

ACER consultation on co-optimisation consultation under EB GL

A Eurelectric response paper

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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/2020/12.105/15

Public consultation on the Agency's proposed amendments to the TSOs' proposal for a methodology for a co-optimised allocation process of cross-zonal capacity for the exchange of balancing capacity or sharing of reserves

This consultation aims to gather views and information from stakeholders regarding the compliance of the transmission system operators ('TSOs') proposal for a methodology for a co-optimised allocation process of cross-zonal capacity for the exchange of balancing capacity or sharing of reserves (the 'Proposal') with Commission Regulation (EU) 2017/2195 (the 'EB Regulation'). TSOs developed the Proposal in accordance with Article 40(1) of the EB Regulation. The European Union Agency for the Cooperation of energy regulators ('Agency') will use the input from the consultation to inform its decision on the Proposal, in accordance with Article 6(10) of Regulation (EU) 2019/942.

Pursuant to Article 40(1) of the EB Regulation, TSOs must jointly develop the Proposal, then submit the Proposal to the Agency for approval by 18 December 2019. The deadline for submission is two years after the entry into force of the EB Regulation, which was 18 December 2017. The Agency must adopt a decision in accordance with Article 6(10) of the ACER Regulation by 17 June 2020. In the context of adopting this decision, the Agency seeks the opinion of stakeholders on the issues listed below. Other comments and concerns are also welcome.

The Proposal describes a methodology for a co-optimised allocation process. Legally, the methodology is implemented once TSOs submit the new requirements for the SDAC algorithm to NEMOs. The implementation of the functionality for a co-optimised allocation process into the SDAC algorithm, i.e. the integration of the methodology to the algorithm, is then the responsibility of all NEMOs in accordance with Article 37(5) of the CACM Regulation.

According to Article 37(2) and (3) of the CACM Regulation, NEMOs must propose a revised price coupling algorithm no later than 5 months after TSOs have submitted new requirements. In the revised price-coupling algorithm, NEMOs will establish an implementation timeline for integrating the functionality for a co-optimised allocation process, based on the methodology described in the Proposal.

While the implementation timeline of the functionality for a co-optimised allocation is ultimately to be determined by NEMOs, TSOs suggest in the Proposal the following implementation steps:

- 1. TSOs shall publish an implementation impact assessment by 12 months after the decision on the methodology for co-optimised allocation;*
- 2. Conditional to a positive outcome of the implementation impact assessment, TSOs will submit a new set of requirements for the algorithm by 12 months after the publication of the assessment (24 months after the decision on the methodology for co-optimised allocation has been taken).*

The Agency generally agrees to the requirement of an implementation impact assessment. However, according to the Proposal, such impact assessment is not subject to approval. It requires a 'positive outcome' in many listed categories for the continuation of the implementation process. The requirement of a positive outcome is not further specified and the Agency believes that the outcome of an impact assessment under such terms is bound to be negative, due to ongoing challenges for the SDAC algorithm at the time when TSOs will conduct the impact assessment.

The Agency disagrees that a negative impact assessment should stop the implementation process. Once NEMOs receive the impact assessment together with the submitted requirements from TSOs, they are capable to conclude on a feasible and adequate implementation of a co-optimised allocation within their proposal for the algorithm methodology pursuant to Article 37 of the CACM Regulation.

The Agency proposes to amend Article 13 of the Proposal to ensure a more effective implementation of the methodology for co-optimised allocation.

Q1.1: Please share your view concerning the proposed implementation process.

In general, EURELECTRIC agrees with the idea of having the impact assessment providing clarity on the real impacts of co-optimisation on balancing and energy markets, as well as system security.

We however regret that the elements comprised in the IIA list are not tackled and developed within this methodology as this it gives, for the time being, no view on how fundamental requirements raised during the ENTSOE consultation can be reached (FB compatibility, Algorithm's performances and linking of balancing capacity and energy bids).

EURELECTRIC finds it good that the requirements raised during the ENTSOE consultation are comprised of the list for the IIA. EURELECTRIC proposes additional items under Q3.

During the development of the IIA, we encourage ENTSOE to regularly consult market parties and relevant stakeholders so that the list under Art. 13.2 is sufficiently precise and understood before the impact assessment itself starts.

