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## Position Paper

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

### Version: 1.0

The German Association of Energy and Water Industries (BDEW), Berlin, represents over 1,900 companies. The range of members stretches from local and communal through regional and up to national and international businesses. It represents around 90 percent of the electricity production, over 60 percent of local and district heating supply, 90 percent of natural gas, over 90 percent of energy grid as well as 80 percent of drinking water extraction as well as around a third of wastewater disposal in Germany.

BDEW is registered in the German lobby register for the representation of interests vis-à-vis the German Bundestag and the Federal Government, as well as in the EU transparency register for the representation of interests vis-à-vis the EU institutions. When representing interests, it follows the recognised Code of Conduct pursuant to the first sentence of Section 5(3), of the German Lobby Register Act, the Code of Conduct attached to the Register of Interest Representatives ([europa.eu](http://europa.eu)) as well as the internal BDEW Compliance Guidelines to ensure its activities are professional and transparent at all times. National register entry: R000888. European register entry: 20457441380-38

## Objective

The objective of this consultation is to gather views from stakeholders regarding the findings of ACER's market monitoring report on '**Cross-zonal capacities and the 70% margin available for cross-zonal electricity trade (MACZT)**'. Based on the findings of the report and the stakeholders' input gathered, ACER will issue a formal opinion to the European Commission and European Parliament by the end of 2023.

## 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?**

Relating to the conclusions made for the German bidding zone, BDEW strongly disagrees with the outcomes of this report. Especially the methodology behind monitoring the achievement of the 70%-criterion and the related German action plan is inappropriate. For the latter, the main section of the report concludes that in 2022 Germany falls short in achieving the 31% target according to the action plan. However, in the annex it is stated that, when taking the correct data into account, Germany has in 96% of the Market Time Units (MTUs) reached this target. BDEW's view is that the introduction of the flow-based capacity calculation in the Core region as of 09.06.2022 has contributed to allocating additional cross-zonal capacities. BDEW sees the difference between these outcomes behind the dissent in the usage of data between ACER and TSOs to monitor the achievement of MACZT targets. In this regard, BDEW suggests to better coordinate and align methodologies with TSOs for the sake of homogenised outcomes.

In addition, ACER's conclusions are also made by solely monitoring the available capacity on the smallest Critical Elements with Contingency (CNECs). This approach only delivers a part of the full picture which one-sidedly nourishes the proposed measures in the report, inter alia, a bidding zone reconfiguration. In this case, BDEW observes again significant differences between ACER and TSOs. It is more feasible for monitoring the advancement of fulfilling the action plan by focusing on all of the present CNECs. Only then reliable statements can be made.

Generally, a reconfiguration of bidding zones does not supersede the urgent need of physical grid expansion. Therefore, the lengthy process of a bidding zone reconfiguration does not solve the issue and could lead to increased market uncertainty among market participants.

Besides, the following improvements could be made for future editions of ACER's cross-zonal capacity report:

- **Balanced agenda and feasibility discourse:** while BDEW is of view that TSOs should strive to maximise cross-border capacity availability to the market, NRAs should retain the position of ensuring the observation of the rules on all borders and report on progress according to a consistent and harmonised methodology. However, it is important for the report to maintain a balanced perspective, moving beyond ACER's agenda, to incorporate a wider range of stakeholders' views. BDEW holds a different view than ACER regarding the feasibility of the 70% target and would like to underline that the 70% can always be reached either naturally, notably through network development and redispatching, or as a last resort, with the use of counter-trading.
- **Transparency in the policy recommendations process and request for a future consultation:** BDEW regrets that ACER did not outline the policy recommendations it intends to formulate based on the conclusions presented in this report. Given the potential impact and importance of such recommendations, BDEW urges ACER to run a public consultation on these recommendations.
- **Broadening the scope of analysis and assessing welfare creation enabled by the 70%:** the report's analysis should be comprehensive and be extended to include costly actions such as redispatch and grid development investments and, notably, determine their magnitude and whether they are implemented efficiently or not. This non-exhaustive list of options will contribute to reaching the 70% and the task of decision makers must be left to select the most economical one.
- **Focus on allocation constraints:** further versions of the report should seek to improve and broaden the collection of available data and provide related analyses targeted on allocation constraints and IVAs in order to provide better insights on their actual impacts on EU markets and welfare creation which does not seem allowed by the current way of reporting.
- **Providing more visibility and insights on the derogation targets:** the progress of derogation targets should be better put in light of the 70%-target itself.

