

TSOs consultation on the implementation of a European platform for the exchange of balancing energy from aFRR



EFET response – 29 June 2018

The European Federation of Energy Traders (EFET) thanks the TSOs for this consultation on the implementation framework for the future European platform for the exchange of aFRR.

We take the opportunity of this consultation to remind the TSOs of the importance of coordinating their approach on the aFRR 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 aFRR Implementation Framework (aFRR IF) of a consultation on the mFRR IF for the future European platform for the exchange of mFRR (MARI). Due consideration should also be given to interactions with the RR IF for the future European platform for the exchange of RR (TERRE), the Imbalance Netting IF for the project on imbalance netting (IGCC), and particularly the overarching proposals for pricing mechanisms and imbalance settlement. While the most obvious danger is conflicting rules of common interest for different projects, TSOs should also not leave gaps, believing that the questions would be addressed by other projects.

Comments on individual articles of the aFRR IF articles:

Art.1: No comment

Art. 2:

- **Art. 2(2)(k): Definition of social welfare:** the TSOs' proposed definition of social welfare is inaccurate, in the sense that it defines social welfare taking into account exclusively the aFRR process. In no case should this definition give the

impression that social welfare optimisation in the aFRR process alone would necessarily improve social welfare as a whole, taking into account other balancing processes and other market timeframes. Indeed, EFET considers the maximisation of social welfare as an objective of the aFRR AOF too broad given the limited scope of the aFRR process within the broader market. The maximisation of social welfare should be the outcome of the overall market functioning, of which the aFRR process is but a partial component. The aFRR process can contribute to the overall maximisation of social welfare by providing a clear signal to the market through cost-efficient activation of balancing energy. The Electricity Balancing Guideline (EBGL) clearly reflects this reasoning in its objective of improved cost-efficiency and reduction in system imbalance and costs for society (EBGL Recital 11 and 14). The EBGL does not consider or mention the maximisation of social welfare as an objective for the balancing market alone, and thus even less so for an individual balancing process.

In connection with Art. 10(2)(a), we see a danger in including an objective of improving so-called “social welfare” in the optimisation algorithm if the welfare analysis will only concern the aFRR process. The main objective of the aFRR process should instead be brought in line with the EBGL to have as its objective the cost-efficient activation of aFRR balancing energy. If any consideration is to be given to the maximisation of social welfare, and the contribution of the aFRR process to social welfare, this should be done in a holistic consideration including other balancing platforms and other market timeframes, in particular the intraday timeframe. EFET would prefer a more concrete objective of fulfilling TSO imbalance need using a market-based approach to achieve an efficient price signal. This makes it clear that the aFRR platform task is activating the cheapest bids on the CMOL. At best, this definition of art. 2(2)(l) should be re-labelled as “aFRR platform surplus”.

Art. 3:

- **Art. 3(3)(b): Counter activations:** Art. 3(3)b and 3(3)c seem to be overlapping, as the implicit netting via the Allocation Optimisation Function (AOF) is a way to minimise counter-activations. EFET therefore considers that both paragraphs should be integrated, stating that the platform will minimise counter-activations through the implicit netting process.

In general, we believe counter activations have no place in the implementation framework. Performing counter activations implies that the TSOs, through the platform, clear trades between market participants. This is not a core objective of balancing markets, and should not be a function performed by a balancing energy procurement platform. Instead, the core objective of balancing markets is to source balancing energy to solve imbalances. Counter activations on the other hand – meaning clearing bids between market participants – are market transactions that should be performed outside of the balancing market: all market liquidity that allows BRPs to self-balance their perimeter should remain in the intraday market.

In any case, if the possibility to perform counter activations is maintained in the IF, utmost care must be given to their interaction with imbalance settlement. Bids that are counter-activated by the TSOs for economic reasons must not influence the imbalance price.

- **Art. 3(3)d: Activation criterion:** we assume that the criterion to select bids from CMOL is exclusively their price. However part 5.5 of the explanatory framework assumes that other criteria may also be applicable. In this regard, the wording of art. 3(3)(c) of the mFRR implementation framework much more clearly states that the standard product bids will be activated according to the merit order, i.e. their price. We thus request that the implementation framework is clarified in this regard, and that the selection criterion of the cheapest bid is unambiguously confirmed, possibly using the wording of the mFRR IF.
- **Art. 3(4): Access of TSOs to higher amounts of aFRR than submitted to the common merit order list:** we fully support this principle. However, the wording used for the similar provision of the mFRR IF (Art. 3(5) mFRR IF) seems to us more appropriate. We recommend aligning the wording of the aFRR IF on it and modify the first sentence of Art. 3(4) aFRR IF as follows: **“Each participating TSO shall be able to “activate” additional aFRR volume than the volume “submitted by this TSO to the aFRR-Platform”** Appropriate monitoring and reconciliation procedures must be established to avoid any potential free-riding behaviour on the side of an individual TSO: indeed, repeated activations of higher volumes of aFRR than submitted could be the sign of a structural under-dimensioning by a TSO of its needs, which would foreclose opportunities for BSPs connected to it to provide balancing services.
- **Art. 3(5): aFRR activation process:** It is unclear how BSPs will be informed about the results of the optimisation algorithm for the activation process. Will all BSPs be informed at the same time, only those that participated, or only those that participated successfully? In our view, all market participants should be informed at the same time to ensure the highest level of transparency.

