

## **Harmonised methodology for cross-zonal capacity allocation for the exchange of balancing capacity or sharing of reserve (HCZCAM) and Regional Coordination Centres (RCCs) sizing and procurement of balancing capacity**

Brussels, 12 May 2023 - The European Federation of Energy Traders (EFET) welcomes the opportunity to provide comments regarding the ACER consultation on HCZAM and RCC methodologies in accordance with the Electricity Balancing Guideline (EBGL) and the Electricity Regulation (EU) 2019/943.

### **Harmonised methodology for cross-zonal capacity allocation for the exchange of balancing capacity or sharing of reserves**

Since the early stage of drafting of the Electricity Balancing network code, we have opposed the concept of reservation of cross-border transmission capacity by the TSOs for balancing purposes. Though by the time of the adoption of the EB GL, the concept was rebranded as “cross-zonal capacity allocation” (CZCA), its effects remain the same.

The cross-border reservation of transmission capacity by the TSOs for balancing purposes poses a serious risk to the availability of cross-border transmission capacity in the preceding trading timeframes. By allocating transmission capacity specifically for use in the balancing timeframe, TSOs remove available capacity from the allocation in the other timeframes, thereby restricting market participants’ ability to adjust their positions across borders in the most economically efficient manner (especially when it comes to the intraday market), and to contribute to overall system balance.

The efficient use of cross-border transmission capacity is a key element of European market integration in the forward, day-ahead and intraday timeframes. A major objective of integration projects such as the EU Harmonised Allocation Rules for forward transmission rights, as well as single day-ahead and intraday coupling, is to improve the access and use of such transmission capacity by the market. Reserving capacity (from the forward timeframe until the intraday market) for use by the TSOs in the balancing timeframe would turn the clock back on those improvements.

**Q1 Please provide your comments on the HCZCAM Proposal's provisions regarding the co-optimised allocation process.**

While we understand that the development of the present methodology proposal is a requirement of the EBGL and the Clean Energy Package (CEP), we invite TSOs and NRAs to refrain from setting up balancing capacity cooperations, based on co-optimisation.

TSOs, NEMOs and market participants shared during the MESC of March 2023 their concerns on the requested developments by ACER on the co-optimization project<sup>1</sup>. They see, among others, the following issues:

- R&D pipeline of TSO/NEMO is already full until at least mid 2025 and therefore not able to support demanding activities for co-optimisation
- Further projections of how co-optimization would influence bidding in the DA market and balancing capacity tenders are essential and must take place before any further research or development can be done. This is however not feasible in the near future by MPs/TSOs & NEMOs
- Development is very complex with huge and numerous challenges which will impact resources of MPs, TSOs & NEMOs that otherwise can focus on other projects

Therefore TSOs, NEMOs and Market Parties jointly advocate to deprioritize and put on hold the co-optimization project development and to focus the available resources on other projects.

**Q2 Do you agree to the intended revisions by ACER concerning the pricing principle?**

- Yes  
 No

**Q3 Please provide your comments concerning the pricing principle.**

We support the pay-as-cleared principle for balancing capacity procurement. In order to maintain a level playing field, pay-as-cleared should apply regardless of a TSO participation in a balancing capacity cooperation.

**Q4 Do you agree to the intended revisions by ACER concerning the 'inverted market-based' process?**

- Yes  
 No

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<sup>1</sup>[TOP 2.6 Joint statements on prioritisation MCSC-EFET-Eurelectric](#)

**Q5 Please provide your comments concerning the ‘inverted market-based’ process.**

We agree with ACER to delete all provisions concerning the inverted market-based process.

**Q6 Do you agree to the intended revisions by ACER concerning provisions on limits for maximum volume of cross-zonal capacity for the exchange of balancing capacity or sharing of reserves?**

- Yes**  
 No

**Q7 Please provide your comments concerning provisions on limits for maximum volume of cross-zonal capacity for the exchange of balancing capacity or sharing of reserves.**

We agree that any limits beyond the ones needed in accordance with the SO Regulation and EBGL should be well justified and subject to regulatory approval and monitoring. Instead of using the EBGL limits as default values for the CZCA limitation for each new capacity cooperation, the EBGL limit (10%) should apply as strict upper limit.

In addition to the consideration of the current forecast error in the CZCA methodology to temporarily restrict the capacity allocation in case of poor forecasting accuracy (Q8), a general limit should be in place to safe-guard cross-border trading.

If the objective is that the limit can only be increased if the balancing capacity demand of TSOs cannot be satisfied, we would propose that the fallback procedure should be activated before the limit is raised, improving the chances that CZC is not unnecessarily taken from the SDAC.

**Q8 Do you agree to the concerns shared by ACER concerning forecasting and the forecast error consideration?**

- Yes**  
 No

**Q9 Please provide your comments concerning the process for forecasting the market value of cross-zonal capacity for the exchange of energy.**

The proposal of the forecasting methodology is insufficiently detailed and remains a high-level description of different approaches that could be taken. It is worrying that this key part of the MBA is undeveloped, both from a trust and from a transparency perspective. Poor forecasting should not lead to market restrictions.

