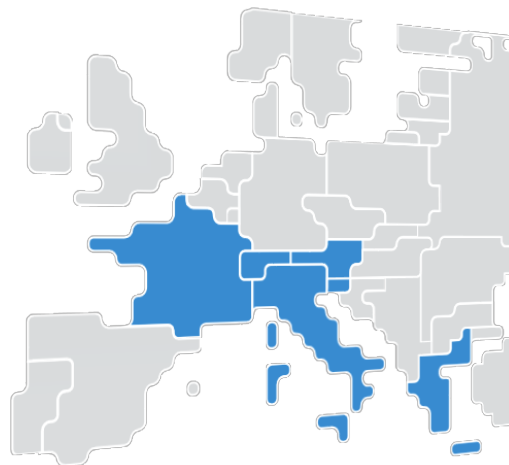


# Consultation Report on Italy North CCR TSOs' Methodology for an allocation process of cross zonal capacity for the exchange of balancing capacity or sharing of reserves based on economic efficiency analysis in accordance with article 42 of the Commission Regulation on (EU) 2017/2195 of 23 November 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.

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. All responses are structured in a table showing the stakeholder response, the number of stakeholders providing this response, the action taken by Italy North TSOs and in addition Italy North TSOs' answer to the stakeholders' response.

### 2.2. General

Some general feedback was received on the following:

Stakeholder response	Considered action taken	TSOs answer
1	Stakeholders disagree with the concept of CZC allocation for the exchange of balancing capacity and/or sharing of reserves...	... TSOs acknowledge the dissatisfaction of market parties to the concept of CZC allocation, nonetheless also understand that the development of harmonised European markets should not exclude balancing capacity markets
2	Stakeholders disagree with the concept of forecasting...	... TSOs acknowledge the difficulty of forecasting, and have tried to propose the most suitable economic efficiency solution and acknowledge the co-optimisation as the long-term solution.
3	Stakeholders disagree with the chosen way of forecasting, i.e. using reference days.  Stakeholders therefore strongly doubt that the current proposal is in line with article 42.1(b) EB GL that explicitly requests a "detailed description on how to determine [...] the forecasted market value of cross-zonal capacity	... TSOs see the choice of previous market results as indication for near future market results (reference days) as the cleanest, market-based and transparent forecasting tool. TSOs do not consider themselves to forecast the value of CZC, they only operate the forecasting algorithm using inputs taken from actual (previous) market-results.  Additionally, TSOs consider proposed level of details, which foresees also inclusion of adjustment factors to improve the

	for the exchange of energy”.		forecast of the market value (Art. 9(2)) or adjustment factors and the forward electricity market value (Art. 8(3)), sufficient and in line with requirements of Art. 42.1(b) of EBGL.
4	Stakeholders requested clarification that as the transmission capacity reserved by the TSOs through the “economic efficiency” 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.	...	TSOs consider CZC allocated and used in the balancing timeframe also as a capacity given to the market. CZC reserved for balancing is, therefore, part of the 70% threshold.
5	Stakeholders question the need of CZC reservation for balancing, its benefits and drawbacks. Consequently they invite Italy North TSOs to withdraw their proposal altogether.	...	TSOs understand the concerns of stakeholders, but would also like to exercise our right to develop the proposal as given in Art. 38.1(c) of EBGL. The proposal addresses the methodology how to justify the need for reservation of CZC for balancing, including calculation of benefits and regular assessment of its efficiency, and it does not represent a justification as such. The need of CZC reservation for balancing shall be demonstrated when BCC shall be established and prosed/selected methodology applied.
6	Stakeholder expressed its view that EE methodology is the only methodology foreseen by the Electricity balancing Guidelines allowing a contracting period longer than one day and we		TSOs acknowledge the positive feedback from the stakeholder and state that according to our understanding provided EE methodology is in line with the regulation (EU) 2019/943 in article 6 (Balancing Markets).

