

ACER public consultation on balancing energy pricing

A Eurelectric position paper

Eurelectric represents the interests of the electricity industry in Europe. Our work covers all major issues affecting our sector. Our members represent the electricity industry in over 30 European countries.

We cover the entire industry from electricity generation and markets to distribution networks and customer issues. We also have affiliates active on several other continents and business associates from a wide variety of sectors with a direct interest in the electricity industry.

We stand for

The vision of the European power sector is to enable and sustain:

- A vibrant competitive European economy, reliably powered by clean, carbon-neutral energy
- A smart, energy efficient and truly sustainable society for all citizens of Europe

We are committed to lead a cost-effective energy transition by:

investing in clean power generation and transition-enabling solutions, to reduce emissions and actively pursue efforts to become carbon-neutral well before mid-century, taking into account different starting points and commercial availability of key transition technologies;

transforming the energy system to make it more responsive, resilient and efficient. This includes increased use of renewable energy, digitalisation, demand side response and reinforcement of grids so they can function as platforms and enablers for customers, cities and communities;

accelerating the energy transition in other economic sectors by offering competitive electricity as a transformation tool for transport, heating and industry;

embedding sustainability in all parts of our value chain and take measures to support the transformation of existing assets towards a zero carbon society;

innovating to discover the cutting-edge business models and develop the breakthrough technologies that are indispensable to allow our industry to lead this transition.

Dépôt légal: D/2019/12.105/38

Topic 1: balancing energy pricing period

QUESTION 1 - Do you agree with the replacement of the term BEPP with MTU?

For two reasons we are opposing the usage of the term MTU for the aFRR-BEPP, unless the ISP BEPP is adopted.

- 1) In our view the optimization cycle of the load-frequency controller is not a “market” time unit. Neither activities nor bids of market participants are based on this time interval. Usage of the term MTU is misleading, as it implies deliberate market action, which is not applicable in this case. Furthermore, confusion is created, as it does not resemble the CACM definition of a market time unit.
- 2) If the MTU-definition from Regulation 543/2013 is to be applied for aFRR, all the other regulations from Regulation 543/2013 should be applied accordingly. And while it might actually be interesting to see data and forecasts on load, as well as unavailability reportings on an optimization cycle basis, we assume that TSOs would be reluctant to the effort.

QUESTION 2 - Do you agree with setting the aFRR MTU equal to the optimization cycle?

If not, how would you support the requirement for pay-as-cleared pricing and how would you address the inconsistency between the cross-zonal exchanges and the prices?

Eurelectric regrets the choice for the optimization cycle “BEPP” despite a clear preference from a majority of market participants for the quarter-hour “BEPP” and the understanding that mitigating measures have been investigated. None of this is reflected in the ACER’s proposal.

The current preference of Eurelectric is the 15 minute BEPP (i.e. alignment with a referenceable timeframe such as the ISP), which would be indeed the MTU. This has been formulated on the basis of information obtained so far and supported by the following reasoning:

- The relevant time period for market participants is the Imbalance Settlement Period. It is the basis for pricing signals towards the Balance Responsible Party as well as the validity period for the pricing of the energy by the Balancing Service Provider. It forms a clear link between any actions taken by market participants on the previous markets (FWD/DA/ID) and the balancing markets.
- The optimization cycle BEPP would entail a significant increase in data and complexity for both BSPs and BRPs. Such an exponential increase in data to process and check would be problematic. It furthermore poses questions in transparency towards BRPs, as the imbalance settlement price will be partially determined by the outcome of the 225 clearings of each activation cycle. This would be detrimental to the transparency of the balancing energy price and thus also for the imbalance settlement price.

Given the added complexity and adverse effects of the optimization cycle BEPP, it is worth taking a step back to reconsider what problem it is that the optimization cycle BEPP wants to remedy compared to the more simple solution of a 15 minute BEPP. The potential occurrence of price spikes should be carefully considered by looking at possible causes. If a price spike is caused by an activation of a large part of the CMOL for a couple of seconds, the TSO controller settings may have to be reconsidered. As there is also FCR capacity reacting to imbalances, there is no need for aFRR to be activated for such short moments.

