

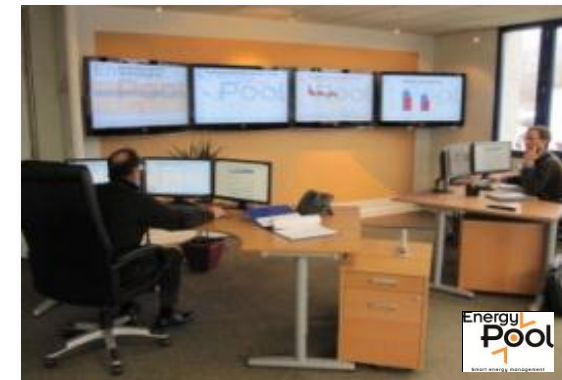
Answer to the public consultation of the ACER on the Framework Guidelines on Electricity Balancing

Energy Pool - 25/06/2012

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Who is Energy Pool ?

- Energy Pool was incorporated in 2008 by Olivier Baud, who has a long experience in the Aluminum industry
- We are an aggregator of Demand Response capacities, focusing on large electricity consumers, mainly industrial facilities with complex processes
- Our French operations started in 2009 and we have a significant market share in the balancing reserves procured by for RTE, the French TSO, either specific to DR or not
- We are currently assessing the opportunity of launching operations in 4-5 other European countries, but also in Asia/Africa/North America
- In December 2010, Schneider Electric became our main financial partner
- Energy Pool has ~45 employees
- We are participating to SEDC through Schneider
- Please visit our website : www.energy-pool.eu



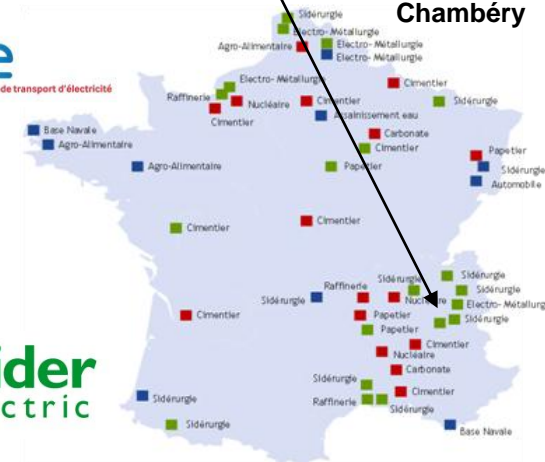
Rte

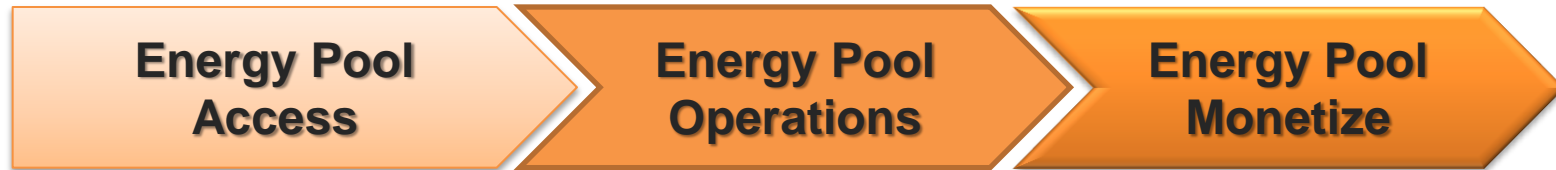
Réseau de transport d'électricité

Schneider
Electric

SEDC
Smart Energy Demand Coalition

Our DR NOC in
Chambéry





Energy Pool has three complementary roles :

- **Energy Pool Access** is a commercial / engineering role aiming to identify the DR capacities of an electricity consumer, how they can be operated and assess the cost of operations. Then a consumer can decide if he has an interest to provide DR services
- **Energy Pool Operations** is the possibility offered to a consumer's DR capacity to join the pool and then be offered on the markets aggregated with other capacities or not. Energy Pool fully manages the interactions with the markets, the consumer being active only during DR events
- **Energy Pool Monetize** is the guarantee that the value of a consumer's capacities is optimized, being sold on the most profitable markets that the capacity can access to, being combined with others capacities to improve the capacities characteristics (e.g. guaranteed 24/7 availability)

From many different kind of capacities...

...We identify opportunities...

...To aggregate opportunities in offers to the markets...

