

Consultation on Commission Regulation establishing a guideline on electricity balancing

A EURELECTRIC response paper

December 2016

EURELECTRIC is the voice of the electricity industry in Europe.

We speak for more than 3,500 companies in power generation, distribution, and supply.

We Stand For:

Carbon-neutral electricity by 2050

We have committed to making Europe's electricity cleaner. To deliver, we need to make use of **all low-carbon technologies**: more renewables, but also clean coal and gas, and nuclear. Efficient electric technologies in **transport and buildings**, combined with the development of smart grids and a major push in **energy efficiency** play a key role in reducing fossil fuel consumption and making our electricity more sustainable.

Competitive electricity for our customers

We support well-functioning, distortion-free **energy and carbon markets** as the best way to produce electricity and reduce emissions cost-efficiently. Integrated EU-wide electricity and gas markets are also crucial to offer our customers the **full benefits of liberalisation**: they ensure the best use of generation resources, improve **security of supply**, allow full EU-wide competition, and increase **customer choice**.

Continent-wide electricity through a coherent European approach

Europe's energy and climate challenges can only be solved by **European – or even global – policies**, not incoherent national measures. Such policies should complement, not contradict each other: coherent and integrated approaches reduce costs. This will encourage **effective investment** to ensure a sustainable and reliable electricity supply for Europe's businesses and consumers.

EURELECTRIC. Electricity for Europe.

Dépôt légal: D/2016/12.105/66

The Electricity Balancing Guideline (EB GL) is an essential component of the integration of the European electricity markets. As the final stage in the electricity system, its design has important repercussions for the market functioning in the previous timeframes (intraday, day-ahead, forward), providing signals and incentives.

EURELECTRIC has followed the drafting of the Electricity Balancing Guideline closely, and has noted substantial improvements, as well as points of concern. Given the fact that the EB GL has seen major changes during each step of its drafting, **EURELECTRIC would like to share its views in order to safeguard elements that we consider essential to a good balancing market and draw the attention to other parts that would be detrimental to that market.** The most important elements are the following:

- **Intraday markets are and should remain the main tool for market participants to rebalance their positions close to real time.** Therefore, EURELECTRIC regrets that the Cross-Zonal Balancing Energy Gate Closure Time is no longer linked with the Cross-Zonal Intraday Gate Closure Time. Without this link, it is possible that the balancing market closes before the intraday market. This would force market parties to choose between both markets, potentially reducing the liquidity in the intraday market.
- On the development of the future European exchange platform, **EURELECTRIC would welcome clarity on how the ambitious timing to implement them (2 or 4 years after entry into force, depending on the products) can be combined with sufficient alignment in the balancing markets,** in order to ensure that market parties face a level playing field on these platforms. This will require an ambitious approach – both from Transmission System Operators (TSOs) as from market participants – to implement the necessary systems as well as strong governance from NRAs to ensure sufficient alignment in market framework.
- EURELECTRIC wants to stress that the standardisation of balancing products is the key for allowing cross-border exchanges. While we welcome the limited number of standard products proposed and the stakeholder involvement, we regret to see that this is process taking more time than previously expected. **It is key that standard products are defined soon enough for all stakeholders to be able to be ready for the go-lives of the platforms.** This point has also to be considered when setting the dates for these platforms.
- **For EURELECTRIC, it is key to ensure that the imbalance settlement price correctly reflects the real-time value of the energy** by removing price caps, avoiding artificial components such as administrative scarcity pricing (Operating Reserve Demand Curve), or/and administrative interventions. The ambition of the EB GL that the imbalance settlement price reflects the real-time value of the energy is welcomed, as well as the abolishment of price caps and floors lower than the VOLL for balancing energy and spot markets.
- **If any cross-border capacity reservation for exchanging balancing capacity is deemed required, the mechanism should be open to participation of market participants,** since they are best incentivized to find the optimal allocation between the different time-

horizons, including the intraday timeframe. The current approach allows TSOs to reserve cross-border capacity based on either a complex methodology (co-optimisation) or artificial price signals. EURELECTRIC considers that this could compromise the optimal allocation over the different time-horizons. It also excludes the intraday timeframe from the allocation, where market participants should be given more opportunities to balance their portfolio before being exposed to imbalances.

