Public Consultation on the implementation framework for the mFRR European platform

A Eurelectric response paper

November 2019

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/2019/12.105/40

WG Market Integration & Network Codes

Ioannis RETSOULIS, Senior Advisor Wholesale Markets & Network Codes - iretsoulis@eurelectric.org

Question 1 : Do you agree with the high-level principles and conditions proposed by the Agency for elastic demand?

As stated already in previous consultations, Eurelectric considers that TSOs should have the full ability to define their needs of balancing activation, including for mFRR. To this end, they may take into account elements they deem necessary, e.g. expectations about the liquidity of the mFRR product on the MARI platform. The methodology applied by the TSOs to determine the volume should grant them a sufficient level of flexibility, in order to optimally allocate the balancing activation between respective balancing platforms/products. However, the output of the process to determine needs should solely be a certain volume to be procured.

Eurelectric is therefore opposed to the possibility given to NRA to allow TSO to include elastic demand curve into mFRR implementation framework. From a market point of view, the TSOs should not be able to price volumes in a market that they themselves operate: should that be the case, they would become directly active in the market. We question whether this is possible as the unbundling principles of EU legislation do not allow TSOs to be active in the market. Moreover, they would have the ability to impose certain price caps to the market (which ultimately impacts the imbalance settlement price), which runs counter to the EB GL.

- The proposal of ACER (point c) to limit this over time is not clear: how do we guarantee that such practice does not de facto lead to a price cap in practice and permanently ?
- The proposal of ACER (point d) to impose that the price level for positive (negative) demand is higher (lower) than alternative remains problematic since it maintains the concept of putting in competition specific products with standard products. Specific Products can be defined by TSOs for two distinct reasons: economic and technical. If TSOs consider the Specific Product necessary for economic reasons, it implies some adjustments to the contractual framework for the capacity product while keeping the energy characteristics similar. In that case, there is no need for optimization between the two products through elastic bids as the EBGL foresees a procedure to convert Specific Products into Standard Products. This is more appropriate as it allows direct competition between the two, instead of a 'shadow' participation through elastic bids. If on the other hand TSOs consider the Specific Product necessary for technical reasons, it means that the Standard Product does not meet the needs of the TSO for particular balancing requirements. In that case, the optimization between the Specific Products and the mFRR Standard Product is not based on economic signals – i.e. the price through elastic imbalance needs – but on technical requirements. So also in that case, elastic imbalance needs are not a correct tool to choose between Standard and Specific Products.

Eurelectric also calls for full transparency in the methodology applied by TSOs to determine the balancing needs (mFRR dimensioning), and its outcomes, something that was not reflected in the draft Implementation Framework. Eurelectric would like to insist on the need to coordinate the dimensioning of balancing capacity needs in order to avoid distortive effects. The facilitation role of RSC will be crucial.

ACER mentioned in the workshop that they will request a reporting. Eurelectric welcomes such a reporting. The reporting should be made public and should at least monitor these points:

- How the elastic curves have been built ? What triggers the choice to use them ? on what basis do TSO apply them ?
- How the elastic demand curve impacted the selection of bids in comparison with a non-elastic demand curve;

- The proportion of volume (TSO demand) using an elastic demand curve versus the volume using a non-elastic demand curve;

In addition to a reporting, transparency in real time should also be given. When a demand curve is elastic, the market should be informed about the alternative (local) solutions that have been used to determine the elastic demand curve.

Question 2 : Do you agree to allow scheduled counter-activations in the mFRR platform in order to maximise the economic surplus subject to reporting and monitoring of possible negative effects?

As stated in the ENTSO-E consultation on mFRR IF, Eurelectric believes that the cases where a counter-activation would materialize should generally be limited to balancing needs. Counter-activations should in no case relate to some missed trades on intraday market, as this is out of scope of TSO´s role. We believe that the right approach is to work as soon as possible on the possible inefficiencies in the ID market leading to such cases, and avoid introducing new ones. The correct approach should thus be to exclude counter-activations that are not related to balancing needs and monitor whether they would have occurred if allowed.

Therefore, we disagree with ACER proposal to limit the solution to this issue to the publication of a report 3 years after the go live. Such report is for sure necessary, but we should not wait 3 years to monitor the impacts of counter-activation. We propose a publication after 1 year. In addition, the indicators/elements to be monitored should be agreed and communicated before the go live of the platform.

Last but not least, technical solution to block the counter-activations that are not related to balancing needs should be further investigated. Detailed assessments on these technical solutions, their feasibilities, impacts, … should be made and should be disclosed to the market.

On top of the elements mentioned above, it is key that bids that are counter-activated by the TSOs for reasons other than balancing do not influence the imbalance settlement price. Eurelectric would suggest the IF to include a clear description of the circumstances under which counteractivations are possible

Question 3 : Do you agree with the proposed framework for changing of bids by TSOs?

