

RTE consultation on the evolution of the balancing rules (RE-MA version 9)

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EFET response – 19 October 2018

The European Federation of Energy Traders (EFET)¹ thanks RTE for making the draft RE-MA rules version 9 available for comments before their submission to CRE. We note that a vast number of concerns we raised in our response to the RTE consultation on the draft rules in May 2018² have not been addressed by RTE, neither by modifying the draft rules nor by providing explanations for not taking our points on board. We also observe that on a number of questions that RTE posed back in the spring – concerning bid filtering notably – RTE does not seem to have progressed in its reasoning despite the input provided by us and other market participants. We urge RTE to seriously reconsider the draft rules on a number of provisions as we highlight below.

Numberings in this document refer to those of the Explanatory Document (*Rapport d'Accompagnement*) published by RTE on the Concerte website.

Pre-qualification criteria – Critères techniques pré-qualification (2.3 & 2.4)

EFET comments:

Qualification criteria planned by RTE are far more restrictive than laid by the standard products defined at European level. This would not allow for a level-playing field among European BSPs, resulting in lower liquidity and competition on the platform.

¹ The European Federation of Energy Traders (EFET) promotes and facilitates European energy trading in open, transparent, sustainable and liquid wholesale markets, unhindered by national borders or other undue obstacles. We improve the operation of European wholesale energy markets and enhance the performance of traders and their support functions in those markets. We reinforce the markets' functionality and facilitate their liquidity and transparency.

² EFET response to the RTE consultation on the reform of balancing rules (MA-RE v.9), dated 23 May 2018, available at: https://efet.org/Files/Documents/Downloads/EFET_RTE%20MA-RE%20consult_23052018.pdf.

Elastic demand – Besoin de RTE à TERRE assorti d'un prix limite (4.2.3.1)

“Un prix égal à une estimation du prix que coûterait la satisfaction de ce besoin d'équilibrage à partir de l'activation d'EDA ayant formulé des offres spécifiques et n'ayant pas formulé d'offres standard de RR et associées à un DMO strictement inférieur à 30 minutes. L'estimation de ce prix est issue de données de marché (prix des offres, prix de marché) et d'une estimation de la probabilité de réalisation du besoin estimé par RTE.”

EFET comments:

As stated in the EFET response to the TSOs consultation on the TERRE platform³, we oppose the formulation by TSOs of an elastic demand. By pricing their bids and offers, and putting them on the CMOL together with bids and offers from market participants, TSOs would be directly active on the market, i.e. act as market participants instead of keeping to their role of market facilitators. This would be a serious breach of the unbundling principles embedded in EU legislation. In this way, TSOs would be in a position to set the settlement price and *de facto* impose price caps on the market. TSOs would be marketing the energy from their imbalances, instead of procuring balancing energy to deal with their imbalances.

The motivation to set a price elastic demand curve is to arbitrate TERRE standard product against offers made by BSPs on specific products. As already mentioned by EFET, specific products are supposed to be temporary measures, aiming at facilitating the transition from current national balancing market towards an integrated EU balancing market. They do not follow the same transparency and pricing rules. Hence, using them as a benchmark – or even worst, as a price cap – for standard products introduces serious distortions in the future integrated market.

TSOs' demand for RR products should be solely based on the technical needs of the TSOs. Some uncertainty about these needs may remain at the time of the formulation of the TSO needs. However, formulating an elastic need (based on prices) is not the way to resolve this uncertainty. The TSOs instead should buy the energy they consider to be absolutely necessary – or certain enough – via the TERRE process, and procure the rest of the energy in subsequent balancing mechanisms closer to real time (mFRR via the MARI platform, aFRR via the PICASSO platform) for the any remaining needs.

³ EFET response to the TSOs proposal for an implementation framework for the exchange of balancing energy from Replacement Reserves (TERRE), dated 4 April 2018, available at: https://efet.org/Files/Documents/Downloads/EFET%20response%20to%20TSOs%20consultation%20n%20the%20TERRE%20platform_04042018.pdf.

