ENTSO-E consultation on RR TSO's proposal for 2nd amendment of IF for exchange of balancing energy from replacement reserves

A Eurelectric response paper

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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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Eurelectric response to ENTSOE consultation on RR TSOs' proposal for the 2nd amendment of the implementation framework for the exchange of balancing energy from Replacement Reserves

Eurelectric thanks ENTSO-E for providing this opportunity to express our views on the amendment proposal. Eurelectric welcomes the proposed amendments to the following articles as they aim at harmonizing and streamlining the current RR IF:

- Article 3.1(b), 3.1(c) & 11.3 on the removal of references to Interconnection Controllability
- Article 4.2(d) on the precision on duration of public consultation of 4 weeks for RRIF amendments
- Article 7 on the removal of reference to the interim period prior to the change of the GCT from H-60 to H-55
- Article 11.4 on the adaptation of the paragraph to reflect that price limits will be in accordance with the Pricing Methodology
- Article 12.4 on the removal of obligation for observers to pay PMO costs

While we welcome the aforementioned amendments and their aim, Eureletric generally calls for a deeper harmonization of the articles in the RR IF also with the other implementation frameworks of the balancing platforms. Concretely, **we would like to see the same transparency requirements for elastic needs expressed in art. 3(4) and art. 13(1) of the mFRR IF** introduced in this IF. Specifically given the analogy between the mFRR and RR processes firmly expressed in the explanatory framework of this consultation by ENTSO-E, we fail to understand the reason behind such differences in transparency requirements between the two platforms.

With regards to the proposed amendments to Article 13.5, Eurelectric would mainly like to remind its opposition to the concept of counter-activation in the absence of balancing energy need. The remaining of the document discusses our preferred way forward regarding the Art 13.5.

<u>**CA (counter activations) taxonomy**</u>

For the sake of clarity, a distinction is to be made between the different types of CA.

First, and in accordance with the Explanatory note, CAs in situation of no TSO BAL (balancing) need during a specific MTU are called **Naked CAs**. Those have to be prohibited (as this is currently implemented in the algorithm).

Second, in case of TSO BAL need different than zero during a specific MTU, two types of CA have to be distinguished.

(i) CAs (**CA-BAL** later in the document) that contribute to the minimization of the procurement cost of balancing energy[1], thus to the reduction of unforeseeably rejected bids (URBs).
(ii) CAs (**CA-NonBAL**) that are fully matched against themselves and that are therefore not contributing to the cost minimization of the procurement of balancing energy (even if they create economic surplus).

[1] An example is a cheap indivisible bid exceeding TSO BAL need, hence requiring the activation of another bid to match the excess of energy activated due to the indivisibility of the bid.

CA-BAL could be strictly considered as they positively contribute to the minimization of procurement cost of balancing energy bids that are activated to fulfill TSOs' need.

<u>**General opposition to CA-NonBAL**</u>

CA-NonBAL should not be allowed even if they create economic surplus on the spot. Allowing them exceeds the boundaries of the balancing energy procurement and activation process which is the objective of the TERRE platform. As a result, the TERRE platform becomes a hybrid market of balancing energy procurement and intraday auction. This creates unduly competition with (cross-border) ID markets and distorts the imbalance price signal by including non-balancing actions in the components (e.g. TERRE CBMP) used for calculating it.

We believe that the role of TSOs is not to "correct" some possible missed trades of the intraday markets (cases where CA is not serving the balancing purpose) and therefore, we are opposed to the idea of counter-activation if it is not related to the balancing needs. TSOs' role is to procure balancing energy bids that satisfy its need at the lowest cost.

The explanatory document points out a particular market design feature in Spain that leads to a non-negligible source of CA:

- *"The volume of offers submitted by the Spanish electrical system is very high and flexible (most of the offers are fully divisible in hourly resolution)"*
- *"…might be reduced through an even more flexible internal commercial schedule changes among balance responsible parties (BRPs)."*

We agree with the second point but would like to remind that internal commercial schedule changes in the Spanish and Portuguese systems are not compliant with art. 17.3 of EB GL[2]. This can push BSP to act following the behavior described in the explanatory note and leading to a large volume of CA.

