

RTE consultation on the update of the balancing rules (MA-RE v.9)



EFET response – 23 May 2018

Chapter 3: Real-time Balancing Process

Q7. Do the principles proposed by RTE for the formulation of balancing needs on the TERRE platform seem relevant to you?

As stated in the EFET response to the TSOs consultation on the TERRE platform¹, 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 parties, TSOs would be directly active on the market, i.e. act as market participants. 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 impose *de facto* price caps on the market. TSOs would be marketing the energy from their imbalances, instead of procuring balancing energy to deal with their imbalances.

As mentioned in the above-mentioned consultation response, TSOs justify their call to allow elastic demand in TERRE for the following reasons:

1. TSO want to prevent the price of RR to “spike”, as they are concerned by a lack of liquidity on the RR platform
2. TSO want to cap the price of RR to the level of alternative balancing products, such as specific products
3. TSO want to cap the price of RR to the level of the expected price of mFRR

EFET strongly disagrees with these 3 motivations:

- The fear for low liquidity should not be a motivation to introduce price caps. Explicit or *de facto* price caps are not only wrong from an economics standpoint, they are also unlawful with regard to the EBGL: In its article 30.2, the Guideline makes it very clear that price limits can only be applied for technical reasons (IT, algorithm), and be reflective of the value of lost load. As mentioned in our paper on the free formation of prices², we believe that energy

¹ EFET response to the TSOs consultation on the TERRE platform, dated 4 April 2018, available at: http://www.efet.org/Files/Documents/Downloads/EFET%20response%20to%20TSOs%20consultation%20on%20the%20TERRE%20platform_04042018.pdf.

² The importance of free formation of prices in the European wholesale electricity market, dated 2 June 2016, available at:

prices should be allowed to reflect the true value of scarcity during times of system stress and high demand for power; similarly, when energy is in abundance prices should be allowed to reflect the value of displacing that generation and even go negative – which would give signals for storage operators/investments if they are not caused by out of the market reasons. Likewise, the volatility of energy prices, when not induced by flows in the market design – e.g. lack of transparency, excessive reserve margins, or any other distortion to price formation – is a sign that the market reacts appropriately and fast to demand and supply signals.

- 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.
- Capping the purchase price of replacement reserve to the “expected price of tertiary reserve” would imply that TSOs speculate on the evolution of electricity prices. Allowing TSO to perform a speculative activity would simply violate basic though crucial unbundling rules.

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 (MARI, PICASSO) for the any remaining needs.

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.

Concerning the probability coefficient "p" 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.

Q8. Do the principles and filtering priorities proposed by RTE to maintain margins seem relevant to you?

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.

This is in particular true for principle number 1 where RTE proposes to filter in priority the bids/offers issued by RR/RC contracted capacities. EFET would like to get clarification on the target model for these capacity contracts:

- If the intention is to make their specificities evolve towards the characteristics of respectively TERRE (for RC) and MARI (for RR) standard products (taking into account that MARI will probably accommodate both scheduled and direct activation products), then EFET strongly disagrees with the proposal to filter the related bids/offers in priority. This would violate article 30.9.a. of the Electricity Balancing Guideline.
- If, after approval of the Implementation Framework of TERRE, MARI and PICASSO, RTE deems necessary to develop specific products, then we remind RTE that there should be a clear motivation for designing a specific national product, explaining why the security of the system cannot be safeguarded with the broad set of standard products.

Regarding principle number 2, EFET suggests to solve the issue of LER capacity by adjusting the requirements/rules of the capacity product itself, rather than by introducing bid filtering rules related to these technologies. .

In conclusion, EFET thinks that principle number 3 should override the other principles. The TERRE platform is based on a common merit order list, where the selection of BSP contracted or free bids should be based solely on economic grounds. In the spirit of the Guideline, so should national frameworks like the MA work as well. Adopting this approach would reduce - or eliminate - cases where filtered offers generate an opportunity loss for the BSP.

Last but not least, 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.

Q11. RTE asks market participants to identify the methods that could be put in place to calculate the loss of opportunity that could occur on the capacities that could not be activated on standard product exchange platforms.

EFET wishes to react on two RTE statements/questions:

- *“How to calculate a loss of opportunity for capacities benefiting from capacity payment? The loss of opportunity could be included in the fixed premium by the market participant, since it is aware of the "non-sharing" terms that may apply to its capacity.”*

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 the market participant reserves 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.

- *“For a capacity not shared by RTE for margin reason and when an outage occurs on the system, the capacity can be used by the BRP undergoing the outage to rebalance its balancing perimeter: the capacity maintained in the margins plays its full role and is used to cover a outage (the remuneration is then collected directly by the BRP and not by the MA).”*

EFET believes the RTE question 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. When a BRP's capacity is filtered – i.e. rejected – by RTE for margin reasons, this 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 this market participant would have normally been imbalanced following the selection of this 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 past³, 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 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.

³ EFET response to the CRE consultation on the French electricity balancing reform roadmap, dated 20 January 2017, available at: http://www.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: http://www.efet.org/Files/Documents/Downloads/EFET_French%20balancing%20roadmap_17102017.pdf.