The occurrence of unjustified price spikes appears to be a major consideration regarding the choice for BEPP. It covers several arguments advanced by TSOs: the size of the congestion rent, transfers between BRPs and BSPs and occurrences of price divergences. Eurelectric agrees that unjustified price spikes should not determine the balancing energy price nor distort the pricing dynamics on

the European platform. However, Eurelectric does not agree that the solution should be to introduce an optimization cycle BEPP in order to mitigate such unjustified price spikes by artificially reducing the period they apply to. Eurelectric considers that there are two possible ways forward to deal with unjustified price spikes in the framework of a 15 minute BEPP:

- The first approach, from Eurelectric's point of view most favourable, would be to ensure that activations on the AOF correctly reflect the needs of system operators to resolve imbalances and the activation dynamics on the CMOL. If this is done correctly, any activation of bids through the AOF was necessary to ensure system security and the resulting price outcome by definition is justified. This respects the reasoning that if at any moment during an ISP, the activation of a bid is required for imbalance reasons, such requirement should be reflected towards BSPs and BRPs during the relevant Imbalance Settlement Period.
- The second approach – in case it proves impossible to fully exclude 'unnecessary' bid activations from the AOF – could be to exclude ex-post (yet based on a transparent approach defined ex-ante) the prices from bids that were not actually activated locally, or only during such a short period that it did not materially impact the system balance. In this way, unjustified price spikes can be suppressed even if their root cause cannot be removed.

As expressed in the first paragraph, Eurelectric regrets that TSOs do not appear to have seriously considered such measures to safeguard correct price formation in the framework of a 15 minute BEPP. As a result, some of the arguments in favour of an optimization cycle BEPP are doubtful as the problem they identify could be resolved through other means.

In any case, Eurelectric would like to stress that some "must have" accompanying measures should be put in place:

- Full transparency on the activated volumes should be granted to the market;
- A clear signal in case of a change of net position (and hence, direction of volumes activated) within an ISP should be given to the market
- Visibility on the state of the system close to real time should be given
- The imbalance price should be known very soon after real time

Topic 2: system constraints

QUESTION 3 - Do you agree that the purpose of using balancing energy bids for system constraints should be considered as an update of the CZC?

Eurelectric agrees with ACER that TSOs should use other tools than relying on balancing bids (e.g with ATC restrictions or interconnection controllability) to address congestions by adjusting cross-zonal exchanges. In particular, when congestions can be reliably forecasted, they should be addressed before the balancing time frame by adjusting the cross-zonal exchange capacity in the intraday market.

Should system constraints be identified within the balancing time frame, after the IDCZGCT, then Eurelectric considers that it might be legitimate to update the ATC to be allocated with the balancing platforms. Eurelectric restates however that balancing bids activated for system purposes should not impact the balancing energy prices.

QUESTION 4 - Do you agree that the CBMP should reflect actually available CZC at the time of the auction?

Eurelectric agrees with this principle. TSO should do their max to update the available CZC towards real time.

If the ATC gets negative after the IDCZGCT, whatever the reason, TSOs should use the appropriate measure to solve the constraint.

Should the AOF clearing be managed with two runs as proposed by the TSOs, Eurelectric would support that the run aimed at defining the balancing activation prices should consider a 0 ATC, and the one aimed at selecting the safe level of bid activation in each bidding zone should consider the negative ATC as suggested in ACER's consultation.

Topic 3: pricing of SA and DA mFRR bids

QUESTION 5 - Do you agree with the proposed approach for pricing SA and DA mFRR bids?

N/A

Topic 4: technical price limits

QUESTION 6 - Do you agree with the inclusion of a technical price limit at the proposed level?

If not, what price limit do you consider as not interfering with the balancing energy market results?

Eurelectric agrees with the introduction of a technical limit.

The level of such a technical limit should accommodate the VOLL in every bidding zone, and be consistent with the technical price limits in SDAC and SIDC.

Topic 5: pricing volume during deactivation of aFRR

QUESTION 7 - Do you agree with aligning the pricing in these two cases as proposed by the Agency?

If not, please specify and justify your preferred solution.

The rationale for not applying "pay-as cleared" for all the energy delivered should be detailed and justified.

The need for such a mechanism also depends on the overall aFRR set up, in terms of BEPP (deactivation during the same ISP would be addressed with a 15 min BEPP).

Topic 6: other comments

Question 8 - Please comment on other topics indicating clearly the related Article, paragraph and sub-paragraph of the Proposal on pricing methodology.

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



Union of the Electricity Industry - Eurelectric aisbl
Boulevard de l'Impératrice, 66 – bte 2 - 1000 Brussels, Belgium
Tel: + 32 2 515 10 00 - VAT: BE 0462 679 112 • www.eurelectric.org
EU Transparency Register number: [4271427696-87](https://ec.europa.eu/transparency/regexpd/index.cfm?do=entity.entityDetails&id=4271427696-87)