Achieving a level playing field in the integrated Intraday and Balancing Markets

Eurelectric position paper

July 2018

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.

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KEY MESSAGES

- In this paper Eurelectric sets down some aspects of its vision for the wholesale electricity intraday and balancing markets, reinforcing the need to achieve a level playing field as the markets are integrated and as system operators face challenges under an evolution towards decarbonisation and a greater concentration of renewables.

- The benefits of market integration can be achieved provided that the market evolves in a way that adheres to three core principles:
    - Participants have free and open access to the market
    - Mechanisms for intraday trading and balancing are market-based.
    - Market rules in all areas are sufficiently harmonised to guarantee a level playing field.

- This requires an equitable treatment of market participants and, to achieve this, a clear distinction between actions due to congestion management and those for balancing purpose, with an appropriate allocation of the costs of these two activities. The costs of congestion management should be accounted for and recovered separately from the cost of balancing. The cost of balancing should be recovered from BRPs and the cost of congestion management should be managed by the transmission network operator.

- The balancing activity of TSOs should be constrained to the period after the Balancing Energy Gate Closure Time. Should the TSO wish to withhold bids or offers from the CMOL for localised congestion management, then the BSP should be compensated to avoid discrimination.

- Portfolio bidding should be permitted in all areas of the market. There should be no technology or location-discriminating rules. Should the TSO have concerns over the management of system security, then consideration should be given to the procurement of services for congestion management, accounted separately from balancing services.

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Market Integration / Introduction

One of Eurelectric's principal objectives is to ensure a cost-efficient, reliable supply of electricity across Europe. The integration of the European electricity market is, in this regard momentous step forward, but also a major challenge. It is progressing rapidly against a background of a transformation to carbon-neutrality and customer-centricity driven by technology and digitalisation.

The Guidelines on Capacity Allocation and Congestion Management (CACM) and Electricity Balancing (EB) are milestones in the integration of the European electricity markets. They will provide the framework for the further progress to be achieved in these markets in the coming years. Eurelectric is closely involved in the implementation of these Guidelines, given their importance and impact.

In assessing the concrete steps of the implementation process, Eurelectric adheres to core principles that should at all times be respected. To reap the benefits of the integration of the electricity markets across Europe, Eurelectric believes that it is important that:

- Market participants all have **open and equal access to the market**.
- Mechanisms are **market-based**;
- Market rules in all areas are sufficiently harmonised to guarantee a **level playing field**;

Eurelectric has concerns over some elements of the implementation process that would undermine these core principles and compromise the efficiency and fairness of the markets.

Work on integration is progressing at such a rapid rate that stakeholders often find themselves challenged by the multiplicity of consultation documents and workshops in which they can express their views, while some other topics are problematic by their absence from any discussion. The objective of this paper is to address some key concerns of Eurelectric over the ongoing integration of the Balancing and Intraday markets. The views held by Eurelectric are the result of wide-ranging debates amongst a large proportion of the stakeholder population and thus reflect widely shared concerns over individual markets and projects.

In this paper Eurelectric addresses concerns in two areas, both fundamental to the achievement of an efficient, competitive market through adherence to the above core principles. The first area relates to the impact of congestion management at transmission grid level in the intraday and balancing markets. In particular, we address the equitable treatment of wholesale market participants through the separation of congestion management activities from balancing and the appropriate allocation of the costs of these two activities. The second area relates to the need to allow portfolio bidding in wholesale electricity markets (from forward to balancing) in all areas and the resulting benefits to the market.

For the avoidance of doubt, **this paper does not address how to manage congestion at DSO level**. It considers TSO area from a market perspective and gives recommendations on principles that have to be followed in order to provide a fair playing field for the market. This paper builds on Eurelectric established positions[1].

[1] This includes in particular our response papers to the Clean Energy Package, our responses to Network Codes consultations and the report "Flexibility in the Energy Transition: a Toolbox for Electricity DSOs".

Scope of TSO Activities – Balancing and Congestion Management

Balancing portfolios is a process that begins with the forward energy markets in which BRPs trade energy between themselves, free to balance their own positions. It continues through to real time operation. At a certain point in time (Balancing Energy Gate Closure Time), TSOs bear responsibility for the process of balancing, issuing dispatch instructions to prequalified BSPs to balance the overall system. The TSO acts to balance his overall control area, ensuring that consumer demand is matched by production, not to balance the positions of individual BRPs in his control area.