Art. 4:

- **Art. 4(2)(b): Efforts to harmonise terms and conditions and prevalence of EB GL over national legislation:** Art. 4(2)(b) introduces confusing language that could result in diluted efforts from the TSOs to harmonise terms and conditions related to balancing. It could also lead to national legislation prevailing over the EB GL in the implementation of harmonised and aFRR IF-compatible terms and conditions by the national TSOs. This would be in stark contradiction with Art. 18 of the EB GL and art. 15 of the aFRR IF. To avoid any confusion and in order to fully comply with the EB GL, Art. 4(2)(b) should be amended as follows: **“The TSOs shall harmonise the terms and conditions related to balancing proposed in accordance with Article 18 of EBGL.”**

Art. 5: No comment.

Art. 6:

- **Art. 6(1): Harmonisation of product characteristics:** we disagree with the TSOs' argumentation that the harmonisation of standard product characteristics as per Article 25(4) EBGL is optional. To ensure a level-playing field in all the LFC areas in Europe, market participants should face the same risks and opportunities. While we understand that some elements will be left for national

terms and conditions to be decided, nothing prevents TSOs from harmonising crucial points such as general rules, penalties and pre-qualification requirements to ensure a true level-playing field between market participants in different jurisdictions.

- **Art. 6(1)(a): Full activation time (FAT):** we note that the aFRR IF only foresees the harmonisation of FAT for the aFRR product to 5 minutes by 18 December 2025. Until then, TSOs can specify any FAT they want for the standard product, and cross-border exchanges will be performed with a FAT of at most 7,5 minutes. We see drawbacks and advantages to this approach chosen by the TSOs to postpone the harmonisation of the FAT for the standard product:
 - On the negative side, allowing a FAT of 7,5 minutes with some TSO and requesting FAT of 5 minutes with others contradicts the idea of a level playing-field. A framework with a harmonised FAT at 5 minutes from the go-live of the platform, with a possibility for time-limited and justified exemptions in case of concerns with liquidity or system preparedness in specific countries, as foreseen in the EBGL, would incentivise TSOs to harmonise the formulation of their aFRR needs more rapidly, in order to create a true level-playing field among BSPs of all LFC areas.
 - On the positive side, allowing multiple FATs until TSOs are ready to switch to a 5-minute FAT would avoid that TSOs that are currently not ready to harmonise the formulation of their needs with this FAT rely on specific products for an indefinite period of time. This would also allow greater liquidity on the platform, even though competition between BSPs would be somewhat distorted.

Should the TSOs maintain their proposal of non-harmonised FAT until 2025, we have a number of questions relating this proposal, more specifically **what happens until 18 December 2025:**

- What is the path towards harmonisation at 5 minutes in 2025?
- In the aFRR explanatory document it is stated that introducing a merit-order activation while allowing 7.5 minute FAT might jeopardise system security: is this acceptable for an intermediate period of 4 years?

We deplore that the conclusion of the study will only be made available to the market after the consultation period. We request full transparency on the studies performed by TSOs that led to the decision of adopting a FAT of 5 minutes by 18 December 2025 and the findings that would prevent an earlier adoption. Without such information, it is impossible to assess whether TSOs have taken the correct route and target to achieve FAT harmonisation.

- **Article 6(1)(c): Validity period:** It is unclear, how the 15-minute validity period efficiently works in countries which will have their imbalance settlement period set to 15 minutes only in 2025. We would welcome some input from the TSOs on this element.

Art. 7:

- **Art. 7 (1): BE GCT:** EFET would like to remind that during the last hour, local intraday markets remain open in many countries allowing market participants to re-adjust or rebalance their portfolios. Recital 12 of the EBGL explicitly requires the balancing energy market to facilitate self-balancing of market participants up to real-time. Consequences of the inevitable overlap between the cross-border balancing processes and local intraday and self-balancing actions should be minimised by the TSOs. Any excess procurement of balancing resources by the TSO should be avoided. Therefore only the original TSO demand should be taken into account by the TSO and in the corresponding common merit order list.

To maximise the potential alternative use of the returned bids (intraday market or self-balancing) and therefore the social welfare the BEGCT should be set to 15 minutes before real-time. This objective is explicitly stated in the EBGL through the requirement that the BE GCT is 'as close as possible to real-time' (Article 24(2)). EFET questions whether the proposed BE GCT time of 25 minutes is indeed as close as possible to real-time. Specifically, the TSO GCT will retain 10 to 20 minutes before the beginning of the validity period. EFET requests that at least the ambition of the TSOs be to move to a TSO GCT of 10 minutes before the validity period, and a BE GCT in line with that, i.e. 15 minutes before real-time.

