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# EFET comments on the draft Electricity Balancing network code submitted by ENTSO-E to ACER on 23 December 2013

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The European Federation of Energy Traders (EFET)[1] would like to share its views with respect to the draft network code on Electricity Balancing, which ENTSO-E submitted to ACER on 23 December 2013. It is clear from this document that considerable work from ACER will be required to complete the drafting of the network code and to ensure that the code complies with the Framework Guidelines.

We are ready to help with these tasks and have drafted some initial comments in the sections below. EFET already has some text proposals which were submitted to ENTSO-E during the consultation[2] which we would be happy to discuss with ACER and/or NRA officials. Updated and detailed text proposals may also be found in the annex to this document.

We believe the network code on Electricity Balancing should be articulated around two founding principles, namely efficient functioning of balancing markets, in coordination with markets in other timeframes, and the preservation and promotion of the self-dispatch model.

## 1. Ensuring efficient market functioning in the Electricity Balancing NC

For the network code to ensure efficient market functioning for balancing – but also intraday – a number of key elements should be anchored in the code:

- TSOs should not be able to offer Balancing Services themselves, since this implies long-term ownership of a generation asset and as such goes against unbundling.

[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 27 European countries. For more information, visit our website at www.efet.org.

[2] Please see the EFET comments on the draft Electricity Balancing network code, dated 16 August 2013, available at: http://www.efet.org/Cms_Data/Contents/EFET/Folders/Documents/EnergyMarkets/ElectPosPapers/~contents/YNWJK2WF2JVUVRVT/EFET-Comments-on-EB-NC_16-Aug-13.pdf.

- The procurement methodology for Balancing Capacity should be made explicit instead of merely referring to being 'market based'. This avoids confusion during implementation about whether a methodology is actually market based or not. In particular a methodology based on mandatory delivery of capacity to a TSO with secondary trading of these obligations among market parties, should be prohibited.
- Every BSP should facilitate the coordination of BRP actions for BRP(s) on whose perimeter it is active. This will avoid logical but counterproductive actions by the BRP.
- The European Integration Models should apply to all TSOs and not a subset of selected or participating TSOs. This is needed to ensure full harmonisation of the Internal Electricity Market.
- Balancing actions of TSOs should interfere as little as possible with the market and the market should be given maximum possibilities to balance supply and demand in the intraday timeframe. This requires, *inter alia*, clear and transparent activation criteria for replacement reserve to avoid unnecessary interaction between TSOs' and market parties' actions.
- BRPs should be given maximum opportunity to balance their own position. To this end a gate closure time for intraday trading and position changes as close as possible to real time has to be preserved. Furthermore, interference with the balancing energy market has to be minimised, to enhance liquidity on the intraday market, as the market for short term flexibility.

## 2. Preserve and promote self-dispatch

The concept of the EU target model was developed to give some informal direction to the network code process and to reinforce the concepts already embodied in legislation. This model is based on a market where prices are set by the free interaction of supply and demand, where wholesale power trading determines prices, and with the TSO playing a residual role in the production and supply of electricity.

While the Framework Guidelines on Electricity Balancing allow "the parallel existence of central dispatch and self-dispatch arrangements", we believe that an electricity system based on central dispatch is largely not compatible with the spirit of the target model and has much in common with the single buyer concept that has already been rejected. Instead of freezing the market well ahead of real time, the self-dispatch model allows market participants to optimise the final dispatch from an economic perspective, within the security limits provided by TSOs. Central dispatch should be considered as an exception and not an additional model that TSOs/NRAs can choose.

Therefore, we believe the following principles should be anchored in the code:

- BRPs should be provided with information that allows them to optimally perform self-dispatch, including balancing their perimeter and helping the network.
- BRPs should be given every opportunity to balance their own perimeter before TSOs solve any residual imbalances.

The success of the third package now depends on a relatively standardised market design consistent with the existing legislation and the target model, and this requires self-dispatch arrangements to be consolidated.

**ANNEX – Detailed amendment suggestion on the draft Electricity Balancing network code dated 23 December 2013**

**Article 2 – Definitions**
TSO-TSO model: delete sentence "The TSO-TSO model is the standard model for the Exchange of Balancing Services". This is not true since it is "TSO-TSO model with a Common Merit Order List" and anyway not useful as part of a definition.

**Article 7 – Publication of information**
The publication of information by TSOs shall include appropriate metering information to give BRPs a precise estimation of their imbalance in real time as well as first figures of their real time imbalances closely afterwards.

**Article 8 – Delegation of functions**
Delegation of functions by TSOs to a third party (Article 9) can only be authorized providing that impartiality of this latter is ensured: the third party must not be an active player in Balancing Markets.

**Article 9.1(f) – General objectives of the balancing market**
A BSP should facilitate the coordination of BRP actions for BRP(s) on whose perimeter it is active. If the BRP is not informed of BSP actions within its perimeter, the BRP may take justified, but counterproductive, measures to compensate for the imbalance it sees in its portfolio.

**Article 13.4(a) – European Integration Model for Replacement Reserves**
Since this article concerns the European target model, it should apply to all TSOs. The application should thus not be limited to a list of TSOs.

