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EUGINE response to ACER call for comments on revised network code on electricity balancing

1. Introduction

EUGINE is the centre of knowledge for engine power plant technology and electricity market design. Its members are the leading European manufacturers of engine power plants and their key components suppliers. They provide forward-looking solutions for flexible electricity generation (very short start-up and ramp-up times). EUGINE is very much affected by the European Internal Energy Market design and thus interested in the network codes drafting and implementation processes. It has prepared therefore this document to underline the challenges the EU is about to be facing in the energy field and to provide some comments on the revised network code on electricity balancing.

2. The balancing challenge

Renewable Energy Sources (RES) are playing a steadily increasing role in the EU power system. Unfortunately, due to wind and sun intensity variations, it is difficult to precisely foresee RES output and to match electricity production with demand. This "intermittency challenge" creates two important challenges in the internal energy market: a "balancing challenge" (need for an appropriate electricity market design, including a suitable network code on electricity balancing, to address growing and more frequent imbalances between power generation and power demand) and a "flexibility challenge" (need for technologies like flexible power generation to complement intermittent RES). Current market designs work efficiently for power systems dominated by predictable supply and demand profiles. However, the trading arrangements were not designed to handle the growing unpredictable variations in electricity supply. Today they are not able to solve in a cost-efficient manner the challenge of balancing the generation and consumption of electricity within the changing European electricity markets. Therefore the market design has to be adjusted. Balancing arrangements have to provide efficient signals of the value of flexibility, influencing the type of capacity moving forward.

As a consequence, EUGINE advocates for the following measures:

- All market participants should have balancing responsibilities, including suppliers of electricity from renewables. All those which cannot balance offer and demand should face the imbalance charge;
- Price signals must continue to be the main driver for market participants' day-to-day operational and longer-term investment decisions. It is therefore critical that balancing arrangements are fit-for-purpose to deal with the large deployment of intermittent renewable energy sources and are introduced before the establishment of a capacity mechanism by some member states. This is essential in order to avoid locking in less flexible capacity;
- Electricity market failures should be identified and corrected. Especially balancing arrangements must be reviewed and corrected to signal the value of flexibility. Capacity mechanisms should be considered as 'ultima ratio';
- Within the balancing mechanism the 'imbalance charge' (penalty) should reflect the full costs for balancing the system and the 'utilisation fee' should be based on actual marginal prices. 'Reserves' should be procured on a shorter-term basis (ideally: the day ahead or even shorter);
- The mechanisms currently in place should be modified to include the aspect of time-to-start-up and a market place to trade it.

3. Comments on the revised NC on electricity balancing

EUGINE warmly welcomes the content of the revised version of the network code on electricity balancing as submitted by ENTSO-E to the Agency for the Cooperation of Energy Regulators (ACER). As a recent organisation, this is the first time that EUGINE expresses its views on the drafting of the network code on electricity balancing. EUGINE is pleased to make the following comments:

- As described above, the intermittency, balancing and flexibility challenges are key for tomorrow's EU power system. The proposed network code on electricity balancing is an important step towards common rules for electricity balancing at EU level and solutions to these challenges;
- EUGINE welcomes the intention to ensure a level playing field, to support the most cost-effective flexibility solutions and the principle of stakeholders consultation by TSOs (article 5);
- The harmonisation of "pricing methods for at least each Standard Product for Balancing Energy" giving "correct price signals and incentives to Market participants" (article 39) and based on "marginal pricing" is an important step towards a European balancing market. However, the right given under specific conditions to TSOs to apply a different pricing method should be as limited as possible to avoid diverging pricing methods within the internal energy market.
- EUGINE strongly supports the "general settlement principles" as stated in article 52 and underlines the need for economic signals reflecting the imbalance situation and stimulating appropriate investments in order to "incentivise Balancing Service Providers to offer and deliver Balancing services";
- Since the minimum volumes of balancing energy and reserves to be procured by TSOs are determined in the network code "load frequency control & reserves", EUGINE calls for a quick adoption of this network code by the European Commission (comitology procedure) to ensure a rapid development of a truly European balancing market.

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Finally, as engine power plants are particularly well-suited to provide so-called “balancing services”, EUGINE would like to underline that it will monitor the implementation process of this network code on electricity balancing and would be pleased to contribute to the work to be done by the “European stakeholder committee” concerned and the dedicated “European expert groups”.

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