- **EURELECTRIC considers that the priority is to deliver platforms in time for exchanging products on a level playing field.** Clever solutions have to be put in place to cope with (i) the different ways to manage the system in different places (ii) the need for an efficient European balancing market.
- **Regarding the proposed timing for ISP harmonisation implementation, EURELECTRIC will provide its views as part of the input to the Clean Energy Package.**
- The Swiss electricity network is an important part of the highly meshed interconnected grid of continental Europe; thus its consideration is essential in maintaining system security and system efficiency. According to Article 1 of the EB GL “**the exchange of balancing services may be opened to TSOs operating in Switzerland**”; **EURELECTRIC considers that this should be decided based on a technical rather than a political assessment.** If TSOs consider the exchange of balancing services with Switzerland necessary for the safe secure network operation of the internal electricity market, they should be allowed to conclude respective agreements with the Swiss TSO without the intervention of the European Commission and ACER.

More into details, in order to ensure a well-functioning, cross-border balancing market, the **following elements of the Electricity Balancing Guideline are essential:**

- The Recitals in the EB GL are better focussed on the target for an integrated balancing market. The recognition that the well-functioning markets should provide the necessary signals to market participants and that a major objective of the balancing market is the efficient functioning of the intraday markets is welcome for a correct interpretation of the Balancing Guideline.
- The explicit prohibition on price caps and floors below the value of lost load for balancing energy bid prices introduced in **Art. 18.3(d) and Art. 47.2.**
In order to allow the balancing market to function optimally and the imbalance price to correctly signal the cost of balancing actions by TSOs, free pricing of balancing energy bids is essential.
- The improved transparency through the publication of information as provided in the **Art.13**
Such information on the balancing market greatly helps Balancing Responsible Parties (BRPs) and Balancing Service Providers (BSPs) to monitor and understand the balancing market.

- A level playing field between all BSPs should be ensured: TSOs should allow and arrange/accommodate voluntary participation of all BSPs to all balancing products. To guarantee a level playing field between all BSPs, a provision obliging TSOs to accommodate a BSP-TSO model should be included in **Art. 17.1**.

- The integration process through the use of a common European platform as described in **Art. 20, Art. 21, Art. 22 and Art. 23**.

It is an improvement over the previous Coordinated Balancing Areas (CoBAs)-approach that ran the risk of leaving the integration of the balancing markets unfinished as large and diverging CoBAs could prove too costly to integrate. At the same time, it is important to provide clarity on how the strict deadlines can be combined with the ambition of a truly integrated balancing market where market participants can compete on a level playing field. In particular, it is key that standard products are defined soon enough for all stakeholders to be able to be ready for the Go-lives of the platforms. This point has also to be considered when setting the dates for these platforms. EURELECTRIC therefore calls for appropriate governance, making sure that all TSOs are involved in the design and the development of the European platforms. Moreover, it is key that market participants are also involved during the developments and in the selection of the starting points/reference projects.

- A clear timeline towards the integration of the balancing markets as foreseen in **Art. 20.1/4/5, Art. 21.1/4/5/6, Art. 22.1/4/5/6 and Art. 23.1/4/5**.

The new timeline creates a momentum for integration with an objective to reach a common balancing market in four years. EURELECTRIC thinks this is a very ambitious target. TSOs should accelerate the early-implementation work and involve stakeholders pro-actively. In the same time, NRAs would have to re-shape the national regulatory frameworks to achieve sufficient alignment and harmonisation to enable market parties to compete fairly on an integrated European market.

- The provision in **Art. 45.1(b)** that imbalances are settled at a price that reflects the value of activated energy bids instead of the real-time value of energy.

Linking the imbalance price to the value of the activated energy bids provides the best approximation of the value of the energy during the relevant imbalance settlement period especially with the abolition of price caps and floors below the value of lost load as foreseen in **Art. 47.2**.

At the same time, EURELECTRIC is worried about the wording of **Art.45.3**, obliging TSOs to develop a methodology to trigger shortage pricing. It risks introducing arbitrary or artificial components into the imbalance price, polluting the signal coming from the real-time value of energy and diluting the pricing signal towards BRPs. Such additional components generate unnecessary, additional risks, disturbing optimal market behaviour.

On the other hand, a number of articles in the proposed draft of the Balancing Guidelines contain market design features that EURELECTRIC considers detrimental to a well-functioning balancing market:

- The removal of a provision that a TSO cannot provide balancing services itself.

Such a clear distinction between market functions and the TSO role – as implied in the unbundling principles of the 3rd energy package – has featured in all previous drafts of the EB GL. Its sudden removal from the latest draft is worrying, as EURELECTRIC considers it as a key element in correct market functioning that TSOs should limit themselves to procure balancing services and leave its provision to market participants. EURELECTRIC therefore suggests re-introducing such a provision under Art. 15.

- **Art 16.2** (DSO-TSO collaboration) should leave the purpose of information exchange between TSO and DSO open, and should not explicitly limit this to imbalance settlement.

