REQUEST FOR AMENDMENT (RfA) OF CORE CCR REGULATORY AUTHORITIES

ON

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

12 August 2020

I. Introduction and legal context

This document elaborates an agreement of all Regulatory Authorities of the Core CCR region (hereafter referred to as 'Core RAs') on the Core CCR TSOs' proposal for a methodology for a market-based allocation process of cross zonal capacity for the excange of balancing capacity or sharing of reserves (hereafter referred to as the 'MB CZCA Proposal'), in accordance with Article 41 of the Commission Regulation (EU) 2017/2195 of 23 November 2017 establishing a guideline on electricity balancing (hereafter referred to as the 'EB Regulation').

The MB CZCA Proposal was received by the last Regulatory Authority on 2 March 2020. Article 5(6) of the EB Regulation 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 2 September 2020. This agreement of Core RAs 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 EB Regulation. However, at the same time the Proposal is not approvable by Core RAs. Therefore, this agreement is intended to constitute the basis on which Core RAs will each subsequently request an amendment to the MB CZCA Proposal pursuant to Article 6(1) of the EB Regulation.

The legal provisions that underlie the MB CZCA Proposal and this RAs' agreement on the RfA can be found in Articles 3, 38, 39 and 41 of the EB Regulation:

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; 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 cross-zonal 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 39 – Calculation of market value of cross-zonal capacity

1. *The market value of cross-zonal capacity for the exchange of energy and for the exchange of balancing capacity or sharing of reserves used in a co-optimised or market-based allocation process shall be based on the actual or forecasted market values of cross-zonal capacity.*
2. *The actual market value of cross-zonal capacity for the exchange of energy shall be calculated based on the bids of market participants in the day-ahead markets, and take into account, where relevant and possible, expected bids of market participants in the intraday markets.*
3. *The actual market value of cross-zonal capacity for the exchange of balancing capacity used in a co-optimised or a market-based allocation process shall be calculated based on balancing capacity bids submitted to the capacity procurement optimisation function pursuant to Article 33(3).*
4. *The actual market value of cross-zonal capacity for the sharing of reserves used in a co-optimised or a market- based allocation process shall be calculated based on the avoided costs of procuring balancing capacity.*
5. *The forecasted market value of cross-zonal capacity shall be based on one of the following alternative principles:*
   (a) *the use of transparent market indicators that disclose the market value of cross-zonal capacity; or*
   (b) *the use of a forecasting methodology enabling the accurate and reliable assessment of the market value of cross- zonal capacity. The forecasted market value of cross-zonal capacity for the exchange of energy between bidding zones shall be calculated based on the expected differences in market prices of the day-ahead and, where relevant and possible, intraday markets between bidding zones. When calculating the forecasted market value, additional relevant factors influencing demand and generation patterns in the different bidding zones shall be taken duly into account.*
6. *The efficiency of the forecasting methodology pursuant to paragraph 5(b), including a comparison of the forecasted and actual market values of the cross-zonal capacity, may be reviewed by the relevant regulatory authorities. Where the contracting is done not more than two days in advance of the provision of the balancing capacity, the relevant regulatory authorities may, following this review, set a limit other than that specified in Article 41(2).*