	<p>consider this an important feature to provide long-term price signals for flexible capacity and new technologies willing to participate in balancing markets. Having said that, we would like TSOs to further elaborate on the consistency of this methodology in the long-term with the provisions established by the regulation (EU) 2019/943 in article 6 (Balancing Markets).</p>		
7	<p>We ask that in the future TSOs, when establishing a Balancing Capacity Cooperation, will consult market participants on the reasons behind the choice of an allocation process with respect to another (use of co-optimisation, market based or economic efficiency process).</p>		<p>Selection of processes is out of the scope of proposed CZC reservation methodologies. Please consider that the choice is related to the way and timeframe in which a TSO procures balancing capacity.</p>
8	<p>Stakeholders ask TSOs transparency and further details on the concepts of “selected reference days” and “adjustment factors” in the determination of the forecasted value of cross-border capacity parameters in the framework of this consultation. Being these concepts part of this methodology, we think that postponing such explanation to the eventual implementation phase of a Balancing Capacity Cooperation is</p>		<p>Italy North TSOs have tried to include in the proposal as much details on the concepts of “selected reference days” and “adjustment factors” in the determination of the forecasted value of cross-border capacity as possible, including an appropriate level of requested transparency.</p> <p>However, further details shall be shared with concerned NRAs when BCC shall be established and proposed EE methodology implemented.</p>

	not in line with the requirements of the EBGL in article 42.		
9	Stakeholder would like TSOs to further elaborate on the possibility of using real data from forward markets at least for the supply side.		Proposal acknowledged. Appropriate wording was added in Art. 8.3 of the proposal.
10	Stakeholder would welcome a progressive increase of the maximum volume of allocated cross zonal capacity for the exchange of balancing capacity or sharing of reserves, starting from a low value and progressively reaching the 5% threshold applicable pursuant to EBGL Article 42(2). This would ensure a stepwise implementation of the methodology.		The maximal amount of CZC which could be allocated for balancing is defined in the EBGL. The exact amount of CZC, which could be actually allocated for balancing shall be defined in the BCC applying proposed EE methodology, and it should not be predetermined in advance.
11	Stakeholder requests transparency and sufficient time to adapt their IT.		TSOs believe that proposal guaranties sufficient transparency in the implementation process and gives enough time for stakeholders to adopt their stems. The thirty days of notification as stated in the methodology is the minimum.
12	Stakeholder requests more clarity on the calculation of CZC. Do Italy North TSOs plan to set up a dedicated capacity calculation or would the CZC be also a forecast based on historical data? If a dedicated capacity calculation is performed, consistency should be sought between the CZC		Currently, TSOs do not foresee to implement a dedicated capacity calculation process.



	energy market value forecasts and the flow forecasts used in the common grid model taken as a basis for the capacity calculation.		
13	Stakeholder requests clarity on balancing products and handling several types of reserves.		When establishing BCC only standard balancing capacity products as defined on an ENTSO-E level shall be used. TSOs shall also strive to establish only one BCC for the respective process/type of reserves.

## 2.3. Methodology

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

Stakeholder response	Considered action taken	TSOs answer
<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). Explicit provisions covering this case would be welcome. The proposal also does not mention the possibility to have linked (in time and in direction) and exclusive reserve bids, and the explanatory document only evokes it as an option.</p>		<p>TSOs welcome the feedback of stakeholders. Such level of detail will be defined at BCC level.</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>

**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	
1	Based on the draft proposal, methodology can be applied even before the go-live of balancing energy platforms. It is unclear how standard balancing capacity products, which are based on standard balancing energy products, can be used, if balancing energy products will be introduced only with the go-live of European platforms...	...	Each balancing capacity cooperation requires also balancing energy cooperation with harmonised balancing energy products to be exchanged accordingly. The moment PICASSO, MARI, and TERRE are not yet implemented, each BCC shall have its own balancing energy cooperation in place.
	Article 3.9: We welcome this provision foreseeing a regular assessment to be performed by TSOs with regard to the continued necessity or not of a BCC according to article 38.8 EB GL. We would nonetheless like to see it complemented with an obligation to disclose the assessments to the relevant NRAs and market participants.		The assessment will be disclosed to the relevant NRAs.

