an important aspect that is often overlooked: In the SDAC, all market participants trade among themselves while in balancing capacity markets, only balancing capacity providers offer their services to TSOs. Indeed, facilitating the sharing of balancing capacity is an important target but it should not be reached at the expense of the day-ahead market.

In such a context, whichever change in the balancing mechanism having severe impacts on the design and operation of the SDAC necessarily induces risks which should be carefully traded off against expected improvements in the CZCA of capacity for balancing purposes. In this respect, it shall be reminded that some of the proposals, with special reference to the s.c. co-optimization, would require a dramatic change not only to the SDAC algorithm, but also to the SDAC operational processes and timings, which would go exactly in the opposite direction of what is currently needed.

In this respect, NEMOs and TSOs are already significantly engaged in improving the efficiency of the existing algorithm and procedures in order to keep on supporting the progressive full implementation of CACM requirements (in particular with reference to the growth of geographical extension and the implementation of so called 15 mins products) and that any further drastic amendment of market design could hardly be addressed through further R&D or operational timings amendment in the short and medium term. At the same time, we understand that TSOs are engaged in a number of challenging developments (including for example the go live of European balancing platforms, implementation of 15 min ISP, compliance with the 70% rule), and prioritisation among them should be facilitated by the regulators following the needs of the Internal Electricity Market.

¹ **ACER’s Final Assessment of the EU Wholesale Electricity Market Design**, April 2022, p.2
<https://www.acer.europa.eu/sites/default/files/documents/Publications/ACER%26%23039%3Bs%20Final%20Assessment%20of%20the%20EU%20Wholesale%20Electricity%20Market%20Design.pdf>

Last but not least, it should be noted that – as already made clear by TSOs in their letter of 16/06/2022 mentioned above and confirmed by NEMOs in their reply of 14/07/2022 equally mentioned - the current level of algorithmic requirements and related implementing options appear far from constituting a basis to define realistic requirements and implementing timelines, with credible milestones and expectable performance results. This is also specifically confirmed by the outcome of the previously mentioned study conducted by TSOs and NEMOs with the support of the Service Provider of the SDAC algorithm.

Such positions have been openly shared by NEMOs also with ACER, NRAs and EC in the relevant fora.

