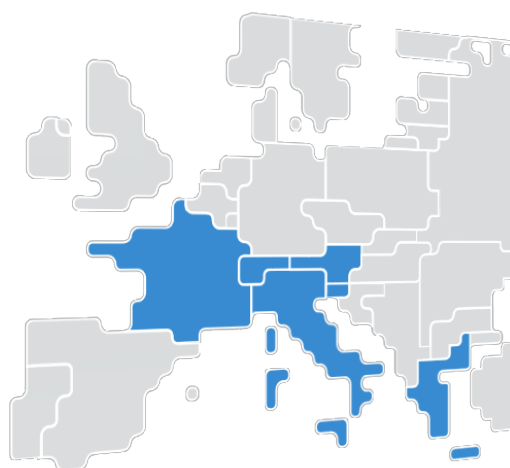


# Consultation Report on Italy North CCR TSOs' Methodology for a market-based allocation process of cross zonal capacity for the exchange of balancing capacity or sharing of reserves in accordance with article 41 of the Commission Regulation on (EU) 2017/2195 of 23 November 2017 establishing a guideline on electricity balancing

18 DECEMBER 2019



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**GLOSSARY**

All definitions and abbreviations of the Italy North MB CZCA Methodology apply accordingly.

## 1. INTRODUCTION

This document is the consultation report for the Italy North TSOs' proposal for the Italy North CCR TSOs' Methodology for a market-based allocation process of cross zonal capacity for the exchange of balancing capacity or sharing of reserves (MB CZCA Methodology) in accordance with article 41 of the Commission Regulation on (EU) 2017/2195 of 23 November 2017 establishing a guideline on electricity balancing (EB GL).

Italy North TSOs would like to thank all parties involved in the public consultation for their interest in the Italy North MB CZCA Methodology. Italy North TSOs welcome the feedback received as it is valuable for the further development and detailing of the Italy North MB CZCA Methodology.

### **1.1. Public consultation on Italy North MB CZCA Methodology**

Via the ENTSO-E Consultation Platform, the public consultation document for the Italy North MB CZCA Methodology was available to Italy North stakeholders from 11 October 2019 until 11 November 2019. In total, three stakeholders submitted their responses, of which one provided/repeated the responses/comments of the other stakeholder.

Since the public consultation results should be processed in an anonymised manner, the identity of the respondents is not disclosed in this consultation report. Please note that all responses were, however, shared with the Italy North National Regulatory Authorities (NRAs) in a non-anonymised manner.

The Italy North TSOs wish to clarify that the content of this document is intended to summarise the results obtained in the public consultation. The Italy North TSOs did their best to reply to all comments and concerns.

## 2. ITALY NORTH TSOS MB CZCA METHODOLOGY – CONSULTATION FEEDBACK

### 2.1. Introduction

In this chapter, a summary is provided of all stakeholder responses received via the ENTSO-E Consultation Platform (an overview of the survey questions can be found in the Appendix). All responses are structured in a table showing the stakeholder response, the action taken by Italy North TSOs and in addition Italy North TSOs' answer to the stakeholders' response.

## 2.2. Methodology

### Feedback on Article 1 and general questions – Subject matter and scope

	Stakeholder response	Considered action taken	TSOs answer
1	<p>The TSOs have not provided evidence that the present methodology would not actually violate the principles of articles 3.1.d and 3.2.e EB GL.</p>	No action	<p>We understand the position raised by the stakeholders; as stated in the proposal, the reservation will occur only if the overall social welfare from the energy and balancing capacity market will increase. In the IN TSOs opinion this statement will ensure that the efficiency of the markets (energy and balancing capacity) will not be compromised by the implementation of this proposal.</p>
2	<p>Regarding the inverted market-based allocation process, a stakeholder is not convinced by such a methodology.</p> <p>SDAC process taking place before the auction for reserves puts into question the whole concept of the latter. Indeed, only flexibilities remaining after the SDAC will be available for reserves contractualisation.</p> <p>There is therefore no guarantee that TSOs reserve need will be fulfilled with appropriate products (e.g. requirement on FAT)</p>	...	<p>The methodology that will be used to establish a balancing capacity cooperation is strictly related to the way a TSO procures its balancing resources. Currently there are some TSOs that procure their balancing resources after the SDAC process.</p> <p>In any case if a BCC will use the IMB methodology, CZC will be allocated by the SDAC algorithm as for art. 40 methodology</p>
	<p>The proposed methodology does not handle the case of several types of reserves being allocated in a cross-border way (either simultaneously or sequentially).</p> <p>Explicit provisions covering this case would be welcome.</p> <p>The proposal also does not mention the possibility to</p>		<p>TSOs welcome the feedback of stakeholders. Such level of detail will be defined at BCC level.</p>