Article 41 – Market-based allocation process

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 a market-based allocation process of cross-zonal capacity for the exchange of balancing capacity or sharing of reserves. This methodology shall apply for the exchange of balancing capacity or sharing of reserves with a contracting period of not more than one day and where the contracting is done not more than one week in advance of the provision of the balancing capacity. The methodology shall include:*
   (a) the notification process for the use of the market-based allocation process;
   (b) a detailed description of how to determine the actual 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, and if applicable the actual market value of cross-zonal capacity for exchanges of energy and the forecasted market value of cross-zonal capacity for the exchange of balancing capacity or sharing of reserves;
   (c) a detailed description of the pricing method, the firmness regime and the sharing of congestion income for the cross-zonal capacity that has been allocated to bids for the exchange of balancing capacity or sharing of reserves via the market-based allocation process;
   (d) the process to define the maximum volume of allocated cross-zonal capacity for the exchange of balancing capacity or sharing of reserves pursuant to paragraph 2.
2. *Cross-zonal capacity allocated on a market-based process 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 or, in case of new interconnectors, 10 % of the total installed technical capacity of those new interconnectors. This volume limitation may not apply where the contracting is done not more than two days in advance of the provision of the balancing capacity or for bidding zone borders connected through DC interconnectors until the cooptimised allocation process is harmonised at Union level pursuant to Article 38(3).*
3. *This methodology shall be based on a comparison of the actual 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, or on a comparison of the forecasted market value of cross-zonal capacity for the exchange of balancing capacity or sharing of reserves, and the actual 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 cross-zonal capacity that has been allocated for the exchange of balancing capacity or sharing of reserves via the market-based process shall ensure equal treatment with the cross-zonal capacity allocated for the exchange of energy.*
5. *Cross-zonal capacity allocated for the exchange of balancing capacity or sharing of reserves via the market-based allocation process shall be used only for the exchange of balancing capacity or sharing of reserves and associated exchange of balancing energy.*

II. All TSOs' proposal

A draft version of the MB CZCA Proposal was consulted at regional level by Core CCR TSOs (hereafter referred to as: 'Core TSOs') in line with Article 10 of the EB Regulation. Along with the draft proposal, Core TSOs published an explanatory document. In the public consultation, which lasted from 20 September 2019 to 20 October 2019, Core TSOs sought input from stakeholders and market participants on the draft proposal.

Core RAs analysed and provided feedback and guidance to Core TSOs during meetings and through a shadow opinion, dated 7 November 2019.

The final version of the Proposal, dated 18 December 2019, was received by the last Regulatory Authority on 2 March 2020, together with an updated explanatory document giving background information and rationale for the MB CZCA Proposal.

III. All RAs assessment

Core RAs request Core TSOs to amend the MB CZCA Proposal and to take into account the following assessment.

General remarks

Core RAs acknowledge that due to similarities in the requirements for the different methodology proposals for cross zonal capacity allocation pursuant to Article 40, Article 41 and Article 42 of the EB Regulation, Core TSOs tried to align these proposals by using the same layout for the legal submission.

The methodology for a co-optimized allocation process of cross-zonal capacity for the exchange of balancing capacity or sharing of reserves (hereafter referred to as the 'CO CZCA methodology') pursuant to Article 40 of the EB Regulation has been amended and approved by ACER in May 2020. Core RAs invite Core TSOs to align the MB CZCA Proposal with the CO CZCA methodology as much as possible.

Core RAs request the following general changes in wording to improve legibility as well as alignment with other proposals pursuant to Articles 40, 41 and 42 of the EB Regulation:

- Core RAs request that the term 'MB CZCA methodology' is replaced by 'methodology for market-based allocation' throughout the document.
- Core RAs request that the term 'EBGL' is replaced by EB Regulation' throughout the document. Similarly, Core RAs request that the text refers to the 'SO Regulation', 'CACM Regulation', and so on.
- Core RAs request that the term 'balancing capacity cooperation' is deleted and that the Proposal instead consistently refers to the 'application of the market-based methodology'. For instance, the text 'Core TSOs of a BCC' should become 'Core TSOs applying the market-based methodology', the text 'for each BCC' should become 'for each application of the market-based methodology', and so on.
- Core RAs request the term 'DA FB MC' is written out in full.
- Core RAs suggest to write out in full the term 'CZC' throughout the document.

Specific requirements

Whereas

In paragraph 1(c) the MB CZCA Proposal states state the methodology for market-based allocation may, if relevant, be applied before the go-live of day-ahead flow-based market coupling in the Core CCR. However, Article 38(5) of the EB Regulation specifically states that TSOs may allocate cross-zonal capacity for the exchange of balancing capacity or sharing of reserves only if cross-zonal capacity is calculated in accordance with the capacity calculation methodologies pursuant to Regulation (EU) 2015/1222 (CACM Regulation) and (EU) 2016/1719 (FCA Regulation). Core RAs request the whereas section of the MB CZCA Proposal is amended accordingly.

