ENTSO-E consultation on FCR cooperation market design

A eurelectric response paper

March 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/2018/12.105/12

[WG name]

Contact:
[First Name , LAST NAME, title – email address]

What is your name?

What is your email address?

What is the name of your organisation?

What is the market role of your organisation?

In which country(s) is your organisation present?
Austria
Belgium
Denmark
France
Germany
Netherlands
Switzerland
Other (if yes please indicate below which country) : **European Association**

Which technology do you offer (or intend to offer)?
Generation
Storage
Consumption
Not applicable

Which amount of FCR capacity are you currently able to offer?
Not relevant

Who is your connecting TSO?
APG
ELIA
Energinet
RTE
50Hertz
Amprion
TenneT Germany
TenneT Netherlands
TransnetBW
Swissgrid
Other
Not applicable

What is your opinion on the proposal regarding market design in Article 3 "TSO - TSO Model"?

Agree / **neutral** / disagree

eurelectric has no specific comments on the content of the art.3.

We are concerned about the apparent lack of commitment to achieve some level of alignment/harmonization between the markets in the TSO-TSO model. As a general concern, a TSO-TSO model might increase the complexity for BSPs and therefore requires a very high level of transparency in order to avoid negative effects on competition. For example, a need for harmonization of penalization is even cited as a reason not to implement a mechanism for the cross-border transfer of capacity obligations. This implies clearly that TSOs do not want to tackle such important alignment points. It is especially regarding penalization and prequalification that some alignment of harmonization should be achieved. For eurelectric, the harmonization of penalties is a needed irrespective of the possibility to the cross-border transfer of capacity obligation.

What is your opinion on the proposal regarding market design in Article 4 on "Auction frequency"?

Agree / neutral / **disagree**

The process of daily auction is operationally challenging, especially towards the future where multiple balancing capacity products would be auctioned on a daily basis. eurelectric would therefore welcome more information /views from TSOs on where exactly they want to go on balancing capacity procurement in general (frequency, timing, …).

While we understand that daily auctions can increase the liquidity in the market, we think that another possible way to achieve efficiency and competition is be to implement a (cross-border) secondary market, while keeping weekly tenders. eurelectric is surprised to see that TSOs seem to have changed their position: it seems that TSOs are willing to implement a daily tendering arguing that it does not require the implementation of a secondary market. For us, the target should be the efficiency of the FCR market and so far, we have not seen any evidence that efficiency is better reached with daily auctions compared to weekly auctions accompanied with a secondary market.

Should daily auctions be implemented, we outline some necessary preconditions:

- Sufficient time is foreseen to implement such a process. Implementation of daily auctions by 28 November 2018 is too short, especially as the approval process (FCR proposal and NRA approval process) only ends in October 2018. This leaves only a few weeks to market participants to effectively adapt their processes, which is unrealistic and unfeasible.
- No superfluous intermediate steps are taken such as the proposed daily auctions at D-2 between 2018 and 2020. This will require additional investments and changes from market participants that do not bring any additional value. Indeed, any change in the balancing market design creates costs for BSP that must be recovered in the market. Market participants of the entire region should not be penalized to accommodate the process of one country and its conflicting timeline. We therefore ask that if daily auctions are implemented, they move directly towards the target model.

What is your opinion on the proposal regarding market design in Article 4 on "Auction timing"?
Agree / neutral / **disagree**

As explained in the previous question, we disagree with the intermediate step of daily auctions at D-2. If daily auctions are to be implemented, additional (costly) steps should be avoided. Instead, auction timing should move directly to the target model.

What is your opinion on the proposal regarding market design in Article 5 "Product"?

Agree / neutral / disagree

We agree with the target model of symmetric blocks with a smaller granularity, but at this stage, there is no evidence that 4 hours is the optimum one.

Moving towards a more-granular product should be a priority, implemented together with the possibility for BSPs to link blocks.

In addition, eurelectric suggests adding the possibility for BSPs to offer asymmetric bids. This would allow more participants to participate in the FCR cooperation platform which consequently would increase liquidity.

What is your opinion on the proposal regarding market design in Article 6 "Bid design possibilities"?

Agree / **neutral** / disagree

We agree with the combination of divisible and indivisible bids.

We agree with the minimum bid size 1MW and bid resolution 1MW.

However at this stage, from a market design perspective, we do not understand the rationale of having a maximum bid size of 25 MW. We would welcome information on the need for such a limit.

What is your opinion on the proposal regarding market design in Article 7 "Auction allocation algorithm"?

Agree / neutral / disagree

We agree with the cost optimization that allows for a possible over-procurement if it minimizes costs. Sufficient transparency towards paradoxically rejected indivisible bids should be ensured.

