

EFET response to ACER consultation on the methodology for regional operational security coordination and the methodology for coordinated redispatching and countertrading for the Core capacity calculation region

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The European Federation of Energy Traders (EFET)¹ would like to thank ACER for the opportunity to comment on the methodology for regional operational security coordination and the methodology for coordinated redispatching and countertrading for the Core capacity calculation region (CCR).

Topic 1: Information on prices and costs provided by resource providers

Article 35(5) of the CACM Regulation requires that the relevant generation units and loads that provide redispatching and countertrading services to TSOs shall give TSOs the prices of redispatching and countertrading before redispatching and countertrading resources are committed. It further explains that the pricing of redispatching and countertrading shall be based on:

- 1. prices in the relevant electricity markets for the relevant time-frame; or*
- 2. the cost of redispatching and countertrading resources calculated transparently on the basis of incurred costs.*

Article 35(6) of the CACM Regulation requires that generation units and loads that provide redispatching and countertrading services to TSOs shall ex-ante provide all information necessary for calculating the redispatching and countertrading cost to the relevant TSOs. This information shall be shared between the relevant TSOs for redispatching and countertrading purposes only.

The proposals for the Core ROSC methodology and the Core RDCT methodology do not include such provisions and therefore do not address this requirement explicitly. Core TSOs clarified that their intention is to continue with national existing practices in Core CCR by which TSOs mainly use the indicative prices and costs of redispatching and countertrading when coordinating and optimising remedial actions.

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 currently represent more than 100 energy trading companies, active in over 28 European countries. For more information, visit our website at www.efet.org

ACER identifies three problems regarding topic. The first is the legal question on whether Article 35(5) and (6) of the CACM Regulation allows resources to provide indicative prices/costs of redispatching and countertrading actions which can then later be changed without any specific limitations.

The second problem relates to economic efficiency and incentives. Using indicative prices which can later be changed implies that after the optimal activation of redispatching and countertrading actions have been identified and these actions have been committed, the final settlement price of these actions can change, which would in ex-post analysis make the optimal solution a suboptimal one. Further, such a solution could provide many opportunities for manipulation since the bids prices/costs which are used for selection of the most economically efficient outcome are not those used for settlement. This would obviously provide economic incentive to provide consistently lower indicative prices in order for these resources to be committed and in ex-post raise the prices significantly to maximise the revenues.

The third problem is of a practical nature and revolves around the question of which options are available to address this topic. ACER understands that the process for coordination of redispatching and countertrading actions entails an inherent risk of the cost differences arising from the differences in ex-ante prices and costs (that are assumed during the regional optimisation) and ex-post prices and costs (that are known only after realisation of these actions). The only question therefore remains who should bear these costs differences and here ACER understands three options are available:

- 1. The ex-ante and ex-post prices/costs should be the same and any actual cost differences are borne and internalised by the providers of redispatching and countertrading action. For example, when market participants are bidding for balancing capacity they need to provide firm bid prices, even though the actual prices and costs for providing balancing capacity is only known in ex-post.*
- 2. The ex-ante and ex-post prices/costs can be different, but any cost differences arising from these different prices/costs should be borne by the TSO that activates these redispatching and countertrading actions – i.e. these differences are not being shared with other TSOs in Core CCR.*
- 3. The ex-ante and ex-post prices/costs can be different, and any cost differences arising from these different prices/costs are included in the total costs of redispatching and countertrading action that should be shared according to the regional cost sharing methodology.*

Question 1: Do you consider that Article 35(5) and (6) of the CACM Regulation allows resource providers to make indicative prices/costs?

The wording of Art. 35(5) and (6) of CACM does not suggest the possibility of providing indicative prices/ costs. The respective articles state that the prices of redispatching and countertrading – which we understand to mean the final prices - have to be provided before redispatching and countertrading resources are committed, together with all the information necessary to calculate the respective costs. This will ensure that the most efficient set of remedial action is selected to keep the grid safe and sound.

