



## TSOs consultation on design options for the future European mFRR platform (MARI)



### EFET response – 20 December 2017

The European Federation of Energy Traders (EFET) thanks the TSOs participating in the MARI project for this early consultation on design option for the future European platform for the exchange of mFRR. We are happy to see that some of the questions raised by market participants at the MARI workshop of 4 September found their way into the consultation.

We take the opportunity of this consultation to remind the TSOs participating in the MARI project of the importance of coordinating their approach on the mFRR platform with that of the other implementation projects of the Electricity Balancing Guideline. In this respect, we welcome the publication in parallel to this consultation on the MARI project of a consultation on the PICASSO project on the future European platform for the exchange of aFRR<sup>1</sup>. Due consideration should also be given to interactions with the TERRE project on the future European platform for the exchange of RR, and the IGCC project on imbalance netting. While the most obvious danger is steering rules of common interest for different projects in opposite direction, TSOs should also not leave gaps, believing that the questions would be addressed by other projects.

You will find below detailed responses to the consultation questions. However, we left some questions unanswered when they were seeking to understand individual market participants' future behaviour in the context of the future platform. As an association, and as per its anti-trust policy, EFET cannot take a position on such matters.

<sup>1</sup> See the EFET response to the TSOs consultation on the PICASSO project, dated 20 December 2017, available at: <http://www.efet.org/energy-markets/electricity-market/balancing/>.

## **1. Product Properties**

**Q1. How would a FAT of 12.5' impact the amount of MW you could offer for mFRR, as compared to the current FAT in the country you are operating in? Provide answer per each country you are operating in.**

As an association, EFET cannot take a position on its members' individual behaviour in this respect.

**Q2. What would be the lowest possible FAT that would not decrease the amount of MW you could offer for mFRR, as compared to the current FAT in the country you are operating in?**

As an association, EFET cannot take a position on its members' individual behaviour in this respect.

**Q3. What is your view on the consequences of a 5' duration (please refer to points 4 and 5 in the legend to Figure 1) period of the scheduled product?**

**Q4. BSPs that have received a (capacity) payment for availability cannot withdraw their bids. Do you have a need for a maximum delivery time across several activations, in effect a limit on the number of reactivations?**

As an association, EFET cannot take a position on its members' individual behaviour in this respect.

**Q5. If allowed, do you intend to use a limitation on the maximum energy quantity within a certain period, e.g. to facilitate storage?**

As an association, EFET cannot take a position on its members' individual behaviour in this respect.

**Q6. Are there additional features that should be incorporated to enhance the flexibility of the standard product?**

The standard mFRR product should be block-shaped to support a seamless integration into other markets. Particularly considering 15min validity periods, adjacent ISPs should not be affected to enable effective marketing of energy in other market/balancing processes. Furthermore, ISP-related pricing for activations over several ISPs is unclear (does the bid price for QH0 affect the pricing of QH-1/-2 and QH1?).

For the same reasons, activation should be restricted to a scheduled product, to seamlessly integrate balancing into other market activities.

**Q7. Do you have any additional comments to the characteristics and shape of the product?**

No comment.

## 2. Process

### **Q8. What should be the gate opening time (how long in advance should BSPs be allowed to bid in for a given QH)?**

A Gate Opening Time of approximately 36 hours before real-time would be preferred, ideally in combination with a system of implicit bidding. This would allow submitting bids reflecting the outcome of the day-ahead market clearing, which can then be further updated to reflect the outcome of the Intraday market and the other balancing markets. This way, a maximum of capacity can be bid in the platform in an operationally manageable way.

### **Q9. Which alternative for the sequence between the direct activation (DA) and scheduled activation (SA) process has your preference: DA before SA or DA after SA? In case DA is after SA, do you prefer the option deactivation in QH 0 and QH 1 or deactivation in QH 1 only?**

To improve the functioning of the mFRR joint activation process and avoid costly complexity, we strongly recommend that the system be built around the Scheduled Activation (SA) product only. An accurate dimensioning of automatic and manual reserves would in our view make Direct Activation (DA) of the mFRR product unnecessary. Restricting the standard mFRR product to SA would benefit the system by significantly reducing complexity, lowering cost, and improving transparency.

Should the TSOs of the MARI project nonetheless still consider keeping both DA and SA for the standard mFRR product, then our preference goes for DA before SA.