The maximum prices offered by RTE on the TERRE platform would be linked to the prices available on the Mécanisme d'Ajustement (MA). We see a series of dangers in this:

- Pricing mechanisms on TERRE (pay-as-cleared) and the MA (pay-as-bid) are not aligned. Carrying over a price cap linked to the MA, a national balancing mechanism, to the TERRE platform would distort the proper functioning of the joint platform for an integrated replacement reserves market at European level.
- RTE will formulate its elastic needs according to the offers available on the MA "at a given moment". However, there is no guarantee that these offers will still be available after the TERRE clearing. This means that RTE takes a bet on the evolution and / or the future availability of these offers once the TERRE process has closed. EFET considers that this is not the type of activity that the TSO should be engaged in.

EFET reads in the documents that the sole arbitrage possibility that will be open to RTE is the arbitrage against MA prices. In the previous consultation, RTE mentioned their willingness to also arbitrate against the price of the "next" balancing products (i.e. standard mFRR products on the MARI platform and standard aFRR products on the PICASSO platform). As mentioned in our response to the previous consultation, EFET is opposed to such a practice: capping the purchase price of replacement reserve to the "expected price of tertiary or secondary reserve" would imply that TSOs speculate on the evolution of electricity prices. Allowing TSOs to perform a speculative activity would violate basic though crucial unbundling rules. EFET would like to get clarity from RTE on whether or not this arbitrage possibility will still be open to RTE as a result of the implementation of the proposed rules. Should this regrettably still be the case, RTE should clearly mention it in the RE-MA rules.

Should the elastic demand feature proposed by the TSOs in the Replacement Reserve Implementation Framework (RR IF for TERRE) be approved by NRAs, then EFET suggests the following solution for the RE-MA rules version 9: during a **limited transition period**, the sole possible element that could be used as a limit to the price at which RTE is willing to purchase balancing energy in the TERRE platform should be the value of the **marginal bid** in the MA for products with a similar "délai de mobilisation (DMO)". This solution

- allows RTE to mitigate the fear of a lack of liquidity on the MA and of potential spikes;
- avoids setting up complex pricing methodologies that would deteriorate even further the transparency of the balancing mechanism (see paragraph below);
- allows to "arbitrate" products that are similar enough, during the transition phase, i.e. avoids that RTE to buy energy at a higher price higher than what is available locally, with similar characteristics;
- prevents RTE to take directional views on the evolution of balancing energy prices.

Last but not least, concerning the probability coefficient mentioned in the rules, EFET is opposed to such practice. Should it nonetheless be retained, we request full transparency on its calculation methodology, and immediate publication as soon as calculated by RTE. EFET already expressed these concerns in May 2018 and notes that no feedback has been given on the publication of the coefficient and of the methodology to compute it. In addition, EFET believes that computing such probability is extremely complex, especially in the context of IGCC.

Balancing – Equilibrage 4.2

EFET comments:

We would welcome clarification by RTE that the “EDA point d’échanges” available at the border where RR products will not be exchanged on the TERRE platform (especially at the French-German border, as Germany won’t be part of TERRE) will remain available after TERRE go live.

Gate closure time for RR standard offers – *Guichet pour les offres standard RR* (4.2.3.5)

EFET comments:

The graph on page 24 of the Explanatory Document shows a Balancing Energy Gate Closure Time (BE GCT) for standard RR offers at H-60 minutes. While this question rather concerns the implementation framework for TERRE, we would like to reiterate our worries with this proposal, as expressed in our response to the TERRE consultation of April 2018⁴:

We believe the BE GCT for the RR standard product should be set from the start of the common platform at H-55 minutes. We would strongly disagree with establishing the BE GCT at H-60 minutes. Indeed, as the XB ID GCT is also set at H-60 minutes, BSPs would not be able to take into account the final results of XBID into their offers for the TERRE platform. As a result, market participants will have to make mutually exclusive choices during the last moments of XBID to bid their capacity either in XBID or in TERRE. This will result in a loss of liquidity in one or both markets, and would imply a *de facto* move of the ID XB GCT further away from real-time than the current H-60 minutes. This goes against the CACM Guideline that foresees an ID XB GCT of H-60 minutes.