	<p>have linked (in time and in direction) and exclusive reserve bids, and the explanatory document only evokes it as an option.</p>		
	<p>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.</p>		<p>IN TSOs would like to highlight that CZC allocated will be used by the balancing capacity market, not only the TSOs. The EBGL is clear on a future competition on CZC in the timeframe of SDAC by the DAM and the balancing capacity market. The moment the timeframe of SDAC receives 70%, an outcome of the CZC optimisation can result in 69% to the DAM and 1% to the balancing capacity market.</p>
	<p>We request the inclusion of the following requirements in the main body of the Italy North TSOs’ proposal:</p> <ul style="list-style-type: none"> <li>- the Italy North TSOs that want to establish a BCC shall share with Italy North TSOs the cost-benefit analysis of such a BCC</li> <li>- the CBA shall also be distributed to Italy North NRAs and market participants</li> <li>- the decision to establish a BCC shall be</li> </ul>		<p>The IN TSOs will perform a CBA once a BCC will be established. Anyway, in their opinion, the results of such CBA will be shared only at NRAs level</p>

excluded unless the CBA is positive - the relevant NRAs' decision to approve or not a BCC shall take account of the results of the CBA		
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### Feedback on Article 2 – Definitions

Stakeholder response	Considered action taken	TSOs answer
No feedback received on this article		

### Feedback on Article 3 – Principles of balancing capacity cooperation

Stakeholder response	Considered action taken	TSOs answer
No feedback received on this article		

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

Stakeholder response	Considered action taken	TSOs answer	
1	Stakeholders would welcome the involvement of further stakeholders, in particular market participants, in order to provide transparency to the forecasting technique, being the core of the market-based analysis	See answer	All IN TSOs acknowledge the feedbacks provided by stakeholders. IN TSOs willing to implement a BCC cooperation based on market-based methodology will organise a public consultation, according to articles 5(3)(b) and 10(4) on the proposal for the establishment of common and harmonised rules and processes for the exchange and procurement of balancing capacity, according to Articles 33(1).
2	The forecasting technique being at the center of the proposed methodology, EDF considers that it should be shared with market parties and be consulted. More generally, Italy North TSOs should ensure full transparency in the implementation process), and market parties should be given sufficient time to	Update of the article	The forecasting technique will be shared only with the relevant regulator authorities: in the TSOs view the way balancing capacity need is estimated belongs to the TSO's activities and will be shared with relevant RA for transparency.  Concerning the second point, we welcome the suggestion from the stakeholders and we introduced a



	adapt their IT and operational processes. In this respect, the online announcement mentioned in Article 4(1) should be done sufficiently early; 6 months is considered appropriate in EDF's view.		minimum of thirty days for the notifications to the stakeholders.
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### Feedback on Article 5 – Process of market-based allocation

	Stakeholder response	Considered action taken	TSOs answer
1	Inverted market-based method not provided for by EBGL	No action taken	TSOs refer market participants to the second half of article 41.1.b of the EBGL with regard to the provision for the inverted market-based approach.
2	The value of CZC for the intraday-market shall be included when forecasting the market value of CZC for the exchange of energy.	No action taken	As described in the ED, the forecasting of the market value of CZC for the Intraday market additionally introduces uncertainty into the optimization which will render the forecasted market values of CZC for the exchange of energy even more inaccurate. Also, TSOs would need to forecast CZC available for the intraday market which is determined in particular by the SDAC results. For these reasons, TSOs refrain from including the intraday market in the forecasting of market values for the exchange of energy.