**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.

In this regard, BDEW would like to emphasize that market integration, and centring measures around it, should not be seen as the mere goal of a future power system. Moreover, BDEW would raise the question whether, in the absence of a common definition, the sole provision of cross-border capacities leads to a more integrated electricity market. Rather, market integration should be seen as an enabler to unlock benefits and maximising welfare, thus leading to the minimisation of costs. The objective of operational security for the power system enjoys at least the same importance. Therefore, a trade-off needs to be found between the 70% target to allow for market integration and price convergence as well as managing grid development investments and redispatch costs. However, the goal should be to provide the optimal capacity for market integration and whether the optimal capacity lies at 70% has not been assessed. If it is reasonable to orient oneself towards rigid percentage values should be subject to investigation.

## **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

Please clarify your answer.

BDEW observes that Germany is well on track to fulfil the annual targets of the German action plan – and even beyond. In the majority of cases in 2022, Germany reached or exceeded the 70% target on all Critical Network Elements (CNEs).

For BDEW, it is essential to consider the progress achieved within the action plan. Only a combination of monitoring the advancement of the action plan and of the 70% target can provide reliable results.

In general, the evaluation of actions plans should, next to a harmonised monitoring methodology, require a harmonised understanding of efforts undertaken to achieve the current results.

**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:**

5 stars correspond to the biggest threat.

Lack of a mechanism to share remedial actions costs	☆☆☆☆☆
Lack of sufficient remedial actions	☆☆☆☆☆
Suboptimal bidding zone configuration and resulting loop flows	☆☆☆☆☆
Lack of sufficient grid developments	☆☆☆☆☆
Unilateral capacity reductions applied by TSOs	☆☆☆☆☆

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

As aforementioned, the most suitable approach to achieve the 70% target should be based on the most economically efficient and appropriate solutions.

With no doubt, not achieving the action plan targets could pose a threat to the 70% target. Therefore, Member States should be called for consequently pursuing measures to fulfil national objectives. According to BDEW, Germany met and widely exceeded the target of 31% in 2022.

Besides, the (non-)achievement of the 70% target should not be seen as a basis for reconfiguring bidding zones since there are many, and economically and socially more reasonable, solutions to increase the available cross-zonal capacity, such as grid development. Therefore, BDEW calls for a disentanglement of the 70% target from the current Bidding Zone Review.

Most importantly, BDEW does explicitly not see the reconfiguration of bidding zones as a method to increase the availability of cross-zonal capacity – and interprets it rather as a threat. BDEW is concerned that a reconfiguration of bidding zones would severely hamper the expansion of RES and impact grid development, therefore threatening the achievement of the energy targets overall.

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

See answers provided to the previous question in addition to focusing on solving the limitations ranked above. All in all, most important elements from BDEW's point of view are grid expansion as well as to improving mechanisms to share costs from remedial actions with which an increase of the provision of cross-zonal capacity can be achieved.

**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.**

Not applicable.

## 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.**

According to BDEW, the integrated energy market has significantly supported the mitigation of even higher electricity prices in 2022 as well as keeping the high level of security of supply in the European Union. This goes independently from discussions around the 70% target as well as the reconfiguration of bidding zones which shows that despite the non-achievement of this target in most Member States, as concluded with this report, BDEW saw a strong coordination across borders to minimise the effects

of the high electricity price phase on end consumers. It is uncertain whether additional cross-zonal capacity would have contributed to lower prices.

**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.**

BDEW can neither answer 'yes' nor 'no' to this question. However, BDEW suggests that redispatch costs should be seen as part of a future and more volatile power system rather than a risk, due to an increased volume of RES generation. In this regard, a close monitoring of and comparison between re-dispatch costs and welfare gains, e.g., through further market integration, should create the future basis when it comes to an efficient development of electricity markets.

Nevertheless, it is here to note that capacity expansion is a long-term measure while redispatch is rather short-term. Despite, redispatch is dependent on several other factors which for this report are irrelevant to examine.

## Conclusions

### Any other comment

BDEW concludes that, while the provision of cross-zonal capacity is a measure for an integrated market, the mere focus on the 70% target is arbitrary. There are several other measures in place that can improve the future power system, e.g., grid expansion and development. Moreover, BDEW observes significant differences between the monitoring of the same objective, be it the 70% target or the national objectives in the action plan. Therefore, BDEW calls for a harmonised methodology to monitor the objectives outlined in the action plan which is jointly agreed upon with all relevant stakeholders. Despite, for BDEW is important to acknowledge the advancement of the action plan likewise with the achievement of the 70% target.

Finally, ACER intends to give policy recommendations by the end of this year. This report does not constitute a basis for reliable recommendations. Policy recommendations should rather be formulated together after consulting all relevant market participants and stakeholders.

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