

Edison Spa

Sede Legale
Foro Buonaparte, 31
20121 Milano
Tel. +39 02 6222.1



To: ACER (Agency for the Cooperation of Energy Regulators)

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Name: Andrea Pompa
Company: Edison SpA
Address: Foro Buonaparte 31, 20121 Milano - Italy
Contact email: andrea.pompa@edison.it
Phone: + 39 02 6222 8573
Country: Italy

EDISON RESPONSE TO ACER PUBLIC CONSULTATION ON DRAFT FRAMEWORK GUIDELINES ON ELECTRICITY BALANCING

GENERAL REMARKS

Edison welcomes the opportunity to answer ACER consultation on Framework Guidelines on Electricity Balancing. The creation of an integrated electricity balancing market at European scale may help to cope with the growing share of intermittent renewable energy sources and to ensure system security through a more efficient optimization of balancing resources located in the different control areas. This system should allow for the selection of the cheapest balancing products available irrespective of the location of BSPs in order to maximize the economic efficiency of the system at European scale.



IMPLEMENTATION ROADMAP

The target model selected for the exchange of balancing energy from frequency restoration reserves and replacement reserves (*TSO-TSO with common merit order*) is indeed very ambitious since it requires a strong coordination among TSOs and harmonization of market features (products, timing, pricing methods etc.). For this reason it is important that the implementation of these new rules is carried out through intermediate steps in order to ensure the smooth integration of European balancing markets without jeopardizing system security.

Stakeholders should be deeply involved in this implementation process through frequent consultations, ensuring an adequate level of transparency on all the decisions taken by TSOs in defining market design and possible interim steps.

CONSISTENCY WITH THE EXISTING FRAMEWORK GUIDELINES AND NETWORK CODES

It is also important that these FGs and the subsequent European network codes are consistent with the previous FGs and Network Codes as regards, for instance, capacity calculation mechanisms, grid connection rules and the interactions with intraday and day-ahead timeframes.

PROCUREMENT OF BALANCING RESERVES THROUGH MARKET BASED PROCEDURES

The Third Energy Package (Art. 15 Directive 2009/72 EC) provides that TSOs procure reserve capacity according to transparent, non-discriminatory and market-based procedures while the rules for balancing the electricity system should be objective, transparent and non-discriminatory. Therefore, we believe that balancing services shall be primarily provided by generators and consumption units through market based mechanisms. The procurement of balancing services by TSOs, instead, should be adequately justified by an accurate quantitative cost-benefit analysis, clearly highlighting the increase in social welfare achievable through these kinds of arrangements.

Moreover, we wish to underline that a trade-off exists between the acquisition of Frequency Containment Reserves (FCR) and the acquisition of other types of reserves (Frequency Restoration and Replacement Reserves). For this reason, we think that all the available reserves must be procured through market based procedures, since they allow to reveal the market value of the services offered. Thus, these FGs should provide for the compensation of BSPs offering frequency containment reserves through market based mechanisms.



HARMONIZATION REQUIREMENTS

We agree with ACER when asking for the harmonization of balancing product requirements, pricing mechanisms, imbalance settlement rules, market timeframes and the roles and responsibilities of market participants as a prerequisite for the establishment of a mechanism for cross-border exchange of balancing energy. Nonetheless, we think that the harmonization of the technical requirements set by TSOs for the qualification of generation and consumption units as balancing service providers is also of utmost importance to ensure the level playing field to market participants located in different control areas. If TSOs impose more stringent requirements for the procurement of the same balancing product, BSPs risk to be discriminated compared to the others located in different countries/control areas. Therefore, we deem fundamental that an adequate level of harmonization is achieved in the Network Codes on electricity system operations (especially the Network Code on Load-Frequency Control and Reserves) in order for cross-border balancing to effectively maximize the economic efficiency of the whole European system.

ANSWERS TO SPECIFIC QUESTIONS

- 1. Do you consider that harmonization 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 believe that harmonization of the pricing method is a necessary condition for the establishment of a cross-border balancing mechanism requiring the setting up of a common merit order list at EU level. TSOs should jointly define the common pricing methodology which will be approved by NRAs after an extensive consultation with all interested stakeholders.

