

## **ACER's 2023 market monitoring report consultation on cross-zonal capacities and the 70% margin available for cross-zonal electricity trade (MACZT)**

Brussels, 21 September 2023. The European Federation of Energy Traders (EFET) welcomes the opportunity to provide comments on the ACER market monitoring report on the minimum 70% requirement before the Agency issues a formal opinion to the European Commission and European Parliament by the end of 2023.

### **Key takeaways**

All TSOs have a mandate to maximise the cross-zonal transmission capacity made available to the market while respecting operational security limits. This principle is enshrined in article 16 of the Electricity Regulation, and a minimum threshold of 70% of cross-zonal capacity made available to the market allows TSOs to be compliant with the principle without needing to demonstrate any further that capacity has been maximised (art. 16.8).

Action plans (art. 15) and derogations (art. 16.9) to this minimum threshold may apply as temporary measures. However, progress towards the minimum requirement and beyond must be observed, whichever the temporary measures in place: the objective of the Regulation 2019/943 remains to see capacity maximised – or the minimum 70% requirement met – by 2025 at the latest.

Bearing this in mind, and considering the ACER report, we highlight the following:

- Divergent interpretations of the Regulation and reporting of progress on capacity availability between ACER, ENTSO-E, NRAs and TSOs severely blurs the picture for market participants  
→ **we reiterate our 2021 call for, and detailed proposal of, a single methodology and report**
- Concrete information on the costs and benefits of additional cross-zonal trade vs. all types of measures taken to increase transmission capacity is missing  
→ **we call for proper data publication in the next ACER report on the matter**
- Progress towards cross-zonal capacity maximisation – up to the welfare optimum considering the current network and zonal arrangements – should be observed  
→ **we suggest an open discussion in 2024 between TSOs, NRAs and market participants on the way forward.**

## General feedback - Evolution of cross-zonal capacity levels

To what extent do you agree with the conclusions illustrated in ACER's 2023 market monitoring report on cross-zonal capacities and the 70% margin available for cross-zonal electricity trade (MACZT)?

Strongly agree.

Agree.

**Neutral.**

Disagree.

Strongly disagree.

**What changes would you suggest for future editions of ACER's cross-zonal capacity report?**

We note that the [ENSTO-E market report 2023](#) concludes that the minimum 70% requirement is generally met by TSOs, and this is in contrast with ACER's report. Compliance with the Regulation – taking account of action plans and derogations – is what the TSOs have been looking at, and claiming that it is generally in order. The ACER report, on the other hand, contests in many cases that TSOs meet even their intermediary targets. It also claims that progress towards meeting the minimum 70% requirement (as per the Regulation's objective) has been slow, specifically in Member States where TSOs have been granted derogations by NRAs.

The diverging reports of ACER and ENTSO-E create confusion. They prevent a thorough assessment of the measures undertaken to reach the objectives of the Regulation, just as well as a common reflection on the appropriateness of the minimum 70% requirement in the long term. We invite ACER and ENTSO-E to deliver a common message in their reports on cross-zonal capacity availability before a formal opinion is sent to the European Parliament and Commission.

MESC participants produced guidance in December 2021<sup>1</sup> which summarises market participants' expectations in terms of transparency and coherence of reporting on this matter. We wish to see this guidance followed, as informally agreed between ENTSO-E and ACER in early 2022. The report should show compliance with the Electricity Regulation as well as progress towards the minimum 70% requirement. If necessary, this common document should describe where ACER and ENTSO-E come to different conclusions and what the reasons are for this.

We welcome ACER's reminder that maximising cross-zonal capacity availability is socio-economically beneficial, facilitates the energy transition and is key to European resilience to supply shocks. It is important that TSOs address difficulties in making cross-zonal capacity available to the market by putting all possible solutions on the table – and assess the efficiency of these solutions with regard to social welfare, security of supply and decarbonisation.

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<sup>1</sup> [https://eepublicdownloads.azureedge.net/clean-documents/Network%20codes%20documents/MESC/2021%20MESC%20documents/December%202021/211201\\_MESC\\_2.2a\\_EFET\\_70%20perc%20compliance.pdf](https://eepublicdownloads.azureedge.net/clean-documents/Network%20codes%20documents/MESC/2021%20MESC%20documents/December%202021/211201_MESC_2.2a_EFET_70%20perc%20compliance.pdf)

In the ACER report, we wish to see greater focus on the impact of IVAs on capacity levels. We note that the number of IVAs has increased as a mean for TSOs to provide lesser levels of capacity. It is therefore important to improve their monitoring.