**Article 15.4(a) – European Integration Model for Frequency Restoration Reserves with Manual Activation**
Since this article concerns the European target model, it should apply to all TSOs. The application should thus not be limited to a list of TSOs.

**Article 17.4(a) – European Integration Model for Frequency Restoration Reserves with Automatic Activation**
Since this article concerns the European target model, it should apply to all TSOs. The application should thus not be limited to a list of TSOs.

**Article 19.4(a) – European Integration Model for Imbalance Netting Process**
Since this article concerns the European target model, it should apply to all TSOs. The application should thus not be limited to a list of TSOs.

**Art. 21.1 – Role of the TSOs**
The code should set an European Target Model for cross-border balancing, even though exceptions and derogations can be provided. Therefore, Central Dispatch systems should be considered as an exception and not set an additional model that TSOs and/or NRAs could follow. Ultimately Central Dispatch is not compatible with an internal market, requiring that generators can sell across borders independently.

**Article 21.3 – Role of the TSOs**
TSOs should not offer Balancing Services themselves. This would imply ownership of a generation asset, which is a long term measure that goes completely against the unbundling principle of the Internal Energy Market as put forward in Article 9§1(a) of the Third Energy Package (Directive 2009/72/EC).
Instead it should be stated that Balancing Services shall be priced efficiently enough to give correct incentives to (potential) Balancing Service Providers in order to avoid a situation where there is insufficient Reserve Capacity in regard to requirements of NC LFCR.
Additionally, it should be clarified that measures should only be submitted for regulatory approval in case of insufficient volumes of Reserve Capacity with respect to dimensioning requirements pursuant to [...].

**Article 23.2 – Role of Balancing Service Providers**
In the role of the BSPs it should be included that BSPs should provide BRPs with the necessary information in case the BSP is active within the balancing perimeter of the BRP. Otherwise, if the BRP is not informed of BSP actions within its perimeter, the BRP may take justified, but counterproductive, measures to compensate for the imbalance it sees in its portfolio.

**Article 26.3(c) – Terms and conditions related to balancing**
The assignment of a Balancing Energy bid from a BSP to a BRP should be performed in concert with the BRP, pursuant the comment made in Article 9.1(f) and 23.2.

**Article 27.1 – Scheduling and dispatch arrangements**
It should not be possible to roll back the liberalization of the Internal Energy Market by reverting to Central Dispatch System. As such, TSOs should not be able to apply to their NRA to be acknowledged as a TSO operating a Central Dispatch System. Central Dispatch Systems should be limited to the TSOs that currently operate them (Greece, Hungary, Ireland, Italy, Northern Ireland and Poland) and preferable be phased-out.

**Article 28.5 – Requirements for Standard and Specific Products**
The list of requirements for standard products for Balancing Capacity and Balancing Energy) should mention a fixed start point and a fixed stop point to allow products corresponding to schedule shifting.

**Article 31.3 and 31.4(c) – Balancing Energy Gate Closure Time**
Market parties, as BRPs, should be given maximal opportunity to balance their own portfolio through intraday trading and dispatch of generation and load units. Fixing the Balancing Energy Bids at a Balancing Energy Gate Closure Time that allows 'sufficient time for common processing of Balancing Energy bid', in combination with an obligation to offer unused generation capacity (as stated in Article 26.8(c)), would severely restrict the ability of market parties to balance their own portfolio. Especially in light of the growing share of RES and the obligation of RES to become balance responsible, the ability to self-balance as close as possible to real-time should be safeguarded.

**Article 31.4(b) – Balancing Energy Gate Closure Time**
The intraday and balancing markets should be kept separate and not overlap. Overlaps remove liquidity from the intraday market, and as such reduces opportunities for market participants to balance their own portfolio.
While EFET is pursuing its thought process on this point, we understand that Article 31.4(b), by foreseeing the possibility for the Balancing Energy Gate Closure Time for automatically activated Balancing Energy bids to be before the Intraday Cross Zonal Gate Closure Time, may potentially lead to such an overlap. Whichever the case may be, EFET insists on the importance for any automatic FRR

project requiring the move of the Balancing Energy Gate Closure time before the Intraday Cross Zonal Gate Closure Time to keep the latter as close as possible to real time (one hour before real time at worst, ideally up to 15 minutes before). Automatically activated Balancing Energy bids should not lead to moving the Intraday Cross Zonal Gate Closure Time further away from real time and leave market participants worse off compared to manually activated Balancing Energy Bids.

**Article 33.2 – General Provisions**
The procurement of Balancing Capacity, both within a Responsibility Area or a CoBA should be based on a call for tender since this is the only interpretation acceptable of a market based method.

**Article 33.4 – General Provisions**
It should be specified when this provision (obligation to procure upward and downward Balancing Capacity separately) comes into effect: moment of Entry into Force of the Network Code?

**Article 35.7 – General Provisions**
The procurement of Balancing Capacity, both within a Responsibility Area or a CoBA should be based on a call for tender since this is the only interpretation acceptable of a market based method.

**Article 60.3/4 – Imbalance Price**
The imbalance settlement should be linked to the costs for activation of Balancing Energy. This ensures the financial neutrality of the TSO since balancing payments inflows will be matched by the payment outflows.