

ACER public consultation on draft Framework Guidelines on Electricity Balancing

A EURELECTRIC response paper



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EURELECTRIC response to ACER public consultation on draft Framework Guidelines on Electricity Balancing

SG Balancing and Intra-day Markets

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The most efficient way to balance the network is to enable the network users to balance their account themselves. Therefore, the enhancement of cross-border trade and the use of market-based mechanisms are the best means to foster competition in electricity markets. A well-functioning integrated electricity balancing market is the most cost efficient solution to solve remaining balancing of the system without putting in danger security of supply. The economic efficiency comes from the fact that in a European balancing market TSOs make use of the cheapest balancing energy regardless of whether the BSPs are coming from their own country or other adjacent countries since all reserves are activated in the way that makes the most economic sense.

To succeed in creating a competitive, harmonized and effective EU-wide balancing market, common practices and products are a pre-requisite. The Network Code on Electricity Balancing needs to define minimum standards that balancing regimes need to comply with and TSOs need to make the effort to use best practises towards an integrated European approach.

EURELECTRIC firmly welcomes the ACER Framework Guidelines on Electricity Balancing which provide a good basis for the development of the Network Code on Electricity Balancing¹, in particular the proposals enhancing stakeholders' involvement in the form of a continued dialogue and consultation on the terms and conditions regarding balancing services.

Before answering the ACER questionnaire we would like to highlight and elaborate in greater detail important points that we believe deserve further attention.

¹ For consistency reasons we expect only one Network Code on Electricity Balancing based on the Framework Guidelines on Electricity Balancing. Plural usage when referring to the Network Code for Electricity Balancing adds confusion.

1. General impression of the FG

Today's approach of TSOs to balance the system is based on several premises:

- **Individual responsibility.** TSOs are individually accountable for a successful operation of the electricity system and report solely to its NRA.
- **Non-harmonised procurement and use of reserves.** Beyond a common definition of operational reserves, nothing is harmonised: the process to procure reserves are not harmonized, nor the payments or its actual usage. Some differences may be justified by particular situations of the grid or the equipment, but the majority of differences are founded in TSOs preferences or tradition.

These principles are incompatible with a cross-border balancing market.

From a EURELECTRIC's point of view, TSOs should strive to adopt best practices and deliver a sound, safe and cost-efficient system operation. It is thus essential that TSOs are able to take the necessary steps to live up to the expectations of the FG. In this respect, we believe that the FG should be written in a more prescriptive fashion.

The European electricity system is strongly interconnected and harmonisation is a must to properly address issues like the deterministic frequency deviations (caused by non-harmonised or even non-existing scheduling practices) or the probability of systemic failures. Except for some peripheral areas, it is hardly conceivable that a major incident in one country will not affect all neighbours.

It is remarkably positive that the FG Balancing shows a clear preference for harmonisation, cost-effectiveness and cross-border trade, which EURELECTRIC strongly supports.

1.1. Control concept

Market participants should be able to fulfil their obligation to be in balance as much as possible until real time. This means that TSOs should only have to ensure residual balancing (i.e. only respond to real time imbalances). Furthermore, TSOs should not get involved in activating reserves in timeframes where market parties are still active.

1.2. Common Merit Order

For the sake of clarifying an important aspect of the FG, EURELECTRIC intends to outline below its understanding of the 'common merit order' concept.

- **The activation of reserves regardless of their location and whether pre-contracted or not** with the aim to restore system balance. Every real time decision impacts the system balance, but only those taken in the context of balancing will take part in this market and its settlement.

- A common merit order opens up the possibility to activate a reserve bid in another area. This activation implies:
 - There must be cross-border capacity available
 - The called TSO may reject the activation if the local reserve margin falls below a security threshold that would require immediate load shedding according to the Network Code on System Operation
 - If approved, capacity is implicitly assigned to the transaction and the cross-border schedules are updated.

There is no threat to security, and no dilution of responsibility, as each TSO will still be responsible for reserve procurement in its area and for maintaining the safety margins.

What the procedure does ensure is **the activation of the most economic bids. A common and consistent definition on the products traded**, settlement and the timetables is a prerequisite to a common merit order.

2. EURELECTRIC Comments on the draft FGs

These comments request further clarification on the following issues which we believe are critical to ensure a successful integration of balancing markets.

- Roles should be further clarified. It should be clearly mentioned that BRPs should be the solely responsible parties for their imbalances, bearing the financial risks of being “imbalanced”. For TSOs on the contrary this process should be a ‘zero-sum’ game where TSOs have no financial interest and bears no price risk. However, the reserve capacity they procure, which have to be defined in the System Operation Network Codes should be justified. Furthermore, in order to preserve the unbundling regimes introduced by the third energy package, the Framework Guidelines shall state that balancing services could not be provided by TSOs.
- The Framework Guideline is not clear whether bids in the balancing market should be done as individual plants/consumers, as portfolio of plants/consumers or both. This should be clarified at least in the Network Code.
- It is not possible to create a level playing field in a common procurement platform if the products which are procured are different. Leaving at national level the approval of the use of specific products goes against delivering a single European Balancing market therefore ACER should have a decision role to ensure the coherence at EU level.
- An assessment of the different TSOs behaviours to restore their system balance is missing. FGs should be aware of these differences and promote a harmonisation on operational practices to foster integration. Otherwise, the closer markets are to real time, the bigger the obstacle these operational practices represent to market integration.

