



Response to TSOs
consultation on co-optimised
allocation process of cross
zonal capacity for balancing
exchanges

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The following response is submitted on behalf of all NEMOs and elaborates on two key issues of the proposal under consultation:

- **Cross-zonal capacity reservation for balancing exchanges**

As a first remark, NEMOs would like to recall the principles agreed by NRAs and ACER in the context of the **Framework Guidelines on Electricity Balancing** published on 18 September 2012¹.

The Network Code on Electricity Balancing shall forbid TSOs to reserve cross-border capacity for the purpose of balancing, except for cases where TSOs can demonstrate that such reservation would result in increased overall social welfare and provide a robust evaluation of costs and benefits. [...]

The Network Code on Electricity Balancing shall require that any decision on cross-border transmission capacity reservation for balancing is taken on a case-by-case basis, by relevant NRAs supported by a full cost-benefit analysis and market consultation, in a transparent, non-discriminatory, fair and objective manner.

Therefore, NEMOs understand that cross-zonal capacity reservation for balancing exchanges is an **exceptional measure** that needs to be **justified on a per border basis** by TSOs and **approved by the corresponding NRAs**.

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. Indeed, while social welfare from the Single Day-Ahead Coupling (hereinafter, SDAC) can be measured by taking into account the energy bids matched, the calculation of welfare arising from the potential exchange of balancing reserves should follow a different method. Therefore, the **additional welfare from balancing reserve exchange and the loss of welfare in the SDAC** linked to a reduction of cross-zonal capacities **cannot be directly compared**. Therefore, **NEMOs call on NRAs to carefully evaluate the application of cross-zonal capacity reservation** for balancing exchanges based on their competences established under Regulation (EU) 2017/2195 of 23 November 2017 establishing a guideline on electricity balancing.

Furthermore, as stated by market participants represented by EFET, the so called “market” and “economic efficiency” approaches are based on forecasts of capacity and/or energy bids.

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https://www.acer.europa.eu/Official_documents/Acts_of_the_Agency/Framework_Guidelines/Framework%20Guidelines/Framework%20Guidelines%20on%20Electricity%20Balancing.pdf

Furthermore, these approaches would be developed at Capacity Calculation Region level which by definition will be less efficient than pan-European mechanisms as the SDAC.

Finally, NEMOs consider that **Art. 16(4) of Regulation 2019/943** 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.

- **Co-optimised allocation of cross zonal capacity**

NEMOs deplores the fact that they have so far not been involved in the development of a proposal which is likely to seriously impact the market coupling processes, market coupling algorithm and the role and responsibilities of the parties involved.

The proposed **co-optimisation** concept foresees changes in the SDAC, yet it has **never been raised before to the attention of NEMOs**. As a result, it is not addressed in the R&D planning for the price coupling algorithm being jointly developed together by NEMOs and TSOs under the DAOA framework, nor falls within the scope of the Algorithm Methodology just consulted. In particular, TSOs did not submit any requirement to support this co-optimisation proposal to the list of requirements on the price coupling algorithm.

Contrary to what is stated in the proposal, the proposed high level solution would imply **significant changes to the price coupling algorithm** and the related SDAC processes:

- 1) The current proposal might put at risk the algorithm performance and scalability, *inter alia* via the TSO products that would be processed by the algorithm. Consequently, should this proposal be implemented, other CACM objectives and much-awaited functionalities should certainly be rescheduled.
- 2) Furthermore, this concept would put TSOs in a **conflict of interest** given their double role of decision-maker on the price coupling algorithm and of "market participant" benefiting from such design whenever they procure cross-zonal capacity for balancing purposes.
- 3) The proposal is not in line with the Article 2(30) of the CACM regulation and it extends the scope of the MCO function to include the allocation of cross-zonal capacity for balancing and the collection and matching of capacity bids.
- 4) Such co-optimization process will necessarily impact existing contractual framework between TSOs and NEMOs, contrary to what is stated.

- **Potential inefficiency in bidding process**

According to the Article 5 of the proposal the bids submitted by the balancing service providers for standard upward and/or standard downward balancing capacity shall be evaluated together with the bids submitted for the SDAC. Therefore, **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. The **balancing service providers which won't be awarded with the balancing capacity contract won't have possibility to compete on the SDAC** market anymore.

Today in several member states the procurement of balancing capacity contracts is performed earlier than SDAC market so that unsuccessful balancing service providers have the possibility to translate their balancing capacity bids into regular energy bids which can be submitted to the SDAC and possibly increasing the overall welfare of energy market.

Based on these consideration NEMOs ask TSOs to consider a **mechanism where unsuccessful balancing service providers shall still have possibility to translate their bids for the SDAC** energy market.

On these grounds, **NEMOs call on TSOs to actively consult with NEMOs on this proposal with a view to propose less intrusive options** and to explore, together with NRAs and ACER, other alternatives keeping the Day-Ahead market coupling process independent from a subsequent co-optimised allocation process for spare cross-zonal capacity that may be used for the exchange of balancing capacity or sharing of reserves.