

**REQUEST FOR AMENDMENT (RfA) BY THE GREECE-ITALY CCR
REGULATORY AUTHORITIES AGREED AT THE GREECE-ITALY
ENERGY REGULATORS' REGIONAL FORUM**

ON

**THE GREECE-ITALY CCR TSOs' 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**

1 December 2020

I. Introduction and legal context

This document elaborates an agreement of the Greece-Italy CCR Regulatory Authorities (hereinafter referred to as "NRAs") made at the Greece-Italy Energy Regulators' Regional Forum on 1 December 2020, on the Greece-Italy CCR TSOs' (hereinafter referred to as "TSOs") amended proposal for a methodology for a market-based allocation process of cross-zonal capacity for the exchange of balancing capacity or sharing of reserves (hereinafter referred to as "MB Proposal"), in accordance with Article 41 of the Commission Regulation (EU) 2017/2195 of 23 November 2017 establishing a guideline on electricity balancing (hereinafter referred to as "EBGL").

The initial MB Proposal was received by the last Regulatory Authority on 3 January 2020. On 1 July 2020, according to article 5(6) of the EBGL, NRAs unanimously agreed to issue a request for amendment to the MB Proposal.

Pursuant to article 6(1) of the EBGL, the TSOs submitted an amended version of the MB proposal, that was received by the last Regulatory Authority on 1 October 2020. NRAs consulted and closely cooperated with each other to reach an agreement and make decisions within two months following receipt of submissions of the last relevant Regulatory Authority concerned according to article 6(1) of the EBGL. This agreement of the NRAs shall provide evidence that a decision on the MB Proposal does not, at this stage, need to be adopted by ACER pursuant to Article 6(2) of the EBGL. However, this agreement is intended to constitute the basis on which NRAs will each subsequently request an amendment to the MB Proposal pursuant to Article 6(1) of the EBGL.

The legal provisions that lie at the basis of the MB proposal and this NRAs' agreement on the RfA to the abovementioned methodology can be found in Articles 3, 5, 6, 38 and 41 of the EBGL. They are set out here for reference.

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 5 Approval of terms and conditions or methodologies of TSOs

1. Each relevant regulatory authority in accordance with Article 37 of Directive 2009/72/EC shall approve the terms and conditions or methodologies developed by TSOs under paragraphs 2, 3 and 4. [...]

3. The proposals for the following terms and conditions or methodologies shall be subject to approval by all regulatory authorities of the concerned region: [...]

(h) for each capacity calculation region, the methodology for a market-based allocation process of cross-zonal capacity pursuant to Article 41(1); [...]

5. The proposal for terms and conditions or methodologies shall include a proposed timescale for their implementation and a description of their expected impact on the objectives of this Regulation. 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. Proposals on terms and conditions or methodologies subject to the approval by several or all regulatory authorities shall be submitted to the Agency at the same time that they are submitted to regulatory authorities. Upon request by the relevant regulatory authorities, the Agency shall issue an opinion within three months on the proposals for terms and conditions or methodologies.

6. Where the approval of the terms and conditions or methodologies requires a decision by more than one regulatory authority, the relevant regulatory authorities shall consult and closely cooperate and coordinate with each other in order to reach an agreement. Where the Agency issues an opinion, the relevant regulatory authorities shall take that opinion into account. Regulatory authorities shall decide on the terms and conditions or methodologies submitted in accordance with paragraphs 2 and 3, within six months following the receipt of the terms and conditions or methodologies by the relevant regulatory authority or, where applicable, by the last relevant regulatory authority concerned.

[...]

Article 6 Amendments to terms and conditions or methodologies of TSOs

1. Where one or several regulatory authorities in accordance with Article 37 of Directive 2009/72/EC require an amendment in order to approve the terms and conditions or methodologies submitted in accordance with paragraphs 2, 3 and 4 of Article 5, the relevant TSOs shall submit a proposal for amended terms and conditions or methodologies for approval within two months following the requirement from the relevant regulatory authorities. The relevant regulatory authorities shall decide on the amended terms and conditions or methodologies within two months following their submission.

