

Date: October 21st, 2019

Subject: MPP answer to Core TSOs consultation on a methodology for a market-based allocation process of cross zonal capacity for the exchange of balancing capacity or sharing of reserves

The Market Parties Platform (MPP) welcomes the opportunity to provide comments on the draft methodology for a market-based allocation process of cross zonal capacity for the exchange of balancing capacity or sharing of reserves of the Core TSOs.

MPP acknowledges the possibility for TSOs to propose this methodology as prescribed in EBGL Article 41. If TSOs decide to set up a Balancing Capacity Cooperation, MPP would like to remind that the allocation of CZC for the exchange of balancing capacity or sharing of reserve should be the outcome of a market process. This implies that the market values of different products being traded and arbitrated should be exclusively determined by the market itself and not by an estimation of TSOs.

The currently proposed market-based allocation process is based on reference periods (and adjustments factors) for the forecast of the market value of CZC for energy bids. One can argue that this approach is market-based because the forecast is based on actual marginal value of the CZC (equal to the price spread between BZ). Nevertheless, the issue is that those actual values are just estimations/forecasts made by TSOs based on values from the past and not for the delivery day which is under consideration.

Therefore, MPP is of opinion that the denomination chosen for this allocation mechanism is misleading as this is not market-based but only estimations/forecasts based on market values out of the past, potentially modified with adjustment factors.

From that perspective, MPP is against the implementation of the market-based allocation process as currently proposed by TSOs, because this is not the role of the TSOs to forecast market values that can lead to highly inefficient capacity allocation as the forecast might turn out to be false. In any case, MPP considers that the market-based allocation process could only be envisaged as an interim solution in case the co-optimization process cannot be developed in the near-term (e.g. due to the algorithmical complexity to be handled); the long-term target should remain co-optimization, as apparent in the EBGL.

Moreover, the Capacity calculation taking place potentially much later than the determination of the CZC for the exchange of balancing capacity or exchange of reserves (in D-2 vs. up to D-7 pursuant to EBGL Article 41(1)), it is likely that the TSOs will have to forecast (at unusual timeframes) the CZC between bidding zones. This is another parameter which is forecasted by TSOs and which will enlarge the uncertainty cone in terms of market efficiency.

Independently of the previous paragraph, MPP regrets that the proposal is not sufficiently developed

for being able to react or propose alternatives. This is particularly true for the concepts of *reference period* and *adjustment value*. In the frame of the proposed methodology, they are of utmost importance for the calculation of the market value of CZC for energy bids, though they are only mentioned, and no detail on how they are designed, how they will be put in place is disclosed.

Should the TSOs/NRAs still decide to implement the market-based allocation process within one BCC, then MPP would like to share some thoughts on the use of reference periods:

- The past does not repeat itself => not accurate nor reliable, as required under art 39.5(b) of EBGL. At the very least, a thorough analysis based on historical data should be performed to identify the explanatory variables which best account for the observed price differentials, and could be used to forecast future price differentials. Any simplistic approach, e.g. considering that “the same day in the previous week/month/year” is a relevant reference, should be excluded.
- There is a lack of data/sample to choose from as reference period (e.g. AT/DE BZ splitting only one year ago)
- There are price impacting features that are not repeating so often, such as grid element or production unit outage.
- Prices are function of fundamentals that are, to a certain extent, forecastable, but are also function of the risk the MPs see in their activities and how they react to it via the different markets (DA/ID/Imbalance), which is not forecastable by TSOs.

In Flow Based, network constraints are related to firm energy net positions (taking into account that certain allocated energy flows can relieve a constraint and allow other flows to be accepted). However, since there is no certainty about the activation of the procured balancing capacities, their impact on energy net positions is unknown. Given that Article 33(7) of EBGL forbids that reliability margins are increased to accommodate the uncertainty linked to the activation or non-activation of the contracted reserves (FRR or RR), MPP does not see how the market-based process could be applied with a FB capacity calculation without endangering the grid. MPP invites the TSOs to find a way to design a FB-proof market-based process; if not possible, this would be major obstacle to the implementation of the market-based allocation process.

As regards the input for the calculation of the market value of CZC for energy bids, the wording of the methodology seems inconsistent with the explanatory document: the latter refers not only the forecasted energy price differentials, but to the whole forecasted DA offer-demand curves, allowing to obtain the relationship between the CZC allocated for energy exchanges and the associated marginal surplus. Taking as input the forecasted energy offer-demand curves and not only the forecasted price differentials would allow to have an adaptive allocation of the share of CZC for energy exchanges, whereas if the input is only the price differential, it already incorporates a hypothesis on this share. MPP therefore asks clarification about the input used for the calculation.

Specific comments

Whereas

- MB CZCA may be applied before the go-live of DA FB MC (target 12/2020).

