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# Update on co-optimisation

MESC meeting

28 February 2024

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# Key principles of balancing capacity markets and co-optimisation

- Balancing capacity prices are mainly defined by the **opportunity costs** resulting from foregone day-ahead market profits when bidding into the balancing capacity market. As such, both day-ahead and balancing capacity markets can, in theory, be cleared based on the **same bids representing underlying costs** (both for portfolio and unit bidding)
- Co-optimisation covers two aspects: i) allocation of **cross-zonal capacity**; ii) optimisation of **reserve and energy** markets
- Co-optimisation overcomes the drawbacks of market-based allocation with regard to **forecast errors** and **coordination inefficiencies**
- Co-optimisation allows the **liquidity** of the day-ahead market to also be directly accessible to balancing capacity markets

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# Ongoing work preparing for the implementation of co-optimisation

- The study on the **expected welfare gains** from co-optimisation is ongoing and will be finalised in the coming weeks
- Additional R&D work is needed to allow for the **implementation** of co-optimisation in SDAC, which is a legal requirement under Article 40 of the EBGL. Its **application** by two or more TSOs is voluntary
- **R&D work** by NEMOs and TSOs will **restart in Q2 2024**, allowing to gain a deeper understanding on the impact of co-optimisation on the algorithm's performance
- ACER intends to revise NEMOs' proposed **next steps** for the implementation of co-optimisation **in its upcoming decision**

# Thank you for your attention!

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