With this role in balancing, the activity of the TSO is necessarily constrained in time to the period after the BEGCT, allowing BRPs to balance their own positions prior to this without conflict with the TSO's activity. This is clearly reflected in art.29.2 of the GLEB, which Eurelectric strongly supports. Any concerns of the TSO related to the short timescale available for balancing the system should be met by assuring that there is sufficient balancing energy reserve available for the operational window by entering into contracts for availability with the BSPs beforehand. Such contracts should be concluded either day-ahead or over longer timescales such as monthly or annually. Eurelectric is, however, concerned that activation purposes are defined in a way that ensures a clear distinction between congestion actions, balancing capacity reservation and balancing energy, while at the same time preserving efficient functioning of intraday markets. **Contracts in any case should not affect the freedom of BSPs to offer to the CMOL and they should not impact on imbalance price.** Eurelectric believes that these principles should be adhered to, so as to ensure free and open access to the balancing market.

Besides balancing the system, the TSO also has a requirement to ensure that the transmission network remains technically secure; that network elements are not overloaded, that voltage levels are maintained within operational limits and that the system remains stable. The costs of these actions are best managed by the TSO and not allocated to individual BSPs or BRPs. In this way, the costs can be correctly socialized towards all customers, who all benefit from the secure functioning of the grid, instead of the customers of an individual market participant. TSOs moreover are the involved party that can eventually address the occurrence of congestion through grid reinforcements. Centralizing cost recovery from end consumers for congestion management at TSO-level allows a correct and transparent weighing of congestion management costs versus grid reinforcement. It also safeguards the zonal market design, a key element on which market participants have based their investment decisions and continue to do so. Allocating some or all congestion management costs towards market participants would entail a shift towards a nodal market design, where congestion costs are integrated in the electricity price. This runs counter to the European electricity model, which is based on a zonal market system. Naturally, TSOs need the assurance from regulators that the costs they incur from efficient congestion management are recoverable. As the aim of these actions are the secure operation of the grid, such recovery should not pose a significant financial risk to TSOs.

These two aspects of the TSOs' activities, balancing and congestion management, are separate even though they may both call for the activation of bids and offers in the same CMOL in some cases. In fact, they are managed by the TSOs in a variety of ways across Europe; for instance, in France, balancing bids are also available for re-dispatching purposes, whilst in Germany they are clearly separated (i.e. balancing and re-dispatch is not being mixed-up).

Where TSOs are managing congestion and balancing on the transmission grid jointly, Eurelectric wants to ensure that they are accounted for separately, in order to provide correct incentives to TSOs, BSPs and BRPs, and allocate costs efficiently.

Where balancing and congestion on the transmission grid are operationally managed together, this may require that the TSO is able to adjust the physical schedules of transmission grid-connected parties, by calling off bids and offers in the CMOL. The TSO may also wish to withhold bids or offers from the CMOL for localized congestion management. Eurelectric believes that if this is done, then **the BSP should be compensated since it is discriminated against its competitors within the same bidding zone**. This would ensure free and open access to the market and a level playing field.

Even when bids from the balancing CMOL are activated/withheld for TSO congestion reasons, it is important that the costs of each, of balancing and congestion management, are accounted for and recovered separately. In particular**:**

- **The costs of balancing energy should be allocated to the BRPs** that are out of balance, through imbalance settlement. In this way BRPs are incentivised to achieve a balanced position. The TSO, on the other hand, should be incentivised to balance the system efficiently.

- **The TSOs should be responsible for managing the costs of resolving network congestion on transmission grid**, to ensure the safe operation of their grid. Sound decisions on grid investment and/or bidding zone delineation require that the TSO is the central party for managing the total costs of congestion management actions.

Individual BRPs and BSPs should not face costs or opportunity losses resulting from the TSO's localized congestion management activities, as it would undermine the zonal nature of the electricity market. These should be compensated for by the TSO, so as to transfer the costs to the TSO's incentivised total. Having BSPs/BRPs bear these costs would in any case not suppress their existence. It would rather yield a less efficient system where individual BSPs/BRPs would recover the congestion costs from their customers, instead of all grid users. It would furthermore prevent sound investment decisions from being made by the TSO as in such a case it has no global view on the congestion management costs in its grid.

A principle for correct cost allocation should therefore be that **the cost of any deviation from economic balancing activation resulting from localized congestion should be allocated to the cost of congestion management.** Local congestion management should not distort the level playing field of the Balancing and Energy Markets.

Eurelectric believes that balancing settlement should not be affected by congestion management actions using balancing bids. Any departure from this state should be clearly identified as congestion-related and the BSPs involved should be compensated. In particular, BSPs "constrained off" the system should receive the balancing marginal price minus their bid price. Likewise, BSPs "constrained on" should receive their offer price for production, if greater than the balancing price. In this way, **balancing settlement price should be set by balancing actions only, not by local congestion management actions**.

A final point related to TSO activities is that they should be transparent to market participants. To achieve an efficient, competitive balancing market Eurelectric considers it important that TSOs publish the motives for each of their actions (i.e. whether for balancing or for congestion management). Eurelectric believes that such transparency is the best way to provide market participants with incentives to solve their imbalance in the ID markets in an efficient manner.

