

Open letter to CRE on the evolution of balancing mechanisms at European level and in France



27 March 2019

With the adoption of the Electricity Balancing Guideline (EB GL) in November 2017, and the European Parliament vote yesterday on the recast Electricity Regulation, Europe is in a place to accelerate the integration of electricity balancing mechanisms. Balancing mechanisms are still lagging behind in that regard compared to the other markets timeframe, such as intraday, day-ahead and forward markets. Yet, as the final timeframe of the electricity market, balancing performs the vital function of setting the price signal that will be used by market participants in all other timeframes. For the European Federation of Energy Traders (EFET), it is not only important that balancing mechanisms across Europe become more integrated, but also that this integration is done in a way that strengthens and improves the functioning of the electricity market as a whole.

EFET has followed the drafting of the EB GL from the beginning, and now proactively contributes to its implementation at EU and national levels. Back in December 2018, the European TSOs submitted a series of methodology proposals, to be approved by NRAs by 18 June 2019. The Dutch and German energy regulators, ACM and BNetzA, recently launched public consultations on the submitted methodologies. We would like to share with CRE our answers to ACM and BNetzA, knowing that discussions will be held at NRAs level in the process of reaching a final decision by June. While we provide the link to the full answers we submitted to the other two NRAs¹, the most important points are listed here below. We also take this opportunity to express some of our main concerns with the French balancing market and suggest the steps required, to align its framework with the EB GL.

¹ For an English version of our contributions, please follow the links below:
https://efet.org/Files/Documents/Downloads/EFET_Balancing%20energy%20pricing_ACM_04032019.pdf,
https://efet.org/Files/Documents/Downloads/EFET_ACM_ISH%20consultation_27022019.pdf, and
https://efet.org/Files/Documents/Downloads/EFET_mFRRIF%20consultation_ACM_04032019.pdf.

Electricity Balancing Guideline methodologies

ACM and BnetzA recently consulted on the following TSO proposals:

- aFRR implementation framework
- mFRR implementation framework
- Harmonization of Balancing energy price
- Harmonization of the imbalance settlement
- Activation purposes
- TSO-TSO settlement

Regarding the **Pricing Proposal** and more particularly the **harmonisation of the balancing energy price**, EFET strives for the **effective implementation of the marginal pricing (pay-as-cleared) principle**. More specifically, we oppose the introduction of a control-cycle Balancing Energy Pricing Period (BEPP) of four seconds for the aFRR process, which:

- is a pay-as-bid scheme rather than the pay-as-cleared model mandated by the EB GL Art 30,
- would drastically increase the complexity of pricing bids from the point of view of a market participant, and
- would de-correlate BE pricing from the Imbalance Settlement Period.

Regarding the **Imbalance Settlement Harmonisation Proposal**, we deplore the fact that the only “harmonisation”, which can be found in the methodology put forward by the TSOs, is in its title. The methodology will leave TSOs free to consider fundamentally diverging elements and volumes to set the imbalance price at national level, without restriction. The TSOs’ proposal mentions a number of “main components” TSOs can choose from to set the imbalance price in their control area. This list neither explains how the various components could be combined, nor excludes the possibility to include “minor components” in the imbalance price, nor even limits the proportion of any minor component. In addition, incentive components (including scarcity components) can be added. Without proper harmonisation of imbalance settlement between control areas, BRPs will continue to face different risks and BSPs will not be able to compete on a level playing field across borders in the provision of balancing services to TSOs. This will threaten the efficiency of the TERRE, MARI and PICASSO platforms. Moreover, the imbalance price being the basis for price formation in all market timeframes (including the day-ahead and forward markets), not only competition between BSPs on the common balancing platform will be skewed, but also cross-border trade in general will be distorted.

On the **Activation Purposes Methodology**, we consider that the category “activation for system constraints” is too broad, and in no way “describes” all possible purposes for activation other than balancing or “defines criteria” for it. From discussions at the workshops organised by ENTSO-E in June and October 2018, it seems that the only reason why TSOs would activate balancing energy bids for other reasons than balancing on the common platforms for standard products is “interconnector controllability”. We suggest that the methodology be restricted to this concept and name in the methodology as the only activation purpose available to them TSOs from balancing.