**Feedback on Article 4 – Notification process for the use of the allocation process based on economic efficiency analysis**

Stakeholder response	Considered action taken	TSOs answer	
1	Stakeholders would welcome the involvement of	See answer	All IN TSOs acknowledge the feedbacks provided by stakeholders. IN TSOs

	further stakeholders, in particular market participants, in order to provide transparency to the forecasting technique, being the core of the market-based analysis		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).
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### Feedback on Article 5 – Process of allocation based on economic efficiency analysis

Stakeholder response	Considered action taken	TSOs answer	
1	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 the allocation process based on economic efficiency analysis

Stakeholder response	Considered action taken	TSOs answer	
1	The timing for the notification to the BSPs shall be set far earlier than the GOT of SDAC as the TSO-BSP GCT takes place before W-1.	No action taken	IN TSOs will follow the EBGL requirement to publish the results no later than 24 hours after GCT of the BCC (cf. EBGL art 12.3.h).
2	When determining the allocation of CZC for the exchange of balancing capacity or sharing of reserves, it is unclear which	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 IN CCR, different options for a capacity calculation are possible. TSOs hence decide to adapt the article in

	capacity calculation is used as the basis.		order to allow the best solution to be implemented.
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### Feedback on Article 7 – 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 5% are applied over CZCA for all of the balancing processes, not 5% for each of aFRR, mFRR and RR, possibly summing up to 15%.	No action taken	IBWT TSOs confirm that the 5% are for all the balancing processes using the methodology for an allocation based on an economic efficiency analysis, 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	We would welcome a clearer wording that individual BCCs can set only a lower threshold than the maximum 5% of available cross-zonal capacity referred to in article 42.2 EBGL.	No action taken	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 8 – Determination of the forecasted market value of cross zonal capacity for the exchange of energy

Stakeholder response	Considered action taken	TSOs answer
Article 8.2: The article enshrines that the value of cross-zonal capacity is compared between the forecasted DA market value and the forecasted balancing capacity value, without taking account of the value of that capacity in the intraday timeframe. Ignoring the intraday market, in practice, forecloses opportunities for market participants to adjust their positions in intraday across borders.		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.

1	Method for forecasting shall be explained with additional details (reference period and adjustment factors).	Updated article 8.4	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.
	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.

### Feedback on Article 9 – Determination of the forecasted market value of cross zonal capacity for the exchange of balancing capacity of sharing of reserves

Stakeholder response	Considered action taken	TSOs answer	
1	Method for forecasting shall be explained with additional details (reference period and adjustment factors).	Updated article 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	Forecasted market values as well as optimization results shall be published		The details related to the forecasting technique will be shared once a BCC will be established only with relevant

	<p>frequently and their derivation and monitoring shall be transparent.</p>		<p>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.</p>
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**Feedback on Article 10 – 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 11.2: 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 contracting period.</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</p>	<p>No action</p>	<p>Comment considered as pertaining to Article 10.2.</p> <p>TSOs do not underestimate the challenges of the bidding behaviour changes, therefor appropriate monitoring of efficiency shall be implemented.</p>

	to changes in the bidding process.		
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### Feedback on Article 11 – Pricing of cross zonal capacity

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

### Feedback on Article 12 – Firmness regime of cross zonal capacity

Stakeholder response	Considered action taken	TSOs answer
1	<p>Article 12.2: 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(11) of this EE 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 1.7 and 3.11. 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>
2	<p>Article 11.4: TSOs shall not increase the reliability margin calculated pursuant</p>	<p>No adaptation of the text</p> <p>Comment considered as pertaining to Article 12.4.</p>



	<p>to Article 21 of CACM due to 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>		<p>Market participant only acknowledges the proposed wording</p>

#### Feedback on Article 13 – Sharing of congestion income from cross zonal capacity

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

#### Feedback on Article 14 – Publication

	Stakeholder response	Considered action taken	TSOs answer
1	<p>Article 14.1: Italy North TSOs of each balancing capacity cooperation shall publish the EE 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 EE CZCA proposal. We believe that a minimum three-month</p>	No action	<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 14(5) of the EE CZCA proposal.</p>

	notice to market participants is necessary for appropriate preparation.		
2	<p>Article 14.3: 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)(a) and 6(1)(b) of this EE 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 “economic efficiency” 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	Article 14.3: 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)(c) of the EBGL as defined in article 6(1)(a) and 6(1)(b) of this EE CZCA proposal and at the latest 24 hours after the allocation and no later than 6 hours before the use of the allocated CZC.

3	<p>Article 14.6: 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 14.7: Italy North TSOs of a balancing capacity cooperation applying the allocation process based on economic efficiency analysis shall publish the efficiency of the forecasted market value for the exchange of balancing capacity or sharing of reserves and the efficiency of the forecasted market value for the exchange of energy.</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.

	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 article 13.7.		
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**Feedback on Article 15 – Language**

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