

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

Eurelectric position paper

Eurelectric represents the interests of the electricity industry in Europe. Our work covers all major issues affecting our sector. Our members represent the electricity industry in over 30 European countries.

We cover the entire industry from electricity generation and markets to distribution networks and customer issues. We also have affiliates active on several other continents and business associates from a wide variety of sectors with a direct interest in the electricity industry.

We stand for

The vision of the European power sector is to enable and sustain:

- A vibrant competitive European economy, reliably powered by clean, carbon-neutral energy
- A smart, energy efficient and truly sustainable society for all citizens of Europe

We are committed to lead a cost-effective energy transition by:

investing in clean power generation and transition-enabling solutions, to reduce emissions and actively pursue efforts to become carbon-neutral well before mid-century, taking into account different starting points and commercial availability of key transition technologies;

transforming the energy system to make it more responsive, resilient and efficient. This includes increased use of renewable energy, digitalisation, demand side response and reinforcement of grids so they can function as platforms and enablers for customers, cities and communities;

accelerating the energy transition in other economic sectors by offering competitive electricity as a transformation tool for transport, heating and industry;

embedding sustainability in all parts of our value chain and take measures to support the transformation of existing assets towards a zero carbon society;

innovating to discover the cutting-edge business models and develop the breakthrough technologies that are indispensable to allow our industry to lead this transition.

Dépôt légal: D/2023/12.105/34

Objective

The objective of this consultation is to gather views from stakeholders regarding the findings of ACER's market monitoring report on 'Cross-zonal capacities and the 70% margin available for cross-zonal electricity trade (MACZT)'. Based on the findings of the report and the stakeholders' input gathered, ACER will issue a formal opinion to the European Commission and European Parliament by the end of 2023.

Target group

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

More information on ACER's monitoring of cross-zonal capacities is available [here](#).

Eurelectric key-messages

- TSOs should always strive to maximise cross-border capacity availability to the market while ensuring network security and are required to comply with Regulation 2019/43.
- Temporary measures like action plans and derogations can apply. However, NRAs should ensure stricter and more standardized observance of rules (i.e. 70% or derogatory targets achievement) on all borders. More visibility on the derogations and action plans should be provided to the market.
- ACER and ENTSOE should collaborate on a single report using consistent methodology to monitor compliance and progress towards the 70% target. Consistency in timestamps, timeframes, allocation constraints, and third countries will improve accuracy.
- The compliance with the 70% target or derogatory targets are closely tied to the specific situation of each MS or regions. There's no one-size-fits-all approach; solutions should be economically efficient and region-specific.
- TSOs should transparently explain to the market the application of validation adjustments or other similar unilateral reductions of cross-zonal capacities and continue to improve the justification of allocation constraints.
- Stakeholders feedback or conclusions on this report and consultation do not imply support for ACER's future recommendations. We urge ACER to conduct a follow-up consultation on derived recommendations.

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)? (Tick boxes)

Strongly agree / Agree / Neutral / Disagree / Strongly disagree

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

Eurelectric cannot offer a yes/no response due to the wide scope of conclusions and the variable level of agreement within them. We appreciate the opportunity to provide feedback and would like to offer the following suggestions for potential improvements:

1. **Balanced agenda and feasibility discourse:** recognizing the sensitivity of the 70% MACZT, we believe discussions regarding it shouldn't reopen. We endorse monitoring the 70% MACZTTSOs should always strive to maximise cross-border capacity availability to the market while ensuring network security, and are required to comply with Regulation 2019/43. NRAs should ensure strict observance of the rules on all borders and report on progress according to a consistent methodology. However, it is important for the report to maintain a balanced perspective, moving beyond ACER's agenda, to incorporate a wider range of stakeholders views. Eurelectric holds a differing view from ACER regarding the feasibility of the 70% target and would like to underline that the 70% can always be reached either naturally, notably through network development and (coordinated) redispatching, or in any case, with the use of countertrading.
2. **Transparency in recommendations process and request for a future consultation:** agreeing or disagreeing with specific report conclusions should not be seen as endorsing any future recommendations that ACER will draw from them in subsequent stages. Given the potential impact and importance of such recommendations, we urge ACER to run a public consultation on these.
3. **Enhancing cooperation between ACER & ENTSOE:** we invite you to design the elaboration of a single report based on a single methodology, showing compliance and progress towards the 70% MACZT. Consistency and coordination are needed on timestamps and timeframes considered as well as allocation constraints and third countries accountings. This, in turn, would facilitate a standardized NRAs' compliance surveillance.
4. **Broadening the scope of analysis and assessing welfare creation enabled by the 70% :** the report should provide a thorough analysis, including levers like RD and grid investments, and assess their scale and efficiency of implementation.. Several options are available to reach the 70% and decision makers must select the most economical one. Such analysis could complement a deepening of ACER's efforts to evaluate the welfare created by the 70% rule. In particular, we recommend to study, building on shadow price analyses, the efficiency of different measures and potential welfare creation when relieving certain constraints (e.g. by singling out EU most limiting constraints and looking specifically at it on preselected timestamps).
5. **Third Countries impacts:** as the ACER report states, cross-zonal electricity trade contributes significantly to welfare creation in the electricity market. This principle also applies to electricity trade 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). Therefore, to reach 70%, a proper consideration of electricity flows from exchanges with very-well interconnected third countries is necessary. If such flows are not counted towards the 70% target, Member States (MS) affected by those flows are at risk to either miss the target or to have to take measures detrimental to the overall welfare creation. Moreover, very-well interconnected third countries which are part of the CESA should at least be included in the capacity calculation process in order not to put system operations and welfare creation at risk.
6. **ID timeframe discussion:** as hinted in paragraph 35 of the report, ACER intends to extend its compliance monitoring to the ID. Eurelectric invites ACER to initiate discussions about the implications for such monitoring and the methodology that would be applied.

