



– Consultation Response –

Europex Feedback to Commission Consultation on Amendments to the CACM Guideline

Brussels, 27 April 2022 | Europex welcomes the opportunity to participate in this consultation and provide detailed input to the ACER proposal. Please note that we respond only to the selected questions listed below.

14. Do you agree with ACER’s reasoning and necessity for allowing some specific bidding zone borders to be in two Capacity Calculation Regions (CCRs)? If not, why and which alternative do you propose to solve the underlying problems?

We generally disagree with ACER’s reasoning and the necessity for allowing specific bidding zone borders to be in two Capacity Calculation Regions (CCRs).

Considerable issues can occur where specific bidding zone borders are directly/indirectly connected to the bidding zone(s) that are part of two separate CCRs. Examples of such issues that are likely to arise in case one bidding zone border is part of multiple CCRs are: (1) lack of coordination of design/rules and separate decision-making processes for the two CCRs while both will impact the given bidding zone border, (2) risk of separate (different) decisions per CCR on issues with direct effect on the given BZ border that leads to the inability for given TSO(s) to comply with such differences in methodologies for the two separate CCRs.

Furthermore, there are (more) efficient methods to avoid such settings. Indeed, where deemed justified and efficient, a set of bidding zone borders can be defined as one distinct CCR in-between two or more adjacent CCRs. This is exemplified today by the Hansa CCR between the CORE CCR and the Nordic CCR.

15. The Electricity Regulation 2019/943 (article 16(8)) requires that a minimum target apply to capacity calculation timeframes covered by CACM Regulation, which means day-ahead and intraday market coupling: Which solution do you propose to solve any issue related to the implementation of this target across these timeframes?

There can be a variety of different solutions to resolve cases where the minimum threshold of 70% CZ IC capacity is not consistently upheld for SDAC and SIDC (continuous trading and auctions). However, the preferred solution depends on the prevailing conditions and specific

reasons for the failure to continually uphold the minimum threshold. It is essential to keep in mind that the Electricity Regulation (EU 2019/943) does not make any differentiation on this stipulation for SDAC and SIDC. Therefore, the minimum thresholds shall apply for all market timeframes alike.

16. In article 27 and 32, option 1 seeks to better align flow-based and coordinated NTC methodologies. ACER concludes that this would improve transparency, reporting and monitoring of 70% requirements. Do you see any risk in this approach?

The exact difference between Option 1 and Option 2 provided under Article 27 seems unclear. Therefore, it is hard to judge which option is preferable or induces significant risks. While the differentiation between Option 1 and Option 2 linked to Article 32 is clearer, it is still hard to judge the associated consequences and risks. Accordingly, it is difficult to determine a preferred option.

On a more general note, it is questionable:

- (a) whether such level of technical and prescriptive details is needed and/or justified as part of the CACM Guideline or rather more suitable to detail in a methodology, and;
- (b) that the models appear to drive towards deterministic solutions (outcomes) based on forecasting that is hard to make consistent and is based solely on the target to maximise cross zonal capacity, while taking into account real and significant security constraints that cannot be managed by active or reactive remedial actions.

17. Under which conditions the flows resulting from capacity calculation and allocation with third countries could be counted within the 70% of minimum capacity of critical network elements that needs to be offered to the market? Please motivate your response: why and under which conditions?

There are multiple possible conditions under which the flows resulting from capacity calculation and allocation with third countries could be counted within the 70% of minimum capacity of critical network elements that needs to be offered to the market.

For example, it appears justified that such third country flows are to be considered if they have a significant effect on the cross zonal capacity made available for wholesale trading between the given adjacent EU Member State and another EU Member State.

18. How to ensure proper coordination of capacity calculation and allocation on borders with third countries and that there is no discrimination towards internal EU trade?

Given the multifaceted nature of the question, we kindly ask for more clarity on what the different elements mean. For example, we would need clarification on what discrimination would entail. Furthermore, we would like to inquire whether there is any intention to add

new or amend existing articles in CACM 2.0 addressing these matters and, if so, what is concretely proposed.

Please also see our response to question 19.

19. Do you have any other comments on Title III- capacity calculation?

A more general framework for wider third country cooperation is needed in CACM 2.0, beyond just individual country clauses as in the case of Switzerland.