Article 1 – Subject Matter and Scope

Core RAs request that Article 1(2) is removed in line with the CO CZCA methodology.

Core RAs request that Article 1(3), the text ‘a voluntary initiative’ is replaced by the text ‘subject to a proposal for application, which may be developed’. To be sure, Core RAs also request that the text ‘of a BCC’ be deleted. In addition, Core RAs request that the reference to Article 59 of Directive (EU) 2019/944 is deleted, since the reference to Article 38(1) of the EB Regulation suffices in this context.

Core RAs request that the Article 1(4) is deleted, in line with the CO CZCA methodology.

In line with abovementioned remarks, Article 1(5) should state ‘All Core TSOs intending to apply the methodology for market-based allocation shall notify […]’. In addition, the last part of the citation requires improvement, since it is not clear which parties are notified, or if this concerns a general publication. Therefore Core RAs request that the text either states ‘shall notify all concerned parties’ or ‘shall publish an announcement on the ENTSO-E website’.

Core RAs request that article 1(6) is moved to article 11 on Firmness, in line with the CO CZCA methodology. Also see comments under Article 11.

Article 2 – Definitions and Interpretation

Core RAs request that the ’Electricity Regulation’ is referred to initially as the Regulation (EU) 2019/943 of the European Parliament and of Council of 5 June 2019 on the internal market for electricity.

Core RAs request that article 2(2) is deleted.

Core RAs request that in the definition of ‘cross zonal capacity allocation optimisation function’ (Article 2(3)(b) of the MB CZCA Proposal), the text ‘of each BCC in which the balancing capacity is exchanged or reserves are shared’ is deleted.

Core RAs request that the definitions of Article 2(3)(c) through Article 2(3)(g) are deleted, since these terms are not used in the MB CZCA Proposal.

Core RAs request that the term ’economic surplus’ is taken up in the list of definitions. Moreover, Core RAs request that the MB CZCA Proposal use the term ’validity period’ as defined in Article 2(33) of the EB Regulation rather than ’balancing capacity validity period’.

Article 3 – Principles of each BCC within the CCR Core Applying this MB CZCA Methodology

Core RAs request the title of the article to change to ‘Principles for applying market-based cross-zonal capacity allocation’.

Core 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 Article 33(1) of the EB Regulation and approved by the relevant regulatory authorities. Core RAs therefore request that Article 3(1) of the MB CZCA Proposal is deleted.

Core RAs request that Article 3(2) is deleted, as this is out of scope for this methodology and rather belongs to a proposal pursuant to Article 38(1) of the EB Regulation.

Core RAs request that Article 3(3) specify that TSOs exchange standard balancing capacity products.

Core RAs request that option to apply alternative settlement mechanisms during a transitory period is deleted from the MB CZCA Proposal in Article 3(3), since Core RAs do not see a need for this.

Core RAs request that Article 3(4) is deleted, as this is out of scope for this methodology and rather belongs to a proposal pursuant to Article 33(1) of the EB Regulation.

Core RAs request that in Article 3(5), the text reads ‘The minimum contracting period of standard balancing capacity bids shall be equal to or a multiple of the day-ahead MTU and have a maximum of 1 (one) day’.

Core RAs request that in Article 3(7), on top of the abovementioned generic changes, the text ‘within each BCC’ is replaced by ‘among the relevant Core TSOs’.

Core RAs request that Article 3(8) states ‘For each application of the methodology for market-based allocation, the relevant Core TSOs shall determine fallback procedures and curtailment procedures on firmness regime of cross-zonal capacity according to Article 38 of the EB Regulation’. In addition, Core RAs invite Core TSOs to consider whether Article 11 (Firmness) is a better place for this requirement.

Article 4 – Notification Process for the Use of the Market-based Allocation Process

Core RAs note that Core TSOs provide an insufficient level of detail on the term ’adjustment factor’ (also see comment on Article 7). Core RAs request that this term be clarified in Article 7 of the MB CZCA Proposal, rather than at the moment of notification to other Core TSOs and market participants.

Core RAs request that Article 4(1) of the MB CZCA Proposal state that not just Core TSOs, but also market participants may provide remarks no later than 3 (three) months ahead of the application.

