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E.ON Position on

**ACER's call for comments on the revised Network Code on
Electricity Balancing**

Düsseldorf, 09 January 2015



1 General Remarks

E.ON welcomes ACER's call for comments on the revised Network Code for Electricity Balancing. A European-wide harmonized approach on electricity balancing constitutes a central step towards the Single European Market.

Unfortunately, the TSOs haven't used the opportunity to define actual harmonized balancing rules in the Network Code essential to reach the Single European market. Main parts are postponed to few years after the network code will come into force. Therefore, the Balancing Network Code shall be implemented as a binding rule, e.g. as a regulation or directive, not as a guideline. Otherwise one of the central elements within the European market might be missed.

E.ON would like to focus its comments on the following issues:

2 Specific Remarks

Comments on Article 22 ROLE OF THE TSOs

No. 1:

One essential element of a common European market is the way of dispatch. The current draft allows the operation of both: Self Dispatch or a Central Dispatch. But both approaches lead to different interactions between BRPs. Central Dispatch should not be allowed in the European internal electricity market where generators, storage operators and demand response operators should be allowed to compete on an equal basis. Hence a Self Dispatch system should be defined as a clear target model in the Network Code to be implemented after a defined transitional period. Switching between both approaches should only be permitted from central dispatch to Self Dispatch.

No. 4:

The option allowing TSOs to offer Balancing Energy themselves should not be allowed. TSOs are central buyers and therefore cannot be sellers at the same time, and should not under any circumstances be allowed to produce electricity. Furthermore, this is against the Third Energy Package, which stipulates that TSOs can neither own, nor operate liberalized assets, e.g. generation assets. The code does not include any provision that addresses the issue on how to prove that there were insufficient balancing bids. It also does not propose a Stakeholder Consultation on this topic. Finally, Member States should not be able to legislate against market based balancing. This would hinder the development of the internal market.

Comments on Article 32 BALANCING ENERGY GATE CLOSURE TIME

No. 5:

Self Dispatch to balance positions and market integration of an increasing share of renewable energies require liquid intraday markets. Therefore, any measure with negative effects on the

intraday market should be avoided. The introduction of a separate market for balancing energy in parallel with the intraday market will have serious negative effects on the liquidity of the intraday market. Cannibalizing effects cannot be excluded in particular in markets with already very short gate closure times for intraday markets (e.g. 15 minutes). In consequence flexible demand and supply of energy will be split or even blocked and the possibility for Self Balancing of BRPs will be reduced. There is the risk that the incentives for Self Balancing get reduced if a balancing energy market is introduced. Therefore, the current drafted provision to change gate closure time for balancing energy in the Network Code should only be defined as an option, not as an obligation.

Comments on Chapter 4, Art 43 RESERVATION OF CROSS ZONAL CAPACITY FOR TSOs

The reservation of cross-border capacities by TSOs for balancing purposes shall be avoided. Such reservation reduces the more important integration of forward, day-ahead and intra-day markets and hampers customers benefitting from price convergence. Instead the full available cross-border capacity should be allocated to the market and used for forward capacity allocation, day ahead market coupling and cross border intraday trading. Any remaining unused capacity after the intraday gate closure can then be used for cross-border balancing. If a cross-zonal capacity is required TSOs could achieve the same by an alternative approach where the full cross-zonal capacity is allocated to the market and TSOs would release capacity after the intra-day market gate closure. This would mean that TSOs could make long term cross-zonal arrangements as they know that they can release capacity. The countertrading costs should be part of the balancing costs.

Comments on Chapter 5, Art 52 GENERAL SETTLEMENT PRINCIPLES

Clear price signals are essential for an efficient functioning market. In general BRPs should be responsible to balance between supply and demand. Appropriate financial incentives should encourage them to use the market for this objective. Hence the wording of principle 1d should be much stronger defined. It should be changed to following wording:

"the settlement principles shall ~~encourage~~ ensure the Balance Responsible Parties to be balanced as close to the physical reality as possible or help the system to restore its balance".

Comments on Chapter 5, Art 61 IMBALANCE PRICE

In contrast to other parts within this Network Code no regional or European approach on the harmonization on imbalance price calculation is endeavoured. In line with the harmonization of all other energy products the basic principles on the imbalance price calculation should also be intended.



Other Comments:

- **Balancing should be done per bidding zone**

Balancing should be done for the same area as forward, day-ahead and intra-day markets are trading. Having different areas decreases liquidity and thus competition in balancing offers and hampers the integration of renewable energies.

- **Exemptions should be limited to the transitional phase**

Possibilities for national deviations, e.g. as in article 21 no. 5, should be limited to the transitional phase. Any right for national deviations counteracts the European market integration.