### **Q10. Do the countries with RR consider a BSP GCT of T-30' for the DA before SA option, or T-25' for the SA before DA option acceptable?**

Gate closure time for the MARI platform should be harmonised across all participating countries to ensure a level-playing field between BSPs, without regard for the participation of not of the local TSO in the TERRE platform.

### **Q11. Do you consider a direct activation in QH-2 (as of T-22.5') based on the CMOL of QH 0 acceptable?**

We refer to our response to question 10: we believe that the standard mFRR product should be a Scheduled Activation product only.

Should the TSOs of the MARI project nonetheless still consider keeping both DA and SA for the standard mFRR product, there is actually a real question whether the DA and SA versions of the mFRR product can be considered the same product or not, and whether they should be part of the same CMOL. This has significant implications on the activation and settlement price. We reserve our response to this question until the TSOs of the MARI project clarify this question.

### **3. Bid Properties**

#### **Q12. Should there be a possibility to introduce ,smart bids‘ and if so, which options to link bids should be foreseen?**

If technically feasible, such a possibility would be beneficial, both for linked bid orders and exclusive group orders. These features could be considered as a second step, after few market participants and TSOs have gained experience on the MARI platform.

#### **Q13. Are technical links between bids in different QHs necessary? If yes which should be implemented and why?**

We agree with the analysis made on the technical links and their need, given that the Balancing Energy GCT of QH1 is before the last activation for QH0. In such a case and without technical links, BSPs would have to potentially refrain from bidding certain capacity in QH1 if this can still be activated in QH0. The technical bids described in the consultation document are understood to be technical mutually exclusive bids.

Additionally, technical linked-bid orders may also be required, as the activation in QH0 may have cost implications for some bids for QH1, e.g. because of start-up costs. Without such technical linked-bid orders, BSPs would have to include start-up costs in each ISP, as they cannot necessarily be certain that the capacity would already have been activated for QH0.

However the implementation in the algorithm of technical links between bids in different QHs could be complex and time consuming. We would appreciate more information from the TSOs on their assessment for the implementation of these links, and in particular their effect on the algorithm performance.

#### **Q14. If there should be a maximum size for indivisible bids, how large should the maximum be?**

We do not see a reason to limit the maximum size of the bids: with unforeseeable rejected bids possible, large indivisible bids would be rejected in favour of subsequent smaller indivisible or divisible bids that result in an economically superior market outcome. It is then up to the BSPs to weigh the opportunity to offer a large indivisible block with the chance to be rejected.

#### **Q15. Do you foresee using indivisible bids?**

As an association, EFET cannot take a position on its members' individual behaviour in this respect.

#### **Q16. Do you need the possibility to declare minimum activation in divisible bids?**

As an association, EFET cannot take a position on its members' individual behaviour in this respect.

**Q17. What should the granularity of activated volume be for divisible bids (e.g. 0.1 MW or 1 MW)?**

A low minimum granularity would allow a better integration of sources of short-term flexibility. 1 MW is a fine compromise between this objective and the need to not overload the platforms with an excessive number of bids. Below the 1MW threshold, smaller providers of upward/downward energy can make use of aggregation.

**Q18. Do you foresee using a "resting time", i.e. a minimum time between activations?**

As an association, EFET cannot take a position on its members' individual behaviour in this respect.

**Q19. The granularity of bid volumes (divisible with 5 MW, 1 MW or 0.1 MW etc.) has not been discussed in this document. What would be a relevant granularity for expressing your bid volume?**

As an association, EFET cannot take a position on its members' individual behaviour in this respect.

#### **4. Rules for Balancing Need**

**Q20. Do you have any comments on the Rules for Balancing need? If yes, elaborate.**

We do not see the need for restrictions on the balancing need that a TSO may submit to the platform, as a TSO may not have full control over the volume of balancing bids (i.e. the volume of free bids) it can forward to the MARI platform. Instead, it would be more appropriate to consider whether a TSO procures mFRR in the Standard Product format and forwards at least the pre-contracted volume consistently to the MARI platform. If this is the case, the TSO should not suffer any balancing need restrictions. It may be necessary in this case to foresee priority access for connecting TSOs.

