

**REQUEST FOR AMENDMENT (RfA) OF ITALY NORTH
REGULATORY AUTHORITIES**

ON

**PROPOSAL FOR A 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 (EU) 2017/2195 OF 23
NOVEMBER 2017 ESTABLISHING A GUIDELINE ON
ELECTRICITY BALANCING**

29 June 2020

I. Introduction and legal context

This document elaborates an agreement of Italy North Regulatory Authorities made at the Italy North Energy Regulators' Regional Forum on 29 June 2020, on the Italy North TSOs' proposal for a methodology an allocation process of cross zonal capacity for the exchange of balancing capacity or sharing of reserves based on an economic efficiency analysis, in accordance with Article 42 of the Commission Regulation (EU) 2017/2195 of 23 November 2017 establishing a guideline on electricity balancing (EBGL) (hereafter referred to as "EE Proposal").

The Proposal was received by the last Regulatory Authority on 3 January 2020. Article 5(6) of the EBGL requires relevant Regulatory Authorities to consult and closely cooperate and coordinate with each other in order to reach an agreement, and make decisions within six months following receipt of submissions of the last relevant Regulatory Authority concerned, i.e. by 3 July 2020. This agreement of Italy North Regulatory Authorities shall provide evidence that a decision on the Proposal does not, at this stage, need to be adopted by ACER pursuant to Article 5(7) of the EBGL. However, at the same time the Proposal is not approvable by Italy North Regulatory Authorities. Therefore, this agreement is intended to constitute the basis on which RAs will each subsequently request an amendment to the EE Proposal pursuant to Article 6(1) of the EBGL.

The legal provisions that lie at the basis of the EE Proposal and this RAs' agreement on the RfA can be found in Articles 3, 38, 42 of the EBGL:

Article 3 Objectives and regulatory aspects

1. *This Regulation aims at:*

- (a) fostering effective competition, non-discrimination and transparency in balancing markets;*
- (b) enhancing efficiency of balancing as well as efficiency of European and national balancing markets;*
- (c) integrating balancing markets and promoting the possibilities for exchanges of balancing services while contributing to operational security;*
- (d) contributing 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 day-ahead, intraday and balancing markets;*
- (e) ensuring that the procurement of balancing services is fair, objective, transparent and market-based, avoids undue barriers to entry for new entrants, fosters the liquidity of balancing markets while preventing undue distortions within the internal market in electricity;*
- (f) facilitating the participation of demand response including aggregation facilities and energy storage while ensuring they compete with other balancing services at a level playing field and, where necessary, act independently when serving a single demand facility;*
- (g) facilitating the participation of renewable energy sources and support the achievement of the European Union target for the penetration of renewable generation.*

2. *When applying this Regulation, Member States, relevant regulatory authorities, and system operators shall:*

- (a) apply the principles of proportionality and non-discrimination;*
- (b) ensure transparency;*

- (c) apply the principle of optimisation between the highest overall efficiency and lowest total costs for all parties involved;*
- (d) ensure that TSOs make use of market-based mechanisms, as far as possible, in order to ensure network security and stability;*
- (e) ensure that the development of the forward, day-ahead and intraday markets is not compromised;*
- (f) respect the responsibility assigned to the relevant TSO in order to ensure system security, including as required by national legislation;*
- (g) consult with relevant DSOs and take account of potential impacts on their system;*
- (h) take into consideration agreed European standards and technical specifications.*

Article 38 General requirements

1. Two or more TSOs may at their initiative or at the request of their relevant regulatory authorities in accordance with Article 37 of Directive 2009/72/EC set up a proposal for the application of one of the following processes:

- (a) co-optimised allocation process pursuant to Article 40;*
- (b) market-based allocation process pursuant to Article 41;*
- (c) allocation process based on economic efficiency analysis pursuant to Article 42.*

Cross-zonal capacity allocated for the exchange of balancing capacity or sharing of reserves before the entry into force of this Regulation may continue to be used for that purpose until the expiry of the contracting period.

