

ACER Public consultation on the amendment of the HCZCAM proposal

A Eurelectric response paper

October 2024

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/2024/12.105/39

Public consultation on the amendment of the harmonised cross-zonal capacity allocation methodology

Fields marked with * are mandatory.

Introduction

On 31 July 2024, ACER received a proposal (['HCZCAM Proposal'](#)) from all Transmission System Operators (TSOs) to amend the [harmonised methodology for cross-zonal capacity allocation for the exchange of balancing capacity or sharing of reserves](#) (HCZCAM) in accordance with Article 38(3) of Commission Regulation (EU) 2017/2195 ('EB Regulation').

This methodology provides a harmonised approach for effective allocation of cross-zonal capacity for the exchange of balancing capacity or sharing of reserves. Having an optimised allocation of cross-zonal capacity is important to foster the integration of balancing capacity markets, lower the costs of procuring balancing capacity (hence the costs for tariff payers) and ensure the security of electricity supply.

The methodology harmonises the processes (i.e. market-based and co-optimisation) that compare the market value of cross-zonal capacity between balancing capacity and day-ahead electricity markets. These processes then allocate the available cross-zonal capacity to each market in a way that maximises overall welfare.

The current methodology was approved by ACER in [July 2023](#).

Amending the methodology is necessary to clarify the governance of the market-based process, covering both its implementation and operation. This aims to ensure the process runs efficiently and encourage more TSOs to apply it.

Additionally, TSOs proposed to:

- Establish a process and governance framework to set different maximum limits for exchanging balancing capacity or sharing reserves.
- Amend the provisions to distribute congestion income among TSOs.
- Allow the possibility of delaying the implementation of the harmonised market-based process beyond 31 July 2026.

To inform its decision-making process, ACER is collecting inputs from stakeholders. This consultation is

addressed to all interested stakeholders, including TSOs, Regional Coordination Centres (RCCs), Nominated Electricity Market Operators (NEMOs), balancing providers, regulatory authorities and other interested parties.

Stakeholders are invited to respond to this survey by **14 October 2024**, 23:59 hrs (CET).

ACER expects to decide on the amended methodology by 31 January 2025.

Data protection

ACER will process personal data of the respondents in accordance with [Regulation \(EU\) 2018/1725](#), taking into account that this processing is necessary for performing ACER's consultation tasks.

More information on data protection is available in ACER's [data protection notice](#) and on [ACER's website](#).

ACER will not publish personal data.

Confidentiality

Following this consultation, ACER will make public:

- the number of responses received;
- company names, unless they should be considered as confidential;
- all non-confidential responses; and
- ACER's evaluation of responses. In the evaluation, ACER may link responses to specific respondents or groups of respondents.

You may request that the name of your company or any information provided in your response is treated as confidential. To this aim, you need to explicitly indicate whether your response contains confidential information.

You will be asked this question at the end of the survey.

☒ I have read the information provided in this section.

Respondent's data

* Country

Belgium

* Name and surname

50 character(s) maximum

This information will not be published.

Donia Peerhossaini

* Company

50 character(s) maximum

Eurelectric

* Email

This information will not be published.

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Related documents

All TSOs' submission of the amendment proposal for the HCZCAM:

[HCZCAM Proposal](#)

[Explanatory document](#)

Related ACER decisions:

[Decision No 11/2023](#) on the TSOs' proposal for the harmonised cross-zonal capacity allocation methodology and its Annex I (['HCZCAM'](#))

Related legal acts:

[EB Regulation](#) - Regulation (EU) 2017/2195 establishing a guideline on electricity balancing

[Electricity Regulation](#) - Regulation (EU) 2019/943 on the internal market for electricity

[ACER Regulation](#) - Regulation (EU) 2019/942 establishing a European Union Agency for the Cooperation of Energy Regulators

Background

The EB Regulation establishes an EU-wide set of technical, operational and market rules to govern the functioning and integration of the national electricity balancing markets. One of its cornerstones is the application of cross-zonal capacity allocation for the balancing timeframe, which improves competition and increases welfare by means of cross-zonal balancing capacity exchanges.

Cross-zonal capacity between bidding zones is limited. To allocate it in an economically efficient way, the EB Regulation defines the following cross-zonal capacity allocation processes:

- Co-optimisation (Article 40)

- Market-based allocation and inverted market-based allocation (Article 41)
- Allocation based on an economic efficiency analysis (Article 42)

The HCZCAM addresses the co-optimised allocation process pursuant to Article 40 of the EB Regulation and the market-based allocation process pursuant to Article 41 of the EB Regulation, but does not include an allocation process based on economic efficiency analysis pursuant to Article 42 of the EB Regulation.

In the co-optimised allocation process, the allocation of cross-zonal capacity for the day-ahead and the balancing capacity markets is performed in the single day-ahead coupling (SDAC) algorithm with actual energy supply and demand bids, together with actual balancing capacity bids, which compete for the available cross-zonal capacity for each market time unit of the following day. The objective of the co-optimisation function is to maximise the sum of the welfare gains of the day-ahead energy market and the balancing capacity markets. As a result, one unit of cross-zonal capacity is allocated to either market, depending on where its market value is the highest.

The market-based allocation process, which is based on actual balancing capacity bids but forecasted energy supply and demand bids, is run independently from the SDAC algorithm. While this simplifies the technical complexity of the process as well as its governance, the market-based methodology requires forecasting the market value of cross-zonal capacity for the exchange of energy, for which a dedicated forecasting process needs to be put in place.

