Stakeholder Webinar|CZCA Harmonised Methodology

11 April 2024

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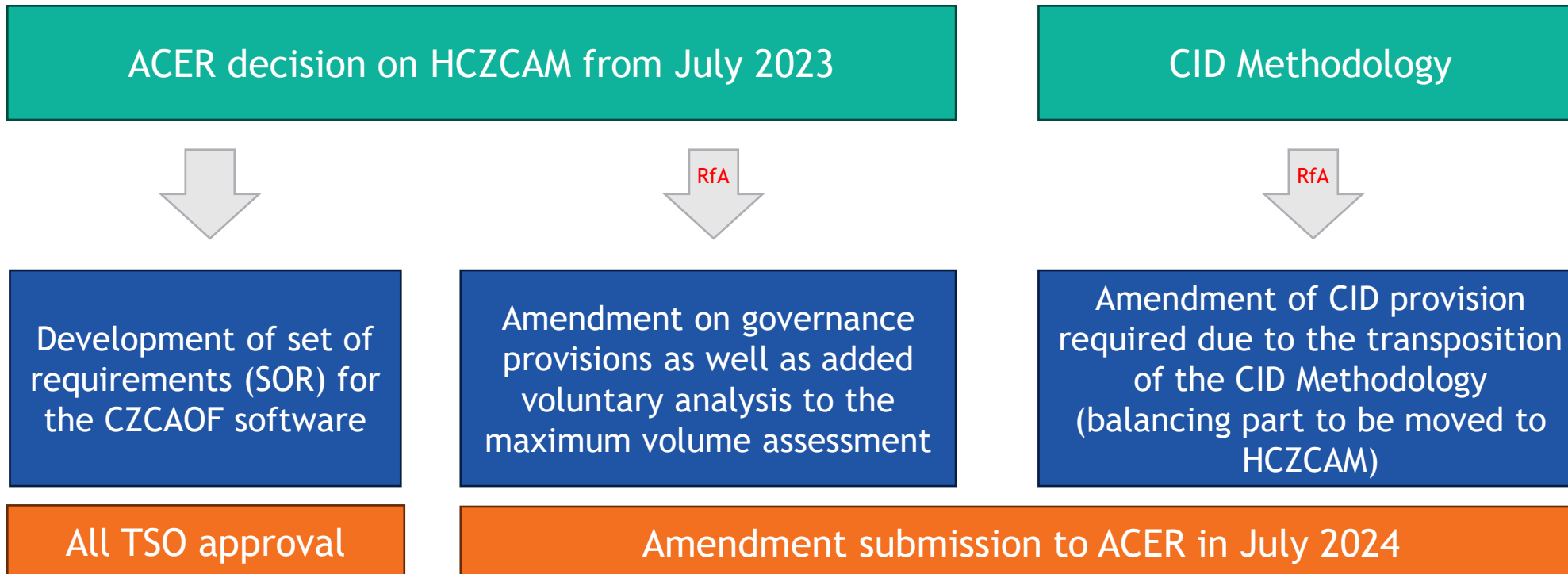Reliable Sustainable Connected

Outline

1. Background and current All TSOs work on CZCA Harmonised Methodology (HCZCAM)
2. Part 1 - Amendment of governance provisions & voluntary analysis to the maximum volume assessment
3. Part 2 - CID amendments in HCZCAM
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1. Background and current All TSO work on CZCA Harmonised Methodology (HCZCAM)

- The CZCA Harmonised Methodology (HCZCAM) **defines the general principles** to be used if two or more TSOs wish to share or exchange Balancing Capacity in a common Capacity Market. The method described in the HCZCAM is the co-optimised and Market-Based approach. For this amendment and webinar, all changes relate to the **Market-Based approach**. The HCZCAM replaces the local Market-Based methodologies, which currently is only used by the Nordic TSOs (Common aFRR Capacity Market).

- Opposite of the Balancing Energy regulation (MARI/PICASSO Platforms), Balancing Capacity cooperation **is not mandatory** in EB Regulation. However, **it is mandatory to create a harmonised set of rules** for those who wish to exchange or share Balancing Capacity. **The HCZCAM defines those harmonised rules.**

- The HCZCAM also allows for regional markets/platforms, which is **not the case for Balancing Energy** (MARI/PICASSO). This means that several Applications (markets) can function within Europe at the same time. However, if there are dependencies between different Applications, the HCZCAM defines a ruleset to cover such dependencies.

1. Background and current All TSO work on CZCA Harmonised Methodology (HCZCAM)

➤ All TSOs submitted the HCZCAM to ACER on 16 December 2022.

➤ ACER decision was received on 19 July 2023 which approved the HCZCAM but required further work on it.

ACER decision on HCZCAM from July 2023		CID Methodology

Development of set of requirements (SOR) for the CZCAOF software	Amendment on governance provisions as well as added voluntary analysis to the maximum volume assessment	Amendment of CID provision required due to the transposition of the CID Methodology (balancing part to be moved to HCZCAM)
All TSO approval	Amendment submission to ACER in July 2024	

Part 1 - Amendment of governance provisions & voluntary analysis to the maximum volume assessment

2. Amendment proposals to governance provisions (1/4)

Development of a change request (CR) process for the CZCAOF software - Art. 15(2)

- All TSOs can request a change of the CZCAOF software

- The decision making would take place at two levels:

  - Change requests concerning the market-based SOR (approved by All TSOs) should be approved by All TSO
  - Change requests concerning operations of the BC platforms should be approved by all application TSOs of that platform

- Costs related to any change request are shared among all application TSOs and according to sharing key defined in the HCZCAM