2. The proposal for the application of the allocation process shall include:

- (a) the bidding zone borders, the market timeframe, the duration of application and the methodology to be applied;*
- (b) in case of allocation process based on economic efficiency analysis, the volume of allocated cross zonal capacity and the actual economic efficiency analysis justifying the efficiency of such allocation.*

3. By five years after entry into force of this Regulation, all TSOs shall develop a proposal to harmonise the methodology for the allocation process of cross-zonal capacity for the exchange of balancing capacity or sharing of reserves per timeframe pursuant to Article 40 and, where relevant, pursuant to Articles 41 and 42.

4. Cross-zonal capacity allocated for the exchange of balancing capacity or sharing of reserves shall be used exclusively for frequency restoration reserves with manual activation, for frequency restoration reserves with automatic activation and for replacement reserves. The reliability margin calculated pursuant to Regulation (EU) 2015/1222 shall be used for operating and exchanging frequency containment reserves, except on Direct Current ('DC') interconnectors for which cross-zonal capacity for operating and exchanging frequency containment reserves may also be allocated in accordance with paragraph 1.

5. TSOs may allocate cross-zonal capacity for the exchange of balancing capacity or sharing of reserves only if crosszonal capacity is calculated in accordance with the capacity calculation methodologies developed pursuant to Regulation (EU) 2015/1222 and (EU) 2016/1719.

6. TSOs shall include cross-zonal capacity allocated for the exchange of balancing capacity or sharing of reserves as already allocated cross-zonal capacity in the calculations of cross-zonal capacity.

7. If physical transmission right holders use cross-zonal capacity for the exchange of balancing capacity, the capacity shall be considered as nominated solely for the purpose of excluding it from the application of the use-it-or-sell-it ('UIOSI') principle.

8. All TSOs exchanging balancing capacity or sharing of reserves shall regularly assess whether the cross-zonal capacity allocated for the exchange of balancing capacity or sharing of reserves is still needed for that purpose. Where the allocation process based on economic efficiency analysis is applied, this assessment shall be done at least every year. When cross-zonal capacity allocated for the exchange of balancing capacity or sharing of reserves is no longer needed, it shall be released as soon as possible and returned in the subsequent capacity allocation timeframes. Such cross-zonal capacity shall no longer be included as already allocated cross-zonal capacity in the calculations of cross-zonal capacity.

9. When cross-zonal capacity allocated for the exchange of balancing capacity or sharing of reserves has not been used for the associated exchange of balancing energy, it shall be released for the exchange of balancing energy with shorter activation times or for operating the imbalance netting process.

Article 42 Allocation process based on economic efficiency analysis

1. By two years after entry into force of this Regulation, all TSOs of a capacity calculation region may develop a proposal for a methodology for the allocation of cross-zonal capacity based on an economic efficiency analysis. Such methodology shall apply for the exchange of balancing capacity or sharing of reserves with a contracting period of more than one day and where the contracting is done more than one week in advance of the provision of the balancing capacity. The methodology shall include:

(a) the rules and principles for allocating cross-zonal capacity based on an economic efficiency analysis;

(b) a detailed description of how to determine the forecasted market value of cross-zonal capacity for the exchange of balancing capacity or sharing of reserves, and an assessment of the market value of cross-zonal capacity for the exchange of energy;

(c) a detailed description of the pricing method, firmness regime and the sharing of congestion income for the crosszonal capacity that has been allocated based on an economic efficiency analysis;

(d) the maximum volume of allocated cross-zonal capacity for the exchange of balancing capacity or sharing of reserves pursuant to paragraph 2.

2. The allocation of cross-zonal capacity based on an economic efficiency analysis shall be limited to 5 % of the available capacity for the exchange of energy of the previous relevant calendar year between the respective bidding zones or, in case of new interconnectors, 10 % of the total installed technical capacity of those new interconnectors. This volume limitation may not apply for bidding zone borders connected through DC interconnectors until the cooptimised or market-based allocation processes are harmonised at Union level pursuant to Article 38(3).

3. The methodology for the allocation of cross-zonal capacity based on an economic efficiency analysis shall be based on a comparison of the forecasted market value of cross-zonal capacity for the exchange of balancing capacity or sharing of reserves, and the forecasted market value of cross-zonal capacity for the exchange of energy.