A BE GCT for the RR standard product at H-55 minutes would start alleviating these concerns. We remind the RTE and its counterparts that this compromise would already leave a very short time (5 minutes) to market

⁴ EFET response to the TSOs proposal for an implementation framework for the exchange of balancing energy from Replacement Reserves (TERRE), dated 4 April 2018, available at: https://efet.org/Files/Documents/Downloads/EFET%20response%20to%20TSOs%20consultation%20on%20the%20TERRE%20platform_04042018.pdf

participants to integrate XBID results in their bidding for RR. A BE GCT for the RR process at most 55 minutes ahead of real time seems to us the minimum non-negotiable standard to ensure that the RR process respects Recital 12, and article 3 of the EB GL.

As the implementation framework for TERRE did not take a firm position on the BE GCT for RR products, and if the submission to the NRAs keeps the timing of the BE GCT open, then the governance for the adoption of the final decision on this crucial point should be much clearer. We understand from the workshop organised at ENTSO-E on 19 March 2018 that discussions will take place between TSOs and NRAs after the parallel run. We believe that this would constitute a circumvention of article 19 (3) (h) of the EBGL: the precise BE GCT should be in the form of a transparent RR TSOs proposal (with appropriate justification based on the parallel run results), open to stakeholder comments, and formally approved by NRAs. We encourage RTE to take strong leadership among the TERRE TSOs to make clarify this question and submit a proposal to the NRAs of a BE GCT for TERRE at H-55 minutes at the earliest, that would foster liquidity and competition on both XBID and the TERRE platform, especially given the fact that TSOs managed to move the formulation of demand from H-45 to H-40, freeing 5 minutes in the process.

Bid filtering – Offres filtrées sans compensations (4.3)

RTE mentions three motivations for bid filtering: lack of margins, “service système” and congestion. RTE explains that they were not able to determine modalities for the compensation. They also do not confirm that compensation is needed to ensure a level-playing field between market participants.

“Les offres standard de RR ne seront pas partagées par RTE lorsque le volume d’offres susceptible d’être disponible en France après le clearing de la plateforme conduit à un niveau de marges en France insuffisant (i) pour la fenêtre opérationnelle en cours ou (ii) pour les échéances futures. “

“A la mise en œuvre de la plateforme TERRE, RTE filtrera les offres standard de RR émanant d’entités fournissant des services système, sauf lorsqu’elles déclarent explicitement que l’activation de ces dernières ne conduit pas à une dégradation de la programmation en services système. “

“A date, la concertation n’a pas permis d’aboutir à une définition partagée des critères permettant d’identifier une perte d’opportunité effective, ni le montant de cette perte, ni encore les moyens permettant de s’assurer d’éviter tout effet d’aubaine. Dans ces conditions, RTE n’est pas en mesure de proposer des modalités de prise en compte de ces pertes d’opportunité au sein du texte soumis à consultation et propose de poursuivre la concertation sur ce point en 2019 en vue d’une prochaine version de règles.”

EFET comments:

As stated in our answer to the previous consultation, EFET does not agree with the proposed principles for filtering. The principles seem to suggest that French system security and TERRE participation are mutually exclusive, and therefore RTE proposes to prioritise system security in France. However, by creating an integrated market, TERRE would rather enhance French system security than threaten it. RTE should hence strive to participate to TERRE in a way that will fully realise this potential of TERRE to enhance French system security. The prioritisation proposed by RTE is therefore in our view contradictory to the objectives of the Electricity Balancing Guideline.

In the previous consultation, RTE proposed priorities/ranking for the filtering. The order for filtering seems to have disappeared from this version of the rules. EFET would like to get clarity on how RTE intends to proceed to the filtering (although we don't agree with the priority/ranking principles previously proposed by RTE).

Last but not least, and as already stated in May 2018, EFET carefully noted that in its decision dated 22 June 2017 on the French Balancing green book/roadmap, CRE requested RTE to perform a quantitative study on the bid filtering, due in Q4 2017. EFET is not aware that this study has been performed or published, and requests it is before taking a decision on this matter.

