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ACER Public Consultation on the amendment of the EU electricity balancing pricing methodology

A Eurelectric response paper

November 2021

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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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WG Market Integration & Network Codes

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Background

This is Eurelectric's response to the ACER consultation on the amendment of the EU electricity balancing pricing methodology. The basis for this consultation is Article 30(1) of the Commission Regulation (EU) 2017/2195 of 23 November 2017 establishing a guideline on electricity balancing. The consultation aims to gather views and information from stakeholders regarding the compliance of the proposal for the amendment of Methodology for pricing balancing energy and cross-zonal capacity used for the exchange of balancing energy or operating the imbalance netting process (the 'Amendment Proposal') with Commission Regulation (EU) 2017/2195 (the 'EB Regulation').

Question 1a)

In your view, could a reduction of the balancing technical price limits as proposed by the TSOs be justified on the grounds of a more efficient functioning of the market?

Yes
No
Partially

Question 1b)

Please provide an explanation for your answer.

Eurelectric would like first to stress that the question 1.a) can be confusing regarding the link made between the rationale for a reduction of technical price limits and an efficient functioning of the market, with the lack of proper justification provided by TSOs on this matter. As expressed in our response to the related all-TSO consultation Eurelectric is of the opinion that the proposed price limits may not be in line with EBGL and the Electricity Regulation as none of the arguments brought by the TSOs seem to correspond to a technical limit.

Eurelectric would therefore like to stress the following points with regard to this question.

(a) Even if no definition is provided in Electricity Balancing Regulation of what a "technical price limit" is, we assume that it refers to "a mathematic maximum for the algorithm to function with without having the purpose of limiting price formation", as stated by ACER in its Decision 22/2020, 5th August 2020. With this definition, **Eurelectric believes that technical price limits are not the right tool to improve the functioning of the balancing market**.

(b) Eurelectric notes that the TSOs' proposal does not provide any evidence of the usefulness of technical price limits in relation to operational or IT issues or corrupted data for the proper functioning of the algorithms in the European balancing platforms. We therefore call for a further assessment in this regard.

(c) Eurelectric disagrees with the rationale proposed by the TSOs for technical price limits to prevent potential abuse of dominant positions in balancing markets. First, it is in no way the task of TSO to evaluate and prevent these situations, which are already addressed by specific rules and regulations (notably competition law and REMIT). Second, in any case, price limits are not the right tool for this purpose.

(d) That being said, we call NRAs / ACER or competition authorities to come with a relevant analysis if they have any concern with the market design or the functioning of balancing markets. In a more general way, Eurelectric would like to remind the need to improve transparency in the balancing markets and on the real-time balancing and imbalance price formation.

(e) While imbalance settlement prices depend on the prices issued from the balancing markets and on the local methodology used by TSOs, Eurelectric would like to stress that BRPs are facing a risk with respect to imbalance prices when those are reaching irrelevant (and exaggeratedly high) levels, in case of (i) IT issues, (ii) operational issues or (iii) corrupted input data on the balancing platforms. See in this regard the issue encountered on the 23/07/2021 on TERRE. However we don't think this can be solved by putting a cap on balancing energy bids as it would certainly not tackle the root causes (listed here above).

(f) Eurelectric calls for a more holistic examination of all possible measures to reduce the risk of having irrelevant imbalance prices:

- if relevant, review of the methodology for calculating it, through a review of the methodology for harmonization of imbalance settlement (ISH),
- improvement of transparency in the criteria used for the choice of balancing products activated by TSOs
- better preparation for the go-live of the balancing platforms,
- mandatory solutions allowing to warn the BSPs in case of issues (IT / operational errors and corrupted data) and this in real time,
- more transparency from TSOs on the state of the system close to real time.

Topic 2: Level and the timeline for the lower technical price

In addition to the fundamental risks explained under 'Topic 1', TSOs also outlined transitory risks in their explanatory note as a reason why technical price limits are needed for the efficient functioning of the market. TSOs state that there is a critical mass of balancing service providers via the connecting TSOs or contracting TSOs required under EB Regulation on each European balancing energy platform for the market to function effectively and efficiently. All TSOs do not consider this requirement fulfilled at the legal deadline for the implementation of the European FRR balancing platforms due to the expected derogations to be granted to several TSOs based on Article 62(2)(a) of the EB Regulation. As a result of limited number of TSOs joining the European balancing platforms at the legal deadline, the competition could also be limited at beginning.

The transitory risks are also associated with changes to the local balancing energy market designs and adaption phase for all market participants as well as TSOs implementing the new market design nationally and cross-border. As a result of these changes, there could be increased vulnerability to errors which could lead to high prices not correlating with the real-time-value of energy (artificial scarcity situations).