7. **Focus on allocation constraints:** future report versions should aim to enhance data collection and analysis, focusing on allocation constraints and IVAs to offer deeper insights into their impact on EU markets and welfare, as the current reporting method may not facilitate this. It should be noted that the welfare analysis mentioned above in point 3 could be performed for certain IVAs and allocation constraints.
8. **Monitoring LT cross-border capacity:** given recent discussions on Market Design, LT timeframes will be called to play a more important role. Notably, TSOs will likely be requested to issue LTTRs with longer maturities. As such, ACER should seek to more actively report on the progress of LT capacities availability improvements.
9. **Providing more visibility on national transitional targets:** the assessment of national transitional target compliance should be better put in light of the target itself, particularly for MS with low compliance and high targets. This will provide better insights into the challenges faced and potential strategies to bridge the gap.

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? (tick boxes)

Yes / No

Please clarify your answer.

Firstly, Eurelectric emphasizes that the primary objective is not merely to maximize "market integration" in the sense of "cross-border exchanges". Market integration should serve as a means to unlock benefits and maximize welfare, specifically by maximizing surplus and minimizing costs.

Secondly, Eurelectric cannot provide a yes/no answer to this question as (i) it is unclear whether it refers to physical capacity development or the provision of MACZT, and (ii) because the question calls for a contrasted response dependent of the regions and situations that are referred to. Notably, we could differentiate between 3 groups of regions which provide different levels of satisfaction in terms of market integration:

- a first group of regions meets the 70% min target most of the time (more than 80%) and comes closely short to it the rest,
- a second group meets the target 60-80% of the time,
- a third group is lagging but usually applying derogations/actions plans where we can distinguish those meeting their targets from those who don't.

In our view, TSOs should always strive to maximise cross-border capacity available to the market (while ensuring network security) and we believe that more should be done by TSOs in most regions. Action plans and derogations should apply as a temporary measure. In some regions, we believe that more pressure should be on NRAs to ask TSOs to make more effort and to build action plans (it is missing in Nordic regions). Furthermore, we regret the lack of coordination and visibility provided to the market and the wider public regarding national transitional targets. Minimum targets set by the derogations and action plans should be monitored and respected. Zones going below historical levels such as the 20% in the CWE regions is a matter of particular concern that needs to be resolved.

Following point 4 of the first answer, Eurelectric advocates for broadening the scope of analysis and assessing the welfare creation resulting from the 70% target. This analysis should encompass comprehensive factors including costly actions like redispatching and grid development investments. Transparency is crucial in disclosing the inputs used to evaluate these costs, ensuring

clarity in determining their magnitude and efficiency of implementation. This approach will enable the identification of the most economically viable strategy among the available options.

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? (tick boxes)

Yes / No

Please clarify your answer.

Eurelectric cannot provide a yes/no answer to this question as it calls for a contrasted response dependent of the regions and situations that are referred to.

As stated above, some regions seem to be on the right track for compliance if not already compliant. In any case, Eurelectric considers that the current level of information around action plans and derogations is insufficient to evaluate whether achieved progress is satisfactory. Such evaluation indeed requires a comprehensive understanding of (i) efforts already undertaken to achieve the current results and (ii) efforts still to be made to reach the target. This information should be made available regularly through action plans detailing the strategy, the intended investments and policy implementations in place to drive the enhancements in cross-zonal capacity availability. Eurelectric strongly supports the principle of transparency in the allocation of derogations and the disclosure of action plans and their advancement.

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 stars 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?