RTE mentions several difficulties/challenges related to the determination of a fair compensation. EFET notes that these difficulties were already mentioned in the consultation in May and that no new elements are brought on the table. Stakeholders provided inputs on these elements. We request RTE to elaborate on the feedback received from market participants. EFET takes the opportunity of this consultation to re-iterate the feedback given in the previous consultation.

- *Comment calculer une perte d'opportunité pour les capacités bénéficiant d'une rémunération capacitaire ? La perte d'opportunité pourrait être incluse dans la prime fixe par l'opérateur de marché, puisqu'il a connaissance des modalités de « non partage » qui sont susceptibles de s'appliquer sur sa capacité ;*

EFET believes that the loss of opportunity linked to a "non-activation" or a "non-transfer" of offers is not related to capacity payment. The capacity remuneration is justified by the fact that market participants reserve capacity from the moment of contracting until the time of submitting the balancing offers. This covers the loss of opportunity for the market participant not being able to value its assets in the forward, day-ahead and intraday markets, in order to guarantee its availability for the submission of balancing bids.

- *Pour une capacité non partagée pour motif marge par RTE et lorsqu'un aléa survient sur le système, la capacité peut être utilisée par le RE subissant l'aléa pour rééquilibrer son périmètre : la capacité maintenue dans les marges joue pleinement son rôle et elle est utilisée pour*

couvrir un aléa (la rémunération est alors perçue directement par le RE et non par le mécanisme d'ajustement).

EFET believes the question of RTE misses elements in its reasoning, and by doing so muddles the questions of the services provided by BSPs, the individual balancing responsibility of BRPs and the collective management of imbalances by the TSO.

While BRPs are individually responsible for their imbalances, it is the TSO's responsibility to ensure the overall system balance. The principle of our zonal system is that all market participants have equal access to the network and can equally offer balancing services to the TSO(s) within a bidding zone. When a BRP's offer is filtered – i.e. rejected – by RTE for margin reasons, it means that the TSO takes the decision to exclude a market participant's offer from the merit order in which all are supposed to compete on a level-playing field. In order to guarantee the principle of non-discrimination, this action of the TSO warrants remuneration to the affected market participant as a BSP if its bid should normally have been selected for the MA. Following the example given by RTE, if the market participant would have normally been imbalanced following the selection of its bid in the MA, then the market participant should pay the imbalance price corresponding to this imbalance as a BRP. If in turn an outage occurs that leads RTE to use the capacity reserved from the same market participant for margin reasons, this does not change the situation of the market participant as a BRP: it remains in a situation of imbalance that needs to be corrected by the TSO, using the capacity set aside by RTE for margin reasons. One can see that if analysed carefully, the market participant cannot "benefit" from a filtered offer and thus reduce its imbalance.

Such a careful analysis is even more needed if RTE uses the capacity filtered for margins in order to solve congestions rather than to solve an imbalance in the system. As we expressed at numerous occasions in the past⁵, the use by RTE of margin calls for either congestion management or balancing purposes is still completely opaque. This results in a meddling of the balancing and congestion management accounts, likely leading to BRPs supporting the costs of congestion management that should normally fall in the TSO budget. Congestion issues should be revealed in order to trigger the right investments (in transmission but also in generation, demand response, and storage), and should not pollute the imbalance settlement price. Taking the example of the consultation again, the market participant should be remunerated as BSP for its filtered bid from the congestion management account, and should settle its imbalance as a BRP to the

⁵ 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 ;

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.

balancing account, based on an imbalance price that takes due account of the fact that some of the bids were filtered for congestion management reasons.

Control period – Pas de temps de contrôle (6.7.1)

"RTE propose, à l'horizon de la mise en œuvre de TERRE, de définir le pas de temps de contrôle à 10 minutes. [...] RTE proposera de réinterroger le pas de temps de contrôle à l'horizon du passage à un pas de règlement des écarts de 15'."

Reducing the control period for BSP activations in order to allow a shorter control period than the current 30 minutes is a legitimate objective of TSOs. While this entails a number of operational adjustments on the BSP side, we are not opposed to such a reduction.

The choice of a 10-minute control period, however, is very questionable. We have difficulties understanding how this will be compatible to the evolution towards a 15-minute imbalance settlement period (ISP). The implementation of national terms and conditions for balancing should not be the occasion for TSOs, and RTE in this particular case, to put in place requirements that will make the implementation of the EB GL more complex and that will justify further derogation periods.