ACER does not agree that there is a requirement in the EB Regulation for a critical mass of balancing service providers on the European balancing energy platforms. The EB Regulation provides the possibility for derogation up to two years for TSOs to join the European platforms, without setting any threshold for the number of the balancing service providers or participating TSOs.

However, ACER understands the points made by the TSOs and agrees on the importance of having sufficient amount of balancing service providers and the TSOs connected to the European platforms for the effective and efficient functioning of the market. ACER also agrees that the transitory risks are lower the higher the competition is.

In order to ensure a smooth and successful transition towards integrated European balancing energy markets, applying a lower technical price limit could provide more confidence to all parties involved and facilitate the connection to the European balancing platforms.

All TSOs proposed in the Amendment Proposal that a technical price limit shall, in their view be higher than the harmonised maximum/minimum clearing price for single intraday coupling in accordance with Article 54(1) of the CACM Regulation and lower than the highest value of lost load ('VoLL') among member states. All TSOs have decided to propose the technical price limit of 15,000 €/MWh as an average approach, because the base case VoLL for the European resource adequacy assessment is set to 15,000 €/MWh.

Question 2.1a)

Do you consider that the lower price limit during the implementation of the integrated European balancing platforms until more TSOs connect to the European platforms would provide a safeguard for secure implementation?

Yes
No
Partially

Question 2.1b)

Please provide an explanation for your answer.

(a) **Eurelectric does not see any direct link between the reduction of technical price limits and safeguarding the implementation of European balancing platforms**. Eurelectric regrets that TSOs have not brought forward any plausible explanation of transitory risks to the orderly functioning of the balancing market which could be overcome by lower technical price limits. In addition, according to Eurelectric, reducing technical price limits has nothing to do with improving the attractivity of the platforms.

(b) ACER refers to transitory risks for the implementation of the European platforms in relation to the operational changes it implies for market participants and TSOs. This transitory period will be as well characterized by a progressive participation of BSPs and TSOs. Eurelectric agrees that in such a transition period, the vulnerability of the platforms to errors might be higher and that situations with IT / operational issues or corrupted data might likely occur more often. See for example the issues on TERRE since the go-live. Eurelectric calls for a transparent monitoring of those issues, rather than reducing technical price limits.

(c) As mentioned in answer to question 1b), Eurelectric would like to stress that BRPs do not have sufficient visibility on imbalance settlement prices formation due to a lack of information in real time. As mentioned in answer to question 1b). Eurelectric therefore call for addressing this problem with a set of measures (in particular, the review of ISH methodology). In some cases, technical price limits would *de facto* reduce the risks of BRPs exposed to irrelevant price levels due to IT / operational issues or corrupted data

(d) **Eurelectric believes thus that reducing technical price limits is not the adequate solution for the purpose to secure implementation of the platforms**. If NRAs / ACER fear that there is or will be some difficulties for the go-live of the platforms PICASSO and MARI, Eurelectric is open to build a way forward that could help in securing European platforms implementation with relevant safeguards. For example, the testing phase of the platforms should be improved by introducing parallel runs to test in advance the platforms and give confidence to BSPs and TSOs (those are not foreseen yet to our knowledge). Eurelectric would like to remind that TSOs had sufficient time to prepare for a smooth transition onto the platforms. The balancing target model has been under development for long time, starting with the framework guidelines in 2012.

(e) As energy prices continue to be volatile, this should result in corresponding balancing energy (and capacity) prices and serve as an incentive for market participants to take on the role of BSP. Limiting this potential creates a downward spiral

(f) In Eurelectric's opinion, competitive markets, rather than regulated price caps should serve as the instrument to protect balancing responsible parties. Free price formation and strong incentives on market participants to balance their portfolios strengthen the functioning of energy markets and should not be undermined.

Question 2.2a)

How long in your view shall the lower technical price limit remain in place after the start of the operation of European platforms (foreseen for July 2022)?

- Lower technical price limit shall not be in place at all
- 6 months
- 1 year
- 2 years (until the expiration of all the derogations in accordance with Article 62(2)(a) of the EB Regulation)
- Longer

Question 2.2b)
Please provide an explanation for your answer

Given the lack of background and justification provided by TSOs with regard to this question, Eurelectric prefers not to answer to question 2.2a).

No technical reasons have been identified that require the implementation of the proposed price limit nor any price limit lower than the existing technical price limit for the orderly functioning of the market. Would the price limits be of technical nature and not affect the formation of prices, then no expiry date for such a measure would need to be defined.

