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Comments on the draft Electricity Balancing Guideline

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EFET welcomes the start of the Comitology process for the Balancing Guideline. With the finalisation of the last market-oriented Network Code, the process of integrating the European electricity markets can be further accelerated. The Balancing Guideline is an significant step in that direction, as the balancing markets are still lagging behind in their integration compared to the other markets such as the intraday and forward markets. Yet, as the final timeframe of the electricity market, balancing markets perform the vital function of setting the price signal that will be used by market participants in all other timeframes. For EFET, it is not only important that the balancing markets across Europe become more integrated, but also that this integration is done in a way that strengthens and improves the functioning of the market as a whole.

EFET has been following the drafting of the Balancing Guideline from the beginning, together with other stakeholders. The Balancing Guideline has seen some significant improvements, thanks to the contribution of market participants, ACER and the European Commission. Yet again, some elements over which market participants have raised concerns still remain in the version that was submitted to the Member States by the European Commission. The last draft version, as introduced in the Comitology process, has seen various changes. We would like to present the EFET view on a selection of changes, highlighting welcome improvements but also pointing to some elements which remain of particular concern.

There are **two major improvements** to the new draft Balancing Guideline for EFET:

- The integration process no longer includes the concept of Coordinated Balancing Areas (CoBAs) but instead opts for an integration based on the use of a European balancing platform to which individual markets can plug-in. For EFET, the use of CoBAs posed the risk that the integration process would stall due to regional integration projects based on diverging market designs. The new approach to the integration process presented in the last draft is thus an improvement, as it will ensure that the target model of European integration is reached.

  Nevertheless, EFET would like to point to the risk of difficulties in achieving agreement on the European market platform. It is indeed an essential first step of the new approach and a key to keeping the tight deadlines of the Balancing Guideline. As the Balancing Guideline makes no clear choice of a target model for the balancing market, agreement on the target model may prove difficult.

- EFET also welcomes the explicit prohibition of price caps and floors for balancing energy introduced in Art. 21.3(e) and Art. 31.2. In order to allow the balancing market to function optimally, free pricing of balancing energy bids is essential. Only this way can the right price signals be propagated throughout the various market timeframes and help identify, as the case may be, scarcity or surplus. EFET has been advocating the removal of artificial price caps and floors consistently in the past, and we therefore welcome this explicit prohibition in the Balancing Guideline.

On the other hand, the new draft Balancing Guideline has introduced **some changes that EFET considers as a step back compared to the previous draft version**:

- The provision that TSOs cannot offer balancing services has been removed. For EFET, this was – and remains – a key provision to ensure the integrity of the balancing market. Transmission System Operators (TSOs) are the single buyer on the balancing market and have, as such, significant market power. Allowing them to offer balancing services on this market would seriously undermine the correct functioning of the balancing market. It would also go directly against the principle of unbundling, as TSOs would become active market participants on the electricity market. EFET also sees no reason for TSOs to provide balancing services, especially in a market with free pricing where the balancing needs of TSOs are signalled correctly.

- The Balancing Energy Gate Closure Time (BE GCT) has been disconnected from the Intraday Cross-Zonal Gate Closure Time (ID XZ GCT). While the provision that the BE GCT cannot be further from real-time than 60 minutes is a positive change, the connection to the ID XZ GCT also served a role to ensure that the cross-border intraday markets cannot be closed after the BE GCT. Doing so poses the risk to remove liquidity from the cross-border intraday market as balancing bids have to be submitted before the cross-border intraday market is closed. EFET therefore proposes to keep the 60 minute limit but to re-introduce the provision that the BE GCT in any case has to be after the ID XZ GCT.

Finally, **EFET considers that some elements remaining in the draft Balancing Guideline are detrimental** to the functioning of the electricity market:

- The cross-border reservation of transmission capacity for balancing purposes poses a risk to the previous trading timeframes. The use of cross-border transmission capacity is a key element in the European market integration of forward, day-ahead and intraday timeframes. As the role of Balancing Responsible Parties (BRP) is a cornerstone in the market design, BRPs should have access to all available capacity, including cross-border transmission capacity to balance their perimeter in an economically efficient way. A major objective of integration projects such as the EU Harmonised Allocation Rules for forward transmission rights, day-ahead flow-based market coupling and the future platform for implicit cross-border intraday trading are to improve the access and use of such transmission capacity. In its last version, the Balancing Guideline would turn the clock back on those improvements by allowing TSOs to remove some transmission capacity from the market, based on unclear assessments of the value of transmission capacity in the balancing timeframe. EFET therefore asks that all cross-border transmission capacity remains available to the market and cannot be reserved by TSOs for balancing purposes.

- The procurement methodology for balancing capacity remains too vague for EFET, as the term 'market-based method' remains open for interpretation. As this is a key feature in the organisation of the balancing market - including the access of TSO to sufficient balancing capacity - the establishment of a real, functioning market should be better ensured. EFET therefore asks that Art. 27.2 would refer explicitly to the establishment of a primary market for the procurement of all balancing reserves. Only by establishing a primary market to procure balancing capacity are market participants assured that they participate in a free market with correct remuneration of their services and are TSOs assured that market participants remain willing and available to meet their balancing requirements.

- The option that remains in the draft for TSOs to propose dual pricing for imbalances is prone to maintaining inefficient price signals from the balancing timeframe. Dual pricing, which is foreseen as a possible option in Art. 16.2 and 53.2.c, has the potential to blur the price signals emerging from the balancing market, and runs the risk to create a barrier to entry 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 therefore asks the removal of this option from the Balancing Guideline.

The points as listed above are the main elements of improvement, deterioration and concern for EFET in the draft Balancing Guideline submitted by the European Commission to Member States in view of the Comitology process. Keeping the points of improvement and addressing the points of deterioration and concern would guarantee major steps forward to ensure a cost-efficient European integration of balancing markets. They would also mean a European balancing market that sets the right condition for a better functioning of markets in all timeframes, to the benefit of European consumers.