

25 June 2012

ACER – Agency for the Cooperation of Energy Regulators
Trg Republike 3,
1000 Ljubljana
Slovenia

Submitted by email to: consultation2012E09@acer.europa.eu

Dear Sir/Madam

Response to ACER's consultation document on Electricity Balancing Framework Guidelines

We are writing in response to ACER's consultation on its draft framework guidelines on electricity balancing.

We welcome ACER's continued work towards establishing a single EU energy market and make the following points with respect to these proposals on electricity balancing:

- overall we are supportive of these draft framework guideline
- we suggest ACER gives further consideration to the *pay-as-cleared* pricing method as we believe there are more efficient methods available.

We attach our completed questionnaire on this consultation and as always, would welcome the opportunity to discuss this topic and others relating to the development of a single European energy market further with you.

Yours faithfully

Stewart Davis



Executive Director, Gas and Power Operations
stewart.c.davis@jpmorgan.com
+44 207 742 4336

Please provide the Agency with your full contact details, allowing us to revert to you with specific questions concerning your answers.

Name: Stewart Davis

Position held: Executive Director, Gas and Power Operations

Phone number and e-mail:

- stewart.c.davis@jpmorgan.com
- +44 207 742 4336

Name and address of the company you represent:

J.P. Morgan | 25 Bank Street, Canary Wharf, London, E14 5JP

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?

We support the establishment of a TSO-TSO model with a common merit list and agree that to facilitate an effective EU wide balancing market, harmonisation of the pricing method is desirable. However, we would note that whilst pay-as-cleared (marginal pricing) is one approach we do not believe it is the most efficient, as was exemplified in the UK market when it adopted this pricing method.

By way of example of how marginal pricing was calculated and the subsequent issues which arose in the UK, we provide the following simple illustration: a TSO would obtain prices from several power stations to generate power on demand for the purposes of balancing and choose e.g. the ten power stations which provided the lowest quotes. However, the TSO would pay *all* of the ten power stations the highest quote put forward out of the ten power stations chosen as the TSO's suppliers. Consequently, in order to make the TSO's list, a number of power stations would quote their prices as zero or excessively low to ensure they made the final supplier list, knowing that they would not be held to the low/ zero price they had offered. To overcome this issue, the UK moved from the pay-as-cleared principle to using a weighted average price of the quotes offered by the power stations on its list. Consequently, we believe that using a weighted average price is fairer and would offer more protection against the issues which arose in the UK under the pay-as-cleared method.

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

We do not believe ACER should be prescriptive on this point. In efficient markets, market forces in conjunction with the national authorities will determine these margins.

Q3: Do you support to aim at similar target models for frequency restoration reserves and for replacement services? 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?

We support ACER's objective of aiming for similar target models to harmonise frequency, believing it is essential that Member States manage their frequency in a similar way if a single EU electricity market is to be achieved. We do not have a view on whether a

J.P. Morgan Securities Ltd.

25 Bank Street, London, E14 5JP

Registered in England & Wales No. 2711006. Registered Office 125 London Wall, London, EC2Y 5AJ.

Authorised and regulated by the Financial Services Authority.

distinction should be drawn between manually-activated and automatically-activated frequency: our priority is that frequency is restored in an optimal way.

Q4: Do you support the timeframes for implementation?

We do not have a view on timeframes and believe that the TSOs are better placed to comment on the achievability of these proposals.

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)?

Yes, we agree the regional implementation objectives provide a solid base on which to found the electricity balancing framework guidelines and subsequent network code.

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

We are supportive of a harmonised approach to imbalance settlement and believe that the principles set out in the Framework Guidelines, to be elaborated in more detail in the underlying network code, achieve the right balance of providing direction without being overly rigid.