Continuous process
 merely impossible to stop

Only for emergency situation
High fixed fee

Complex Process
 can be stopped with cautious operations

Availability highly depending on the price
High variable prices

Side-processes
 with a big storage capacity

Can be stopped almost every day
Lower price, big volumes

We collect availability and specific constraints of our customers – **EP economic schedule** and keep an eye on consumption – **EP Measure**



Balancing Mechanism

D-1 and/or Intraday

Security Reserves

Long term contracts, Emergency operations

Capacity Market

Mid or Long term contracts

Energy Market Transactions

Intraday to Long term contracts

...And create as much value as possible



Answers to the questions in the FGEB Draft

Q1a : 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?

- Energy Pool has tested a scenario with cross-border exchanges and with different pricing methods co-existing. It appears that, in this case, the competition between BSP from one Bidding Zone to another clearly is unfair, as the expected value of an activated offer may differ from one zone to another (particularly if the pricing method is PAC in some countries and PAB in some others and if we consider the cheapest bids that are activated).
- Full harmonisation may not be required but the principles might be the same (PAC or PAB, for example)
- Moreover, Energy Pool wonders how TSOs may easily optimize the activation on the financial point of view if an offer has a different value depending on the Zone it is activated for.

- **Energy Pool supports harmonisation of the pricing method BEFORE cross-border exchanges are setup**

→ Energy Pool provides some industrial DR capacities to the French balancing mechanism. The cost structure of these capacities differ a lot from the generation or even from the residential DR capacities :

	Base / Semi-base Generation	Peaker Generation	Residential DR	Industrial DR
Fixed cost (investment / maintenance, etc.)	High (CCGT) to Very High (Nuke)	High (LFO) to Very High (Hydro Dam)	High	Medium to Low
Variable cost (fuel, loss on variable margins, etc.)	From Very Low (Nuke) to Medium (Gas)	From Very Low (Hydro Dam) to High (LFO)	Low	High to Very High

- As long as there is no capacity market, industrial DR capacities may get their profitability from scarcity revenues
- We warn ACER that there would be a distortion if the “base generation” also gets some big revenues from those scarcity moments, which would happen with PAC and not with Pay-As-Bid
- **Energy Pool does not support PAC principle**

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?

- Energy Pool guesses that there is a non-zero probability for some situations when the security criteria defined in the NC on SO would under-estimate the reserve requirements for a Control Area (e.g. if the Demand structure is very specific and/or if there is a very large part of intermittent renewable generation in the Area).
- Thus, there should be no formal limit to the “margins” volume, but the NRAs should control that some “good practices” are respected

- **Energy Pool suggests that the appropriate “margins” volume should be freely determined by the TSO for a Control Area, but that this should be severely controlled by NRAs**

- Energy Pool believes that a similar target model is a good point as there is a continuity between those services and that some very similar capacities (generation and DR) may provide these “flexibility” services
- Yet, Energy Pool thinks that the current draft of the FG insists a lot on coordination with manually activated FRR and RR (p.15) whereas it should be insisting more on the coordination between automatic and manual (F)RR because if the automatic behavior is not well known/understood, then manual reserves might not be managed correctly

- **Energy Pool supports similar target models for FRR and RR, but insists on the importance of the coherence of automatic reserve management with manual one (to be defined in the Network Code(s))**

- As mentioned on the previous page, Energy pool believes that there is a real “physical” difference between manually-activated and automatically-activated frequency restoration reserves
- We guess that the economical model can “easily” be “synchronized” between the two technologies
- BUT the operational constraints (new control devices and/or software/automation, definition of the algorithms, etc.) may delay the timeframe for implementation as it can be expensive
- So a detailed cost-benefit analysis should be envisaged

- **Energy Pool thinks this distinction should be made, more from a practical point of view than a theoretical one**

- Energy Pool does not position on the timeframes as we are not aware of all the constraints
- For a new entrant like Energy Pool, the sooner always is the better when it comes to introduce more flexibility in the markets
- **Energy Pool supports the proposed timeframes but only on a theoretical basis**

- Energy Pool does not have a complete understanding of the existing regional initiatives and the possible regional objectives, but we believe that the diversity of situations (national situations or existing cross-border initiatives) and will to move forward are good reasons to offer in a variety of regional options to adopt the EBNC step-by-step, region-by-region
- **Energy Pool supports “regional milestones”**

