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Call for comments on the revised Network Code on Electricity Balancing

Edison welcomes the opportunity to provide the Agency with its comments on the revised Network Code on Electricity Balancing (NC EB) before formulating its recommendation to the European Commission which is responsible for the NC adoption.

The development of an integrated European balancing market is a very challenging goal yet fundamental and must be carefully designed in order not to have negative impacts on all European stakeholders and on the whole European energy market.

Having this in mind, Edison although recognizing some improvements contained in the revised NC EB, considers this version still unsatisfying on some major points.

Edison regards as a positive evolution the clarification of the different steps necessary to reach the target model. The clarification puts forward the need for a pragmatic approach with an intermediate model (regional integration) that shall be given enough time to learn valuable lessons to proceed further in the European integration.

Nevertheless, Edison deems important that, since the beginning, an adequate level of coordination between COBAs be guaranteed in order to avoid excessive heterogeneity of the rules applied in each area.

In line with the pragmatic approach previously mentioned, Edison considers positively the provision maintaining the exemption to TSO-TSO model in the form of a TSO-BSP model



for the exchange of Replacement Reserves also after the European integration model in case of impossibility to implement the TSO-TSO model due to connecting TSOs not operating the Reserve Replacement Process.

Finally, Edison welcomes the elimination of the special derogation previously provided to TSOs of CDSs to allow aggregation of Demand Side Response, generation units and the aggregation of Demand Side Response and generation units. Differences between arrangements for self-dispatch systems and central dispatch systems should be limited to the ones strictly linked to system security, in order to ensure that the integration process will embrace both central and self-dispatch systems to the maximum possible extent.

Among the negative aspects of the revised version worth mentioning, there is the provision on conversion of bids in CDSs and the lack of transparency on activation's purposes (national or regional). Edison fully understands the need for TSOs operating Central Dispatch Systems to guarantee the compatibility of the rules introduced by the Network Code with their operational procedures in order not to jeopardize system security. Nevertheless, we believe that the current rules set by the NC impose undue limitations on balancing service providers (BSPs) located in those areas, by preventing them from actively participating in the cross-border electricity market. This problem is directly connected to the possibility of TSOs to convert balancing offers even if the proposed products fulfil the characteristics of Standard Products. Furthermore, the envisaged NRAs' approval of the process for selection and conversion of balancing products does not seem to be sufficient to ensure the transparency and the predictability of the whole process of common procurement and activation of balancing energy. Therefore, BSPs located in Central Dispatch Systems could be actually penalized compared to other BSPs since they probably will not have sufficient control on their bidding strategies when it comes to make offers which can be shared in the cross-border balancing market. In line with what explained above, Edison considers important for balance service providers, in particular in CDSs, to be aware if their unit is activated for national reasons or in order to help a TSO of a different Control Area.

Another negative aspect of the Code is the possibility given to TSOs to reserve cross-zonal capacity. Edison considers fundamental to avoid any reservation of cross-zonal capacity in order to maximize the use of cross-zonal capacity for forward, day-ahead and intraday energy markets. Moreover it is not appropriate to allow TSOs to procure the cross-zonal capacity they make available in competition with market participants, due to the information asymmetries of the involved parties. In any case, no reservation should be done to perform imbalance netting.



Finally, Edison is concerned by the lack of sufficient stakeholders' involvement in the definition of numerous methodologies and process for balancing market integration. Edison deems opportune the creation of a stakeholder group dedicated to balancing in the frame, for example, of the experts groups proposed in the latest ACER/ENTSO-E consultation on governance issues.

Hereafter, Edison's detailed explanation of the aspects that, from Edison's point of view, still lack clarity or need to be modified.

1. Creation of COBAs

Edison considers of fundamental importance that the COBA will primarily facilitate the exchange of

Balancing services, all standard and some specific products, in order to develop a regional liquid balancing market, eventually complemented by Imbalance Netting processes.