Core RAs request that Article 4(3) state that Core TSOs intending to apply the methodology for market-based allocation shall notify Core TSOs three (3) months before the application in accordance with Article 150 of the SO Regulation and inform all stakeholders and all TSOs through an announcement on the ENTSO-E website at least three (3) months prior to entering into operation.

Article 5 – Timeframe of Market-based Allocation

Core RAs note that Article 5 does not sufficiently provide a timeline for the market allocation process. Core RAs request that Article 5 is amended to state the timing of the various steps more clearly.

Core RAs suggest to delete the text ’for each BCC of the CCR Core applyin this MB CZCA methodology’ in Article 5(1). In addition, in consideration of the general remarks above, Core RAs suggest the last sentence of Article 5(1) (’in the following...’) be deleted.

Core RAs request that in Article 5(1)(a) the text ’sufficiently before sending the final results of the capacity calculation’ be further specified, either by specifying the exact time or by stating that this will be specified in proposal for the stablishment of common and harmonised rules and processes for the exchange and procurement of balancing capacity pursuant to Article 33(1) of the EB Regulation.

Core RAs request that the wording in Article 5(1)(a) on how the GCT ’shall be organised’ is clarified. If Core TSOs cannot specify a gate closure time, Core RAs suggest that this Article could state that the precise gate closure time shall be specified in the proposal for the establishment of common and harmonised rules and processes for the exchange and procurement of balancing capacity pursuant to Article 33(1) of the EB Regulation.

Core RAs request that in Article 5(1)(c) the wording ’to the respective modules for the management of capacity’ is clarified.

Core RAs suggest that Article 5(1)(d) states that Core TSOs applying the methodology for market-based allocation shall notify all BSPs *in their scheduling area*...’ (emphasis added). In addition, Core RAs suggest to move the term ’simultaneously’ to the start of this Article, so as to better indicate that the actions in Article 5(1)(d) occur at the same time as the actions in Article 5(1)(c).

Core RAs suggest that in Article 5(2)(a), instead of the ’BCC’, the ’connecting TSO’ is meant.

Core RAs request that the list under Article 5(2)(c) is rendered exhaustive, so that the words ’at least’ may be removed.

Core RAs request that Article 5(2)(c)(iii) is complemented by the text ’determined in accordance with Article 7’.

Core RAs request that Article 5(2)(e) is deleted, since this is part of the proposal for the establishment of common and harmonised rules and processes for the exchange and procurement of balancing capacity pursuant to Article 33(1) of the EB Regulation.

Core RAs request that Article 5(2)(f) includes a reference to Article 38(6) of the EB Regulation.

Article 6 – Process to Define the Maximum Volume of Allocated CZC for the Exchange of Balancing Capacity or Sharing of Reserves

Core RAs suggest that, for legibility, Article 6(1) clarifies that Article 41(2) of the EB Regulation sets a limit to the cross-zonal capacity that can be allocated for the exchange of balancing capacity or sharing of reserves on the basis of a market-based allocation process.

Core RAs request that the wording 'combined allocation in Article 6(2) is clarified. Core RAs understand that the limit to the maximum volume of allocated cross-zonal capacity applies to the cumulative allocation of all balancing capacity products, and request this is clarified in the text.

Core RAs request that in Article 6(3) the MB CZCA Proposal clarify the references 'Article 23 of the DA CCM' and 'in accordance with Article 20ff'.

Core RAs suggest to replace the reference to '[the] SDAC fallback procedure in accordance with Article 44 [of the] CACM [Regulation]' by a separate Article at the start of Article 6 clarifying precisely which capacities will be used.

Core RAs request that the term 'new interconnector' in the MB CZCA Proposal corresponds to the term as defined in Article 2(5) of the Electricity Regulation.