Article 1 – Subject matter and scope

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Article 2 – Definitions

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Article 3 – Principles for each balancing capacity cooperation within the CCR Core

- (1) CBA must be shared with BSPs and not only among TSOs
- (6) & (7) refers to the undefined terms “minimum contracting period” and “minimum validity period”. A clear definition of those two terms would be welcome.
- (10) refers to an “implementation methodology of the Balancing Capacity Cooperation” including fallback and curtailment procedures according to article 38 of EBGL. Nevertheless, article 38 of EBGL does not mention this methodology.
 - Review the reference to the correct EBGL article, if any
 - Fallback and curtailment procedures being of critical importance for Market Participants, MPP asks to apply article 10.4 and 5.3b of EBGL by organizing a public consultation on this “implementation methodology of the BCC”.
- More generally, all this article 3 should be in the “implementation methodology of the Balancing Capacity Cooperation”, and not in the CZCA methodology

Article 4 – Notification process for the use of the market-based allocation process

- (1) provides the possibility to CORE TSOs that are not members of a BCC to provide remarks on the forecast technique related to this MB CZCA methodology and applied in the concerned BCC.
 - MPP considers that the forecast technique should also be shared with MPs and be consulted. The forecast technique being at the center of the MB CZCA, full transparency on the process is required.
- (2) refers to the sharing of the CZCA optimisation function with CORE TSOs.
 - This is not clear when it has to be done.
 - As the CZCA optimisation function has a direct impact on the results of the CZCA, it should also be shared with MPs and undergo a public consultation.
- (3) refers the features of the BCC to be shared. Those that are mentioned are the minimum minimum to enable the working of a BCC, but as previously mentioned, full transparency on the forecast technique as well as the CZCA optimization function is also required.
- (3) refers to a lead-time period of 1 month. This is clearly insufficient. MPs require sufficient time to review (and probably adapt) their IT and operational processes. 6 months is considered as a minimum lead time.

Article 5 – Timeframe of market-based allocation

- (1.a) refers to a vague timing period for the TSO-BSP GCT which
 - Starts in W-1 and
 - ends “...sufficiently before sending the final results of the capacity calculation for CZC of the SDAC to NEMOs”.

The end time is not clear and too vague with the use of the term “sufficiently”. As explained under Art XX if this proposal, TSOs are doing the CZC allocation (before any contact with the NEMO) themselves, so that the end period proposed under (1.a) seems too late. MPP would like more detail on the timeline and the process.

- (1.c) details that the notification of selected bids shall be done before subsequent TSO-BSP GCTs within the BCC. This opens the possibility to have different TSO-BSP GCTs for different balancing capacity standard products. However, how the CZC optimization function is supposed to work if some of the balancing capacity bids are not firm? How can TSOs assess the value of CZC for ... & ... without having firm info on the capacity bids.

Also, how can all that work with the requirement of MPs (and according to current practices) to have phased GCTs for each product.

- (1.c) lists the CZC domain to be used for the SDAC as an input for the optimization function. However, this is not known yet for the considered delivery day. Will that result from an additional capacity calculation before or again be a forecast of TSOs based on historical data? In the current process applied (and to be applied) in the CWE region (in the CORE region), the CZC is only calculated in D-2 and is publicly disclosed in the morning of the DA.
- (1.d) refers to (1.b). This seems to be an error as (1.b) explicitly refers to central dispatch model, and (1.d) is a general statement.
- (2.c) a.o aims at “determining the allocation of CZC...” whereas (2.d) aims at “determining the allocated CZC...”. How to differentiate those two steps?
- (2.e) presents the “capacity procurement optimization function” that, via a CMOL, will procure the balancing capacity bids. However (2.c) already considers the balancing capacity bids (and their associated prices) to determine the optimized split of CZC. So that (2.e) seems redundant to (2.c). Could you clarify why those two steps couldn’t merge (considering that, contrary to the co-optimization process, the market-based process is entirely performed by TSOs and that having a dedicated allocation step, in accordance with the TSOs’ legal responsibility of CZC allocation, seems therefore not relevant)?
- MPP requests the maximum transparency on the process described under (2.f).

Article 6 – Process to define the maximum volume of allocated cross zonal capacity for the exchange of balancing capacity of sharing of reserves

- (1) refers to article 41(2) of EBGL where it is stated that the maximum volume of allocated cross zonal capacity for the exchange of balancing capacity of sharing of reserves “*shall be limited to 10 % of the available capacity for the exchange of energy of the previous relevant calendar year between the respective bidding zones,...*”. Can you justify the Y-2 1.11 to Y-1

31.10 period that is considered under (2)?

- This is not clear how the maximum value will be updated along time. Will that be done each year?
- (3) sets the rules for new interconnectors that are defined as interconnectors that went operational after 18.12.19. For an equivalent Fmax, the maximum value will be much higher for new interconnectors than for the others. This is due to the application of the 10% on the active power capacity on one hand and on the average offered capacity on the other hand (read taken into account all externalities such as loop, transit flows, etc.).
- (5) opens the possibility for TSOs to apply additional limits besides the limitations of article 41(2). MPP would welcome the reasons why this would be applied and recalls that the additional limits cannot contradict EBGL.
- MPP would welcome a reference and an interpretation of the second paragraph of article 41(2). The contracting timing being not set yet (cf. art 5(1.a) of this proposal), this article can still apply.