2. Where the relevant regulatory authorities have not been able to reach an agreement on terms and conditions or methodologies within the two-month deadline, or upon their joint request, the Agency shall adopt a decision concerning the amended terms and conditions or methodologies within six months, in accordance with Article 8(1) of Regulation (EC) No 713/2009. If the relevant TSOs fail to submit a proposal for amended terms and conditions or methodologies, the procedure provided for in Article 4 shall apply. [...]

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 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. The TSOs' proposal

TSOs amended the MB Proposal, with the intention to fulfill all the requests for amendment issued by the NRAs on 1 July 2020. The final version of the MB Proposal was received by the last Regulatory Authority on 1 October 2020, along with the explanatory document giving background information and rationale for the MB Proposal.

III. The NRAs' assessment

On the second request for amendment of the MB Proposal

NRAs welcome the last version of the MB Proposal and acknowledge that the TSOs amended and improved the content of the MB Proposal, in line with the opinion paper of the first RfA. However, the MB Proposal does not fulfill all the NRAs requirements and there are still some issues that remain open. This document elaborates a second request for amendment of the MB Proposal.

Having considered LAC advice of 13 March 2018 on the possibility to make subsequent requests for amendment following Art. 9(12) of Regulation (EU) 2015/1222, NRAs consider that requesting an amendment for a second time pursuant Art. 6(1) of EBGL, is the fastest way to approve an EBGL compliant MB Proposal and this request has a genuine chance of achieving the objectives of EBGL, which is to ultimately approve the proposal, rather than being unnecessary extension of the approval process with slim chances of success.

The requests for amendment are presented in this document as clear and detailed as possible and cover points already requested in the first one, clarifying and specifying them, while they are not introducing new elements. These requests are grouped according to the specific subject they are referring, when they are not referring to a specific article.

Wording improvement

NRAs propose that the TSOs improve the wording of the MB Proposal in order to ensure consistency in the usage of terms and definitions all over the document. In particular:

- NRAs consider better to refer to the “methodology for a market-based allocation process of cross-zonal capacity for the exchange of balancing capacity or sharing of reserves” as the “MB CZCA methodology”, instead of as “...Proposal” and to replace the term in the MB Proposal. This would ensure the proper reading of the document;
- Both the terms “methodology” and “approach” are used to indicate the market-based or the inverted market-based procedure. There is no consistency in the document as for example, in Art. 2 of the MB Proposal, TSOs define “market-based method” that includes both market-based and inverted market-based approach, while in Art. 1 of the MB Proposal, both market-based and inverted market-based are referred to as “methodology”.

Therefore, NRAs request TSOs to respect the definition provided and ensure a coherent usage of the terms “approach”, “process”, “method” and “methodology” in the MB Proposal. Furthermore, the definition of the market-based method itself needs a rewording, as it is defined as a “methodology”.

While addressing this wording improvement, TSOs are requested to take into account a general alignment with the co-optimized CZCA methodology, as discussed in the next paragraph.

General alignment with the co-optimized CZCA methodology

NRAs request TSOs to further align the MB Proposal to the final methodology for the co-optimized CZCA, according to the Annex I of ACER Decision 12/2020, both in terms of layout and content, where relevant.

In particular, NRAs ask to further align the headlines and content of paragraphs in Articles 1, 3, 6, 7, 10 of the MB Proposal and more specifically:

- In Art. 1 paragraphs 2 and 7 shall be removed;
- The chronological steps in sub-paragraph (2) of Articles 6 and 7 respectively shall be aligned as much as possible with the final methodology for the co-optimized CZCA, without prejudice to differences in the processes (market-based, inverted market-based, co-optimized) and subjects involved in the processes;
- Article 10 seems to have the same scope as the Article 7 of methodology for the co-optimized CZCA. There should be further alignment of the content of this specific Article of the MB Proposal with the one of the methodology for co-optimized CZCA;

Moreover, the term “balancing capacity cooperation” is used all over the document. TSOs shall consider alignment with co-optimized CZCA methodology in which it was removed.

