

Nordic TSOs' methodology proposal for a market-based allocation process of cross-zonal capacity for the exchange of balancing capacity or sharing of reserves



EFET response – 23 May 2022

The European Federation of Energy Traders (EFET) welcomes the opportunity to provide comments on the 2nd amendment proposal to the determination of the forecasted market value of cross-zonal capacity for the exchange of energy in single day-ahead coupling for the Nordic CCR in accordance with Article 6(4) of ACER decision No 22/2020 of 5 August 2020.

General comments on capacity reservation by the TSOs for balancing purposes:

Since the early stage of drafting of the Electricity Balancing network code, we have opposed the concept of reservation of cross-border transmission capacity by the TSOs for balancing purposes. Though by the time of the adoption of the EB GL, the concept was rebranded as “cross-zonal allocation of capacity”, its effects remain the same.

The cross-border reservation of transmission capacity by the TSOs for balancing purposes poses a serious risk to the availability of cross-border transmission capacity in the preceding trading timeframes. By allocating transmission capacity specifically for use in the balancing timeframe, TSOs remove available capacity from the allocation in the other timeframes, thereby restricting market participants' ability to adjust their positions across borders in the most economically efficient manner, and to contribute to overall system balance.

The use of cross-border transmission capacity is a key element of European market integration in the forward, day-ahead and intraday timeframes. A major objective of integration projects such as the EU Harmonised Allocation Rules for forward transmission rights, as well as single day-ahead and intraday coupling are to improve the access and use of such transmission capacity by the market. Reserving capacity (from the forward timeframe until the intraday market) for use by the TSOs in the balancing timeframe would turn the clock back on those improvements.

General comments on the so-called “market-based” method for capacity reservation by the TSOs for balancing purposes:

First, the so-called “market-based” method for capacity reservation by the TSOs for balancing purposes is based on a tool optimising actual balancing capacity bids with forecasted day-ahead bids. The allocation process is based on the forecasted market value of cross-zonal capacity for energy bids. The comparison with the actual value of balancing capacity bids is therefore reliant on estimations made by TSOs based on values from the past and not for the delivery day under consideration.

We therefore consider that the “market-based” designation chosen for this cross-zonal capacity reservation process is incorrect. While this process reduces complexity, notably in terms of the functioning of the Euphemia algorithm, compared to the co-optimisation method

according to article 40 EB GL, it is based on a fundamental uncertainty as to the value of cross-zonal capacity in the day-ahead market. Changes in the bidding behaviour of market participants compared to what the TSOs have modelled or are expecting should not be underestimated. Besides, ignoring the intraday market in the cross-zonal capacity reservation process, in practice, forecloses opportunities for market participants to adjust their positions in intraday across borders and will lead to changes in the bidding process.

Second, in the context of the implementation of article 16 of the recast Electricity Regulation approved as part of the Clean Energy Package (Regulation (EU) 2019/943), the TSOs will need to allocate to the market a minimum of 70% transmission capacity respecting operational security limits after deduction of contingencies. As the transmission capacity reserved by the TSOs through the “market-based” allocation process would be used by the TSOs themselves for the exchange of balancing capacity or the sharing of reserves, we would welcome a clear statement by the TSOs that this capacity will not be counted within the minimum 70% threshold.

Third, the Nordic region is to transition to the Flow-Based Day-Ahead Market Coupling (FBDA) by 2023. In FBDA, network constraints are related to firm energy net positions, as some flows are necessary to ensure secure grid conditions. 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 EB GL forbids that reliability margins are increased to accommodate the uncertainty linked to the activation or non-activation of the contracted reserves (FRR or RR), we do not see how the “market-based” process could be applied in a FBDA environment.

Finally, article 38.8 of the EB GL requires a regular assessment of the need to reserve capacity for balancing purposes. In line with the spirit of this article, we would have expected a thorough assessment of the need to reserve cross-zonal capacity for balancing purposes in the Nordic region. To date, we remain unconvinced of the necessity of such a market design feature. Contrary to the methodology on capacity reservation for balancing through co-optimisation according to article 40 EB GL, the development of the present methodology for a “market-based” cross-zonal capacity allocation for the exchange of balancing capacity or sharing of reserves proposal according to article 41 EB GL is not an obligatory requirement.