Beside the BE GCT, it is necessary to also include the BE GOT into the aFRR IF, or at least some common requirements or guidance for the BE GOT. From an operational point of view, it can be more efficient to submit balancing energy bids to the aFRR platform in bulk after e.g. the day-ahead market. Thereafter, BSPs can make further adjustments based on the outcome of Intraday and other balancing markets. For this to work, a sufficiently early BE GOT is necessary. Therefore, the aFRR IF should require at least a minimum time for the BE GOT (e.g. after the day-ahead market is closed), if not a full harmonisation.

Art. 8:

- **Art. 8 (1): TSO GCT:** the aFRR IF should include a clear timing for the TSO GCT and should be set as close to BEGCT as possible, rather than the range of 20 to 10 minutes proposed by the TSOs. The range is imprecise and has no place in the IF: would it mean that each TSO can submit their bids whenever they want within this range? Or will a precise TSO GCT be decided at a later stage within this range, to be applied by all TSO? What is the effect of setting the TSO GCT at 20 or 10 minutes before the validity period (or any value within that range) on the performance of the platform, including the optimisation function?

Art. 9: No comment.

Art. 10:

- **Art. 10(2)(a): objective functions of the optimisation algorithm:** As mentioned in our comment to Art. 2, we see a danger in including an objective of improving so-called “social welfare” in the optimisation algorithm if the welfare analysis will only concern the aFRR process. The TSOs’ proposed definition of social welfare in Art. 2(2)(k) is inaccurate in the sense that it defines social welfare taking into account exclusively the aFRR process. Both the definition of Art. 2(2)(k) and the provision of Art. 10(2)(a)(i) could give the impression that social welfare optimisation in the aFRR process alone would necessarily improve social welfare as a whole. This is not the case, as the definition focuses on “aFRR platform surplus” only.

Would the definition of social welfare in Art. 2(2)(k) refer to all balancing processes and all market timeframe, then we would support the inclusion of this objective of maximising social welfare in the optimisation functions of the algorithm. However, and probably because the assessment of overall social welfare (not limited to the aFRR process) is too complex to include in the aFRR process, then the optimisation function of the algorithm should focus on the criteria of fulfilling TSO needs, minimising the amount of aFRR energy activated, as laid out in Art. 10(2)(a)(ii) and at minimal cost by selecting the cheapest bids on the CMOL. These criteria are both precise and accurate (contrary to the definition of social welfare proposed by the TSOs), and simple (contrary to what the implementation of an accurate definition of social welfare would lead to).

The objectives of the optimisation algorithm should therefore state, in descending order of importance:

- (a) *Maximising satisfaction of the aFRR demand of individual LFC areas;*
- (b) *Minimising the total amount of activation of standard aFRR balancing energy product bids, avoiding counteracting aFRR activation through implicit netting;*
- (c) *Minimising procurement costs of the balancing energy through the selection of the lowest-price bids on the Common Merit Order List;*
- (d) *Minimising the amount of automatic frequency restoration power exchange on each border between LFC areas.*

Art. 11: No comment.

Art. 12:

- **Art. 12(1): Unjustified economic advantages:** we see a serious danger in the first sentence of art. 12(1), “The rules concerning the governance and operation of the aFRR-Platform shall ensure that no participating TSO benefits from unjustified economic advantage through the participation in the aFRR-Platform”:
 - o First, art. 12(1) should not lose sight of the objectives of the EB GL, and more generally of the integration of European markets. Questions of cost sharing between TSOs should not come in the way of market integration.

- Second the notion of “unjustified economic advantage” is not defined: neither in scope (limited to aFRR process only?), nor in magnitude (what is unjustified?), or in time (over which period would such an unjustified economic advantage be assessed?) If the objective is to avoid free-riding of TSOs on the available bids on the European platform, this should be tackled directly. The vague formulation currently included is an open door for any limitation on TSO participation to the platform.
- Third, the provision does not specify any consequences to the occurrence of such a situation.

Given the importance of changes to the aFRR IF and any impact on the European platform, stakeholders should be involved sufficiently early in any change process and be formally consulted upon. Such participation and consultation should be included in the governance and decision-making processes.

Art. 13: No comment.

Art. 14: No comment.

Art. 15:

- **Art. 15 (2): stakeholder involvement:** EFET welcomes the structural involvement of stakeholders in a formalised harmonisation framework. It can support the future further convergence of the aFRR balancing energy markets across Europe.

Art. 16: No comment.

Art. 17: No comment.

Other general comments on the proposal

The proposal does not include any reference to obligations pursuant to Article 12 EBGL on the publication of information related to the PICASSO platform. The implementation framework should clearly state how this information will be disclosed, as well as adapt the information required under Article 12 EBGL to PICASSO specificities.

We also request that fall-back procedures, as required by Article 28 EBGL are put in place and clearly explained in the IF.

More generally, TSOs have failed to use the opportunity of the PICASSO project to create a true level-playing field for market participants. Market participants should face the same risks and opportunities in all LFC areas. While we understand that some elements will be left for national terms and conditions to be decided, nothing prevents TSOs from harmonising crucial points such as general rules, penalties and pre-qualification requirements to ensure a true level-playing field between market participants in different jurisdictions.