At the end of the assessment period, ENTSOE should publish the IIA. Twelve months after this publication, and if the outcome of the IIA is considered positive, ENTSOE should publish a common set of requirements of the algorithm for co-optimization to NEMO and ACER.

- It seems not efficient to not formally include NEMOs in the drafting of the IIA but amongst all in the drafting of the common set of requirements. TSOs should carefully involve NEMOs as soon as possible in order to render the process efficient.
- The concept of positive outcome, and the process related to it is way too vague. It does not provide any details how the list's items will be assessed individually and how it will result in a positive or negative outcome when considering them all together. We would appreciate a description of the governance of the IIA.
- We also agree with ACER that the case of a negative outcome should be described. Does a negative outcome condemn the principle of co-optimization as such? A suggestion could be that a recurring IIA exercise would be carried out on a regular basis (e.g. each year) to reconsider the negative outcome of the previous IIA. It is needless to say that we would not agree to continue with the implementation if the IIA is negative. Should that be the case, methodology or co-optimisation as such should be reconsidered.

Q1.2: Please share your view concerning the proposed implementation timeline of 12+12 months for submitting new requirements for the SDAC algorithm.

We do not agree with the suggested approach. 12 + 12 months is too short for a thorough implementation impact assessment and the drafting of a common set of requirements. We are in the middle of several implementation processes (aFRR and mFRR platforms, change to 15 minutes imbalance settlement period in many countries, implementation of IDAs and shorter products in DA and ID energy markets). We don't believe this timeline is sufficiently long for TSOs to publish a comprehensive and complete impact assessment where the involvement of stakeholders will be needed to come up with an inclusive outcome.

Article 10(5) of the Proposal sets cost compensation cap between TSOs for the remuneration of costs for ensuring firmness of procured balancing capacity in the case of curtailment of firm cross-zonal capacities caused by force majeure or emergency situations. Neither the legal basis nor the

consequences such cost compensation cap might have are clarified. The Proposal does not include regulatory oversight for defining such cost compensation cap.

The Agency proposes to amend Article 10(5) of the Proposal by either deleting the provision of a cost compensation cap or elaborating on the possible design of such cost compensation cap if it is deemed a necessary provision.

Q2: Please share your view concerning this issue.

If unclear, the concept of cost compensation cap between TSOs should be clarified. In general, this concept should not give the wrong incentives to TSOs and should not interfere with the market as this is a pure TSO-TSO process.

With regards to the compensation of selected balancing capacity bids in case of CZC curtailment Eurelectric considers that, BSPs should also be compensated (without compensation cap) for the loss of opportunity of being activated and remunerated for the associated energy (since this opportunity should have been priced in the capacity bids, lowering their cost for the contracting TSO): this happens in case the contracting TSO activates the energy bid of a local BSP rather than the one a foreign BSP ranking better in the merit order, because of the CZC curtailment.

Article 8(3) of the Proposal enables TSOs to apply a price sensitive demand for possible substitutions between different types of balancing capacity with the aim to minimise procurement costs. While the Agency welcomes the aim of minimising the cost of procurement of balancing capacity, the possible drawbacks of such method are not sufficiently clear at this moment and further preconditions are needed for the possibility of introducing such concept.

The Agency seeks the opinion of stakeholders to take an informed decision on this specific issue.

Q3: Please share your view concerning this issue.

Concerning the article 8.3, EURELECTRIC strongly refuses the possibility for TSO to price their demand for balancing capacity. The aim to minimize the cost of procurement of balancing capacity is commendable but it should not create price caps (other than those used for the convergence of the algorithm and the calculation of the economic surplus) in the balancing capacity market organized at a BCC level (hence cross-border).

The point is that balancing capacity products exchanged or shared within a BCC are Standard Products. Therefore, there are not Specific Product (that are exclusively procured at national level). There are differences between those two sorts of products in terms of pre-qualification, characteristics, features, settlement, penalties that make them distinguishable. It is very unclear, how they could be substituted if they have different quality parameters.

The fact that TSOs can add price sensitive demand based on the price of the alternatives link the two products inevitably. However, there is no level playing field between those products. This has as consequence that a cap might be created on the BCC level imposed by local balancing products that do not respect the same rules. Moreover, if the TSO can use those alternatives to replace standard products, then why those specific products cannot be considered as standard product and participate to the exchange or the sharing of reserve?