Implementation and application of methodology

NRAs acknowledge that TSOs fulfilled their request to include an implementation timeline, by adding Article 18 in the MB Proposal. Nonetheless, NRAs consider that the use of the terms “implementation” and “application” is used incorrectly. The implementation of the methodology is mandatory and its timeline shall be described by the TSOs in the MB Proposal. On the other hand, the application is a voluntary process to actually use the MB method on pre-defined bidding zone borders. Not all TSOs shall be part of the application of the methodology, pursuant to Article 38(1) of the EBGL.

Therefore, TSOs are requested to amend the proposal by using the right meaning of “implementation” and “application” in the document. In particular:

- Art. 1(3) provides the possibility to implement the methodology by two years the latest after its approval. This contradicts the meaning of “implementation” and the timeline of Article 18 of the same proposal. TSOs are requested to remove this reference in Article 1;
- Art. 1(5) and 1(6) use the word “implementation” instead of “application”. Moreover, the initiative to exchange balancing capacity is a voluntary process. If so, one of the 3 methods for the CZCA must be used. NRAs ask TSOs to remove these paragraphs and suggest to align Article 1 with the respective one of the methodology for co-optimized CZCA, in case they want to refer to the process for application, according to art.38(1);
- The last sentence in Art. 1(6) seems to link the implementation of the inverted market-based approach to the implementation timescale of the methodology pursuant to Art. 40 of the EBGL. This subject shall be moved to Article 18 of the MB Proposal and better elaborated (see following remarks about Article 18);
- Art. 1(7) uses the word “implementation” instead of “application”. This paragraph shall be removed, according to the remarks about the general alignment with the co-optimized CZCA methodology;
- Art. 1(8) uses the word “implementation” instead of “application”;

Art. 18 establishes that the methodology is implemented when the NRAs approve it. NRAs consider this timeline as not sufficient to fulfill the EBGL requirements, especially because the MB Proposal reports a high-level methodology, in which specific details about the forecasted method, the CZCA process and algorithm are not included.

Consequently, NRAs ask TSOs to provide with more details the implementation timeline by adding an obligation to submit by one year after the approval a technical document with the high-level specifications and requirements of the MB CZCA method, describing inputs, outputs, algorithm and processes of the CZCA optimization function and of the forecasting method.

As the inverted market-based approach implementation is linked to the co-optimized CZCA one, Art. 18 shall report a dedicated timescale explaining this correlation and whether TSOs intend to submit to NEMOs additional requirements for the implementation of the tool within the SDAC.

Justification of the inverted market-based approach

In their first request for amendment to the MB Proposal, NRAs asked TSOs to explicitly justify the legal background and the added value of the inverted market-based approach, ensuring also that the its implementation does not affect or preclude the implementation of the market-based approach.

NRAs consider that the reference to inverted market-based approach in Whereas 4(h) is not sufficient to justify the legal background and the added value, compared to the complexities for its implementation. Therefore, TSOs are requested to further explain the legal basis and the benefit of such approach.

According to Article 5 of the MB Proposal, as far as NRAs understand, the CZCA optimization function of the inverted market-based approach is different from the one of the market-based approach and it will share the same optimization tool of the single day ahead coupling. There should be more details in the MB Proposal regarding the relationship with the tool for the co-optimized CZCA (in Article 5) and the implications on CZCA optimization function (Article 5 and 7) and on the implementation timeline (Article 18).

Description of the forecasting method

NRAs acknowledge that in Articles 9 and 12 TSOs are proposing a high-level forecasting method and that further details will be provided when the methodology will be actually applied. However, NRAs request TSOs to improve the description of this article, in order to make more clear how the forecasting method works. The wording “shall be based” in Articles 9(3) and 12(2) is very vague and does not allow understanding of how the inputs are processed to get the output. TSOs are requested to provide a more detailed explanation of the forecasting process, especially regarding the steps and the calculation that provide the forecasted market value.

In Article 9, NRAs understand that TSOs decided to calculate the forecasted market value based on the submitted SDAC bids of selected reference day(s) instead of using the market spread value; therefore, TSOs are requested to clarify which bids from which bidding zones will be considered and how the possible import/export with third countries is considered.

