

Electricity Balancing Guideline – EURELECTRIC's input to the comitology process (based on version dated 01/03/2017)

EURELECTRIC proposals for amendments

March 2017

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.

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Introduction

These are EURELECTRIC's views on the draft 'Guideline on Electricity Balancing' on which a vote is scheduled. While the latest draft of the text contains several positive inclusions, the European electricity industry sees room for further improvements, in particular to mitigate the impacts of potential interactions between intraday and balancing markets. Intraday markets are and should remain the main tool for market participants to rebalance their positions close to real time: cross-border balancing markets shall not compromise the development of day-ahead and intraday market.

POSITIVE INCLUSIONS (of which some were already present in version 24/01/2017):

Art. 3.2.e: Objectives and regulatory aspects

We welcome the clear statement that the development of **cross-border balancing markets shall not compromise the development of day-ahead and intraday market**. Ideally this should be even more reflected in the relevant articles as well. Intraday markets are and should remain the main tool for market participants to rebalance their positions close to real time.

Art 21.3.I: European platform for the exchange of balancing energy from frequency restoration reserves with automatic activation

EURELECTRIC welcomes the suppression of the provision in article 21.3.I. that was opening the door for non-merit-order based activation.

If this article was to be reintroduced, it should be written in a way that really shows that the deviation is from a "pure" merit order only, and that there is absolutely no intention to ignore some bids of the common merit order list. A clearer provision could be acceptable for EURELECTRIC.

Art. 24: Balancing Energy Gate Closure Time

We welcome the introduction of the clear statement that the balancing energy gate closure time "shall not be before the intraday cross-zonal 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.

REMAINING CONCERNS:

Art. 14.1: Role of the TSOs

While we were positive about the inclusion in version 24.01.2017 of a clear prohibition for TSOs to take the role of balancing service providers as this would imply owning and operating generation assets and would therefore go against unbundling rules, we now regret the suppression of this provision in the version 01.03.2017. **EURELECTRIC believes that TSOs shall procure those services from the market and therefore calls for the re-introduction of such provision.** (*"TSOs shall not take the role of balancing service providers neither provide balancing services to the balancing Market"*).

Art. 16.6: Role of Balancing Service Providers

EURELECTRIC is supporting the provision in article 16.6 that was included in the version 24.01.2017 (i.e. the possibility to withdraw free bids from the common merit order list after the balancing energy gate closure time and before their activation by the TSO).

By allowing market parties to accommodate self-balancing activity in the local intraday market, the right to withdraw free bid is a **key mitigation measure to avoid any risk of hampering the intraday liquidity** during the overlap between cross-border balancing market and local intraday markets. The last sentence allowing TSOs to reject the withdrawal if it "violates the capacity requirements for the LFC block or scheduling areas of the LFC block" should however be removed. Whether or not a withdrawal violates the capacity requirements for the LFC is not known from market parties. If this sentence is maintained, full transparency to the market shall be ensured. Furthermore it must be ensured that capacity requirement calculations by TSOs must be transparent and approved by NRAs.

EURELECTRIC regrets the suppression of this article in version 01.03.2017 and is calling for re-introducing it.

Art. 18.7.b and 18.7.c combined with Art 32.1: obligation to offer unused generation capacity while relying on free bids

The necessity to have provision 16.6 is particularly important when considering Article 32.1.c in combination with Article 18.7.b and c:

- Article 32.1.c gives the possibility for TSOs to rely on non-contracted energy bids to ensure the stability of the system. Balancing capacity procurement should be the insurance to ensure stability of the grid.
- Article 18.7.b and c may generate obligation for balancing service providers to offer their unused generation capacity or balancing resources

The combination of these articles is creating a risk to hamper the good functioning of intraday markets. In order to mitigate these concerns, EURELECTRIC suggests:

- To maintain article 16.6 while removing the last sentence (as explained previously)
- To amend article 32.1.c as follows: *"the volume of non-contracted balancing energy bids, taking into account intraday activations, which are expected to be available [...]"*. The methodology applied for the calculation of the expected volume shall be validated by the national regulatory authority.

- To delete art. 18.7.c: Balancing Service Providers should not be subject to obligation to offer “unused generation capacity” in the balancing markets after intraday cross-zonal gate closure time. We believe it is in the freedom of all market parties to use or not generation capacity by their own. The guideline should not prohibit or oblige any bidding in balancing market. This will harm the intraday markets, which still run after the balancing gate closure time. Should there be any concern on potential capacity retention issue, it should be up to the relevant authorities (NRA, competition authorities,...) to take the necessary actions. Unnecessary regulation should not be implemented as a preventive measure against hypothetical competition issues. In addition, EURELECTRIC wonders how “balancing resources” can be determined in a Demand Side Management context.