#### **5. Inputs for the Merit Order List and Optimal Outputs**

**Q21. Are all relevant inputs being addressed in the clearing algorithm design? If not, could you please state the elements that you are missing?**

We strongly disagree with the proposal to allow TSOs to price their demands to the MARI platform. By pricing their bids and offers, and putting 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 neutral market facilitator. Acting this way, TSOs may also set the settlement price and impose de-facto price caps on the market. TSOs should not be marketing the energy from their imbalances, but simply procuring balancing energy to deal with their imbalances.

On the other hand, the tolerance band would allow TSOs to provide some leeway to

avoid unforeseeable rejected offers. This way, the procurement can be made more efficient by buying slightly more volume at a lower price instead of skipping an indivisible bid for a higher-priced bid with the right volume. We therefore agree with the concept of a tolerance band subject to the transparent establishment of the volume of the tolerance band. The exact cost of procuring a slightly larger volume of balancing energy should not only be benchmarked compared to the resulting cost of the MARI outcome, but also compared to any cost incurred by any subsequent counter-activations of other balancing products to correct this additional volume.

**Q22. Are all relevant outputs being addressed in the clearing algorithm design? If not, could you please state the elements that you are missing?**

Additional, relevant outputs towards BSPs are the bids that were not forwarded by the connecting TSO for reasons of internal congestion.

**6. Criteria of the Clearing Algorithm**

**Q23. Do you agree with the maximization of social welfare as the main objective of the Activation Optimization Function?**

The objective of the MARI platform is to allow TSOs to procure mFRR energy at the lowest cost for the submitted volume. Such cost minimisation will contribute to the optimisation of social welfare. However, stating that overall social welfare maximisation is the objective of the MARI platform would be too wide, as it would result in the inclusion of elements like counter-activations, which lie outside the scope of a balancing energy procurement platform. It would therefore be more correct and align the objective of the AOF more closely to the aim of the project to state that the main objective of the AOF is to minimise the procurement costs of the expressed mFRR needs of the participating TSOs.

**Q24. Do you prefer to allow or to block the scheduled counter-activations?**

We consider the MARI platform as a tool for TSOs to procure mFRR-balancing energy at the lowest cost possible. Performing counter-activations implies clearing trades between market participants, which should not be a function performed by a balancing energy procurement platform (see our response to Q22 for more details on the subject). Instead, all market liquidity that allows BRPs to self-balance their perimeter should remain in the intraday market. Therefore we do not support the inclusion of counter-activations in the MARI platform.

We have an additional comment regarding the example on page 48 of the consultation document: The example states that without counter-activations, a need could remain unsatisfied. This seems rather an issue of congestion that does not allow the necessary flows between control areas. In case congestion does not allow the necessary flows, activations in different directions are warranted. However, this should not be considered as counter-activations, but rather as activations in different directions in zones that are decoupled because of congestion.

Finally, on page 49 there is a reference to the Electricity Balancing Guideline, stating that it contains several elements aimed at guaranteeing that balancing markets do not endanger the efficiency of other timeframes such as the intraday market. This should not lead to the conclusion that counter-activations are acceptable because the impact on the intraday would supposedly be sufficiently minimised through the EBGL. Capacity offered on the MARI platform – whether because BSPs expect to be activated by TSOs or be cleared against other – cross-border – market participants, is lost to the intraday market. Market participants should face a clear choice where to offer their capacity: on the balancing market or the intraday market. If the MARI platform would offer potentially both, it will syphon liquidity away from the intraday market towards the balancing market. This will be detrimental to intraday market liquidity, BRPs' ability to balance their own perimeter and therefore will eventually lead to an increase need to activate of balancing energy. TSO arguments that these volumes will in any case be very limited, should be an argument against such counter-activations as the implied social welfare loss will therefore also be limited while making market design more transparent.

**Q25. What are your views regarding unforeseeably rejected and accepted bids?**

Unforeseeably rejected bids are acceptable in order to deal with indivisible bids while minimising overall energy procurement costs. Unforeseeably accepted bids should not be considered; the clearing price should always be set by the highest activated bid.

**Q26. Which of the two options would you prefer regarding the handling of HVDC constraints?**

It seems correct to translate HVDC constraints into ATC limits that are applicable to each ISP and may depend on the ATC of the previous ISP, meaning a maximum change in ATC from one ISP to the next.

**7. Further Issues Connected to the Algorithm**

**Q27. If a set of optimal solutions exists, which lead however to different marginal prices, which of the two proposed approaches, Solution case 1.A or Solution case 2.B would you prefer?**

We consider solution case 1.A preferable.