### Feedback on Article 6 – Timeframe of market-based approach

	Stakeholder response	Considered action taken	TSOs answer
1	Stakeholders demand an additional requirement stating that the calculation of the CZCA must not take longer than selecting bids without using a BCC.	No adaptation of the text	Since the cross border optimization of selection of capacity bids is a more complex process than a local selection, the TSOs could expect that it may not take the same time. However, the timing described in Article 5 ensures enough time for BSPs to bid in other products and also NEMOs to take into account the CZCA for balancing.

2	When determining the allocation of CZC for the exchange of balancing capacity or sharing of reserves, it is unclear which capacity calculation is used as the basis.	Adapted Articles 6.2.b	Depending on the final implementation (e.g. D-7 or D-2) details of a balancing capacity cooperation between TSOs of the CCR IBWT, different options for a capacity calculation are possible. TSOs hence decide to adapt the article in order to allow the best solution to be implemented.
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### Feedback on Article 7 – Timeframe of inverted market-based approach

Stakeholder response	Considered action taken	TSOs answer
No feedback received on this article		

### Feedback on Article 8 – Process to define the maximum volume of allocated cross zonal capacity for the exchange of balancing capacity or sharing of reserves

Stakeholder response	Considered action taken	TSOs answer	
1	It should be clearly stated the 10% are applied over CZCA for all of the balancing processes, not 10% for each of aFRR, mFRR and RR, possibly summing up to 30%.	See answer	IN TSOs confirm that the 10% are for all the balancing processes using the market based methodology, if the contracting is more than two days in advance of the provision of the balancing capacity (see article 41 (2) of the EBGL)
2	The possibility to deviate from the 10% maximum threshold for reservation of cross-zonal capacity may allow for the reservation of unlimited amounts of cross-zonal capacity.	See answer	The possibility to set other limits for the allocation of cross-zonal capacity is based on article 39 (6) of the EBGL and hence on a decision by NRAs.
3	We would welcome a clearer wording that individual BCCs can set only a lower threshold than the maximum 10% of available cross-zonal capacity referred to in article 41.2 EBGL.	No action	The application of additional limits for the maximum volume of allocated CZC requires an update of the proposal according to Article 33(1) of the EBGL. Also, “additional” limits do not invalidate the maximum limit set forth in the EBGL.

### Feedback on Article 9 – Determination of the forecasted market value of cross zonal capacity for the exchange of energy for the market-based approach

	Stakeholder response	Considered action taken	TSOs answer
1	Method for forecasting shall be explained with additional details (reference period and adjustment factors).	Included provision in Art 9 (4)	TSOs added details on the reference period. However, the proposal shall allow future BCCs to choose the best method for forecasting, depending on the availability of data, market timeframes, particular requirements of market participants, etc. The same holds for the choice of adjustment factors. BCCs will specify the exact forecasting method including their choice of adjustment factors (if applicable) in the proposals for implementation of a BCC according to Art. 33 EBGL.
2	Using forecasted market values, especially when the forecasts are based on historical data, is inherently inaccurate and may lead to an inefficient allocation of cross zonal capacity.	Included provision in Art 9 (3)	TSOs welcome this suggestion from the BSPs and will open to the possibility of using data from “forward markets” in addition to the reference days and adjustment factors.
3	Forecasted market values as well as optimization results shall be published frequently and their derivation and monitoring shall be transparent.		The details related to the forecasting technique will be shared once a BCC will be established only with relevant NRAs. In the TSOs view the way balancing capacity need is estimated belongs to the TSO's activities and will be shared with relevant RA for transparency. The disclosure of the forecasted market values could lead to potential distortion of the next BC market.
4	The value of CZC for the intraday-market shall be included when forecasting the market value of CZC for the exchange of energy.	No action	The forecasting of the market value of CZC for the Intraday market additionally introduces uncertainty into the optimization which will render the forecasted market values of CZC for the exchange of energy even more inaccurate. Also, TSOs would need to forecast CZC available for the intraday market which is determined in particular by the SDAC results. For these reasons, TSOs refrain from including

			the intraday market in the forecasting of market values for the exchange of energy.
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### Feedback on Article 10 – Determination of the actual market value of cross zonal capacity for the exchange of energy for the inverted market-based approach