- Energy Pool considers that the imbalance settlement is the only appropriate way to finance Balancing Services activation that are required for balancing operations.
- If the imbalance settlement is unfair, then the negatively impacted BRPs may protest and organize their own “balancing market”, which is not efficient (and actually should be a TSO regulated monopoly).
- **Energy Pool considers that it is crucial to harmonize imbalance settlement at the same time that balancing services offers are pooled with a common merit order**

- As said on the previous page the imbalance settlement is key to finance the balancing services activation.
- As it is key, the EBFGB should be a little more specific on that and suggest that the EBNC goes into detailed specifications for the imbalance settlement.
- At least the “necessary information to be published” should be oriented a little bit more at the FG level.
- Energy Pool believes that the imbalance settlement period should be the smallest possible, as it allows better operational management and provides some more opportunities for flexible balancing capacities (and notably Demand Response ones).
- **Energy Pool supports a more detailed part for imbalance settlement, in the EBFGB and/or in the EBNC**

Other comments

- ➔ The term « Demand Response » is mentioned only once in this document, page 8, as a copy-paste of the « objectives » of the DFGEB
- ➔ Demand Response is not considered into the « Problem Definition » part, while it should be mentioned that DR can provide competitive Balancing Services but is not on a level-playing-field with generation (e.g. DR is not allowed to provide Balancing Services in every country and often has some constraints, like the need to collect the authorization of the site BRP, that do not apply to Generation)
- ➔ Demand Response, as well as renewables, integration should be tested in the evaluation criteria and the options descriptions might have a paragraph dedicated to those two topics.

- ➔ **Energy Pool suggest that the continued consultant study may take more into account the specific stakes for Demand Response**

- In some countries, the balancing reserves (FRR and RR, or even FCR) that are procured are paid a relatively low price because participation is mandatory and price is fixed by law. If those reserves are used in other countries the BSP should be entitled to propose their services at a higher price, freely fixed by them.
- In this case the risk is to harmonize market by suppressing mandatory participation or price, which may be a loss if we consider operational security of the system.
- In some other countries, the reserves are paid a very expensive price (fixes price or variable price) and are financed by specific taxes. Those who pay the taxes might not approve the exchange of « their » balancing reserves to another Control Area or Bidding Zone.
- In this case the risk is a reduction of « additional » reserves.

- **Energy Pool suggests a case-by-case analysis in the largest countries**

- ➔ Energy Pool is strongly involved in the fight against climate change and believes that :
 - ✓ The existing « price of the CO₂ » is too low compared to the genuine one
 - ✓ The price of electricity on the energy markets would not correctly take into account this « price of CO₂ » even if it was at the right level
- ➔ So Energy Pool suggests that the Merit Order List might be a two(or more)-variable list, with at least the price and the GHG emissions that result from the activation of the an offer (can be negative)
- ➔ This would be in line with principles set forth in directive 2004/17/EC (art. 34.3 b)) coordinating the procurement procedures of entities operating in the water, energy, transport and postal services sectors. This directive allows in particular TSOs to include environmental characteristics in their technical specifications.

- P.7 Some definitions are used in several NC (eg Cross-border transmission Capacity, at least in this EB NC and in CACM NC). Energy Pool would like to draw ACER's attention to the need of having if not harmonised, at least consistent definitions throughout the various NC.
- P.11 « promoting cross border balancing exchanges » AND « shall strive for their integration » : Energy Pool suggests that it is more explicitly written that this should be limited by something like « if and only if it is more competitive »
- P.11 « TSOs shall coordinate with other system operators when balancing offers are activated in their system » : it is not explicit to whom « their » refers to. Separation of TSO/DSO responsibilities should be detailed a little bit more.
- P.12 « the information shall be made available in an efficient manner » : Energy Pool suggests an explicit reference to WebServices because TSOs may not push that technology in the NC if they are not forced to by the FG
- P.13 « The BSPs shall provide all necessary data [...] the system » may contradict some monopolies (e.g. metering is a DSO monopoly in France) and there shall be some problems of trust if some quality audits are not organized

- ➔ P.14 « [...] and require them to promote the offer of this capacity » the meaning of « promote » seems unclear in this context
- ➔ P.17 « TSOs shall publish a yearly report which [...] » and « TSOs shall publish an annual report which [...] » : ambiguous with the *annual report* that has to be written by ENTSO-E. The content of this yearly report should be detailed
- ➔ P.20 The « CBA required to support cross-border capacity reservation » to « increase overall social welfare » that is mentioned seem very difficult (and expensive) to study so this option seems just impossible to choose and so these long paragraphs may be pointless

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