We would consider it important to make the distinction between market-based redispatch and cost-based redispatch schemes.

In case of the former, bids are firm in terms of prices and volumes, but nothing prevents market participants from updating their bids before they are effectively activated (for various reasons linked to market dynamics, outages, etc.). TSOs and RSCs must adapt to this dynamic feature (cf. Q3 for the question of who bears the financial risk of this).

As to the latter, even if cost-based redispatch is not the target solution set out in the Electricity Regulation, the principle of financial neutrality for market participants must be guaranteed. In addition to fuel and activation costs, the cost-based approach must take into account opportunity costs that are not known at the time of the bidding. Such costs are only fully known by TSOs and resource providers after the activation of the resource. So we have difficulties understanding how the principle of financial neutrality of the resource provider in cost-based mechanisms could be guaranteed without the possibility for an adjustment of the initial price.

Question 2: Do you consider that providing indicative prices provides good incentives for economic efficiency and prevents possible manipulations?

The issue is not present in the case of market-based redispatch, as described in our answer to Q1. Where price updates by the market participants are possible, they will always be known before the bids are activated.

With respect to cost-based redispatch schemes, we agree with the concerns expressed by ACER in relation to the use of indicative prices, which can then be amended ex-post, and we do not see how existing national practices that use indicative prices and a strict reading of Art. 35 of CACM can be compatible. Indeed, in a cost-based redispatching model, network users being redispatched or constrained on the energy market (including balancing) by TSO redispatching actions must be fully financially compensated (full costs and opportunity loss) as a matter of principle, so that the asset owner is left financially indifferent to the TSO action. This poses the question of how the costs (including the opportunity loss) can be compensated fully with ex-ante price estimations, without ex-post adjustment. Compliance with the letter of Art. 35(5) and (6) of CACM, while also respecting the fundamental principles of cost-based redispatching, seems particularly complex.

Furthermore, we note that TSO actions may have an impact on balancing markets, as some assets potentially contracted as reserves may be disabled because of the measure, leading to more expensive balancing activations or potentially to a lack of reserves, affecting subsequently imbalance settlement prices. When it has a potential to affect balancing reserves or balancing energy activation, the congestion management process needs to ensure that there is sufficient transparency on what is used for which purpose, that balancing energy bids activated for congestion management purposes do not impact the imbalance price, and that full compensation for congestion management actions is ensured.

Question 3: Who should bear the inherent risks related to differences between indicative and realised costs?

Options:

1. *The ex-ante and ex-post prices/costs should be the same and any actual cost differences are borne and internalised by the providers of redispatching and countertrading action. For example, when market participants are bidding for balancing capacity they need to provide firm bid prices, even though the actual prices and costs for providing balancing*

capacity is only known in ex-post.

2. *The ex-ante and ex-post prices/costs can be different, but any cost differences arising from these different prices/costs should be borne by the TSO that activates these redispatching and countertrading actions – i.e. these differences are not being shared with other TSOs in Core CCR.*
3. *The ex-ante and ex-post prices/costs can be different, and any cost differences arising from these different prices/costs are included in the total costs of redispatching and countertrading action that should be shared according to the regional cost sharing methodology.*

There is a clear separation of responsibilities in the electricity sector: market participants are responsible for balancing their energy portfolios, while TSOs are responsible for system security, including the management of congestions. Congestions may arise when market participants' portfolios are perfectly balanced. And market participants have no possibility to see and act on system congestions. Therefore, and keeping in line with the principles of congestion management inherited from the Second and Third Energy Packages, it is for the TSO to bear all the costs of congestion management.

(In line with this, we refer to the last part of our response to question 2 with regard to the attention regulators must have to avoid blurring the limits between balancing and congestion management processes.)

