

**- Position Paper -**

**Capacity allocation in Article 14 of the Electricity Regulation recast:  
Setting the right principles to maximise transmission capacity  
available for trading in order to foster further market integration**

Brussels, 8 November 2018 | In the EU's internal energy market, the amount of trade between bidding zones is constrained by the amount of available cross-zonal transmission capacity. Maximising the amount of the cross-zonal capacity available to the market, while respecting necessary operational security standards, is therefore a prerequisite for achieving an efficient integrated internal energy market and realising the associated increase in welfare.

In this context, the process to calculate and allocate capacity on the bidding zone borders is vitally important. However, there is significant scope to improve the current situation. The ACER 2017 Market Monitoring Report (MMR)<sup>1</sup> compared the actual amount of cross-zonal capacity made available to the market with a benchmark capacity, concluding that an average of only 49% of benchmark capacity on HVAC interconnectors is being offered to the market. In several regions in Europe, internal bidding zone exchanges are still being disproportionately prioritised over cross-zonal exchanges, with a subsequent negative impact on the amount of capacity available for trading.

Improving the status quo is therefore necessary. However, introducing a minimum capacity threshold of 75% for each border, as has been proposed in Article 14 of the Electricity Regulation recast, may not be the right solution. This measure would add yet another level of complexity, while its efficiency is doubtful. There is a lack of evidence regarding the impact of such a measure, no comprehensive impact assessment has been performed and introducing a detailed target in this level of legislation risks undermining the ongoing implementation of the CACM Guideline. Furthermore, after taking into account the necessary reliability margins and contingencies, the principle of not unduly shifting congestion to the border should be fully enforced, instead of accepting only partial compliance up to a specified level (e.g. 75%). This is particularly the case if the legislation already allows for a time limited

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<sup>1</sup> <https://acer.europa.eu/en/Electricity/Market%20monitoring/Pages/Current-edition.aspx>

and justified derogation from this principle, for reasons of operational security, as has already been included in the proposal.

Instead, the focus should remain firmly on improving the capacity calculation process within the framework of the CACM Guideline and in line with the principles set out in the ACER recommendation on common capacity calculation.<sup>2</sup> The role of Article 14 should be to clearly set out the necessary principles, with a view to reinforcing the full and timely implementation of the CACM Guideline.

Balancing and remedial actions such as redispatch and curtailment are legitimate and indeed necessary tools for efficient grid management. In this context, full transparency is needed on the type of action applied and the associated costs, in as much granularity as is available, in order to allow their efficiency and to be comprehensively assessed by all market participants. This information must explicitly include the upholding of higher cross-zonal capacities for organised short term wholesale markets, e.g. single day-ahead coupling and single intra-day coupling. In particular, full details of internal zonal measures, including redispatch, and their costs should be published, in addition to important cross-border information on scheduled and unscheduled flows.

In the medium to long-term, further grid expansion is necessary to overcome congestion within and between bidding zones. Where they prove to be cost-effective, network investments are a vital part of the solution, and should be continued with resolve. Long-term structural congestion will also need to be solved by ensuring that bidding zones are efficiently configured. For this, a balance needs to be struck between acceptable internal congestion and market liquidity (both spot and forward). There also needs to be assurance that cross-zonal capacities are not reduced by moving internal bottlenecks to cross-zonal interconnectors. These aspects must be carefully assessed whenever bidding zone reconfigurations are considered. A clearly defined review process, involving all stakeholders, is necessary, with the clear aim to foster the further integration of the internal energy market while at the same time overcoming internal and cross-zonal congestion. The latter explicitly includes ending undue limitations on cross-zonal capacities beyond what is necessary for grid security purposes.

These principles need to be clearly reflected in Article 14 of the Electricity Regulation. Setting a minimum threshold of 75% may be misleading and should not take the focus away from the key objectives: the maximisation of available cross-zonal capacity for trading, which will allow for the further integration of the European internal electricity market and for a level playing field between cross-zonal and within-bidding-zone flows.

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<sup>2</sup> Recommendation of the Agency No 02/2016 of 11 November 2016 on the common capacity calculation and redispatching and countertrading cost-sharing methodologies.

## **About**

Europex is a not-for-profit association of European energy exchanges with 26 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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