In our opinion, the system marginal pricing mechanism would allow to accurately reflect the value of balancing energy, especially when a consistent number of standardized balancing products is available on the common European platform. Nevertheless, in the initial phase of implementation of this new system, if a limited number of products poorly standardized is available, the use of pay-as-bid mechanism may be considered, since it could better reflect the actual value of the resources exchanged.



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

We believe that margins should be allowed only for security reasons and the criteria defined in the network code(s) on system operations could help ensuring harmonization at European level. In any case, it is important that the definition and the application of the methodology for the calculation of these margins are approved by NRAs and ACER after extensive consultation with interested stakeholders.

It should be also taken into consideration that the use of “margins” by TSOs may have significant effects on the total costs of balancing actions, and therefore on the calculation of imbalance prices.

3. Do you support to aim at similar target models for frequency restoration reserves and replacement reserves? 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?

In our opinion, the definition of specific and harmonized products for the activation of balancing energy from frequency restoration reserves and replacement reserves is a necessary condition to develop a cross-border market for balancing energy. Once compatible products will be available in all concerned control areas, the same target models should be achieved for both types of reserves without specific differences. Thus, distinct products should be exchanged within the same regulatory framework.

We don't think that a distinction should be made between manually activated and automatically activated frequency restoration reserves, as regards the model of exchanges and the timing of implementation. Yet, we think that a higher level of transparency should be ensured by TSOs in making public the criteria used for the activation of balancing energy from frequency restoration reserves, in order to avoid possible distortions, not adequately justified by the electricity system needs.

4. Do you support the timeframes for implementation?

We support the timeframes for the implementation of the target model proposed in these Framework Guidelines. We also agree with ACER when providing for the possibility to define a transitory period after the entry into force of the European network code. This could allow TSOs and market operators to start transitional



arrangements for a swifter implementation of cross-border exchanges of balancing energy.

Furthermore, we wish to highlight that the final achievement of the target model for electricity balancing defined in this FGs requires the previous implementation of the provisions of the European Network Code on Capacity Allocation and Congestion Management (CACM). It is important that the day-ahead market coupling and the cross-border intraday market with continuous trading are properly functioning in order to facilitate the harmonization at European level of the timeframes (e.g. gate opening etc.) for the operation of cross-border exchanges of balancing energy.

Finally, we think that all the required changes introduced by the CACM and Electricity Balancing network codes should be implemented in a gradual way in order to leave to market participants enough time to adapt.

5. 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)

We believe that the centralized approach adopted in these FGs should be prioritized in order to guarantee the necessary harmonization for the creation of a unique balancing market at European level. Nevertheless, the development of regional implementation projects should be allowed since they could help to reach the final outcome by complementing the European top-down regulation with a more bottom-up approach. In this case, NRAs and ACER should supervise on the compatibility of these regional initiatives with the standard features and procedures defined in the Balancing network code.

6. Do you consider important to harmonize imbalance settlement? Do you think these Framework Guidelines on Electricity Balancing should be more specific on how to do it?

Building a European system for electricity balancing will require the harmonization of some imbalance settlement aspects in order to avoid distortions and to create the level playing field for all market participants. Nonetheless, this harmonization process should leave the room for national/sector specificities which, if not taken in due account, may prevent a swift harmonization of rules for all BRPs. For instance, the imbalance period of 30 minutes or less for consumption units may prove to be difficult to manage given the consistent amount of data suppliers should deal with. In these cases, some transitory arrangements are much needed in order to allow BRPs



to adapt to new rules through the development of new contractual framework and technological arrangements.

We also think that some clarifications are needed on the different balancing perimeters (e.g. portfolio or unit-by-unit balancing) which can be considered consistent with these framework guidelines. The application of specific balancing perimeters in some Member States may imply, for instance, some distinctions in imbalance calculation.

Finally, we wish to stress that the aim of the development of intraday cross-border energy markets is to allow market operators to balance their positions as close as possible to real time on the energy markets, limiting the scope of balancing actions. For this reason, the inclusion in these FGs of the obligation on BRPs to provide balanced program in the day-ahead time frame doesn't seem adequately justified, since it doesn't allow for alternative arrangements where this is possible.