For the reasons explained above, **rather than mixing TSO, BRP and BSP roles by matching bids that are by nature totally different than those traded on the energy intraday market, we believe it is more efficient to (i) exclusively limit the scope of the BAL platforms to their primary goal (ii) fix regulatory gaps at national level related to art. 17.3 of EB GL and (iii) work on the general improvement points in the ID market (XB GCT closer to RT, cross-product matching, rolling GCT for market with MTU <1h).**

Also, counter-activations add a non-negligible layer of complexity when it comes to the market participant's comprehension of the formation of clearing prices and the dynamics behind it. This will come at the cost of efficient bidding, making the system more expensive for the final consumer.

Finally, counter-activation have an impact on the clearing price (TERRE CBMP for each MTU). We find it not acceptable that the CBMP (cross-border marginal price) can be set by actions non-related to the existence of a balancing need. We don't need to remind that the CBMP is then used as an input for the calculation of the imbalance price that is applied to BRP that have an unbalanced portfolio. Why should a BRP be exposed to a price that is not 100% related to a balancing need?

[2] "*3.Prior to the intraday cross-zonal gate closure time, each balance responsible party may change the schedules required to calculate its position pursuant to Article 54. TSOs applying a central dispatching model may establish specific conditions and rules for changing the schedules of a balance responsible party in the terms and conditions related to balancing set up pursuant to Article 18."*

While Eurelectric thinks that the cases where a counter-activation would materialize would generally be limited (Eurelectric answer to ENTSOE consultation 2018), we must note this is not the case (11,62% of the activations on TERRE are counter-activations as stated in the explanatory document). The impact of counter-activation is therefore far from being negligible. However, we lack transparency about the ratio of *CA-BAL* versus CA-NonBAL*.* ENTSO-E unfortunately does not provide any indication whether this ratio is even quantifiable.

While ACER decided to at least minimize the counter-activation that are not serving the balancing purpose (CA-NonBAL), we would have expected in the TSO report an explanation on how those could be minimized, what are the results of the minimization and how would it be like without this minimization.

Awaiting for a more detailed report (see next section) and clarity about the feasibility to distinct CA-BAL and CA-NonBAL, we are in favor of a minimization of all counter-activations.

Reaction on the Explanatory document

Concerning the ENTSOE explanatory document and more specifically its Annex 1 on an *analysis with Market data supporting the TSOs proposal to continue the acceptance of counter activations in the RR-Platform*, Eurelectric has the following comments:

- As explained by ENTSOE, the N-Side report concerns the MARI platform and more exactly Scheduled Activations. We are not convinced the conclusions can be copy-pasted to the TERRE case as such. **To our opinion, the justification for requesting this amendment is not sufficient and would require a further analysis and a dedicated report.**
- Counter-activation within TERRE depletes the (potentially cheap, as matched on TERRE) liquidity on the MARI platform. Comparing the amount of counter-activations with the total amount of TERRE bids is not sufficient to conclude that MARI's liquidity does not suffer from the counter-activation within TERRE. The merit-order should also be analyzed.
- The role of BSP is different than the role of BRPs. Balancing Energy platforms are not a place for BRP to (re) balance their portfolio. Those platforms are designed exclusively for the activation of BAL energy bids offered by BSPs and activated by TSOs. For each activated BAL energy bids, each TSO applies an imbalance adjustment to the concerned BRP. Consequently, BRPs remain neutral with regards to the activations of BAL energy bids, which cannot be used to reduce any BRPs imbalances. Therefore, we do not understand the following statement in the explanatory document: "Nevertheless, counter activations can reduce the requirements for subsequent balancing products (mFRR/aFRR) in the electrical systems, as they are used by the BRPs to reduce their imbalances."

Conclusion

In conclusion, Eurelectric finds that **the analysis provided by the RR TSOs is not satisfactory** to duly justify this request for amendment of art 13.5. Eurelectric asks RR TSOs to publish a dedicated report on:

- The feasibility of the distinction between CA-BAL and CA-NonBAL given to potential added value of CA-BAL to minimize the procurement cost of balancing energy
- The way CA-NonBAL could be minimized in the algorithm; in particular by fixing regulatory gaps related to art. 17.3 of EB GL and working on the general improvement points in the

ID market (XB GCT closer to RT, cross-product matching, rolling GCT for market with MTU <1h).

- The impact of not allowing CA-NonBAL on the performance of the algorithm and the amount of URB;
- The impact of counter activation on the cross border marginal pricing (if/when counter activations are setting the CBMP)

In the meantime, all counter-activations should be continued to be minimized in accordance with the current version of Article 13.5.

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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