Q4: If you would like to comment on other topics please indicate clearly the related Article, paragraph of the proposal and add a sufficient explanation.

- EURELECTRIC would like to stress that it has huge concerns over overall functioning of energy markets in case the possibility to **link bids among balancing capacity and day-ahead market** is not safeguarded already in this methodology. The existence of separate, parallel markets forces market participants to choose between bidding for the energy and bidding for the balancing capacity. This leads to high inefficiencies given the fact that the same asset can be active in both markets. In that case, one of the main added values of co-optimisation, which is to avoid the need for market participants to anticipate the energy price when pricing their capacity bids (with unavoidable uncertainties and associated risk premiums), is lost. It would then be equivalent to a co-clearing rather than a co-optimization which is not the idea behind the co-optimization.

SDAC algorithm is already at its limit in terms of capability. The reduction of the “Market Time Unit” will further limit the performance of the algorithm. We have large concerns on the impact of the co-optimization on the SDAC. We are against any limitations such as the reduction in the variety of the energy products and bidding flexibility offered for the SDAC to accommodate the algorithmic complexity of co-optimisation; furthermore we also clearly do reject any negative impact on the further evolution of new products and services for the SDAC. We also object any prolongation of time needed for calculation or results publication.

In first instance, we should focus on implementation of ongoing developments, and all of the above-mentioned elements should be taken into account in the Implementation Impact Assessment, which could even lead to reconsideration of use of co-optimisation at all.

- Article 3.2: it is not clear what is meant by “integrated product”. Could that be clarified?
- Article 3.6: what is meant by “for the same activation time”? To our understanding, if CZC capacity is not used for the product it was reserved for, then there is no other choice than a release of this CZC for exchange of balancing **with shorter activation times**. **In general**, mechanism of releasing unused cross-border capacity allocated for balancing is unclear.
- Article 4: the period of one month (even if this is a minimum) is way too short. This gives no room to stakeholders a future balancing capacity provider to adapt their IT tools as a consequence of the new process and to adapt to the mentioned “market timeframe”. At least 6 months should be considered. Moreover, it would be useful to also make the link with art 33(1) and 38(1) of EBGL given the overlap of those articles with the content of the present article 4 of the proposal.
- Article 5: Why there is a delay of maximum one hour needed for the notification of selected upward/downward balancing capacity bids to market participants? This does not seem necessary. We don’t understand why the results of the DA market and the selected Balancing capacity bids cannot be published at the same time.
- Article 5.2(a): for the sake of clarity, the role of “Balancing service provider” should be added the phrase.
- Article 5.2(d.ii): “based on” rather than “based for”.

- Article 5.2(e): clarification on who sends what to who would be welcome. The role and responsibilities should be clearly defined, properly applied and harmonized throughout the proposal.
- Article 5.2(i): what “capacity management module” is considered here?
- Article 8.4: What does “sufficient” mean here? Sufficient compared to what? Thanks to clarify.
- Article 10.2: what does “all TSOs process” encompass?
- Article 13.2: Cfr. our answer to Q1, we would welcome the involvement of stakeholders (e.g. via consultation) to clarify the list under article 13.2. In any case, a clear scope what will be assessed should be published. Moreover, EURELECTRIC proposes to add the following items in the list:
 - Impact of elastic demand on the creation of price cap in the balancing capacity market
 - Overall impact on the efficiency of the day-ahead and intraday trading, including on efficient utilization of resources
- Article 13.2(d): this is not clear why the compatibility with the continuous trading matching algorithm should be assessed.
- Article 13.2(d): this is not clear what the “two-steps approach” refers to?
- Art. 14.3: It is unclear why would TSOs publish information on allocated cross-zonal capacity for exchange of balancing energy / sharing of reserves only 6 hours before its use. For the sake of transparency, this information should be published together with market results. If this is due to the fact that TSOs have better estimate of the grid situation 6 hours before real-time, then the unused capacity should be allocated to cross-zonal continuous intraday market.
- Art. 14.4.: EBGL states in Art. 12(3(ii)) that information on the use of allocated cross-zonal capacity should be published one week after its use at latest. This does not prevent TSOs from earlier publishing of this information. CO CZCA should clearly state when the information will be published, we prefer the earliest publication time possible.
- Art. 14.5: Methodologies of each TSO should be published much earlier than one month prior to their application.

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



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