Should this deletion not be possible, the article should at least be modified as follows: *“a requirement for balancing service providers to offer their unused generation capacity or other balancing resources through balancing energy bids or integrated scheduling process bids in the balancing markets after **local** intraday ~~cross-zonal~~ gate closure time”.*

Alternatively, the article should be complemented, similarly to Art. 18.7.b, by: *“without prejudice to the possibility of balancing service providers to change their balancing energy bids prior to the balancing energy gate closure time or the integrated scheduling process gate closure time due to trading within intraday market”.* In any case, should such obligation possibility remain, it should be subject to NRA approval and to the evidence that it does not hamper the proper functioning of intraday markets.

Article 29.12: Bids rejected for internal congestion

While EURELECTRIC understands that internal congestion issue could prevent the activation of a bid, we are concerned by the negative impact this might have on equal access to the grid and level playing field between the different BSPs located in the same control area. EURELECTRIC therefore calls for amending the article 29.12 as follows: *“Each TSO may declare the balancing energy bids submitted to the activation optimization function and marked as restricted due to internal congestion or to operational security constraints within the connecting TSO scheduling area as unavailable for the activation by other TSOs **while ensuring a proper compensation for the impacted BSP. Such compensation should be approved by the NRA.**”* In addition to guaranteeing equality of access to all BSPs, this would ensure the proper signal towards TSO, in order to trigger the right investment decision.

In this perspective, we welcome the provision of Art. 30.1.b stating that pricing methodologies shall *“define how the activation of balancing energy bids activated for purposes other than balancing affects the balancing energy price, while also ensuring that at least balancing energy bids activated for internal congestion management shall not set the marginal price of balancing energy”.* **In case of activation of energy bids for purposes other than balancing, such as congestion management, allocation of the costs should be fair and the imbalance price shall not be impacted.**

Article 30: Pricing method for balancing energy and cross-zonal capacity

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.**

In target, we support a move towards marginal pricing for imbalance price and for BSP remuneration. In transition, when different balancing products are used, a volume weighted average of the individual marginal prices can be used (Article 30.1).

We regret the removal of the explicit prohibition on price caps below the value of lost load (VoLL) for balancing energy bid prices introduced in previous version in Article 18.3(d) and Article 47.2. **Price caps might indeed be necessary for technical reasons** (Article 30.2) for the price coupling algorithms to find a result and to avoid distortions in the market coupling. **However, they should not be set below the VoLL** as explicitly recognised in Article 9.1 of the Electricity Regulation. We would welcome the inclusion of a definition of technical price caps as part of Article 2 “Definitions” where it is explained why they are needed for an “efficient functioning of the market”. Technical price caps shall be approved by national regulatory authorities, following a public consultation. Furthermore, it is absolutely essential that there is full transparency on the possible criteria/activities TSOs may use. Last but not least, any “substitute” pricing approach must be approved by NRAs after public consultation with the market. EURELECTRIC therefore calls for reviewing the wording of the article accordingly.

Art. 32.2.b: Procurement rules

While more coordination/harmonisation in the way balancing capacity is procured and reserve capacity sizing is made is needed, the proposal from the previous version to perform those task “close to real time” was too extreme for EURELECTRIC. The new version, referring to “short-term basis” and “economic efficiency”, is more balanced. Procurement on several auctions with various contracting periods seems to be the most relevant design. We have similar concerns regarding the proposal made in Article 5 of the Electricity Regulation. Consistency needs to be ensured between both Regulations.

Article 34.1: Transfer of balancing capacity

Balancing service providers shall be able to transfer their obligations to provide balancing capacity with no derogation, even when contracting periods for balancing capacity are less than one week.

Article 38: Exchange of balancing capacity or sharing of reserves

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.

Art 44. 3 Settlement: General principles

The imbalance price per ISP should not include other costs than the cost for the activated balancing energy per ISP. Hence Art. 44. 3 should be deleted.

Article 53: Imbalance Settlement Period

The proposal to harmonise ISP to 15 min in all control areas at wholesale level is welcome as it will contribute to ensure a level playing field between all market parties. **The timing proposed in the Electricity Regulation (Article 7.4) is ambitious but provides a clear direction of travel**

towards near-time markets. Art. 53.1 shall therefore be aligned with the timing proposed in Article 7.4 of the Electricity Regulation ("By 1st January 2025") in order to remove any regulatory uncertainty. A 4 year derogation as currently proposed in the draft is a clear positive move in this direction, but setting the reference date on 1st January 2025 would give more visibility to market parties.

Some derogations will however be needed on the retail side to ensure a cost-efficient transition. Those concerns will be tackled as part of our input to the Electricity Directive.

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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