We consider that the level of information and transparency provided around IVAs is largely insufficient. TSOs should transparently explain to the market the application of validation adjustments or other similar unilateral reductions of cross-zonal capacities. TSOs' shortcomings in enhancing cross-zonal trading opportunities should not lead to actions that further disrupt cross-zonal trading.

Finally, it is important that stakeholders are consulted on the way forward.

**Based on the data presented in Chapter 1 of ACER's report, do you believe that the current development of cross-zonal capacities across the EU is sufficient to enable the integration of European electricity markets?**

**Yes**

**No**

**Please clarify your answer.**

It is hard to make a sweeping agree/disagree statement because of:

- Differentiated picture across regions
- 'Integration of European electricity markets' is an unclear target

The one objective that should be pursued when seeking to increase cross-zonal capacities – and how far – is the improvement of social welfare.

## **Margin available for cross-zonal trade in the EU in 2022**

**Considering the results of the monitoring exercise of 2022, do you believe that enough progress is being made across the EU to fulfil the 70% cross-zonal transmission capacity target by 2026?**

**Yes**

**No**

**Please clarify your answer.**

Again, it is hard to make sweeping agree/disagree statement across all regions, as we lack a clear view on:

- (1) how each individual TSO is progressing compared to the action plans enacted in their Member States – considering the different accounting methodologies applied;
- (2) if each individual TSOs who has been granted a derogation by their NRA are recording any progress – considering the absence of targets in many cases and the different accounting methodologies applied;
- (3) how new capacity allocation methods e.g. Nordic day-ahead flow-based, will impact capacity availability.

We observe that progress on the availability of cross-zonal capacity at a European scale has been slow, despite gradual network reinforcements. While TSOs in Member States

applying action plans appear broadly on track, the situation seems quite different in the large number of Member States where derogations to the minimum 70% requirement have been granted by NRAs. In the case of derogations, there is indeed no legal requirement for progress towards the requirement, and an uncertainty about how far in time TSOs can request such derogations.

We wish to see progress towards capacity maximisation, as per the Regulation's objective. The prolongation *ad vitam* of derogations without any prospect of progress is certainly not in the spirit of the Regulation.

At a more local level, we note that:

- transparency on Swedish CNECs (within and across local bidding zones) is still missing, hampering proper monitoring, and
- allocation constraints in Poland and Italy continue to limit the available capacity.

**In ACER's report, several elements are presented as critical limitations to the achievement of the 70% cross-zonal transmission capacity target. Please rank them by order of relevance (5 correspond to the biggest threat):**

**Lack of a mechanism to share remedial actions costs**

**Lack of sufficient remedial actions**

**Suboptimal bidding zone configuration and resulting loop flows**

**Lack of sufficient grid developments**

**Unilateral capacity reductions applied by TSOs**

**Do you see any other threat to the achievement of the 70% target?**

It appears highly speculative to rank limitations to meeting the Regulation objectives in such a manner. Against which criteria should that ranking be performed, and how likely is it to be tainted by ideology rather than empirical evidence? We warn ACER against drawing conclusion from the responses to this question.

**What would be the key enabler(s) for reaching the 70% target by 2026?**

First and foremost, we recall that the target – since 2009 – is the maximisation of available cross-zonal capacity while preserving network security. 70% is a minimum requirement of capacity to be made available to the market, as of which TSOs do not need to demonstrate compliance with the principle of maximisation any further.

To reach the objective by 2026, it is important that:

- TSOs fully apply Article 16 of the Electricity Regulation and monitor capacity availability across the whole European network.
- NRAs should also ensure strict observance of the rule on all CNECs and report progress according to a consistent methodology.
- A proper consideration of electricity flows from third countries is necessary. As the ACER report correctly states, cross-zonal electricity trade contributes significantly to welfare creation in the European electricity market. This principle also applies to

electricity traded at borders with third countries, even more so when it has an impact on electricity trade between different EU member states (i.e. transit deals). If flows from exchanges with third countries are not counted towards the minimum 70% requirement, EU Member States affected by these flows are at risk of either missing the objective or having to take measures detrimental to both capacity maximisation and an ever deeper integrated European electric market, thereby reducing overall welfare creation.

More fundamentally, and bearing in mind that minimum 70% is not a “target”, it is important that more concrete data is computed and published on the benefits of additional cross-zonal capacity vs. the costs of all the different options available to increase that capacity. Until we have this information, it is difficult to know where we stand, how far we still need to go, and how to progress in relation to the objective of the Regulation.