Also, market participants need to be able to assess and reproduce the forecasts themselves in order to have sufficiently dependable market forecasts.

NEMOs could also provide more insight on the forecasting process. Their expertise should be leveraged to improve the forecast and assess any (systematic) forecast error.

In order to allow for a systematic inclusion of the forecast error in the CZCA methodology, an adequate measurement needs to be defined.

**Q10 Please provide your comments concerning forecast error or forecast error consideration for the market-based allocation process.**

With an adequate forecast error measurement, an immediate application in the CZCA process is feasible. This application can either be conducted by restricting the available capacity or by introducing a mark-up price. Indeed, the latter allows for CZCA reservation in case of extreme price differences even with little forecasting accuracy and can be preferred hence. The current forecasting efficiency should be published in a timely manner.

**Q11 Please provide any other comments related to specific provisions of the HCZCAM Proposal.**

Art 16.1 b) should be deleted in order to avoid that more than 10% could be reserved for balancing procurement (see our answer to Q7).

We strongly recommend maintaining the possibility for sequential bidding processes. Only this way, BRPs and BSPs have the opportunity to re-optimize their bids for subsequent auctions. For this reason, also the balancing capacity auctions in the market-based CZCA approach should be performed sequentially. This should be explicitly included in the proposal.

## RCC Sizing

**Q1 Please provide your comments related to the determination of minimum reserve capacity at SOR level.**

We welcome the RCC's safe-guarding role when monitoring the required reserve capacity at SOR level to identify an insufficient total volume (Art. 6a). This way the TSOs' individual dimensioning can be double-checked and potential free-riding on the SOR level can be identified. The opposite indication of too much reserve capacity at the SOR level, however, contradicts each individual TSO's responsibility. The RCC cannot be held

accountable for an incident with insufficient reserve capacity, caused by the RCC's recommendation to reduce the dimensioning at SOR level. We therefore propose to delete Art. 6b.

**Q2 Please provide your comments related to the short-term assessment of availability of sharing amounts.**

In Art.5.4/5, the actual methodology to assess the availability of sufficient reserve capacity or cross-zonal capacity is missing. Instead only the inputs and objective is mentioned. As this methodology is actually the core of the proposal, further elaboration of how such an assessment will be performed should be part of the proposal.

In Art.5.5, the relevant available CZC resulting from the DA CC is mentioned. However, in the future there will be additional CC in the Intraday timeframe. Also the output of these calculations should be taken into account to assess the availability of sufficient cross-zonal capacity.

**Q3 Please provide any other comments related to specific provisions of the Sizing Proposal.**

We notice that the sharing of reserves between TSOs is contradicting each individual TSO's LFC block responsibility. It is unclear, why for example the consideration of "the two largest power generating modules" for SORs of "more than one LFC block" (Art 3.1 a) should be equivalent to the current individual sizing of TSOs. The SOR dimensioning cannot be performed irrespective of the SOR size.

## **RCC Procurement**

**Q1 Please provide your comments related to the assessment of non-contracted platform bids.**

We strongly discourage the consideration of non-contracted bids for the fulfilment of a TSO's required reserve capacity from the dimensioning process. Relying on the potential availability of non-contracted bids is not compatible with secure system operation. This concept is inappropriate on a regional level already and even harder to maintain in combination with the potential availability of CZC. Such an approach should not be fostered by RCC support.

Moreover, we have serious doubts that the methodology described in Art.7 will provide sufficiently reliable forecasts for the availability of non-contracted platform bids. It is not clear that probability density functions looking back 60 days – with additional weight given to the last 10 days – will reliably capture shifts in underlying fundamentals impacting the running regimes of assets and thus their ability to submit non-contracted platform bids.

Furthermore, the availability of non-contracted bids is and must remain subject to individual BSPs commercial decisions. The forecasted amount of non-contracted bids must not impose an implicit obligation for submitting free bids.

**Q2 Please provide your comments related to role foreseen for RCCs by the Procurement Proposal and the HCZCAM Proposal to support the procurement of balancing capacity.**

The role of the RCC proposed in articles 6.1 and 6.2 is crucial. Does it mean that no exchange of balancing capacity between TSOs, resulting from the harmonized CZCA Methodology, is to exist before 2026 (according to the foreseen timeline)?

How will the existing balancing capacity cooperation (e.g. Alpaca and its foreseen extension in 2024) be treated in this regard?

**Q3 Please provide any other comments related to specific provisions of the Procurement Proposal.**

The priority for TSOs and NRAs should be market-based procurement of balancing capacity via competitive tenders. Regulation (EU) 2019/943 on the internal market for electricity clearly states (art. 6.8) that procurement of balancing capacity shall be based on a primary market. This is not the case in many parts of Europe today.

We urge the TSOs and ACER to take into account existing implementation projects, that go beyond the balancing timeframe, when designing specific timelines.

**Q4 Do you have any other relevant comments?**

No.

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