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Subject Response to the on the Draft Framework  
Guidelines on Electricity Balancing

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Dear Sir, Dear Madam,

Energie-Nederland thanks ENTSO-E for the opportunity to give our opinion on the Draft Framework Guidelines on Electricity Balancing. Energie-Nederland is the energy industry association in the Netherlands, representing the market parties.

#### **Energie-Nederland view on integration of balancing and reserves markets**

Energie-Nederland regards the FG Electricity Balancing as important given the urgent market need to efficiently cope with increasing intermittent generation and demand response. In our view the integration of the balancing market should lead to a high degree of harmonisation and cooperation of TSOs acting as one. This will also require the right incentives from national regulators for the TSOs. TSOs should start implementing a well defined target model as of now in parallel to other market integration projects. In our view the target model is the model described in the Eurelectric paper "EURELECTRIC Position Paper Towards Market Integration of Reserves & Balancing Markets" (2008) and Addendum (2012).

### General Remarks

In general Energie-Nederland welcomes the current draft of the FG. It prescribes important principles and implementation scheme. Some issues need to be clarified or added. Some examples are:

- The FG should also refer to the control concept of TSOs. To allow the market to take its full responsibility, TSOs should only *activate* reserves in reaction to actual imbalances, not on anticipated imbalances. The latter will lead to distortion of market signals and incentives to market players.
- The market for frequency containment reserves should also be added in this FG, requiring integrated and market based procurement by TSOs.
- In our view pricing of balancing energy and settlement of balance responsibility should be a consistent market based package. In our view (and more than 10 years of positive experience in the Netherlands) marginal pricing and settlement of imbalances based on this single marginal price leads to the most efficient set of incentives for market parties to fulfil their market responsibility. This results in maintaining system security at lowest cost.
- Market participants (demand and/or generation) should be responsible for balancing their positions irrespective of the technology used for generation.
- The FG should mention that settlement of imbalances and procurement of balancing reserves and energy should be based on portfolios of market players. There should not be separate settlement of load and supply to allow for facilitation of future developments as prosumers and storage.
- The FG should also indicate which parameters in system operation should not be viewed from a national (control area) perspective, but from an integrated area perspective. Examples are reserve requirements, control targets etcetera. This also has a strong link the Network Codes on System Operation.
- Also cost allocation should be part of the FG. In order to set the right incentives the price risk of balancing energy is allocated to the market. There should be no relation to the capacity price of reserves. Reserve costs are a system insurance and should be allocated in the use of system tariff. TSOs should not bear the price risk, but should be accountable for amount of capacity reserved.
- Product definition should be based on technical and market requirements.

### Answers to the consultation questions

*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, we think that harmonisation of the pricing (and settlement) is a prerequisite for integrating markets. Only than a level playing field is created and incentives are correct.

Energie-Nederland supports the pay-as-cleared (marginal price) principle based on a single price per time unit. Our experience is that this leads to a very efficient and responsive balancing market. This principle is the only principle that can lead to a level playing field.

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?

Energie-Nederland doesn't see the need for these margins. If this is a prerequisite to give TSOs confidence to make next steps this could be allowed on a temporary basis. However, it should not distort the prices on the balancing market and the use and conditions of those margins should be fully transparent.

*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 the target models for FRR and RR should be the same. We can anticipate that integration of automatically activated reserves is more complex as it requires IT coordination of activation. However, with a clear target model this shouldn't take much more time than manually activated reserves.

*Q4: Do you support the timeframes for implementation?*

If the TSOs would start as of now and work towards a clearly defined target model we think that implementation could be quicker than the proposed timeframes.

*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)?*

Energie-Nederland thinks that regional milestones are the most pragmatic way forward. More advanced countries in integration of other market timeframes should already start the work on harmonisation and integration. ENTSO-E should make an implementation plan that should be monitored in AESAG. Important with the implementation plan is to use best practices in different countries and regions where elements of the target model already exist.

*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?*

Settlement and balancing energy pricing should be a consistent package to allow for the right incentives. Settlement should be based on the (single) marginal price in one time unit. Due to the

sample problem of having discrete program time units in some units a solution has to be found for two sided regulation in such a unit. For a proposal we would like to refer to the Eurelectric papers.

Yours sincerely,



André Jurjus

Director