Proposed amendments:

Art.16 : Cooperation with DSOs

Art. 16.2 (new text) : ***If not defined by national legislation, each TSO shall agree with all DSOs within the TSOs control area on the necessary, efficient and timely management and exchange of data for the well-functioning of the balancing market, in accordance with the terms and conditions related to balancing pursuant to Article 19, and pursuant to Title V (Settlement).***

Art. 46 : Balancing Energy Calculation

Art. 46.1: [...] each TSO shall – ***in collaboration with the reserve connecting DSOs pursuant to article 16 paragraph 2*** - establish a procedure for: ...

A similar amendment, namely “1. Each connecting TSO shall, ***in collaboration with the reserve connecting DSOs pursuant to article 16 paragraph 2,*** calculate...” should be included for the following articles: Art. 49 (Balancing energy for frequency restoration process), Art. 50 (Balancing energy for reserve replacement process) and Art. 51. (Imbalance adjustment to the BRP).

- In **Art. 24.2** the Cross-Zonal Balancing Energy Gate Closure Time no longer linked with the Cross-Zonal Intraday Gate Closure Time.

Without this link, it is possible that the balancing market closes before the intraday market. This would force market parties to choose between both markets, potentially reducing the liquidity in the intraday market. Maintaining such a link as in the previous drafts of the Balancing Guideline – where the Cross-Zonal Balancing Energy Gate Closure Time cannot be before the Cross-Zonal Intraday Gate Closure Time – can avert such a situation from occurring.

- In **Art. 24.4**, it is mentioned that BSPs shall report to the connecting TSO and DSO any “unexpected” unavailable volumes of balancing energy bids without undue delay after the Cross-Zonal Balancing Energy Gate Closure Time. While we welcome that the BSPs shall report to the connecting TSO and DSO any unavailable volumes of balancing energy bids, we would like the term “unexpected” to be removed to allow market parties to withdraw free bids (i.e. not contracted capacity) that have not been activated from the CMOL after the XB EB GCT to accommodate self-balancing activity in the local ID market where relevant. We see it as a mitigating measure to avoid the possible negative impact on ID liquidity of the parallel run between cross-border balancing market and local intraday markets.

- **Art. 29.7:** While EURELECTRIC welcomes the transparency requirement on the non-respect of merit order for standard product, a similar provision should be added for the specific products.
- The description of the methodology in Art. 32.1(a) through which a TSO can procure balancing reserves remains too general and open to interpretation.
A market-based method for the procurement of balancing reserves may include designs such as an obligation with a secondary market, which is incompatible with a cross-border exchange of balancing reserves on a level playing field for Balancing Service Providers. EURELECTRIC therefore considers that Art. 32.1 should include an explicit reference to the use of a primary market to procure balancing reserves.
- The ability for TSOs to reserve Cross-Zonal Transmission Capacity to exchange balancing reserves based on unclear or distortive approaches as listed in **Art. 39.1**.
Reservation of Cross-Zonal Transmission Capacity for balancing purposes – if necessary at all – should be open to market parties to take the financial risk and bear the consequences of it, as they do in the Day-ahead time horizon. For EURELECTRIC, the priority should be to improve and better coordinate the capacity calculation methodologies in DA and ID timeframes. EURELECTRIC thinks that all available cross-border capacity should be allocated to the market and that reservation by TSOs should be seen as a last resort solution. On the methodologies proposed, EURELECTRIC believes that they are either not sufficiently described (co-optimisation in Art. 41), that they do not expose TSOs to the same price risk as market parties while being in direct competition with them (market-based reservation in Art. 42) or even imply a blank check for TSOs (reservation based on economic efficiency analysis in Art. 43 – that last option is in any case not acceptable for EURELECTRIC). For the first two options, should there be a decision to pursue in this direction, a set of principles should be respected in any case:
 - Decision should follow a cost benefit analysis, be accompanied by a stakeholders consultation and approval by the relevant NRAs;
 - A market-based and transparent method, including all time horizons (including Intraday) should be implemented
 - Transparency about the results, the reversibility and the adjustability should be granted
 - Participation of market parties should be allowed

EURELECTRIC considers that by safeguarding the aforementioned positive elements and addressing the points of concern, the Balancing Guidelines could be a significant step towards integrating the balancing markets while supporting the correct functioning of markets in previous timeframes, in particular, the intraday market.

EURELECTRIC pursues in all its activities the application of the following sustainable development values:

Economic Development

▶ Growth, added-value, efficiency

Environmental Leadership

▶ Commitment, innovation, pro-activeness

Social Responsibility

▶ Transparency, ethics, accountability



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