**Q28. Do you agree with the suggested approach when a set of optimal solutions with equal marginal prices exists?**

Yes.

## **8. Settlement Model and Fundamental Considerations**

**Q29. Do you agree with the approach of the congestion rent definition?**

Yes.

**Q30. Which other attributes/impacts of Cross-Border Marginal Pricing do you see?**

While for TSO-BSP settlement cross-border MP is applicable, the influence on TSO-BRP settlement is not discussed.

**Q31. Would you mitigate any negative attributes/impacts of Cross-Border Marginal Pricing? If yes, how?**

## **9. TSO-TSO- Settlement**

**Q32. Which of the TSO-TSO volume settlement options do you prefer? Why?**

Volume option 1 is our preferred option as it attributes the energy delivered during ramping to the main ISP, minimising the impact on other ISPs. The fact that balancing energy from DA bids is partially allocated to another ISP is a logical consequence of the TSO indicating that it requires the balancing energy not only during the next ISP, but even faster and earlier during the current ISP.

However, only TSO-TSO settlement is discussed: it is unclear how option 1 relates to TSO-BSP (or TSO-BRP) imbalance adjustment and settlement. Does option 1 imply a TSO-BSP/TSO-BRP block product shape?

## **10. TSO-TSO Pricing**

**Q33. Do you prefer pricing option category A or B? Why?**

We refer to our response to question 10: we believe that the standard mFRR product should be a Scheduled Activation product only.

Should the TSOs of the MARI project nonetheless still consider keeping both DA and SA for the standard mFRR product, we prefer pricing option A as we consider that DA and SA products are sufficiently similar – illustrated by the fact that they are put on the same CMOL – to be remunerated according to a common marginal clearing price. This can also be demonstrated by the fact that the SA product is just one instance of a DA product that is activated at such a particular time that its activation will be synchronised with the ISP. All other attributes of the DA and SA products are the same.



**Q34. Do you agree with the proposed criteria, weights and scoring for the assessment of pricing options? Why?**

We do not see a need for criterion (i) as the difference in simplicity between one or two prices are rather limited. Therefore, the criterion should definitely not be estimated higher than criterion (g) or (j).

We also do not support the use of criterion (j), as transparency is delivered through correct publication of results and does not depend on the acceptance or rejection of bids, which should be the outcome of each DA/SA clearing.

**Q35. Would you consider additional pricing options? Why?**

No.

**Q36. Which of the pricing options do you prefer? Why?**

We refer to our response to question 10: we believe that the standard mFRR product should be a Scheduled Activation product only.

Should the TSOs of the MARI project nonetheless still consider keeping both DA and SA for the standard mFRR product, pricing option A2 is preferable. It prices the different bids at the price that is relevant during each QH while ensuring that bids are never compensated below their bidding price. In the main QH this is the combination of DA and SA activated for the main QH. During QH-1 it is either price of the bids activated for QH-1 – which includes the DA bids are TSOs made the express choice to activate the bid prior to the next ISP – or in case this price is below the DA price, at the price of the DA bids themselves.

**Q37. Which of the pricing options would incentivize you the most to submit Direct Activatable bids? Why?**

We refer to our response to question 10: we believe that the standard mFRR product should be a Scheduled Activation product only.

Should the TSOs of the MARI project nonetheless still consider keeping both DA and SA for the standard mFRR product, pricing option A2 would ensure that DA bids are always fairly remunerated according to the moment that they are activated. If they are activated during QH-1, they will capture the activation price of QH-1 for the energy delivered during that ISP and the activation price QH for the main ISP. As DA bids will normally be activated if a TSO has urgent needs – and therefore a larger chance for higher balancing energy prices, a BSP can capture attractive balancing energy remuneration by making its bid DA. This will thus serve as an additional incentive for BSPs to offer DA bids.

**Q38. Do you consider the issue of "Rejected Scheduled bids/demand" to be problematic? Why?**

We refer to our response to question 10: we believe that the standard mFRR product should be a Scheduled Activation product only.

Should the TSOs of the MARI project nonetheless still consider keeping both DA and SA for the standard mFRR product, the issue of "Rejected Scheduled bids/demand" would not be considered problematic if TSOs provide sufficient transparency to understand the market outcome, including the reason behind rejected SA bids.

**Q39. Which of the three options regarding price indeterminacies would you prefer? Why?**

Option A would be the logical choice as it is aligned with the current practice in NWE+ day-ahead market coupling, whose features are expected to be found in the extension of day-ahead market coupling to the rest of Europe.

