

ACER

 Agency for the Cooperation
of Energy Regulators

The Director

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Mr. Konstantin Staschus
Secretary-General
ENTSO-E
Avenue de Cortenbergh, 100
1000 Brussels
Belgium

By e-mail only

Dear Mr. Staschus,

I am writing to you with regard to the Network Code on Electricity Balancing (NC EB) that ENTSO-E resubmitted to the Agency on 16 September 2014.

The Agency welcomes this achievement and acknowledges ENTSO-E's effort to develop a framework for integrated balancing markets in Europe. In the past months, ENTSO-E has carried out substantial work towards this objective by improving the NC EB and by facilitating the establishment of pilot projects that will provide insights for the further development of more integrated balancing markets.

The Agency recognises that the integration of balancing markets is a challenging task. Given the complexity of electricity balancing, its key role in security of supply and the existing low level of harmonisation at European level, the development of the NC EB is a very demanding exercise. In May 2014, the Florence Forum highlighted the considerable expectations of all parties and reiterated *its call for more ambition in the proposed balancing network code and [invited] Commission, ACER and ENTSO-E to work with all stakeholders on text proposals, to increase the level of cross-border cooperation and integration in balancing markets and to harmonise existing rules to the extent realistically possible under the current legislative framework.*

As mentioned in your accompanying letter dated 16 September 2014, *the experience gained through the early implementation process (i.e. the pilot projects) is more important for the speedy development of cross-border balancing than long debates.* In line with this pragmatic approach, and taking into account the delay in the network codes adoption process (which relieves one of the main concerns raised by ENTSO-E, i.e. the feasibility of the implementation deadlines as set in the Agency's Framework Guidelines), the Agency considers of utmost importance to have a more ambitious and consistent approach towards

the earlier integration of balancing markets. In that respect, the Agency invites ENTSO-E to review the existing pilot projects and, where necessary, complement them appropriately (e.g. with additional projects) to ensure that existing and future pilot projects will integrate into regional targets.

The Agency also invites ENTSO-E to proceed, without delay, with developing some crucial elements of NC EB, which, according to the proposed draft NC EB, are to be developed shortly after its entry into force, i.e.:

- the proposals for Coordinated Balancing Areas (CoBAs) for the implementation of the regional targets defined in the NC EB,
- the proposal for Standard Products for Balancing Capacity and Standard Products for Balancing Energy for Frequency Restoration Reserves and Replacement Reserves, according to Article 29 of the proposed draft NC EB,
- the pricing methodology of Standard Products for Balancing Energy, according to Article 39 of the proposed draft NC EB,
- the joint development of a list regarding the activation purposes of Balancing Energy bids from the Common Merit Order Lists, including a description of each activation purpose as foreseen in Article 40 of the proposed draft NC EB,
- the high-level principles for the algorithms applied for Imbalance Netting Process Function, Capacity Procurement Optimisation Function, Transfer of Balancing Capacity Function, and Activation Optimisation Function, according to Article 66 of the proposed draft NC EB.

In the Agency's view, the early development of these elements and their inclusion, to the maximum degree possible, in the NC EB before its adoption, would create a more solid basis and would therefore facilitate faster development of implementation projects. In particular, the Agency considers it essential to anticipate the development of CoBAs and the assessment of their interaction with the pilot projects currently being developed. To that end, the Agency and all relevant NRAs would be happy to cooperate closely with ENTSO-E to streamline an early process leading to an efficient configuration of these CoBAs that are required to implement the regional integration models. Such a thorough cooperation is of utmost importance to satisfy the ambitious objectives of the NC EB, which represents a key instrument for the completion of a well-functioning Internal Electricity Market that delivers tangible benefits to European energy consumers.

I am looking forward to receiving your feedback and to continuing this initiative in a successful way.

Yours sincerely,


Alberto Pototschnig