Eurelectric considers that the goal should be to ensure that the mFRR IF and other IFs are designed in a way to avoid the flagging of bids as unavailable instead of limiting and monitoring such flagging. Amongst others, congestions should be solved with proper market-based congestion management mechanisms without interfering on the balancing process. Eurelectric however understands that for some cases, this feature is useful in order to cope with last minutes events such as outages. It is of utmost important to correctly frame, monitor and foresee adequate compensation for such bid filtering though.

It is hence a first step in the right direction to propose a list of criteria to limit the rejection of bids in the CMOL.

On the list of criteria, Eurelectric has a comment on the first criteria which is not clear enough: new information constantly flows through TSOS systems, we hence recommend to further clarify what kind of new information would be considered as relevant to justify the flagging.

The annual report should be made public (this should be explicitly written in the IF).

In addition, clarification is needed on the verification of circumstances in which TSOs declare bids unavailable: how will it be verified if TSOs properly assess the need for changing a bid or declaring it as unavailable ?

Last but not least, Eurelectric has the following concern: introducing the possibility for TSO to flag some bids as unavailable for activation by the platform – whether for internal congestion, margin or any other purpose – could introduce a market distortion between BSPs, since the BSP whose offers have been set unavailable could suffer, in some cases, a loss of opportunity. Allowing TSOs to withhold standard bids should be conditioned on a fair compensation for the loss of opportunity for the impacted BSPs: e.g. an upward offer with a price inferior to the marginal price but flagged as unavailable should receive adequate compensation reflecting the opportunity loss. During the public workshop, ACER mentioned that there is no legal background to impose such compensation, which has to be dealt in the national T&C. Eurelectric however believes that since the mFRR foresees the possibility for TSO to "reserve" bids for congestion or capacity reasons for instance (criterium 3) and impose that those limitations are made on the most expensive bids, the IF could also impose a proper compensation for those bides if they would at the end not be activated although in-the-money. The details of such compensation should of course be determined in the national T&Cs.

Question 4 : Do you agree with the above principles for unforeseeably rejected bids?

Eurelectric favors a simple solution and hence based on the merit-order list and coherent with the solution applied in day-ahead clearing, i.e. option (a) only. This would give an incentive to BSPs to bid either divisible bids or indivisible bids in small amount in order to limit the chance of having their bids rejected.

Independently from the solution chosen, and as mentioned in question 3 here above, Eurelectric considers that a proper compensation should be in place for rejected bids.

Question 5 : Please comment on other topics indicating clearly the related Article, paragraph and sub-paragraph of the mFRR IF proposal.

Transparency and stakeholders involvement:

- From Eurelectric point of view, it is essential to ensure a level playing field between BSPs, without enforcing additional burdensome constraints at national level.
- Rules on divisible & indivisible bids should be harmonized, leaving it up to national implementation can significantly affect level-playing field on the mFRR market.
- Rules for specific balancing products which are to be converted to standard balancing products are missing. They should be designed in a way which ensure level-playing field among BSPs from respective Member States.

Article 7: as mentioned in previous consultation on the topic, we prefer a Full Activation Time of 15 minutes. Nevertheless, we understand the technical limitations due to the Time To Restore Frequency as specified in the SOGL. However, it should still be clear that reductions in the FAT will lead to non-linear reductions in the available capacity. Any increase in the FAT due to efficiency improvements at TSO or European mFRR platform side would therefore be most welcome, due to its positive effect on liquidity.

In any case, it is crucial that the 12.5 minutes is considered as an absolute floor that should not be lowered any further. No additional constraint or requirement than reaching the setpoint within 12.5' should be imposed at national level. For instance, there should be no obligation to follow the trapezoidal TSO-TSO exchange profile or to react faster. In particular, imposing a start within 2.5 minutes after order's receipt would be very detrimental to the amount of bids proposed by BSPs and subsequently to the liquidity of the mFRR platform.

Article 8: we believe BE GCT could be moved closer to real-time, to give BSPs the possibility to update their bids based on the results of the previous trading period. As TSOs need only 4.5 minutes to calculate results of the mFRR auction and to decide on activation of scheduled bids (point of scheduled activation is 7.5 minutes before the beginning of the quarter hour for which BSPs place bids and TSO GCT is 12 minutes before the beginning), we don´t see a reason why there should be 13 minutes period used for forwarding bids from TSOs to the platform. By setting mFRR GCT closer to real-time, one would also avoid overlaps with local intraday market GCT.

Article 13: we believe TSOs should inform BSPs more often than annually, given the importance of the platform for BSPs.

Other general comment: we regret missing reference to fallback procedures applicable for mFRR platform.

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