We agree with the restriction that no divisible bid can be paradoxically rejected.

What is your opinion on the proposal regarding market design in Article 8 "TSO-BSP settlement"?

Agree / neutral / disagree

We strongly agree with marginal pricing.

We agree with the additional specifications of marginal pricing in case import/export limits of a country are reached.

We agree with BSP remuneration at corresponding marginal price of the country of its connecting TSO.

What is your opinion on the proposal regarding market design in Article 9 "TSO-TSO settlement"?

Agree / **neutral** / disagree

We would welcome a practical example of the distribution mechanism. What does an allocation ‘proportional to the absolute value of their net position’ imply? What would be difference between structurally importing/exporting country?

What is your opinion on the proposal for the process of joining of new parties as described in Article 10 "Accession of new parties"?

Agree / **neutral** / disagree

eurelectric is in favour of a market integration for Frequency Containment Reserve. Therefore we welcome the process for accession of new parties. However, such process must provide sufficient clarity and transparency, with clear timelines on when such new countries will be included in the cooperation and under which conditions (import/export limits).

What is your opinion on the proposed roadmap for implementing the proposed changes in the market design as described in Article 11 "Implementation roadmap"?

Agree / neutral / **disagree**

As explained in the response to questions on article 3 and article 4, we strongly disagree with step one going to daily auctions with daily products already on 26 November 2018. This change is too soon given the operational burden to move towards daily auctions and the limited implementation time for market parties.

In case there is no possibility of cross-border obligation transfer, we also disagree that such a move towards daily auctions would be combined with 24-hour products. An increase of product granularity should be granted if there is an increase in the auctioning frequency.
We agree with step two to include indivisible bids in all countries and to go to marginal pricing on 1 July 2019.

We disagree with step three to go towards daily auctions all day with D-2 GCT as this intermediate step is unnecessary. If daily auctions are to be implemented, it should go immediately to the auction timing in target.

What is your opinion on the requested exemption for not allowing cross border transfer of capacity obligations as described in the "Draft Proposal for the exemption of the FCR Cooperation Parties from the obligation to allow balancing service providers to transfer their obligations to provide balancing capacity in accordance with Article 34(1) of COMMISSION REGULATION (EU) 2017/2195 establishing a guideline on electricity balancing"?

Agree / neutral / **disagree**

We strongly disagree with allowing an exemption to implement cross-border transfer of capacity obligations in the FCR cooperation. The explanation provided by the project TSOs is not convincing on why it would be a heavy implementation to implement such a cross-border transfer of capacity obligations.

- Available cross-border capacity is known and stable. It should not be complicated to update the remaining capacity after a transfer is requested/approved.
- The allocation process should not be made overly complex; a first-come-first-served allocation should be sufficient for the purpose of allowing capacity obligations holders to transfer them to other BSPs.
- If the re-adaption of the k-factor would be as complex as to block the implementation of a cross-border transfer of capacity obligations, TSOs should further explain this. A simple

statement to the effect that it will introduce ‘significant complexity’ should not be sufficient to block this ability for market participants.
- The need for harmonisation of penalties should not be linked to the existence of such a cross-border transfer mechanism, but is rather a requirement for a well-designed common market. As explained in our answer to art.3, we consider this alignment/harmonization a precondition.

Both for the intermediate and the target model, we consider that the benefits of cross-border capacity obligation transfers clearly outweigh the limited costs. We therefore ask that no exemption for the implementation of a cross-border transfer of capacity obligations is requested and/or granted to the FCR cooperation. Regarding harmonisation issue, the first step should be a complete review of the product parameters and rules in the different areas.

Do you have any other remarks / questions?

We want to re-iterate two important points regarding the FCR cooperation proposal:
- More consideration should be given to ensure a level playing field between participants to the common procurement. Especially elements such as penalization and prequalification should have a clear path towards alignment and/or harmonization. This is currently lacking in the proposal by TSOs.
- The current timing for the implementation of a daily bidding process does not allow sufficient timing for market participants to prepare and implement the necessary processes. TSOs should realise that market participants can only make the necessary changes and investments, once the decision to move towards such daily auctions is firm. Given that the current approval process ends at the earliest in October 2018, an implementation date of 27 November 2018 is not realistic. The proposed timeline contradicts the implementation roadmap as presented in the FCR consultation report of May 2017, where marginal pricing is given priority over daily auctions, and where daily auctions are combined with the introduction of 4 hour products. The FCR consultation report also mentions the need for implementation periods, which seems lacking with regards to the 27 November 2018 deadline.

In addition, eurelectric would like to obtain information from TSOs on the practical implementation of the proposed model. In particular, how would the submission of bid be organized in a daily auction model? Would there be APIs in order to facilitate such bid submission?

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](4271427696-87)