## **Have you been affected by unilateral capacity reductions, such as allocation constraints or individual validation adjustments?**

**Yes**

**No**

**Not applicable**

**Please clarify your answer - in particular, the extent to which you were affected.**

Since Core day-ahead flow-based go-live in 2022, there have been many occurrences of TSOs applying bulk reductions to the margins of their CNECs before market coupling through IVAs. This is sometimes done to the point where several elements can be left with virtually no RAM, particularly in the control areas of DaVinci TSOs (Austria, Germany, Netherlands) and Transelectrica (Romania).

Although the situation has improved, the current usage of IVAs is still leading to significant domain reductions on a recurrent basis.

Allocation constraints also continue to limit capacity availability without progress in sight in:

- Poland (consistently throughout the year). From the available data, it can be calculated that the Polish allocation constraint actively reduces the ability of the Polish zone to export electricity in nearly 80% of the hours<sup>2</sup>,
- Italy (seasonal or the so called “special periods” as a maximum value of acceptable import at the whole Northern Italian Interconnection in order to cope with operational security constraints related to voltage control and dynamic system stability<sup>3</sup>),
- Sweden and Norway (ad hoc events in the North-South direction<sup>4</sup>).

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<sup>2</sup> <https://www.creg.be/sites/default/files/assets/Publications/Studies/F2458EN.pdf>

<sup>3</sup> <https://publicationtool.jao.eu/ibwt/allocationConstraint>

<sup>4</sup> [https://nordic-rcc.net/wp-content/uploads/2023/06/Parallel-run-report\\_final\\_public.pdf](https://nordic-rcc.net/wp-content/uploads/2023/06/Parallel-run-report_final_public.pdf)

**Do you believe that enough transparency and justification is provided by TSOs in the application of validation adjustments, or other similar unilateral reductions of cross-zonal capacities?**

Yes

**No**

**Please clarify your answer.**

We reiterate that TSO should:

- Moderate interventions in their IVA process to what is strictly necessary to ensure operational security according to article 20(5) of the Core DA CCM. Recurrent bulk capacity reductions leading to 0 RAM should cease.
- Clarify the usage of validation process on network elements that are not part of the set of critical network elements.
- Guarantee the 20% minimum RAM on all CNECs according to article 17(7) of the Core DA CCM.
- If necessary, enact improvements in their IVA processes to ensure the respect of the two rules above
- Provide fully detailed justification for any breach of the two rules above

**Do you consider that ACER's current MACZT monitoring exercise on regions that apply a CNTC capacity calculation methodology provides a complete assessment?**

Yes

**No**

**Please clarify your answer, and potential suggestions to improve this monitoring.**

## **Unnecessary constrained capacities limit EU welfare**

**Do you believe that additional cross-border transmission capacity would have played a critical role in coping with the effects of the energy crisis of 2022?**

Yes

**No**

**Please clarify your answer.**

Cross-border transmission capacity increases the ability of buyers of electricity anywhere in Europe to contract electricity from the cheapest sources of production anywhere else. As long as cross-border transmission capacity is made available to electricity buyers and sellers, they can transact internationally. This creates a truly European pool of production resources and consumers, with greater competition and liquidity.

During the 2022 crisis, there were clear examples of cheap(er) electricity being imported into areas where it was locally more expensive (or impossible) to produce electricity at that moment, potentially thousands of kilometres away. ACER seem to have performed calculations of the benefits of cross-border trade and market integration in recent, and

details on these calculations would be very useful to assess the precise benefits of additional cross-zonal capacity.

**Do you see a risk for re-dispatching costs to offset the potential gains from increased cross- border transmission capacity and further market integration?**

**Yes**

**No**

**Please clarify your answer.**

As argued back in the days of the Clean Energy Package situation, the optimal level a capacity to be made available to the market – from an overall welfare standpoint – probably differs at each bidding zone border. This optimum is a careful balance between the welfare benefits of increased cross-zonal trade, and the welfare costs of increasing available capacity, including through costly remedial actions. While the latter are often quoted after detailed calculations, the former is rarely assessed, leaving all commentators to speculate on the overall welfare gain of each marginal MW of available capacity.

The current picture depicted by ACER rather indicates that the level of available cross-zonal capacity is sufficiently off the mark to confidently push TSOs to make more capacity available without the fear of remedial action costs reversing the welfare results. But making sure that the welfare benefits of cross-zonal trade are properly quantified would allow to respond to this question more precisely.

### **Any other comment**

We take this opportunity to recommend further harmonisation of reporting and compliance monitoring by TSOs, NRAs and ACER along the lines [proposed by market participants](#) in December 2021 and as suggested in the [joint note of ACER and NRAs](#) in April 2022. ACER intends to formulate recommendations on next steps by the end of the year. We believe that these should also be subject to public consultation.

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