4. The pricing method, the firmness regime and the sharing of congestion income for the cross-zonal capacity that has been allocated for the exchange of balancing capacity or sharing of reserves based on an economic efficiency analysis shall ensure equal treatment with the cross-zonal capacity allocated for the exchange of energy.

5. TSOs referred to in paragraph 1 shall develop a proposal for a list of each individual allocation of cross-zonal capacity based on an economic efficiency analysis. Such list shall include:

(a) the specification of the bidding zone border;

(b) the volume of allocated cross-zonal capacity;

(c) the period during which the cross-zonal capacity would be allocated for the exchange of balancing capacity or sharing of reserves;

(d) the economic analysis justifying the efficiency of such allocation.

6. TSOs referred to in paragraph 1 shall reassess the value of the allocated cross-zonal capacity in the process of the procurement of balancing capacity and release the allocated cross-zonal capacity which is no longer beneficial for the exchange of balancing capacity or sharing of reserves.

II. All TSOs' proposal

A draft proposal was consulted by Italy North TSOs through ENTSO-E from 11 October 2019 to 11 November 2019, in line with Article 10 of the EBGL. Along with the draft proposal, Italy North TSOs published an explanatory document. In the public consultation, Italy North TSOs were seeking input from stakeholders and market participants on the draft proposal.

Italy North Regulatory Authorities closely observed, analysed and continuously provided feedback and guidance to Italy North TSOs during meetings and through a shadow opinion, dated 11 November 2019.

The final version of the EE Proposal, dated 18 December 2019, was received by the last Regulatory Authority on XX January 2020, together with an updated explanatory document giving background information and rationale for the EE Proposal.

III. All RAs Assessment

Italy North RAs request Italy North TSOs to amend the EE Proposal and to take into account the following assessment. The assessment contains a part with general remarks and a part going into detail, assessing every article of the EE Proposal individually.

General remarks

RAs acknowledge that due to similarities in the requirements of the EBGL for the different proposals for cross zonal capacity allocation the proposals, be it according to Art 41 or Art 42 or also Art 40, TSOs tried to align these proposals by using the same layout for the legal submission.

The co-optimized CZCA methodology pursuant to art. 40 has been amended and approved by ACER in June 2020. Moreover, ACER is taking a decision on the market based (MB) methodology submitted by Nordic TSOs pursuant to art.41. RAs invite TSOs to further align the EE proposal to the final methodologies for the co-optimized and the Nordic MB CZCA, both in terms of layout and content, where relevant.

Specific requirements

Article 1

According to EBGL Article 5(5), each proposal shall include a proposed timescale for their implementation. The implementation timescale shall not be longer than 12 months after the approval by the relevant regulatory authorities, except where all relevant regulatory authorities agree to extend the implementation timescale or where different timescales are stipulated in this Regulation. Further, RAs would like to point out that the “application” of the methodology in accordance with EBGL Article 38(1) is out of scope of this specific proposal, as this follows from a separate proposal for application of the methodology.

The EE Proposal, on the other hand, does not contain a proposal for a timescale for implementation, and seems to interpret the “application” in accordance with EBGL 38(1)(b) as the actual “implementation” in accordance with EBGL Article 5(5). Article 1(3) provides a limit of 24 months for TSOs to request the application pursuant to art.38(1), while does not provide any deadline for “making operative” the methodology for CZCA.

Italy North RAs acknowledge that the implementation of the allocation process based on economic efficiency can be a demanding process and that in the short run there are not balancing capacity cooperations foreseen. Still, Italy North RAs consider the implementation of the methodology as mandatory, according to art. 5(5) of EBGL, while the application of the methodology should be by submitting a separate proposal in accordance with article 38(1) of the EBGL, without any limit in time.

Therefore, Italy North RAs ask TSOs to include a concrete timescale for the implementation of the proposal which ensures that the methodology for CZCA is implemented and available for the potential usage in future balancing capacity cooperation processes.

Article 2

Italy North RAs ask TSOs to consider the necessity of introducing new definitions in cases where it would be easily possible to directly describe the related concept in the Article where it is used. This is even more the case where there already are specific provisions and the definition largely only repeats those.

