

**APPROVAL 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 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**

22 June 2021

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 22 June 2021, on the Greece-Italy CCR TSOs' (hereinafter referred to as "TSOs") amended proposal for a methodology for an allocation process of cross zonal capacity for the exchange of balancing capacity or sharing of reserves based on an economic efficiency analysis (hereinafter referred to as "EE Proposal"), in accordance with Article 42 of the Commission Regulation (EU) 2017/2195 of 23 November 2017 establishing a guideline on electricity balancing (hereinafter referred to as "EBGL").

The initial EE 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 EE Proposal.

Pursuant to article 6(1) of the EBGL, the TSOs submitted an amended version of the EE Proposal, that was received by the last Regulatory Authority on 1 October 2020. According to art. 6(1) of the EBGL, NRAs unanimously agreed to issue a second request for amendment to the EE Proposal.

The TSOs submitted a new amended version of the EE proposal, that was received by the last Regulatory Authority on 22 April 2021.

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 EE Proposal does not, at this stage, need to be adopted by ACER, pursuant to Article 6(2) of the EBGL, and constitutes the basis on which NRAs will each subsequently approve 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 NRAs' agreement on the approval of the above-mentioned methodology can be found in Articles 3, 5, 6, 38 and 42 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: [...]

(i) for each capacity calculation region, the methodology for an allocation process of cross-zonal capacity based on an economic efficiency analysis and the list of each individual allocation of cross-zonal capacity based on an economic efficiency analysis pursuant to paragraphs 1 and 5 of Article 42; [...]

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 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. The TSOs' proposal

TSOs amended the EE Proposal, with the intention to fulfill all the requests for amendment issued by the NRAs on 1 July 2020 and 1 December 2020. The final version of the EE Proposal was received by the last Regulatory Authority on 22 April 2021 along with the explanatory document giving background information and rationale for the EE Proposal.

III. The NRAs' assessment

The concerned NRAs have assessed the amended Proposal against the requirements of EBGL and the provisions of the previous requests for amendment. NRAs welcome the last version of the EE Proposal and acknowledge that the TSOs amended and improved the content of the EE Proposal, in line with the opinion papers of the approved RfAs.

In particular:

- The wording has been improved to ensure consistency in the usage of terms and definitions all over the document;
- The EE Proposal has been further aligned to the final methodology for the co-optimized CZCA and to the Nordic MB methodology, both in terms of layout and content (where relevant);

- The concept of application and implementation are now used in the right way. The TSOs included a further specification for the implementation timeline;
- The description of the forecasting method has been simplified and the possibility to include the expected value of the balancing energy in the value of CZC for the exchange of balancing capacity has been removed;
- All the NRAs suggestions and requirements on the specific articles have been duly taken into in the amended EE Proposal.

However, the concerned NRAs identified few minor typos:

- In articles 8(8) and 9(10) of the EE Proposal, the right reference to the EBGL for the proposal for the application is art. 38(1) instead of art. 33(1);

NRAs agreed that the typos do not affect the consistency of the methodology and do not justify the set up of the process to directly amend and correct the text.

III. Conclusion

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

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