Hereafter Edison's concrete wording:

11.2. *All TSOs of a Coordinated Balancing Area shall use the Exchange of Balancing Energy from **all Standard Products and some Specific Products, whether or not Imbalance Netting Process is operated.***

2. Procurement and utilization of standard and specific products and conversion of bids in Central Dispatch Systems

Edison, although welcoming the introduction of the possibility to define the set of minimal characteristics of the standard products as ranges and not only as fixed values, is convinced that the additional list of characteristics to be provided by each BSP, integrated in the revised version of the NC EB, will be not sufficient in order to define the dynamic performance of BSP's facilities.

Edison deems fundamental that BSPs could indicate in their bids the value corresponding to the actual dynamic performances of their units on the basis of a properly defined range.

Such a solution would give the following advantages:

- TSOs could count on detailed information on the dynamic performances of the facilities they intend to activate according to the CMO, reducing the occurrence of deviations from the required performance and thus decreasing the risk of imbalances;



- BSPs can offer products which are activated taking in due account the dynamic performances of their facilities in the specific contingent situation characterizing the relevant delivery period (e.g. climatic conditions, previous operational state etc.);
- Guarantee of a wide participation in the balancing market, since the excessive standardization of products may impose a pre-selection (at least de facto) of facilities with the required dynamic performance, reducing the scope for participation in the cross-border balancing markets.

Furthermore, as mentioned in our general comments, it should be stressed that the NC should not impose undue limitations on BSPs located in CDSs, by preventing them from actively participating in the cross-border electricity market. In this regards, TSOs of CDSs should not be able to convert offers which fulfil the characteristics of Standard Products.

In line with what explained above, transparency should be given to BSPs in CDSs on the reason of activation of their units: if the activation has been done for local issues or as a result of the regional Activation Optimisation Function.

3. Pricing method of standard products

Edison considers important, as also stated by the Agency in its opinion N. 07/2014, that the harmonised pricing method pay-as-cleared should be applicable for all standard products activated for balancing purposes and not only those exchanged within a COBA.

4. Possibility for TSOs to impose a balanced position in day-ahead timeframe

Edison deems of fundamental importance not to require BSPs to provide a balanced position in the day-ahead timeframe. Following the growing share of intermittent resources, Edison considers the requirement not efficiently supporting cost efficient balancing. In our opinion, the NC should rather focus on creating the right economic incentives for a balanced approach towards the operational phase when forecast errors decrease.

5. Role of TSOs: possibility to offer balancing services themselves and possibility to reserve cross-zonal capacity



Although the revised version of the NC has circumscribed to precise conditions the possibility for TSOs to offer Balancing Services themselves, Edison deems important to underline the basic principle that TSOs should never offer Balancing Services themselves, neither in limited cases.

Otherwise, this would imply ownership of a generation asset, which is completely in contrast with the unbundling principle of the Internal Energy Market as put forward in Article 9§1(a) of the Third Energy Package (Directive 2009/72/EC).

Furthermore, as also stated in our general comments, Edison is concerned about all forms of reservations of cross-border capacity for balancing purposes as the general objective should be to maximize the use of cross-zonal capacity for forward, day-ahead and intraday energy markets.

Above all, we do not believe it is appropriate to allow TSOs to procure the cross-zonal capacity they make available in competition with market participants, due to the information asymmetries of the involved parties. Edison considers that all reservation processes described in the NC (co-optimisation, market-based reservation and reservation based on economic efficiency analysis) are not appropriate. In fact, the co-optimisation process implies the direct participation of a regulated entity (the TSO) in the market, in competition with market participants; the other two processes are characterized by not acceptable arbitrary elements.

In Edison's opinion, the best solution would be for TSOs to use residual capacity or, if needed, release capacity after the intraday market gate closure. In this second case TSOs should carefully assess whether capacity release entails a net benefit in terms of increase of socio-economic welfare compared to countertrading costs.