Regarding the **mFRR IF Implementation Framework**, and in particular the **counter-activation** principle, we consider the MARI platform only as a tool for TSOs to activate mFRR balancing energy at the lowest costs for the system. Considering MARI, with the possibility to use counter-activations, as a mean to maximise the overall social welfare would ignore the many other markets that precede MARI (throughout other balancing or electricity markets). The main objective of MARI should be to **minimise the activation costs** of the expressed mFRR needs of the participating TSOs. Market participants should enjoy a clear choice as to where to offer their capacity; on the balancing market or on the intraday market. If the mFRR platform would offer potentially both (being cleared against TSOs needs and against other BSPs offers) this will be detrimental to intraday market liquidity, and to the ability of BRPs to (re)balance their own perimeter.

Still on the **mFRR IF**, we are opposed to the possibility for TSOs to price their demand to the MARI platform (**elastic demand**). By pricing their bids and offers and concatenating them on the CMOL together with bids and offers from market parties, TSOs are directly active on the market and go beyond their role of market facilitator. Indeed, rather than expressing a clear and straightforward need for a specific volume of the standard mFRR product, they will tie this need to a price limit. Acting this way, TSOs may also set the settlement price and impose de-facto price caps on the market.

Electricity Balancing Guideline implementation in France

Since early 2017, EFET responded to the “green book” consultation organised by CRE², then expressed more specific concerns in a memo later that year³ and finally actively followed up the “RE MA” workshops via EFET members, in order to shed light on the identified shortcomings in the French balancing market. Today, we still harbour concerns about the lack of progress of some key elements, needed to ensure the evolution of the French balancing market.

Regarding the **bid filtering** in the MA and MARI for coping with transmission capacity issues or for operational security reasons, we consider that if it is not accompanied by a proper compensation; the filtering deprives a BSP of an opportunity. The BSP should not be exposed to the detrimental effects of internal congestion. To ensure a proper economic signal for BSPs and TSOs, the TSO should be fully exposed to the costs of congestions within a zone, in order to be presented with a correct incentive to solve them efficiently. Therefore, infra marginal bids that were not activated due to internal congestion reasons should be reported and the bidders compensated for their opportunity loss. During the consultation phase, as well as during the “RE MA” workshops, concrete proposals were presented by market participants. So far, no concrete feedback has been given by RTE on the relevance of those proposals. We therefore urge CRE and RTE to consider the concrete proposals by market participants in order to advance on the subject.

² EFET response to the CRE consultation on the French electricity balancing reform roadmap, dated 20 January 2017, available at: https://efet.org/Files/Documents/Electricity%20Market/Spot%20and%20short-term%20markets/EFET_CRE-consultation_Balancing_20012017.pdf.

³ EFET memo ‘Has the dream of electricity balancing reform in France died again?’, dated 17 October 2017, available at: https://efet.org/Files/Documents/Downloads/EFET_French%20balancing%20roadmap_17102017.pdf.

Secondly, removing the explicit reference to the day-ahead price is a first step towards a correct price signal in the French imbalance system. We welcome the decrease of the k factor that was enacted some months ago, but we regret the lack of a clear decision on its suppression. We support the suppression of the k factor at the earliest possible occasion in order to have one single price of energy in real time.

Regarding the **aFRR energy remuneration**, we remind CRE that market participants are encountering losses in both directions when activated (upward or downward regulation). In addition, as long as the aFRR activated energy will be remunerated at day-ahead price, the imbalance price will still implicitly be “polluted” by an irrelevant component.

Regarding the **procurement of aFRR**, we regret that CRE considers the lack of competition as a blocking factor to move to a true market-based procurement of aFRR balancing capacity, i.e. in the form of a primary market. We do not consider an obligation to supply capacity combined with a secondary market, as is currently the case in France, a market-based process. Article 6.8 of the recast Electricity Regulation clearly states that the procurement of balancing capacity should be based on a primary market. If CRE persists in providing an exemption to this rule, we will expect regular reviews (at least every three years) of the exemption framework, including a much more thorough analysis than what is currently provided by RTE and CRE of the competitive situation on the market for balancing services.

Concerning the **transparency** of the balancing market in France, we would welcome a detailed list of MA activations right after their activation (and not only ex-post), meaning not only the weighted average and max/min price, but also the underlying calculation of imbalance prices and the reasons for the activations. Moreover, and as already mentioned above, detailed information on filtered bids in the merit order list and the associated reason (e.g. reconstitution of power margins, congestion management) would also be welcome.