Stakeholder response	Considered action taken	TSOs answer
No feedback received on this article		

### Feedback on Article 11 – Determination of the actual market value of cross zonal capacity for the exchange of balancing capacity of sharing of reserves for the market-based approach

Stakeholder response	Considered action taken	TSOs answer
No feedback received on this article		

### Feedback on Article 12 – Determination of the forecasted market value of cross zonal capacity for the exchange of balancing capacity of sharing of reserves for the inverted market-based approach

Stakeholder response	Considered action taken	TSOs answer	
1	We strongly doubt that the reference to “reference days” or “adjustment factors” without further specification is in line with Article 41.1(b) of the EBGL that explicitly requests a “detailed description on how to determine [...] the forecasted market value of cross-zonal capacity for the exchange of energy”. Referring to the concepts of “reference days” or “adjustment factors” and postponing the definition of such elements to the BCC proposals is insufficient.	Included provision in art. 12.4	TSOs added details on the reference period. However, the proposal shall allow future BCCs to choose the best method for forecasting, depending on the availability of data, market timeframes, particular requirements of market participants, etc. The same holds for the choice of adjustment factors. BCCs will specify the exact forecasting method including their choice of adjustment factors (if applicable) in the proposals for implementation of a BCC according to Art. 33 EBGL.
2	TSOs should publish the forecasted market values on a continuous basis (with as little of a delay as possible) and not only the efficiency of	No action	The forecasting technique will be shared only with the relevant regulatory authorities: in the TSOs view the way balancing capacity need is estimated belongs to the TSO's activities and will

	the forecasted market values		be shared with relevant RA for transparency.
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### Feedback on Article 13 – Determination of the allocated volume of cross zonal capacity for the exchange of balancing capacity or sharing of reserves

Stakeholder response	Considered action taken	TSOs answer
<p>1</p> <p>Article 13.3: The objective for the allocation of CZC between SDAC and the exchange of balancing capacity or sharing of reserves shall be the maximization of the total economic surplus for the sum of the exchange of energy and the exchange of balancing capacity or sharing of reserves per business day.</p> <p>We understand the reasoning for this objective, but changes in the bidding behaviour of market participants compared to what the TSOs have modelled or are expecting should not be underestimated. This will require time to adapt and alignment with TSOs in order to design it.</p> <p>As we mentioned in earlier points, ignoring the intraday market, in practice, forecloses opportunities for market participants to adjust their positions and will lead to changes in the bidding process.</p>		<p>TSOs do not underestimate the challenges of the bidding behaviour changes, therefore appropriate monitoring of efficiency shall be implemented.</p>
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### Feedback on Article 14 – Pricing of cross zonal capacity

Stakeholder response	Considered action taken	TSOs answer
No feedback received on this article		

### Feedback on Article 15 – Firmness regime of cross zonal capacity

Stakeholder response	Considered action taken	TSOs answer
<p>1</p> <p>Article 15.2: According to Article 38(9) of the EBGL, when CZC allocated for the exchange of balancing capacity or sharing of reserves has not been used for the associated exchange of balancing energy, it shall proceed pursuant to article 3(9) or 3(10) of this MB CZCA proposal.</p> <p>We welcome the clarification that cross-zonal capacity reserved for a specific product that was not used for this process shall be made available again for the exchange of balancing energy in processes with shorter timeframes, in accordance with article 38.9 EB GL.</p> <p>This paragraph is, however, a partial repetition of articles 1.8 and 3.9. Please make sure the text of the methodology does not reiterate the same rules multiple times.</p>	<p>No adaptation of the text</p>	<p>The proposed text is self-explanatory</p>
<p>2</p> <p>Article 15.5: TSOs shall not increase the reliability margin calculated pursuant to Article 21 of CACM due to</p>	<p>No adaptation of the text</p>	<p>Market participant only acknowledges the proposed wording</p>