Core RAs believe that the second sentence in Article 6(4) of the MB CZCA Proposal may not correspond to the meaning of total installed technical capacity' in Article 41(2) of the EB Regulation. CORE RAs are of the opinion that the reliability margin reserves part of the total installed technical capacity to cover for uncertainties with the capacity calculation, but that it does not reduce the total installed technical capacity itself. Core RAs require Core TSOs to either refer to existing legal definitions to support the TSOs' definition of 'total installed technical capacity' in the second sentence in Article 6(4), or to state in Article 6(4) that the installed technical capacity is equal to the nominal capacity, which is equal to the active power capacity of an interconnector. Such wording does not prohibit TSOs from applying necessary security constraints if needed for securely operating the system in real time.

Article 7 – Determination of the Forecasted Market Value of CZC for the Exchange of Energy

Pursuant to Article 39(5) of the EB Regulation, the forecasted market value of cross-zonal capacity shall be based on one of the following alternative principles: (a) the use of transparent market indicators that disclose the market value of cross-zonal capacity; or (b) the use of a forecasting methodology enabling the accurate and reliable assessment of the market value of cross- zonal capacity. Core RAs assume that Core TSOs have chosen option (b) and request that Article 7 specify that this is the case.

Article 41(1)(b) of the EB Regulation states that the methodology for a market-based allocation process shall include 'a *detailed description* of how to determine the actual 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' (emphasis added). Core RAs note that improvements are required in order for Article 7 to constitute a 'detailed description' in accordance with Article 41(1)(b) of the EB Regulation.

First, Core RAs request that the MB CZCA Proposal specify how the reference period is determined.

Second, Core RAs request the MB CZCA Proposal includes a description of the terms 'shadow prices' and 'relevant network elements', since no clear definition of the terms was found.

Third, Core RAs request to see a more detailed description on how the previously mentioned inputs result in the forecasted market value of CZC for the exchange of energy on which the adjustment factors may be applied. More precisely, Core RAs wish to better understand how the input values reflecting the market state of the reference period are processed to obtain an output value reflecting the market state of the period for which the market value of CZC is forecasted.

Fourth, Core RAs request that the MB CZCA Proposal provide more detail on the definition, calculation method and use of adjustment factors in three distinct ways: first, by specifying on what basis Core TSOs applying the methodology for market-based allocation determine whether or not there is a need to use adjustment factors (i.e. under which conditions is (are) the shadow price(s) of the reference period deemed inaccurate and how do Core TSOs plan to evaluate this accuracy); second, whether this is an ongoing, continuous assessment or rather a periodal review; third, by clarifying the inputs and the method for determining the value of the adjustment factor, per border, once the need for the application of adjustment factors is established.

Core RAs support the principle of ex post evaluation of the efficiency of the forecasting and the appropriateness of the choice of reference periods and adjustment factors, as required by Article 7(7) of the MB CZCA Proposal. Core RAs also believe it will be useful to have more transparency about the reference period and adjustment factor prior to their application.

Therefore, Core RAs also request that Core TSOs demonstrate the accuracy and reliability of the forecasting methodology for the assessment of the forecasted market value of cross-zonal capacity, including the abovementioned improvements to this Article 7.

Moreover, Core RAs request that Article 7(6) of the MB CZCA Proposal specify that Core TSOs applying the methodology for market-based allocation shall communicate the chosen (combination of) reference periods to all market participants and all TSOs in a transparent manner.

Article 8 – Determination of the Actual Market Value of CZC for the Exchange of Balancing Capacity or Sharing of Reserves

Core RAs request that the term ’economic surplus’ is clarified or added to the defitions, since clarity on the term in the context of the exchange of balancing capacity or sharing of reserves seems to be lacking. Core RAs invite Core TSOs to use the definition provided in Annex I of the ACER Decision on Nordics CCR Market-based allocation process methodology.

Article 9 – Determination of the Allocated Volume of CZC for the Exchange of Balancing Capacity or Sharing of Reserves

Article 8(2) of the MB CZCA Proposal seems to imply that the algorithm incrementally allocates cross-zonal capacity for the exchange of balancing capacity or sharing of reserves. For reasons of legibility, Core RAs suggest the wording of Article 9(5) of the MB CZCA Proposal be changed accordingly, to state that each marginal volume of CZC shall be allocated to the exchange of balancing capacity and sharing of reserves in case the marginal economic surplus of CZC for the exchange of balancing capacity or sharing of reserves is higher than the expected marginal economic surplus of CZC for the exchange of energy, within the limitations of Article 6 of the MB CZCA Proposal. In addition, Core RAs request that Core TSOs specify whether this principle holds in a situation where indivisibility and linking of bids is allowed, and if this is the case, to provide further clarification on how this impacts the outcomes of the algorithm optimization function.