The HCZCAM Proposal

Article 27(1) of [ACER Decision No 11/2023](#) requires TSOs to submit an amendment of the HCZCAM by 31 July 2024. This amendment must cover the following elements:

- Governance for all market-based application TSOs on change requests for the cross-zonal capacity allocation optimisation function software (Article 15(2)).
- Governance of the balancing capacity platforms (Article 16(7)).
- A congestion income distribution methodology which considers the congestion income from the exchange of balancing capacity or sharing of reserves (Article 24).
- Any other requirements necessary for the designation of entities, the development of the cross-zonal capacity allocation optimisation function software and the fulfilment of publication requirements pursuant to Article 26.

Additionally, TSOs, on their own initiative, added a process allowing different limits per critical network element with contingency in a flow-based capacity calculation region.

In a nutshell, the Proposal includes amendments to the following articles of the HCZCAM:

- Article 2(g) and 2(h): Added a definition of 'Interdependencies of applications' and 'Set of Requirements'.
- Article 15: Added a provision on the governance for all market-based application TSOs on change requests for the cross-zonal capacity allocation optimisation function software.

- Article 16: Further specification of some aspects related to the governance of the balancing capacity platforms.
- Article 17: Added a proposal to develop a process and a governance framework to set a different maximum limit per critical network element with contingency, for capacity calculation regions where the flow-based approach is applied, for the exchange of balancing capacity or sharing of reserves.
- Article 24: Added formulas to devise a congestion income distribution methodology which considers the congestion income from the exchange of balancing capacity or sharing of reserves. These changes follow from the amended congestion income distribution methodology adopted pursuant to Article 73 of the CACM Regulation, approved in December 2023 with ACER Decision 16/2023.
- Article 27: Added an option for a derogation for already operational TSOs to switch to the harmonised market-based allocation process.

Furthermore, the changes introduced by TSOs to these articles required an update of the relevant cross-references within the document.

Consultation questions

Please provide any comments on the HCZCAM Proposal.

5000 character(s) maximum

Eurelectric welcomes the opportunity to express its views on this proposal and again underlines that the following feedback relates only to the proposed changes. Eurelectric would also like to express its appreciation for the clear and specific feedback that all TSOs provided to the comments received during its public consultation.

Regarding the interdependencies mentioned in Articles 2 and 16, Eurelectric notes that TSOs propose to aggregate TSO applications within one balancing capacity platform when (i) they are part of one flow-based CCR and/or when (ii) one TSO applies reserve substitution between two or more applications. For the sake of simplicity, Eurelectric supports the use of a limited number of different platforms for the same products and advocates the greatest possible harmonisation between platforms, especially in terms of interfaces with market participants. This is not preempting the actual design and the sequential approach for the procurement of different reserves. Eurelectric notes the feedback from all TSOs that “[u]sing the flow-based CCRs as the point of reference [...], it is ensured that there are clear rules for when different applications affect each other's allocation of cross zonal capacity, and thereby when BCPs should be merged.

Furthermore, in a flow-based regime, BC markets calculate transmission capacity reservations on a CNEC level, thus affecting all bidding zones borders.” Eurelectric would like to underline that some (most?) CNTC capacity calculations are also based on an initial calculation at CNEC level. The problem would rather arise when borders are interdependent which is the case, e.g. in the Italy North region. The “flow-based” criteria may not be sufficient with this regard and the methodology should clarify how TSO applications would be tackled in such a situation.

Regarding price forecasts in Article 16, Eurelectric expresses its ongoing concerns and opposition with regards to the proposal of TSOs for forecasting market prices for the DA market. Eurelectric appreciates the inclusion of provisions regarding the forecast error. However, Eurelectric still considers that a more detailed methodology for the forecasting approach should be prepared and consulted on an all TSO level, preferably as part of the HCZCAM, and not to leave it fully open per BCP. Such methodology should at least provide high-level principles, which could then be further detailed per BCP and be open for further refinement based on the forecast error results, as proposed by all TSOs in the consultation feedback. Such high-level principles should at least encompass:

- A regular and thorough evaluation of the forecasting methodology to ensure the process allows for welfare creation.
- Exclusion of any simplistic approach, e.g. the consideration that ‘same day in the previous week/month/year’ is a relevant reference, or yesterday, as is the case for Nordic aFRR, unless it can be clearly justified by a cost-benefit analysis.
- Forecasts should be based on thorough statistical analysis of historical data and take into account all known information about the future that is relevant, i.e. weather information, forward markets, grid information, generation unit outages, etc.

Eurelectric welcomes the feedback that the finalized methodology will be accessible to ensure both verifiability and reproducibility when a BCP submits its 38(1) application. Eurelectric would also like to stress again that TSOs do not necessarily have to create the forecasts themselves (nor through TSO-owned entities such as RCCs), as numerous options are available from vendors or independent entities, particularly for DA markets.

With regard to the determination of the GCT for BSPs mentioned in Article 16, Eurelectric stresses that the definition of processes and timelines and the subsequent operational implementation can be time-consuming and probably requires significantly more than 3 months. Moreover, the final confirmation of the GCT – the point at which market participants can actually start implementation work – will only be done 4 weeks in advance. Eurelectric reiterates its belief that the GCT should be defined at least 12 months before implementation and that consultation should take at least one month.

The feedback received from all TSOs that the process determination is based on experience of the Nordic cooperation, does not address whether this process was deemed sufficient by local market participants. The other feedback provided that any changes would be minor ignores that also at market participants side the processes at which balancing capacity auctions take place are very tight and interdependent, and any change – even minor – has major repercussions on adjacent and interdependent processes.

Confidentiality question

* Does your response contain confidential information?

☐ Yes

☒ No

Contact

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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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