Eurelectric also raises the question of the legal basis for this transitory period.

Question 2.3a)
At what level in your view shall the lower technical price limit be set?

- Lower than 15,000 €/MWh

- 15,000 €/MWh
- At the value of highest VoLL among member states
- Higher than the highest VoLL among member states but lower than the existing technical price limit
- 99,999 €/MWh (existing technical price cap)

Question 2.3b)

Please provide an explanation for your answer.

Should a lower maximum technical price limit be implemented, it must be ensured that it does not affect the free formation of prices. Considering the calculation of imbalance prices and in order for imbalance prices to theoretically reach the VoLL, our answer to this question is "Higher than the highest VoLL among member states" which is not listed above.

Eurelectric notes that ACER proposes different levels with respect to the level proposed by all TSOs. Given the levels proposed by ACER, there are various views within Eurelectric for the level at which the maximum technical price limit should be set, between the value of the highest VoLL among member states up to the existing technical price limit (99,999 €/MWh).

In any case, Eurelectric considers the following principles to be followed:

- The VoLL should be properly assessed and should be the result of the methodology developed in the framework of E-Reg Art 23.6 and decided upon by ACER back in November 2020.
- The VoLL is probably not a single value as it can vary from one country to the other and from one industry/type of consumer to the other.
- Any maximum technical price limit for the clearing of balancing energy should never be lower than the ID price limits.
- The technical price limits should continue to be harmonized across the platforms.

Question 2.4)

Do you agree that the technical price limit shall increase once all TSOs have joined the European platforms? If you agree, at what level in your view shall technical price level increase?

See answer to question 2.3). The maximum technical price limit shall be reevaluated, if there is a member state joining the European platforms with a higher VoLL than the limit already in place.

Topic 3: Automatic adjustment mechanism linked to balancing energy prices

Based on legal provisions (Article 10(2) of the Electricity Regulation), there shall be a transparent mechanism to adjust automatically the technical bidding and clearing limits in the day-ahead and intraday timeframes in due time in the event that the set limits are expected to be reached. The adjusted higher limits shall remain applicable until further increases under that mechanism are required.

The proposals on harmonised maximum and minimum day-ahead and intraday prices in accordance with Article 41 and Article 54 of the CACM Regulation shall take into account an estimation of the VoLL.

In ACER Decision 04/2017 on harmonised maximum and minimum clearing prices for single day-ahead coupling ('SDAC') in accordance with Article 41(1) of the CACM Regulation, the VoLL was not explicitly taken into account but rather a criteria was introduced for amending the harmonised maximum clearing price automatically whenever the market clearing price exceeds a certain threshold. The main purpose of the requirement to take into account an estimation of VoLL is that the harmonised maximum clearing price never restricts the free price formation. Therefore, an automatic adjustment mechanism ensures that the harmonised maximum clearing price is always above the clearing price that would occur in the absence of price limits.

In accordance with Article 10(2) of the Electricity Regulation, the same automatic principle shall apply in the intraday timeframe if a set limit in the intraday timeframe is expected to be reached.

ACER sees no reason why the same principle for adjusting automatically the technical price limit if set limit in the balancing timeframe is expected to be reached should not apply for the balancing timeframe if the prices reflect the true scarcity. Automatic adjustment mechanism ensures that there is no restriction to the free price formation. Furthermore, instead of taking into account the highest VoLL among the member states (which estimation is very difficult to be determined), an automatic adjustment mechanism would mimic the value of VoLL and the price limit would eventually stabilise at it.

Question 3a)

Do you agree there shall be a transparent mechanism to adjust automatically the technical price limits if set limits in the balancing timeframe are expected to be reached?

- Yes
- No

Question 3b)

Please provide an explanation for your answer

In line with our position to not hinder free price formation, Eurelectric agrees that there shall be a transparent mechanism to adjust automatically the technical price limits if the set limits in the balancing timeframe are expected to be reached (i.e. x % are reached). Most important, in case balancing prices are reaching the trigger for an adjustment of the technical price limits, Eurelectric requests a transparent and thorough analysis of the event to learn lessons in terms of the functioning of the platforms.

Topic 4: Other comments

Question 4

If you would like to comment on other topics please indicate clearly the related Article, paragraph of the Amendment Proposal and add a sufficient explanation.

The TSOs' proposal does not give any reasoning for the minimum price. Eurelectric understands the need for minimum technical price limits, preventing IT and technical issues. Symmetricity of technical price limit is not a must (e.g. DA technical price limits). We, therefore, call for a debate/specific discussion on the rationale for the value of this minimum price limit.

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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