A similar request regarding the clarification of which balancing capacity bids from which bidding zones are considered applies for Article 12.

Articles 9(5) and 12(4) shall require to include in the proposal developed in accordance with Article 33(1) of EBGL, also, the detailed description of the methodology to calculate and apply adjustment factors.

Finally, NRAs have doubts whether Art. 39 and Art. 41 permit the inclusion of the expected value of CZC related to the cross-border activation of balancing energy. If TSOs do not choose to remove this paragraph, they shall justify the legal basis of Article 12(5) and provide a detailed description of how this expected value is calculated and accounted for.

Specific requirements on articles

Article 2

NRAs ask TSOs to further refine the list of definitions, removing what can be easily described in the Article where it is used and adding other definitions that are missing. In particular:

- definition 2(b) shall be removed, as already provided in Article 2 of the EBGL;
- in case TSOs remove the term “balancing capacity cooperation”, according to the request to align the MB proposal to the co-optimized CZCA methodology, definition 2(c) shall be removed;; according to the request to align the MB proposal to the co-optimized CZCA methodology, where the reference to “balancing capacity cooperation” was removed;;
- definition 2(d) shall be removed, as already provided in Article 3 of the SOGL;
- definition 2(e) can be removed, as the description of the MB method and its approaches (market-based and inverted market-based) is already provided in Article 5;
- definition 2(f) can be removed, as the description can be provided in Article 10, in the same way as the actual market value of CZC for the exchange of balancing capacity or sharing of reserves is described in Article 11;
- definition 2(g) can be removed, as the description is already provided in Article 11;
- inclusion of the definition of the economic surplus from the exchange of balancing capacity or sharing of reserves, in line with the co-optimized CZCA methodology;

Article 6

Article 6 refers to “nominated balancing capacity market operator”. Therefore, NRAs ask TSOs to define this term or to delete it from MB Proposal.

Article 7

TSOs are requested to clarify the step included in Article 7(2)(d) and describe in more details how it is organized.

Article 8

NRAs consider that TSOs are introducing in Art. 8(3) a new definition of “new interconnector” that does not correspond to the term defined in Article 2(5) of the Regulation (EU) 2019/943. NRAs ask TSOs to respect the definition of “new interconnector” as the definition provided in Regulation (EU) 2019/943 applies to the EBGL.

Article 11

NRAs have doubts whether Art. 39 and Art. 41 permit the inclusion of the expected value of CZC related to the cross-border activation of balancing energy. If TSOs do not choose to remove this paragraph, they shall justify the legal basis of Article 11(3) and provide a detailed description of how this expected value is calculated and accounted for.

Article 13

NRAs ask TSOs to further improve the wording and the explanation in Article 13, representing in a systematic way the process of the cross-zonal capacity allocation optimization function: what are the inputs, what is the objective function, what are the constraints, what are the outputs.

NRAs consider that a separate description for market-based and inverted market-based process increases the clarity of the article, while in the current text the two processes are mixed.

Moreover, NRAs ask TSOs to clarify why and how the allocation of CZC for the exchange of balancing capacity or sharing of reserves can be determined before the capacity procurement optimization function, while the NRAs understanding is that the two actions will be simultaneous.

Article 16

NRAs ask TSOs to clarify the congestion income calculation described in Art. 16(2), because the current text does not explain how it is performed and simply reports elements that affect the congestion income. NRAs invite TSOs to refer to the volumes of cross-zonal capacity allocated to the exchange of balancing capacity or sharing of reserves and to the price of cross-zonal capacity determined in Article 14.

III. Conclusion

NRAs have assessed, consulted and closely cooperated and coordinated to reach the agreement that they request an amendment to the MB Proposal submitted by the TSOs, pursuant to Article 6(1) of the EBGL.

The amended proposal shall take into account the NRAs' assessment stated above and it shall be submitted by the TSOs no later than two months after the last national decision of the NRAs to request an amendment has been made, in accordance with Article 6(1) of the EBGL.

NRAs should issue their national decisions to request an amendment to the MB Proposal on the basis of this agreement within 2 months after the receipt of the MB Proposal by the last NRA, according to Article 6(1) of the EBGL.