September **2023**

UFE Response to Public consultation on ACER's 2023 market monitoring report on cross-zonal capacities and the 70% margin available for cross-zonal electricity trade (MACZT)

General feedback - Evolution of cross-zonal capacity levels

To what extent do you agree with the conclusions illustrated in ACER's 2023 market monitoring report on cross-zonal capacities and the 70% margin available for cross-zonal electricity trade (MACZT)?

- Strongly agree.
- Agree.
- Neutral.
- Disagree.
- Strongly disagree.

What changes would you suggest for future editions of ACER's cross-zonal capacity report?

UFE supports globally the Eurelectric's response but would like to provide some further comments and to stress some additional specific points:

1. Balanced agenda and feasibility discourse: UFE agrees that NRAs should ensure strict observance of the rules on all borders and report on progress according to a consistent methodology. Conversely to ACER, UFE considers that the bidding zone review is not the only approach left to reach the 70% target. In fact, network development and redispatching are as valuable measures to implement. And in any case the use of countertrading can allow to reach the 70% target.

2. Transparency in recommendations process and overall transparency: As ACER is to provide recommendations, for transparency's sake, UFE believes stakeholders should be offered the opportunity to comment on ACER's recommendations to the EC. Furthermore, transparency over national action plans and their implementation should be provided so as to have a clear picture of the effort towards the target. At last, the assessment of derogatory target compliance should be better put in light of the target itself.
3. Enhancing cooperation between ACER and ENTSOE: UFE regrets the inconsistencies between ACER's and ENTSOE's reports and considers that a harmonized methodology would provide a more consistent picture of the actual compliance status. UFE considers that the monitoring compared to both the 70% target and the the derogatory levels (through derogations or action plans) should be performed as they are needed to provide the full picture of efforts implemented and left to implement to reach the target. ACER and ENTSOe should work to find common ground on the monitoring methodology. Notably, UFE considers that ACER could focus its monitoring on presolved CNECs as this has been a point of disagreement previously raised by TSOs.
4. **Broadening the scope of analysis and assessing welfare creation enabled by the 70%** : UFE considers that future ACER reports should also analyse (i) the efficiency and economic rationale of the measures implemented by Member States to reach the 70% target and (ii) the welfare that could have been created from freeing further CZCs (whether the 70% was reached or not).
5. The ACER analysis should encompass comprehensive factors including costly actions like R&D and grid development investments. Transparency is crucial in disclosing the inputs used to evaluate these costs, ensuring clarity in determining their magnitude and efficiency of implementation. This approach will enable the identification of the most economically viable strategy in various regions among the available options.
6. Considering Third Countries impact: Due to their impact on reaching the target, electricity flows with very well interconnected third countries should get a proper consideration in ACER's analysis. If such flows are not counted towards the 70% target, EU Member States affected by those flows are at risk to either miss the 70% target or to have to take measures detrimental to both the 70% target and an ever deeper integrated European electric market, thereby reducing overall welfare creation. Moreover, UFE underlines that those very-well interconnected third countries which are part of the synchronous grid of Continental Europe should at least be included in the capacity calculation process in order not to put system operations

and welfare creation at risk. For example, Swissgrid is included in the coordinated capacity calculation of Italy North as Technical counterparty.

7. Intraday (ID) timeframe discussion: UFE understands that ACER intends to extend its compliance monitoring to the intraday timeframe. Market participants within UFE consider that it would not be desirable nor efficient to implement the 70% target in Intraday without a proper demonstration of the benefits in terms of social welfare and would like stakeholders to be associated with any work on this topic.
8. Focus on allocation constraints: UFE welcomes the efforts provided by ACER to try to capture the impacts of IVAs and allocations constraints on capacity levels but considers that the report currently provide insufficient information on this point. UFE notes that the number of IVAs has increased as a mean for TSOs to provide lesser levels of capacity. It is consequently important to improve their monitoring.
9. Monitoring long-term cross-border capacity improvements: the recent discussions on the Electricity Market Design (EMD) have shown the importance of the long-term timeframes. Therefore monitoring and reporting on the improvement of the availability of LT capacity will be valuable.

Based on the data presented in Chapter 1 of ACER's report, do you believe that the current development of cross-zonal capacities across the EU is sufficient to enable the integration of European electricity markets?

- Yes
- No

Please clarify your answer.

First, UFE would like to point out that we understand the question regarding the "development of CZCs" as the level of capacity provided on existing CZ infrastructure and not as whether further CZ infrastructures should be developed.

Second, UFE reminds that market integration is sought to maximize surplus while minimizing costs. UFE is not in favor to consider the whole of Europe as a copper plate to the expense of European economic net surplus.

Finally, in UFE opinion, TSOs should always strive to maximise cross-border capacity available to the market and we believe that more should be done by TSOs in most regions.