Article 3

Italy North RAs do not consider some of the listed principles of “balancing capacity cooperation” to be within the scope of this proposal, as the terms and conditions for TSOs mutually willing to exchange balancing capacity should follow from a separate proposal developed according to EBGL 33(1) and approved by the relevant regulatory authorities.

RAs invite TSOs to change this article into “Principles for applying the cross-zonal allocation based on economic efficiency” and to replace the statement “Each balancing capacity cooperation shall...” with “when applying the EE method”. Moreover, RAs ask TSOs to further align the content with the final version of the co-optimized CZCA methodology, as amended by ACER, removing the paragraphs that are out of scope of this EE proposal. In particular, paragraphs 1 to 5 and 12 to 13 seem out of scope, as they refer to terms and conditions for potential future cooperation between TSOs for the exchange of balancing capacity of sharing of reserves.

Articles 6

Italy North RAs ask TSOs to better clarify which CZC values are used in the process of economic efficiency analysis and to relate to the requirements of Art 38.5 EBGL.

Article 8

RAs assume that TSOs will define some sort of metric to assess the performance of the “basic forecasted value”, based on the reference day, and some criteria to trigger the inclusion of the adjustment factors. Therefore, RAs invite TSOs to investigate whether the level of detail of this article can be improved, at least for what concerns the general procedure to assess the performance of the “basic forecasted value” and the criteria to include the adjustment factors.

RAs invite also Italy North TSOs to cooperate with the TSOs of other CCRs to explore possible alignment of details and high-level principles of this article across the regional proposals, still respecting the regional specificities.

Article 9

RAs assume that TSOs will define some sort of metrics to assess the performance of the “basic forecasted value”, based on the reference day, and some criteria to trigger the inclusion of the adjustment factors. Therefore, RAs invite TSOs to investigate whether the level of detail of this article can be improved, at least for what concerns the general procedure to assess the performance of the “basic forecasted value” and the criteria to include the adjustment factors.

RAs invite also Italy North TSOs to cooperate with the TSOs of other CCRs to explore possible alignment of details and high-level principles of this article across the regional proposals, still respecting the regional specificities.

RAs acknowledge that TSOs included in these articles a reference to the avoided cost of procuring balancing capacity in case of sharing of reserves, but the proposal does not clarify how this value is calculated and considered in the economic surplus calculation.

In case the economic efficiency method and the co-optimization follow the same approach for including the avoided costs in the economic surplus, RAs invite TSOs to consider the wording of the methodology for co-optimized CZCA, where the balancing capacity demand of a TSO is dependent on the available cross zonal capacity.

Article 10

Italy North RAs acknowledge that this article provides the general principles of the allocation of CZC and that its content is almost aligned with the co-optimization methodology, as amended by ACER. RAs invite TSOs to further align the article with the corresponding one of the co-optimization methodology and to consider whether more details can be provided, regarding the process steps that the algorithm will follow to determine the allocated volume of CZC and on the description of the inputs, outputs, constraints, etc.

Article 11

RAs ask TSOs to clarify the concept of “uncongested area” and that it results from the CZC allocation optimization function, defined in the EE Proposal.

Article 12

Article 12(4) of the proposal is unclear for RAs, especially regarding the “additional costs from the procurement of balancing capacity due to the non-availability of the balancing capacity given the curtailment of CZC”. TSOs are invited to explain what these costs entail.

Moreover, RAs do not understand the need of including a cap to the compensation costs. TSOs are invited to align this article with the co-optimization proposal approved by ACER and to remove such cap, or to provide a justification for including it, proving that this does not negatively affect any balancing capacity cooperation.

III. Conclusion

Italy North RAs have assessed, consulted and closely cooperated and coordinated to reach the agreement that the EE Proposal according to Article 42 of the EBGL cannot be approved by all NRAs.

According to Article 6(1) of the EBGL, Italy North RAs hereby request an amendment to the EE Proposal. The amended proposal shall take into account the RAs’ assessment stated above and shall be submitted by Italy North TSOs no later than two months after receiving the RA’s RfA in accordance with Article 6(1) of the EBGL.

Italy North RAs must make their decision to request an amendment to the proposal on the basis of this agreement by 3 July 2020.