Article 7- Determination of the forecasted market value of cross zonal capacity for the exchange of energy

- (1) refers to article 37(2) of the CACM GL. However, to our knowledge, the concept of “forecasted market value of CZC” is not covered in the CACM. The link to the article 37(2) of the CACM GL is therefore not straightforward.
- (2) makes reference to 39(5), but indeed only option (b) is considered. MPP would rather propose option (a), see intro
- (3) makes reference to “*appropriate reference period*”. There is no other detail on those reference periods. However, there are critical to the good working of the MB CZCA.
- (4) mentions the application of “*adjustment factors*” that shall be included and justified in the “*methodology for the establishment of common and harmonized rules and processes for the exchange and procurement of balancing capacity according to article 33(1) of the EBGL*”. To us, the description of adjustment factors belongs to the MZ CZCA methodology and not to the one related to article 33(1) of EB GL:
 - The adjustment factors are inherent to the CZC allocation mechanism that is chosen rather than to the overarching methodology defining the BCC.
 - Moreover, the concept of sharing of reserves is not covered by the article 33(1)
- (5). And vice versa.
- (6) is not clear. If it refers to that fact that energy bids will materialize in electricity flow over the (relevant) network elements whereas balancing capacity bids will not *per se* materialize in electricity flow because it will depend on the balancing energy needs of the TSOs, then it should be clarified in that sense. Moreover, we fail to see what is meant by a “*negative effect ... on the relevant network element*”. Why is there only a reference to flow-based capacity calculation (whereas in the proposal for article 42, there is no reference to any capacity calculation methodology)?

- (7) only consider the CORE TSOs to be included in the yearly feedback loop. We fail to understand why NRAs and MPs are not included in it.
- As already mentioned in the introduction, it is not clear how to calculate the market value of the cross zonal capacity for the exchange of energy. As detailed under article 2, the market value is the change of economic surplus and not the economic surplus itself. So, without any information about the energy bids, but only the prices spread between BZ, it seems complicated to calculate the marginal value of the CZC and to cover all the spectrum (0 to 100% CZC for both purposes).
- MPP would also advocate for a progressive increase of the cap on the share of CZC used for reserve exchange, starting from a very low value up to the 10% prescribed by EBGL. This progressive increase would be subject to a REX checking the efficiency of the forecasting methodology.

Article 8 – Determination of the actual market value of CZC for the exchange of balancing capacity or sharing of reserves

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Article 9 – Determination of the allocated volume of CZC for the exchange of balancing capacity or sharing of reserves

- (2) is contradictory to (5.2.c/d/e) in terms of process. Either the selection of standard balancing capacity bids happens simultaneously to the allocation of CZC for the exchange/sharing of it as in (9.2), either it takes place after, as under (5.2).
- (7) does not detail the circumstances under which the CORE TSOs / NRAs may apply those additional thresholds and/or margin to reduce CZC for the exchange of balancing capacity or sharing of reserves.

Article 10 – Pricing of cross zonal capacity

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Article 11 – Firmness regime of cross zonal capacity

- (2). How the CZC allocated for the exchange of balancing capacity or sharing of reserves that has not been used for the associated exchange of balancing energy of the product it was allocated for, can be released to “*all TSO for the associated exchange of balancing energy for the same product*”? BCC and common balancing platform make use of standard product with common activation deadlines. So that if the CZC has not been used for a product, it can just not be used by this same product (due to the harmonization of the activation timing...) but only for the activation of the subsequent ones.
- (2) mentions the role of “holder of the allocated capacity” which has not been covered before. More info would be welcome.

Article 12 – Sharing of congestion income from CZC

- (1) Wording issue in the sentence. How can a “Congestion income generated by ...”, which is expressed in euro be *shared* with a “congestion income distribution methodology”, which is a methodology? Replace *share with* by *according to*.

Article 13 – Publication

- (3) could be clearer. The reference to article (5.1.a) of this proposal seems not relevant as not related to publication elements
- (7) MPP would like to see such a publication each and every year in line with the feedback process proposed under the article (7.7) of this proposal.

Article 14 - Language

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Varia

Based on article 39.5(a), that describes how TSO can assess the market value of cross-zonal capacity for energy bids:

1. Use of transparent market indicators that disclose CZC's market value;
2. Use of a forecasting methodology enabling the accurate and reliable assessment of the market value of cross-zonal capacity ==> This is the one chosen by TSOs in this proposal.

MPP proposes an alternative based on the first point rather, e.g. the OTC day-ahead quotations for next day:

- either as a reference to check the market value derived from TSOs' forecast (e.g. the difference between the two should not exceed x%),
- or as the only input, with which the actual market value for reserve exchange is equalized, giving the associated CZC to be allocated to reserve exchange.