Eurelectric considers that this question calls for a contrasted response depending on the regions and situations. There's no one-size-fits-all approach; the most suitable solution to reach the 70% should be based on the most economically efficient and appropriate to the region's situation. In most cases, the most critical limitations seems to be insufficient grid developments and unilateral capacity reductions.

Eurelectric does not support characterizing the current BZ configuration as a threat to reaching the 70% target. There are alternative paths to reach this target and there is no substantiated evidence that a BZ reconfiguration would lead to achieving this target. Moreover, we strongly advocate against pre-empting the outcomes of the ongoing Bidding Zone Review process.

Eurelectric also considers the following aspects constitute a challenge to the achievement of the 70% minimum target:

- In certain regions, lower availability or decommissioning of dispatchable power plants can threaten the maintenance of operational security by TSOs. Indeed, this leads to capacity reductions between bidding zones to accommodate fault currents, and new overload flow patterns.
- Not achieving action plan targets in some borders. The lack of consequences limits the strength of the 70% target. Encouraging incentives for corrective actions and fostering long-term solution development will contribute to the achievement of this target. In some regions, we have experienced cases (FI-SE3) in which TSOs do not achieve the target without facing any consequences. Such situations could set a discouraging precedent, undermining the significance of the 70% target.
- Delays in necessary investments could impede progress towards achieving the 70% target. A monitoring encompassing the effective implementation of actions plans and the expected investments would contribute to ensuring a swift achievement of the 70%.
- Individual validation steps at the TSO level, applied without coordination, with a low level of transparency and a low level of predictability. To a certain extent, allocation constraints, particularly when applied for frequency or voltage regulation purposes can also pose a challenge.
- Suboptimal coordination of costly RAs in CROSAs: regional optimization of remedial actions, both non-costly and costly, can provide further levers to maintain operational security at any given time at an efficient cost, while maximizing available cross zonal capacities. Eurelectric would like to stress the importance of further implementing such operational coordination between TSOs.

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

In addition to the answers provided to the previous question, Eurelectric would like to outline the following key elements:

- Focused efforts to address challenges in uncoordinated borders as underscored by Figure 21 to rectify this situation.
- As stated above, strengthening coordination among TSOs on remedial actions.

Have you been affected by unilateral capacity reductions, such as allocation constraints or individual validation adjustments? (tick boxes)

Yes / No / **Not applicable**

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

Although this question is not directly applicable for Eurelectric association, Eurelectric represents MPs that were affected by unilateral capacity reductions. While generally speaking, increased transparency and information could be provided, Eurelectric would like to underline a distinction between allocation constraints and IVAs. The first are indeed rather documented and applied in a relatively transparent manner allowing, to some extent, an anticipation from market participants, thus reducing their impact on the market (although their fundamental justification is frequently insufficient in Eurelectric view). In contrast, IVAs are applied in a somewhat chaotic manner and lack clear explanations regarding how and when they are implemented. Eurelectric calls for strong efforts in terms of transparency on IVAs.

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

Same comment as the previous question.

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.

We believe that the MACZT assessment can be further enriched for CNTC regions by including presolved CNECs in ACER's monitoring. Such monitoring would allow to identify the CNECs that would have been limited should the market had cleared differently from its actual clearing point.

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.

Eurelectric considers that the single energy market has proved a strong level of resilience during 2022 and 2023 and has shielded European consumers from facing an even more severe crisis. This is despite the fact that we continued to see very low levels of capacity in some regions, well under the 70% target. Higher levels would likely have contributed to further mitigate the overall increase in prices and particularly price spikes in certain regions. With that regard, figure 31 of ACER's report is interesting and raising an important point that should be further studied. On this point Eurelectric invites ACER to complement its work by providing an analysis showing the correlation of high price spread with the MACZT on limiting CNECs or presolved CNECs to show whether the low level of margin observed on some CNECs actually contributed to aggravate price spikes.

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

Yes / No

Please clarify your answer.

Eurelectric supports the full application of Art. 16 of the Electricity Regulation and the robust monitoring of capacities across the whole European network. However, we think it is necessary to (i) assess the most efficient means to achieve it considering among others RD and grid development costs, and (ii) assess whether it would be economically efficient to go beyond.

Eurelectric pursues in all its activities the application of the following sustainable development values:

Economic Development

- Growth, added-value, efficiency

Environmental Leadership

- Commitment, innovation, pro-activeness

Social Responsibility

- Transparency, ethics, accountability

eurelectric

Union of the Electricity Industry - Eurelectric aisbl
Boulevard de l'Impératrice, 66 – bte 2 - 1000 Brussels, Belgium
Tel: + 32 2 515 10 00 - VAT: BE 0462 679 112 • www.eurelectric.org
EU Transparency Register number: [4271427696-87](https://ec.europa.eu/transparency/regexp1/?id=4271427696-87)