Zones going below historical levels such as the 20% in the CWE regions are especially unacceptable.

Margin available for cross-zonal trade in the EU in 2022

Considering the results of the monitoring exercise of 2022, do you believe that enough progress is being made across the EU to fulfil the 70% cross-zonal transmission capacity target by 2026?

- Yes
- No

UFE cannot provide a yes/no answer to this question as it calls for a contrasted response dependent of the regions and situations that are referred to.

Some regions seem to be on the right track for compliance if not already compliant. In any case, UFE considers that the current level of information around action plans and derogations is insufficient to evaluate whether achieved progress is satisfactory. Such evaluation indeed requires a comprehensive understanding of (i) efforts already undertaken to achieve the current results and (ii) efforts still to be made to reach the target. This information should be made available regularly through action plans detailing the strategy, the intended investments and policy implementations in place to drive the enhancements in cross-zonal capacity availability. UFE strongly supports the principle of transparency in the allocation of derogations and the disclosure of action plans and their advancement.

Please clarify your answer.

In ACER's report, several elements are presented as critical limitations to the achievement of the 70% cross-zonal transmission capacity target. Please rank them by order of relevance (on a scale from 1 to 5, 5 stars corresponding to the biggest threat) :

- Lack of a mechanism to share remedial actions costs : **3 stars**
- Lack of sufficient remedial actions : **0 star**
- Suboptimal bidding zone configuration and resulting loop flows : **0 star**
- Lack of sufficient grid developments : **2 stars**
- Unilateral capacity reductions applied by TSOs : **3 stars**

Do you see any other threat to the achievement of the 70% target?

In most cases, the most critical limitations are insufficient grid developments and unilateral capacity reductions. UFE does not support characterizing the current BZ configuration as a threat to reaching the 70% target as mentioned in the ACER report. There are alternative paths to reach this target and there is no substantiated evidence that a BZ reconfiguration would lead to achieving this target.

UFE considers that the following 4 points constitute the most important threats to the achievement of the 70% target :

- Not achieving action plan (or derogation) targets in some borders. The lack of consequences limits the strength of the 70% target. Encouraging incentives for corrective actions and fostering long-term solution development will contribute to the achievement of this target. In some regions, we have experienced cases (FI-SE3) in which TSOs do not achieve the target without facing any consequences. Such situations could set a discouraging precedent, undermining the significance of the 70% target.
- Delays in necessary investments could impede progress towards achieving the 70% target. A monitoring encompassing the effective implementation of actions plans and the expected investments would contribute to ensuring a swift achievement of the 70%.
- Suboptimal coordination of costly RAs in CROSAs : regional optimization of remedial actions, both non-costly and costly, can provide further levers to maintain operational security at any given time at an efficient cost, while maximizing available cross zonal capacities. UFE would like to stress the importance of further implementing such operational coordination between TSOs.
- To a certain extent, allocation constraints, particularly when applied for frequency or voltage regulation purposes can also pose a challenge.

What would be the key enabler(s) for reaching the 70% target by 2026?

Enhancing the coordination among TSOs on remedial actions could be a key enabler for reaching the target.

Have you been affected by unilateral capacity reductions, such as allocation constraints or individual validation adjustments?

- Yes
- No
- **Not applicable**

Please clarify your answer – in particular, the extent to which you were affected.

Do you believe that enough transparency and justification is provided by TSOs in the application of validation adjustments, or other similar unilateral reductions of cross-zonal capacities?

- Yes
- **No**

Please clarify your answer.

Do you consider that ACER's current MACZT monitoring exercise on regions that apply a CNTC capacity calculation methodology provides a complete assessment?

- Yes
- **No**

Please clarify your answer, and potential suggestions to improve this monitoring.

UFE believes that the MACZT assessment can be further enriched for CNTC regions by including presolved CNECs in ACER's monitoring. Such monitoring would allow to identify the CNECs that would have been limited should the market had cleared differently from its actual clearing point. UFE considers that the same approach should be applied to flow-based monitoring.

Unnecessary constrained capacities limit EU welfare

Do you believe that additional cross-border transmission capacity would have played a critical role in coping with the effects of the energy crisis of 2022?

- **Yes**
- No

Please clarify your answer.

UFE supports Eurelectric's response. In particular, UFE invites ACER to complement its work by providing an analysis showing the correlation of high price spread with the MACZT on limiting CNECs or presolved CNECs instead of any CNEC to show whether the low level of margin observed on some CNECs actually contributed to aggravate price spikes.

Do you see a risk for re-dispatching costs to offset the potential gains from increased cross- border transmission capacity and further market integration?

- Yes
- No

Please clarify your answer.

The 70% target is on the table and is not put into question. However, we could (i) assess the most efficient means to achieve it considering among others RD and grid development costs, and (ii) assess whether it would be economically efficient to go beyond.