- Frequency containment reserves are a balancing service that should also be procured by the TSO to allow for cost efficient system operation. Therefore the FG Balancing should also cover this topic.
- There is a need to more concretely address the consistency between these Framework Guidelines on Electricity Balancing, the Intra-day Market and the Network Code on Capacity Allocation and Congestion Management.
- In a scenario of high penetration of renewables, the delay of the gate closure time for intraday and balancing markets as closest as possible to real time provides significant advantages in terms of higher predictability and possibilities to BRPs to balance their schedules. To this end, the harmonised gate closure for Intra-Day (ID) markets should be set at one hour before real time or later. Once this is achieved, balancing markets can be used for the real-time system balancing during each imbalance settlement period.
- Participation in the balancing market shall not be an obligation. Balancing markets should be competitive enough to attract from both the supply and demand side all technologies which are technically able to provide the required service.
- It is not clear what is meant by “*additional*” in the following context: “*due to the small volumes at stake, cross-border exchanges of frequency containment reserves may not require additional cross-border capacity reservation*”. This statement should be clarified. There shall be no reservation of cross-border capacity for balancing that withdraws capacity from the markets. In case a party buys the capacity for balancing market purposes this party shall bear the risks of the possible welfare losses.
- It is not clear what is meant when saying that “*TSOs and NRAs may also decide to incentivise BRPs to help to restore system balance*”. The imbalance settlement price which is the marginal bidding price in the balancing market is per definition most efficient incentive for BRPs to “keep themselves balanced”.
- We advocate for an imbalance settlement period of 15 minutes since reducing the program time unit encourage BRPs to be balanced as close to the physical reality as possible. Adequate transition period should however be allowed for BRPs to convert their balance settlement systems to a shorter imbalance settlement period than is currently used.
- TSOs shall ensure that the common merit order can be executed in a competitive way by separating any possible locational element to avoid that BRPs pay for redispatch, which should be part of the network tariff.
- EURELECTRIC agrees that generation units from intermittent renewable energy sources shall not receive special treatment for imbalances and shall have a BRP which is financially responsible for their imbalances as a mean to incentivise accurate forecast.

3. EURELECTRIC response to the questionnaire

Q1: Do you consider that harmonisation of the pricing method is a prerequisite to establish a TSO-TSO model with common merit order list for balancing energy? Do you support the use of the pay-as-cleared principle?

Yes, as it has been previously mentioned harmonization of products and practices which of course includes the method for pricing are a prerequisite to establish a European integrated energy balancing market based on a TSO-TSO system with a common merit order.

Yes, we do support marginal price for balancing markets since it ensures a single price for all players and provides fair and market-based incentives for BRPs to balance their portfolio.

Marginal pricing ensures harmonization of imbalance settlements and provide consistent incentives to balance.

Notwithstanding this, further investigation on a cost-benefit analysis regarding the merits and impacts of a pricing model should also be conducted.

Q2: Do you think the “margins” should not exceed the reserve requirements needed to meet the security criteria which will be defined in network code(s) on System Operation?

We do not see well justified that TSOs keep nationally “margins” i.e. the most expensive energy reserve bids. If needed in a transitory period “margins” could be used as long as they are minimized and do not distort the market.

Q3: Do you support to aim at similar target models for frequency restoration reserves and for replacement reserves? Do you think a distinction should be made between manually activated and automatically-activated frequency restoration reserves in terms of models of exchanges and/or timeframes for implementation?

Yes we fully support that the same regulatory framework is applied to both reserves - for frequency restoration and for replacement - on equal terms.

No, we do not believe that there should be any distinction between reserves activated manually or automatically in terms of market models or timeframes for implementation. However there is a lack of reference in the Framework Guidelines to the process of scheduling which sets the target flows for automatic regulation. Cross border balancing procedures have to be fully consistent with scheduling to ensure the automatic and manually activated reserves act consistently. Regarding implementation, technical differences which could lead to different timeframes need to be evaluated. Again all reserves should be treated under the same regulatory framework.

Q4: Do you support the timeframes for implementation?

Given the fact that more intermittent generation comes in the system there is an urgent need for an efficient short term market. The integration of the balancing market should be worked on in parallel with the intra-day market. We ask ACER to encourage the TSOs to implement the integration as fast as possible. Early implementation in specific regions should be encouraged.

Q5: Do you consider regional implementation objectives as relevant milestones which should be aimed at in these framework guidelines on electricity balancing and the Electricity Balancing Network Code(s)?

Early regional implementations are welcome as far as they are in line with the target model and do not distort the market. Any initiative should be coordinated through AESAG. Other concepts could delay the final adoption of the target model in these areas.

Q6: Do you consider important to harmonise imbalance settlement? Do you think these Framework Guidelines on Electricity Balancing should be more specific on how to do it?

Yes, we advocate for a harmonization of imbalance settlement and we think that FGs should be more specific on how to settle imbalances.

Furthermore we advocate for a single and harmonized imbalance settlement price that is the marginal balancing price. BRPs should be entitled to combine load and supply in their portfolio's to allow for future developments such as "*prosumers*" and the settlement of imbalances should be based on the overall portfolio position of each agent within each bidding zone.

Marginal prices provide fair and strong incentives for BRPs to balance their portfolio. Therefore, the imbalance settlement price should be equal to the price of the marginal energy bid used for balancing the systems. The price will therefore be equal to the price of the last called bid in this balancing period. Because the selection will be in accordance with the merit order, this would be the most expensive bid.

Yes, when the imbalance pricing is mentioned in these framework guidelines, there should be explicitly saying that the imbalance price has to be equal to the marginal energy bid price for balancing.



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