ENTSO-E pricing consultation

A Eurelectric response paper

November 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.

Dépôt légal: D/2018/12.105/44

WG Market Integration & Network Codes

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8. Feedback on Whereas

Paragraph 2: Regulation (EC) 2017/2195 (Electricity Balancing Guideline, or EBGL) forms the legislative basis for the Pricing Proposal (**PP**). The Pricing Proposal should therefore not only take into account the EBGL, but fully comply with this. For instance, the PP misses reference to impact of bids activated for other purposes than balancing on the balancing energy price, which is demanded by Article 30 EB GL. It only states that there will be no impact of bids activated for local congestion, but does not tackle impact of bids from the Common Merit Order List (**CMOL**).

Paragraph 4 quotes the EBGL, recalling in particular in sub-paragraph d that the methodology to determine prices for the balancing energy shall give "correct" price signals and incentives to market participants. It would be useful to specify what is meant by "give correct price signals and incentives to market participants".

Paragraph 11(b): the argument that 'effective' competition is fostered by artificially increasing the moments of price convergence fully misses the driving forces behind competition. BSPs are pricing their bids with a lead-time of 55 to 25 minutes for a full validity period. BSPs at that moment have no certainty on the appearance of congestion, the size of the imbalances in each bidding zone and their impact on the clearing price. For aFRR, BSPs compete essentially for activation. The likelihood of having the same price in two bidding zones, is by no way a driver for competition, as long as activations are pay as cleared. This is very similar to the day-ahead market, where also competition – and its price effect – is present in times of price decoupling.

9. On the introductory Art. 1 and 2 'Subject matter and scope' and 'Definitions and interpretation'

In Article 1, the scope of this PP should be enlarged and include also a proposal for the pricing of the energy of the imbalance netting process and not only the pricing of cross-zonal capacity.

Art.2.2 (o): The "Balancing Energy Pricing Period" ("BEPP") is a new time interval that has no link to any existing timeframe. For market participants, both BSPs and BRPs, the relevant timeframes are validity period and Imbalance Settlement Period (ISP), both set in target at a 15-minute period. The EBGL at no time makes any reference to a "BEPP". The Pricing Proposal should not be allowed to introduce arbitrarily a new term and timeframe that does not complement, but contradicts, crucial principles and aims of the EBGL. Allowing this would set a precedent that legislation can be undermined through operational codes that simply bypasses elements through the invention of new terms and concepts.

10. On Art. 3 'General principles'

The PP does not explain the way price indeterminacies will be solved by the AOF. As these rules are detailed in the explanatory documents, we would appreciate that the general principles could be included in this Article 3, paragraph (3).

11. On Art. 4 'Additional Provisions for the Pricing of Standard RR Balancing Energy Product Bids and Standard mFRR Balancing Energy Product Bids with Scheduled Activation Type'

Art 4(2)(b)&(c): As already mentioned in its response to ENTSO-E's consultation on the RR implementation framework, Eurelectric opposes the concept of demand elasticity. Indeed, Eurelectric considers that TSO should have the ability to define their needs of balancing activation, including for setting RR and mFRR activation. 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, based on public and transparent criteria. In other words, the ex-ante methodology applied by the TSOs to determine the volume should grant the system a sufficient level of flexibility, in order to allocate the balancing activation between RR and mFRR. However, the output of the process to determine needs should solely be a certain volume to be procured. Eurelectric is thus opposed to allowing TSOs to use need elasticity, i.e. the pricing by TSOs of their balancing needs. 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 and that would be in breach of the unbundling principles from EU legislation. Moreover, they would have the ability to impose certain price caps on the market, which runs counter to both the EB GL and the Clean Energy Package. From this perspective, we do not understand the introduction of a price for "unsatisfied demand".

Eurelectric would welcome more details, in the methodology, as to how activated hourly or half-hourly products will be priced and about the potential interferences with the pricing of 15 minute RR products.

12. On Art. 5 'Additional Provisions for the Pricing of Standard mFRR Balancing Energy Product Bids with Direct Activation Type'

13. On Art. 6 'Additional Provisions for the Pricing of Standard aFRR Balancing Energy Product Bids'

Process-wise, 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 from the workshop of 20/21 June 2018 that mitigating measures are being investigated ("Several mitigation measures to combat unnecessarily high imbalance prices are being investigated." Minutes of Meeting). None of this is reflected in the Pricing Proposal nor the Explanatory Document. The only clear change compared to the consultation of Q4 2017 is the main line of argument that shifted from concerns around price spikes towards the fostering of "effective competition".

Eurelectric also regrets that the pricing approach to be applied in case of de-activation (ramping down) is not fully detailed in the methodology. If a pay-as-bid were to be applied, the rationale for not applying "pay-as cleared" should be detailed and justified.

The current preference of Eurelectric is the 15 minute BEPP (i.e. alignment with a referenceable timeframe such as the ISP). 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 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

Art.6.4: It not clear how price indeterminacy could occur, as TSOs themselves exclude elastic imbalance needs and counter-activations from the aFRR process. As a result, the outcome of the Activation Optimization Function of the aFRR process should be a simple upwards or downwards activation, leaving no room for price indeterminacy resulting from the absence of a single intersection point between consumer and supplier curves.

14. On Art. 7 'Additional Provisions for Pricing of Standard RR Balancing Energy Product Bids and Standard mFRR Balancing Energy Product Bids Activated for System Constraints Purpose'

Eurelectric favours option 1 proposed in Section 4.4. of the explanatory document.

Eurelectric recalls nevertheless that TSOs have other tools than relying on balancing bids to address congestions by adjusting cross-zonal exchanges. In particular, when congestions can be reliably forecasted, countertrading and re-dispatching ahead of the balancing time frame may prove to be more efficient and allow for a portfolio-based response by market participants using a larger range of flexibilities. Eurelectric calls therefore for clarification and justification of the circumstances under which TSOs could rely on balancing bids to manage congestions.

15. On Art. 8 'Pricing of Specific Products'

The pricing methodology for Specific Products that are converted to Standard Products for participation to the Common Merit Order List (CMOL) should be more prescriptive. Specific Products will be able to compete – through the bid conversion mechanism – with Standard Products on the CMOL. Without clear rules on the pricing of the Specific Products, there can be a serious distortion of the level playing field between Standard and – converted – Specific Products. There should therefore be specific and binding rules on how Specific Products have to be priced if they are to be admitted to the CMOL through a bid conversion mechanism. This should include elements as marginal pricing (pay-as-cleared), Balancing Energy Gate Closure Time, and minimum and maximum delivery time.

Furthermore, in addition to the remuneration of activated bids, rejected bids for system constraint purpose shall be remunerated with the difference between the XBMP and the bid price.

16. On Art. 9 'Pricing of Cross-Zonal Capacity'

This paragraph describes the way Cross-Zonal Capacity would be priced in case of no-congestion. We agree with this proposal. However, Eurelectric believes that the methodology should specify the pricing approach in case of congestion.

17. On Art. 10 'Publication and implementation of the PP'

18. On Art.11 'Language'

19. General comments to the Pricing proposal

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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