Core RAs request Article 9(7) of the MB CZCA Proposal to provide the conditions for, and limitations of the ’additional thresholds and/or margins’. In addition, Core RAs request that this Article is complemented to state that the additional thresholds and/or margins shall be specified in the proposal for the application of the methodology for market-based allocation pursuant to Article 38(1) of the EB Regulation.

Core RAs request Article 9(8) and 9(9) of the MB CZCA to provide more detail on the competition between products as well as between methodologies for the procurement of balancing capacity, and how the first-come first-serve principle is applied for the allocation of cross-zonal capacity in these different processes.

Moreover, Core RAs question whether the suggested first-come-first-serve principle is feasible, market-based and if it is a good measure to adequately reflect competition. Core RAs invite Core TSOs to explore alternative solutions, e.g. determining the best outcome based on the most significant incremental change in economic surplus.

Core RAs request that Article 9 state the inputs to, constraints to and objectives of the algorithm for cross-zonal capacity allocation function. Core RAs invite Core TSOs to use Article 8 of Annex I of ACER Decision on Nordics CCR Market-based allocation process methodology as inspiration in this regard.

Article 10 – Pricing of CZC

Core RAs suggest Article 10(1) may be simplified in light of abovementioned general remarks, to state that 'Core TSOs applying the methodology for market-based allocation shall calculate the cross-zonal capacity price for the volume of cross-zonal capacity that is allocated for the exchange of balancing capacity or sharing of reserves'.

Article 11 – Firmness Regime of CZC

Core RAs request that Article 11(2) is modified in line with Article 10(2) of the CO CZCA methodology so that it states: 'According to Article 38(4) of the EB Regulation, cross-zonal capacity allocated for the exchange of balancing capacity or sharing of reserves shall be used exclusively for the product where it was allocated for, being aFRR, mFRR of RR. In accordance with Article 38(9) of the EB Regulation, if the 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 to all TSOs for the exchange of balancing energy with shorter activation times or for operating the imbalance netting process'.

Core RAs invite Core TSOs to provide more clarity on the cost of ensuring firmness as outlined in Article 11(3). For instance, it is unclear to Core RAs whether the costs of ensuring firmness include the additional costs from the procurement of balancing capacity due to the non-availability of the balancing capacity given the curtailment of cross-zonal capacity. Core RAs invite Core TSOs to consider the wording of the CO CZCA methodology and the ACER Decision on Nordics CCR Market-based allocation process methodology.

Article 12 – Sharing of Congestion Income from CZC

Core RAs invite Core TSOs to update the reference in the footnote of article 12(6) by refering to the Regulation (EU) 2019/943, which entered into force since the submission of the MB CZCA Proposal.

Article 13 - Publication

Core RAs suggest Article 13(2) of the MB CZCA Proposal should refer to Article 12(3)(f) of the EB Regulation.

Core RAs request that Article 13 of the MB CZCA Proposal requires Core TSOs that apply the methodology for market-based allocation to publish information on the allocation of cross-zonal capacity pursuant to Article 12(3)(h) of the EB Regulation.

Article 14 – Implementation Timeline

No remarks, other than general remarks.

Article 15 – Language

No remarks, other than general remarks.

III. Conclusion

Core RAs have assessed, consulted and closely cooperated and coordinated to reach the agreement that the MB CZCA Proposal according to Article 41 of the EB Regulation cannot be approved by all NRAs.

According to Article 6(1) of the EB Regulation, Core RAs hereby request an amendment to the MB CZCA Proposal. The amended proposal shall take into account the RAs' assessment stated above and shall be submitted by Core TSOs no later than two months after receiving the RfA in accordance with Article 6(1) of the EB Regulation.

Core RAs must make their decision to request an amendment to the proposal on the basis of this agreement by 2 September 2020.