ACER recognises that an update of CACM is needed with regard to the status of third countries in capacity calculation but provides no amendment proposal, stating that a political decision is needed. While we recognise the political dimension, it would be helpful to have a proposal on the table to provide more technical guidance to the comitology discussion, e.g., with regard to how those flows shall be taken into account when assessing the minimum capacity target of 70%.

At the moment, we lack a clear framework to further extend market coupling to non-EU members, while we see a strong interest from third countries. We also believe that further potential for welfare gains (also for Member States) exists. We see a general risk that any participation in market coupling is used as a bargaining chip in other, mostly political, debates.

Exchanges of electricity with third countries are a reality and borders with third countries should in principle be taken into account by capacity calculation processes, while ensuring that existing integration projects are not compromised. Current EEA countries such as Norway that are participating more closely in SDAC and SIDC should retain this status.¹

25. In addition, further clarification could be provided on the process when one Member State intends to review its internal bidding zones or establish a new bidding zone to improve locational price signals. Do you agree and what are the most important considerations in these cases?

The criteria of a bidding zone review still include technical and economic aspects, which is welcomed. We see a missed opportunity that ACER did not make an attempt to define the calculation/determination of the single criteria in more detail. Past review processes have shown that this unclarity resulted in discriminatory weighting in favour of such measures that were easy to quantify. More concretely, the objective to maximise economic efficiency remains highly imprecise, while the minimisation of structural congestion and maximisation of cross-zonal trading opportunities are almost identical and already addressed outside the bidding zone review (BZR). The actual functioning of markets is not addressed.

In general, we disagree with the introduction of new provisions concerning the BZR process. CACM Guideline should not include any additional measures beyond those in the Electricity Regulation. Furthermore, in order to ensure regulatory certainty, it is essential that the CACM

¹ https://www.europex.org/wp-content/uploads/2021/06/20210610_CACM-2.0-consultation-response_final.pdf

Guideline does not repeat the requirements of the Electricity Regulation but cross-refers to the regulation.

Additionally, in the BZR process more stakeholder involvement is needed at all stages. Currently, stakeholder feedback is only considered for the methodologies, while stakeholders are not part of the actual BZR study. Involvement is particularly needed in the key element of selecting the configurations that need to be tested and compared in the BZR. These configurations should be determined in an open, transparent, and objective process and should not prematurely conclude the outcome of the review. We notice that there is no longer an explicit mention of the fact that consultations must be organised under CACM. As a result, the format, content, and addressees as part of stakeholder involvement in the consultations remain unclear.

We are very critical of the concept that a single Member State may review its bidding zone(s) strictly individually. According to our experiences and insight, a bidding zone configuration always impacts the efficiency of the whole electricity market beyond its own bidding zone. A joint impact assessment is therefore absolutely needed. To limit a bidding zone review to a national context will very likely lead to an incomplete and biased assessment of potential configurations and their impact. Further, we find no clear reason why the bidding zone border should be limited to national borders.

Against this background, we would have hoped for more restrictive conditions to launch an internal bidding zone review in exceptional cases only.

However, we agree with the proposal that the final decision on a bidding zone configuration is left to the member states within a given CCR, at minimum those MS adjacent (on each side) to the given BZ delimitations, e.g. their designated competent authorities.

26. In order to reach the decarbonisation targets, a significant rollout of offshore renewable energy is expected, and the TEN-E Regulation sets out the process for developing integrated offshore network development plans for each sea-basin. Do you agree that these plans should be used as a basis for establishing or reviewing offshore bidding zones, instead of doing so on an ad-hoc basis as projects are developed? If not, why not and what alternatives do you propose?

It is clearly positive that not only status quo but also future developments shall be taken more into account, which is addressed by the ACER proposal in a different context (i.e. grid expansion). In this context, we agree with DG ENER to take development plans into account.

However, this is irrespective of the fact that the establishment and treatment of offshore bidding zones still requires further discussions with particular emphasis on the following issues:

- (a) In general, any network development plan should consider the current and expected bidding zone configuration within the geographical scope of the plan. Otherwise, project promoters will have a lot of uncertainty on the relevant market for the energy that they will generate.