As a result of the above, we generally reject option 1. Options 2 and 3 rightfully place the financial burden of congestion management on TSOs. Their alternative application would depend on the situation:

In the case of market-based redispatch, a price update between the submission of the bids by the TSO to the RSC and the recommendation of the RSC to TSOs should be covered by all TSOs covered by this RSC (option 3). If the price update happens between the recommendation of the RSC to the TSO and the activation request of the TSO, then it is up to the local TSO to cover the cost difference because this specific TSO decided to wait before implementing the RSC's recommendation (option 2).

In the case of cost-based redispatch, the rationale for putting the financial burden of changes between the indicative and the final prices on one or all TSOs is quite different. For those models, it is ultimately a question of until when and how far bid prices can change, according to the national design chosen by each TSO. We understand the worries that some TSOs and NRAs may have because of the design of redispatch models that varies from one Member State to the other and may lead to unexpected discrepancies between indicative and final prices. In this sense, we believe that an alternative option (4) should apply: the price difference should be covered by the connecting TSO, which is the one responsible for the setup of their redispatch model. In the long-term, we encourage TSOs and NRAs in Member States using cost-based redispatch to harmonise their models, so that the choice for option 3 would become uncontroversial.

Topic 2: Deviations between recommended, ordered and delivered volumes of redispatching and countertrading actions

*Similarly as in case of indicative vs. realised **prices** and costs, the costs of redispatching and countertrading actions may also deviate due to differences between recommended, ordered and activated **volumes** of these actions. More specifically, an RSC may identify the most optimal set of redispatching and countertrading actions and recommend them to the connecting TSOs to order these actions from resource providers. For various reasons the ordered volumes could deviate from the recommended volumes. Then, once the resource providers received the information on the ordered volume, they can, for various reasons, deviate from this volume and deliver an activated volume, which is different from the ordered volume.*

All these deviations raise the question how they impact the settlement between a TSO and a resource provider and the cost sharing among TSOs.

Regarding the deviations between recommended and ordered volumes, ACER considers that the TSO that deviates from the recommended volume shall bear the costs related to these deviations, unless such deviations have been agreed or confirmed by other TSOs in Core CCR as well.

Regarding the deviations between ordered and activated volume, these deviations should not in principle impact the total costs to be shared in the region. Therefore, the Core ROSC methodology and the Core RDCT methodology may specify the rules for such settlement, or it could keep these settlement rules subject to national framework governing redispatching and countertrading.

Question 4: Do you agree that cost differences related to volume deviations between recommended and ordered volumes are shared only in case those deviations are agreed or confirmed by all Core TSOs?

Yes, we agree with ACER's view that the TSO that deviates from the recommended volume shall bear the costs related to these deviations, unless such deviations have been agreed or confirmed by other TSOs in Core CCR as well.

Question 5: Do you agree that the settlement of cost differences related to volume deviations between ordered and activated volumes is not governed within the Core ROSC methodology and the Core RDCT methodology? If not, how would you propose to govern and define such settlement?

Yes, we agree that the settlement of deviations between the ordered and activated volumes could remain ruled at national level (possibly via the application of the imbalance price). However, as mentioned in our response to question 3, we advocate a harmonisation of redispatch models across the Core region.

Topic 3: Other Comments

Question 6: If you would like to comment on other topics, please indicate clearly the related Article, paragraph and sub-paragraph of the Core ROSC methodology or the Core RDCT methodology and add a sufficient explanation.

In order to reflect the strong physical inter-linkage between Switzerland and Core Member States – in particular Austria, France and Germany – and with a view to future possible

extensions of the Core region, EFET suggests a close coordination of costly and non-costly remedial actions between Core TSOs and the Swiss TSO.

The focus of the methodology seems to be mainly on redispatching actions. However, countertrading should also be considered, and a framework must exist, so that the principles described in our answer can also be applied to countertrading. Similarly to redispatching bids, one could think of setting up countertrading bids where the only difference with redispatching bids would be the locational tag that is defined on a bidding zone level rather than on an asset level.