A Simple Illustrative Example

To demonstrate the impact of not clearly separating balancing and congestion costs, let us use a simple example. We assume the following:

- a very simple merit order list of 4 bids (a to d) with a increasing prices from 1 to 4 and equal volumes of 1.
- the imbalance price equals the cost of balancing energy, which is set at the marginal price.
- the imbalance requires the activation of 3 bids.

Under a situation of no congestion, the first three balancing bids are activated at a cost of 3, which also sets the imbalance price at 3. The total cost for balancing equals 9 (3 bids of volume 1 at price 3). There are obviously no congestion costs as there is no congestion.

We now assume that because of congestion in the transmission grid, bid 'b' with price 2 cannot be activated (be it in a national balancing process or in a European balancing process). We present below three possible ways to manage the situation:

A. TSOs can prevent bid 'b' from submitting a bid (i.e. declaring a "red zone" or "market restriction") or by withholding the bid from the balancing platform without compensation. The result is that bids 'a', 'c' and 'd' are activated at a price of 4, which also sets the imbalance price at 4.
    - The balancing settlement cost is 12 (3 bids activated at price 4).
    - The congestion cost paid by the TSO is 0, despite the occurrence of congestion.

   This scenario does not result in a correct reflection of balancing and congestion costs. The two scenarios below give two possible ways to address this issue.

B. A second solution resembles the first solution operationally and physically, but with an economic settlement correction to properly reflect the causes of the cost. TSOs prevent the activation of the bid 'b', as in the previous case, and activate bids 'a', 'c' and 'd' . However, the following corrections are then performed:
    - The imbalance price is not set at 4 but at 3 as would have been the case if no congestion occurred.
    - The second bid receives its opportunity loss of 1 (difference between bid price and clearing price). The fourth bid receives its full bid price of 4.
    - The balancing and congestion charges are distributed as follows:
        - Balancing cost charged to imbalances BRPs is 9. As in the uncongested case, 3 bids would have been activated at the clearing price of 3.
        - The congestion cost paid by the TSO equals the additional payment by the TSO (to units 2 and 4): 2.

C. A final scenario would be to fully separate balancing and congestion. In that case, TSOs would not prevent the participation of bid 'b' in the balancing platform.
    - The cost of balancing is in this case easily known, as the balancing platform will select bids 'a', 'b', and 'c' at a clearing price of 3. The total balancing cost is 9.
    - Once the results of the clearing are known – the activation of bids 'a', 'b', and 'c' – they take the necessary re-dispatching actions to prevent the occurrence of congestion. In this case, it would entail the constraining off of bid 'b' and a counter-activation of another asset to rebalance the system. The cost of congestion is in this case the cost of constraining down bid 'b' and the upward activation of another capacity.

This simple example illustrates the effect of choices related to some of the key points of principal. We also acknowledge that not all scenarios are applicable to all balancing processes and all grid situations. For instance, scenario C may not be appropriate for processes that are very close to real-time (such as the FRR processes); it could be applied in the case of Replacement Reserves. Scenarios A and B only differ in their settlement and cost allocation, not in the operational processes. However, scenarios B and C result in a correct reflection of balancing and congestion costs, while scenario A does not. In conclusion, Eurelectric wants to stress that whatever the operational choice made to manage transmission grid congestion, it is key to make sure that costs are properly allocated.

Portfolio bidding in the Energy & Balancing Markets

Eurelectric believes that in order to achieve a level playing field, it is fundamental that all market participants are able to manage their physical portfolios with equal degrees of freedom. Rules should be equal for all market participants, regardless of technology and location; i.e. no technology- or location- discriminating rules.

Portfolio bidding in the energy market allows market participants to offer higher degrees of flexibility to the market, to manage their portfolios more efficiently and thereby, to be more competitive. There are therefore clear benefits to the system of allowing all market participants to adopt portfolio bidding.

In some markets, it is already possible for market parties to participate in the short term energy markets on a portfolio basis. Whereas in other markets, market participants are obliged to trade their individual physical assets separately.

As the possibility of portfolio bidding is adopted across Europe for the day ahead and the intraday markets, Eurelectric considers it essential that portfolio bidding is implemented consistently in all bidding zones and across all timeframes, so that all market participants may efficiently manage their positions.

Maintaining asset-based bidding in only some bidding zones would hinder the creation of a level playing field in the European markets. This is a concern in particular as the XBID project integrates the continuous cross-border intraday market, with the future XBID continuous trading platform.

Should system operators have concerns over their management of system security with a move away from asset-based bidding, then consideration should be given to their procurement from service providers of appropriate services for congestion management, clearly distinguished from balancing services and subject to regional coordination. In any case, the system operators may require an adequate process of physical nominations so that they may maintain a clear view on grid use and security and are able to take corrective actions when nominations indicate unacceptable grid use.

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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