	<p>the exchange of balancing capacity and or sharing of reserves for frequency restoration reserves and replacement reserves.</p> <p>We welcome this requirement that the application of cross-border capacity reservation should not increase the day-ahead or intraday reliability margins used by the TSOs.</p>		

#### Feedback on Article 16 – Sharing of congestion income from cross zonal capacity

Stakeholder response	Considered action taken	TSOs answer
No feedback received on this article		

#### Feedback on Article 17 – Publication

Stakeholder response	Considered action taken	TSOs answer
<p>1 Article 17.1: Italy North TSOs of each balancing capacity cooperation shall publish the MB CZCA proposal without undue delay after concerned NRAs have approved this proposal or a decision has been taken by the Agency for the Cooperation of Energy Regulators in accordance with Article 5(7), Article 6(1) and Article 6(2) of the EBGL.</p> <p>This article does not include any indication of the timing for the publication of the MB CZCA proposal. We believe that a minimum three-month notice to market participants</p>	...	<p>Article doesn't address the implementation of BCC, but publication of the methodology only.</p> <p>Moreover deadline for publication of methodologies is defined also in article 17(5) of the MB CZCA proposal.</p>

	is necessary for appropriate preparation.		
2	<p>Article 17.3: Each TSO that is part of a balancing capacity cooperation shall publish information in accordance with Article 12(3)(h) of the EBGL on the allocation of CZC for the exchange of balancing capacity or sharing of reserves pursuant to Article 38(1)(a) of the EBGL as defined in article 6(1)(b), 7(1)(d) and 7(1)(e) of this MB CZCA proposal and no later than 6 hours before the use of the allocated CZC.</p> <p>If the cross-zonal capacity allocation process for the exchange of balancing energy or sharing of reserves is completed at the time of the balancing capacity procurement process in the case of the “market-based” approach, it is unclear why Italy North TSOs participating in a BCC would wait to publish information on allocated cross-zonal capacity for the exchange of balancing energy / sharing of reserves only six hours before its use. For the sake of transparency, this information should be published together with the results of the capacity procurement process, according to the same timing as laid down in article 13.2.</p>	Text adopted to reflect the requirements of EBGL	<p>Article 17.3: Each TSO that is part of a balancing capacity cooperation shall publish information in accordance with Article 12(3)(h) of the EBGL on the allocation of CZC for the exchange of balancing capacity or sharing of reserves pursuant to Article 38(1)(b) of the EBGL as defined in article 6(1)(b), 7(1)(d) and 7(1)(e) of this MB CZCA proposal and at the latest 24 hours after the allocation and no later than 6 hours before the use of the allocated CZC.</p>



3	<p>Article 17.6: Subject to approval pursuant to Article 18 of the EBGL, a TSO may withhold the publication of information on offered prices and volumes of balancing capacity or balancing energy bids if justified for reasons of market abuse concerns and if not detrimental to the effective functioning of the electricity markets. A TSO shall report such withholdings at least once a year to the relevant regulatory authority in accordance with Article 37 of Directive 2009/72/EC and pursuant to Article 12(5) of the EBGL.</p> <p>It shall never be the task of a TSO to decide whether market abuse has been committed, nor to restrict market design or disclosure of price sensitive information on the basis of a fear of such market abuse materialising.</p>	No action	Withhold of publication of information by TSOs is allowed in article 12(4) of EBGL.
4	<p>Article 17.7: Italy North TSOs of each balancing capacity cooperation applying the market-based approach shall publish the efficiency of the forecasted market value for the exchange of balancing capacity or sharing of reserves.</p> <p>Article 17.8: Italy North TSOs of each balancing capacity cooperation applying the inverted market-based approach shall publish the efficiency of</p>	No action	TSOs members of BCC shall publish all data that is requested by EBGL article 12 and article 39(6), i.e. efficiency data, including a comparison of the forecasted and actual market data.

	<p>the forecasted market value for the exchange of energy.</p> <p>TSOs should publish the forecasted market values on a continuous basis (with as little of a delay as possible) and not only the efficiency of the forecasted market values as currently set out in articles 17.7 and 17.8.</p>		

**Feedback on Article 18 – Language**

Stakeholder response	Considered action taken	TSOs answer
No feedback received on this article		