- (b) A discussion should be triggered about how bidding zone reviews need to be developed further, thereby aligning with relevant initiatives such as the European offshore wind strategy. The discussion should not only concentrate on the possibility to define separate offshore bidding zones (OBZ) for hybrid projects. It should also consider and allow for the alternative, namely to integrate some or all the OBZs in the home market model, e.g., not as separate OBZs but as part of a given mainland bidding zone.
- (c) Stakeholders should be involved in all processes concerning offshore projects and a possible adaption of the market design.

27. Do you have any other comments on Title V- Bidding zone review process?

There should be a provision inserted in CACM 2.0 regarding the analysis by TSOs on CCR level based on “nodal model analysis”, which provides indications to ACER of plausible bidding zone reconfigurations to consider further. Such a provision should call for the analysis to be made public and be subject to some level of stakeholder consultation and/or dialogue within a dedicated SAG. Such a provision is long overdue since the current level of transparency in the process is insufficient. This is problematic, as the effects on any BZR will mainly affect those parties currently not invited to review the analysis mentioned above.

BZR should be equally focused on finding, where efficient and of significant (multi-year) duration, opportunities for merging pre-existing bidding zones into fewer bidding zones. In particular, this is relevant in countries such as Sweden, Norway, Denmark and Italy which currently have several bidding zones. The BZR should be based on conditions already present today and further supported by upcoming grid, production, and consumption investments. When the BZR process determines that smaller bidding zones are no longer warranted or have no need or justification to be separated, they should be merged.

Additionally, BZR should allow for the merger of zones that go beyond a merely national scope. Furthermore, a minimum market size for future bidding zone reviews should be considered.

Also, the impact analysis of a bidding zone reconfiguration should not be limited only to the directly affected market time frames (i.e. SDAC, SIDC and balancing market), but also effects on long term (financial) hedging markets. As the example of the DE-AT split and also much earlier the split of Sweden into four bidding zones have shown, there is no alternative bidding zone configuration without indirect effects on a larger part of the whole internal market for electricity. I.e., not only the country/countries where the change in bidding zone configuration was made, and not only with effects on the efficiency of short-term markets, but also on long term hedging as well as on real-time balancing. The effects on all market timeframes are also a key reason to consider the effects on price formation, liquidity etc. in time frames other than the wholesale common IEM short-term spot markets when defining new bidding zone configurations.

28. In article 62 detailing the regular reporting on current bidding zone configuration by ENTSO-E, it is envisaged to introduce an objective criterion for reporting purposes. Do you agree with the proposal to define a threshold for frequency of occurrence when reporting on structural congestion, to ensure consistency in reporting among Member States? If not, why and which alternative do you propose?

We believe it is useful to include a threshold for inclusion of congestion in the report prepared by ENTSO-E as this will contribute to a more meaningful pan-European analysis. A regular review clause for the level of this threshold could also be inserted.² Additionally, Europex calls for more clarity on what criteria and scaling would be used as part of such a threshold.

30. The new article 76 “Proposal for regional operational security coordination” envisages two options for sharing of costs of remedial actions, one simply referring to article 16(13) of the Electricity Regulation, the other providing more detail in its interpretation. Which option do you favour and why?

We do not currently see issues stemming from having remedial actions addressed in both CACM and SOGL, with a different focus, and believe the CACM articles can be updated as necessary to ensure completeness while avoiding conflict with SOGL provisions (e.g., on optimisation of remedial actions). Redispatch and countertrading measures are important market-relevant aspects, necessary for ensuring physically feasible maximisation and firmness of cross-zonal capacities. We are concerned that moving these to a more global framework in SOGL will remove oversight from a market perspective and make it more difficult for market participants to be involved in discussions around the implementation of these provisions.³

31. Do you find any gaps in the current ACER proposal (for example, due to existing provisions in the original CACM that are not reflected in the current text following its restructuring). If so, which ones?

The publication of results, taking always into account the safeguarding of NEMO’s commercial interests, should take place in a coordinated manner by both NEMOs and TSOs, not only by ENTSO-E, in order to ensure that information is made publicly available as soon as possible.

² https://www.europex.org/wp-content/uploads/2021/06/20210610_CACM-2.0-consultation-response_final.pdf

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About

Europex is a not-for-profit association of European energy exchanges with 30 members. It represents the interests of exchange-based wholesale electricity, gas and environmental markets, focuses on developments of the European regulatory framework for wholesale energy trading and provides a discussion platform at European level.

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