Establish a decision-making process for decisions concerning the Market-Based Allocation (MBA) processes - Art. 16(7)(a)

- A joint decision-making body needs to be established per BC platform to ensure a fair and non-discriminatory decision-making process for the MBA processes (CZCAOF, forecasting of DA energy bids, forecast validation) for all application TSOs of a BC platform

- No further specification of the decision-making body included in the governance amendment; up to each BC platform to further define the scope of the group if needed

- No timely reference on when the decision-making body should be established

2. Amendment proposals to governance provisions (2/4)

Establish a decision-making process as well as requirements for the designation of a responsible entity per sub-process - Art. 16(7)(a)

- **Entity to perform CZCAOF:** Designate a TSO or a company owned by TSOs to perform the CZCAOF

- **Entity to perform the forecasting of DA bids:** Designate a TSO or a company owned by TSOs to perform the forecasting process

- **Entity to perform the forecast validation:** Designate a RCC to perform the forecast validation process (pre-defined in HCZCAM)

- Designations are done by all application TSOs of a BC platform

- The same entity can be designated to perform all three processes

Establish a decision-making process for agreement on a single GCT per BC platform – Art. 16(7)(a)

- All TSOs suggests to take inspiration in the Nordic methodology regarding GCT per BC platform and targets that All application TSOs of a balancing platform shall agree on a GCT for their BC platform. The decision-making process in the Nordic methodology was defined in collaboration with ACER and it aims to make sure that stakeholders are publicly consulted before determining the GCT per BC platform and furthermore well informed on the matter.

2. Amendment proposals to governance provisions (3/4)

Establish a process regarding the possible evolvement of BC platforms (additions of new applications/merger of BC platforms) Art. 16(2)

- If there is an interdependency, the TSOs of all affected applications may come to a unanimous agreement on a common BC platform used by all interdependent applications
- Failing to reach unanimity, the decision shall be made with qualified majority.

A new definition of 'Interdependency of Applications' has been added for clarity – Art. 2 (g)

- To have more clarity on potential cases, All TSOs supported adding a definition of "Interdependency of Applications'' to HCZCAM
- Current All TSO proposal on interdependency definition (*tbd* with ACER): *"Interdependency of Applications means when two or more Applications are part of one flow-based regime or in case one TSO applies substitution of reserves within two or more Applications."*

2. Amendment proposals to governance provisions (4/4)

Derogation option for operational (regional) market-based applications

- In accordance with the HCZCAM, those applications that are already in operation before the harmonised CZCAOF is implemented have an implementation deadline 1 year after the finalisation of the common software (latest 31st July 2025)

- Baltic TSOs (in operation from 2025) and Nordic TSOs (in operation) argue that this deadline will be very difficult to make due to many uncertainties involved both in the development of the algorithm, but also the implementation to the Nordic / Baltic market. The argumentation is based on the many expected changes to the current market setup.

- Therefore, it is proposed to include a derogation option for these TSOs to be identical with the one defined in the aFRR and mFRR balancing energy implementation frameworks (maximum 2 years - fixed option, to be approved by local NRAs).

Any questions?

2. Maximum Limit per Critical Network Element Contingency (CNEC)

Amendment of the maximum limit per critical network element contingency (CNEC) for the exchange of balancing capacity or sharing of reserves

- ACER invited TSOs to investigate how different maximum limits can be implemented in a flow-based CCR

- An initial investigation showed that it is possible to realize different exchange limits between different bidding zones in a flow-based region. In closely interconnected regions (e.g. in CORE) a limit between two bidding zones (e.g. BE-NL) might also affect neighboring borders (e.g. BE-FR)

- Due to the possible effects on neighboring borders the following governance for the intended limit per border is foreseen:

  - Within the application: TSOs agree on limits, ideally unanimously, as backup QMV
  - With application-external TSOs: Consult with TSOs before submission an application proposal (e.g. via CSO notification)
  - TSOs may only use the exemption to go beyond the standard 10% limit, if they expect an unsatisfied TSO BC demand in a bidding zone or if they have robust forecasting of the day-ahead market and the increased limit will bring significant welfare gains.
  - If application TSOs decide to use the exemption on a border, neighbors of those TSOs can veto this decision, if they can justify it by showing negative (expected) impacts on their (day-ahead) market

Any questions?

Part 2 - CID amendment in HCZCAM

3. Proposals on CID amendment in HCZCAM

Congestion income distribution (CID) amendment – Art. 24.2

- For the compensation mechanism (in case of there is less congestion income from balancing than from SDAC) a formula was provided to calculate the congestion income which "could have been generated […] in the single day-ahead coupling instead"
    - Formula relies on marked spread for NTC regions and shadow prices for FB regions
    - To account for an overestimation of SDAC congestion income (due to non-linearity of shadow prices), TSOs of a CCR can decide to apply an adjustment factor scaling down the results of the formula (according to CCR voting rules)
    - The compensation process described in Article 24.2. can be omitted in case there is agreement among the TSOs of the concerned CCR (according to CCR voting rules)

Congestion income distribution (CID) amendment – Art. 24.3

- For the distribution of the compensation among all TSOs in a CCR, a formula was provided.
- A decreased congestion income per border is calculated. The compensation is distributed according to those shares of decreased congestion income.

Any questions?

4. Next steps

- Public Consultation on HCZCAM amendments is taking place between 22 March and 23 May 2024.
- The table below provides high-level summary of the next steps:

Date	Activity/Milestone
22 March to 23 May 2024	Public Consultation
By 31 July 2024	Submission to ACER
By 30 January 2025	ACER's decisions on the HCZCAM

Any questions?