## **11. Congestion Management**

**Q40. Do you have specific comments regarding the congestion management options presented here?**

The only valid options to deal with congestion management are bid filtering and/or redispatching, on the condition that these options remunerate BSPs for the opportunity loss or running cost incurred.

If lack of transmission capacity within a zone is preventing the activation of an mFRR bid and this is solved through bid filtering, this is an opportunity loss for the BSP that should be compensated by the difference between the clearing price and the bid price. The BSP should not be exposed to the detrimental effects of internal congestion; rather, the TSO should be fully exposed to the costs of congestion within a zone to have the correct incentive to efficiently solve congestions in the short term (be it redispatching or physical interventions). In the long-term and in case of recurring congestions, this should also serve as a signal for the need of investments in infrastructure within bidding zones. Any argument that such requirements would increase costs towards consumers ignores the fact that such costs do not disappear when they are transferred from the TSOs to market participants. The occurrence of internal congestions creates market inefficiencies that have to be recovered somehow. This discussion is therefore not one of cost creation but of cost allocation. Therefore, mFRR bids that were not activated for internal congestion reasons should be reported and compensated for their opportunity loss.

Limiting ATC is not an acceptable option to deal with internal congestions as it pushes internal congestion to the borders, as clearly stated in Regulation 714/2009, and poses issues of transparency on internal congestions. ATC should only reflect the limitations on the available cross-zonal capacity.

Smaller or larger mFRR zones would imply a misalignment between the mFRR zones and the bidding zones, which are inefficient and will in any case not be allowed under the Clean Energy Package. In the case of mFRR clusters there are also implications for the fair cross-border competition between BSPs inside and outside of the cluster.

Finally, the inclusion of critical network elements implies a flow-based approach to the mFRR algorithm. TSOs should give priority to the implementation of flow-based in the intraday market before considering implementing it in any balancing market.

**Q41. Do you think that additional congestion management options are missing? If that is the case, could you please elaborate?**

No comment.

## **12. Harmonization**

**Q42. Following the list of elements provided in this Chapter, could you indicate your top three harmonization priorities?**

We consider the elements provided under 'Bid characteristics', 'settlement of TSO-BSP' and 'Settlement TSO-TSO' as a 'must' for harmonisation in the MARI platform according to CACM. Also the Gate Closure Times, activation purposes and transparency are elements that should be considered a 'must' for harmonisation.

Apart from the elements mentioned above, the top three harmonisation priorities are prequalification requirements (including controls and penalties), back-up requirements and nature of the mFRR market (excluding the possibility to foresee a bidding obligation). All of these elements have clear cost-implications for bidding on the MARI platform and should therefore be harmonised.

Additionally, the Gate Opening Times should not necessarily be harmonised, but a minimum lead-time of approximately 36 hours should be foreseen in all participating countries. Also other elements such as IT requirements, scheduling requirements and real-time measurement requirements should at least be sufficiently aligned to avoid large discrepancies in costs for BSPs. The same standards should apply to transparency obligations and procedures on the side of TSOs.

**Q43. In your opinion, which elements should be harmonized before the MARI project goes live?**

All elements mentioned in our response to Q43 as 'musts' for harmonisation in the MARI platform, as well as the top three of harmonisation priorities should at least be harmonised before the MARI project goes live.

**Q44. In your opinion, which elements should foster harmonization, but not necessarily before the MARI project goes live?**

All elements mentioned in Q43 as targets for alignment and not necessarily harmonisation should be considered as eventual targets for harmonisation.

**Q45. Apart from the elements mentioned in this Chapter, do you think other elements should be harmonized? If yes which ones?**

An on-going subject of concern regarding the Electricity Balancing Guideline Implementation Projects is the implementation at BSP side. The EBGL aims to harmonise balancing markets at European level, but this objective seems to stop at TSO-level. Once operational implementation at BSP-level is concerned, each country seems to act individually with its own bidding platforms and secondary rules. For companies that are active in multiple markets in Europe, this is of particular concern, as the EBGL implementation projects will require large adjustments to the operational processes and IT infrastructure that will differ from one country to the next. We therefore request that TSOs also include the interface towards BSPs within the scope of the projects to ensure some level of harmonisation and/or alignment in the practical implementation towards BSPs.