Transfer of activation adjustments to BRPs - Transfert des déséquilibres d'ajustement aux Responsables d'Equilibre (6.7.4 & 9.2)

EFET comments:

We would like to share our disappointment with the lack of progress on the suppression of the "k factor". In the "green book" consultation, CRE proposed that the suppression would be investigated in 2018. To our knowledge, this topic has been postponed to discussions in 2019. In the current proposal, the "k factor" disappears on the BSP side (activation adjustments, 6.7.4) but remains on the BRP side (Imbalance settlement, 9.2). There is hence still no single imbalance price for BRPs.

As stated in our position on latest draft EB GL, the option that remains in the text of the Guideline for TSOs to propose dual pricing for imbalances is prone to maintaining inefficient price signals from the balancing timeframe. Dual pricing has the potential to blur the price signals emerging from the balancing market, and runs the risk of creating a barrier for new entrants or market participants with small portfolios. It may also be a deterrent to the application of balancing responsibility for intermittent renewable energy sources in view of their full integration into the market. EFET calls for the full suppression of the "k" factor in order to have one single price of energy in real time. Having a correct price signal in real time is crucial for dispatch and investment decisions.

Transparency – Transparence (8)

“RTE publiera l’ensemble des informations requises par le règlement Electricity Balancing sur la plateforme européenne prévue à cet effet et notamment « des informations sur toutes les offres d’énergie d’équilibrage de sa ou ses zones de programmation, anonymisées si nécessaire, au plus tard 30 min après la fin de l’unité de temps du marché en cause.”

EFET comments:

EFET welcomes the proposed transparency measures, which are actually implementing the transparency requirements on standard products from the EBGL.

EFET would like to remind however that given the important use of specific products in France and, in particular, given the fact that the MA is used for both balancing and system constraints, the French balancing mechanism must go beyond these basic transparency requirements. We already commented on the necessary transparency evolutions of the French balancing mechanism in our answer to the “green book” consultation. As we expressed at numerous occasions in the past, the use by RTE of margin calls for either congestion management or balancing purposes is still completely opaque. This results in a meddling of the balancing and congestion management accounts, likely leading to BRPs supporting the costs of congestion management that should normally fall in the TSO budget.

Concretely, EFET would welcome the following (non-exhaustive list):

- A publication with hourly granularity of the expected needed margins in D-1
- A publication with hourly granularity of the foreseen available margins in D-1
- A systematic publication of the actions undertaken by RTE in order to create margins, as well as the activation purpose (balancing, congestion, margin)
- A publication of the merit order (volume, price – anonymously) for the margins offered
- An indicator of the system state (overall position of the system) in real time

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A BE GCT for the RR standard product at H-55 minutes would start alleviating these concerns. We remind the RTE and its counterparts that this compromise would already leave a very short time (5 minutes) to market participants to integrate XBID results in their bidding for RR. A BE GCT for the RR process at most 55 minutes ahead of real time seems to us the minimum non-negotiable standard to ensure that the RR process respects Recital 12, and article 3 of the EB GL.

As the implementation framework for TERRE did not take a firm position on the BE GCT for RR products, and if the submission to the NRAs keeps the timing of the BE GCT open, then the governance for the adoption of the final decision on this crucial point should be much clearer. We understand from the workshop organised at ENTSO-E on 19 March 2018 that discussions will take place between TSOs and NRAs after the parallel run. We believe that this would constitute a circumvention of article 19 (3) (h) of the EBGL: the precise BE GCT should be in the form of a transparent RR TSOs proposal (with appropriate justification based on the parallel run results), open to stakeholder comments, and formally approved by NRAs. We encourage RTE to take strong leadership among the TERRE TSOs to make clarify this question and submit a proposal to the NRAs of a BE GCT for TERRE at H-55 minutes at the earliest, that would foster liquidity and competition on both XBID and the TERRE platform, especially given the fact that TSOs managed to move the formulation of demand from H-45 to H-40, freeing 5 minutes in the process.

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