Should Nordic TSOs persist to issue this methodology, we invite individual Nordic TSOs and NRAs to refrain from implementing this cross-border capacity reservation process, or any of the two others foreseen by the EB GL (co-optimisation under article 40, and the so-called “economic efficiency” allocation method under article 42).

Comments on individual articles:

Recital 4: *The forecasted market value of cross-zonal capacity for the exchange of energy that is used in the allocation process is calculated based on the latest available day-ahead energy prices in the connecting bidding zones. As requested by the ACER decision no 22/2020, the TSOs have reviewed the accuracy and efficiency of the approach used to forecast the value of cross-zonal capacity for the exchange of energy in preparing this amendment proposal. TSOs will, as part of the allocation processes' implementation, collect information on and review the efficiency of the forecasting methodology used. This future efficiency monitoring will include among others a comparison of the forecasted and actual market values of cross-zonal capacity for the exchange of energy.*

We welcome the efficiency monitoring of the forecasting methodology used.

Recital 5b: *The methodology for market-based capacity allocation takes into account the impact on the day-ahead market by using the forecasted market value of cross-zonal capacity in the day-ahead market for the objective to maximise the total economic surplus of both the energy and balancing capacity market while safeguarding day-ahead markets with application of dynamic mark-up. By allowing the exchange of balancing capacity, leading to a more efficient balancing capacity market and price formation, it also contributes to efficient investment signals in new capability for providing balancing capacity. Therefore, the methodology for market-based capacity allocation contributes to the efficient long-term operation and development of the electricity transmission system and electricity sector in the Union while facilitating the efficient and consistent functioning of the day-ahead, intraday and balancing markets (Article 3(1)(d) of the EB Regulation).*

We challenge the assertion of the TSOs that cross-zonal capacity reservation in general, and this methodology for a “market-based” method of cross-zonal capacity reservation, would facilitate “the efficient and consistent functioning of day-ahead, intraday and balancing markets” (article 3.1.d EB GL). By allocating transmission capacity specifically for use in the balancing timeframe, TSOs remove available capacity from the allocation in the other timeframes, thereby restricting market participants’ ability to adjust their positions across borders in the most economically efficient manner, and to contribute to overall system balance. The TSOs have not provided evidence that the present methodology would actually not violate the principle of article 3.1.d EB GL. At the very least, we would like to see any reference to a positive contribution to the functioning of day-ahead and intraday markets removed from this recital.

Article 1.2: *A mark-up will be added to the initial forecasted market value of cross-zonal capacity calculated in accordance with paragraph 1, in order to take into account the uncertainty of the forecasted market value of cross-zonal capacity. This mark-up is defined for each direction as follows: (a) if there is a negative or zero market spread for the initial forecasted market value of cross-zonal capacity in accordance with paragraph 1, the mark-up will be 0.1 EUR/MWh; and (b) if there is a positive market spread, for the initial forecasted market value of cross zonal capacity in accordance with paragraph 1, the mark-up will be 5.4 EUR/MWh.*

The proposed means of dealing with the related uncertainty, by using mark-ups based on forecasting errors, may be a reasonable compromise. If indeed there are systematic and obvious price differences that the TSO forecast captures, the capacity reservation will provide the intended benefit. If, however, the TSO forecast cannot properly deal with changes in fundamentals, bidding behaviour, etc., the increased mark-up will restrict the reservation to an appropriate level.

Article 1.3: *If the average positive forecast error over the last ~~30~~ 60 days, per bidding zone border and per direction, excluding the 5% hours with the highest positive forecast errors, is 1 EUR/MWh higher or lower than the mark-up applied the day before, the TSOs of this bidding zone border shall respectively increase or decrease the mark-up pursuant to paragraph 2(b) with 1 EUR/MWh for the respective direction. The mark-up for a positive market spread, can never be lower higher than the default value pursuant to paragraph 2(b) and never higher lower than 1 ~~5~~ EUR/MWh. The updated mark-ups shall be published pursuant to Article 12(1).*

No comments.

Comments on the explanatory document:

No comments.