

RTE consultation on the participation to the FCR cooperation (Balancing Pilot Project #2)



EFET response – 18 December 2015

The European Federation of Energy Traders (EFET)¹ thanks RTE for the opportunity to provide its views on the possible participation of RTE to the cooperation on Frequency Control Reserves (FCR) experimented by the Austrian, German, Dutch and Swiss TSOs, currently labelled as Balancing Pilot Project #2 for the pre-implementation of the draft Electricity Balancing network code.

EFET has welcomed and is actively involved in the initiative of ENTSO-E and TSOs to run pilot projects to help the design and pre-implementation of the electricity balancing target model, since its inception. We see the consultation run by RTE as a move in the direction of more transparency in the work of the TSOs on the Balancing Pilot Projects².

We consider Balancing Pilot Project #2 as a corner stone of the harmonisation of balancing arrangements and products in Europe. The project, which is already running in practice in four countries, aims to establish one common market for the procurement of FCR. We see that this initiative could serve as a learning tool for the harmonisation of procurement for other balancing capacity products. Hence the importance to get the model, but also the governance of this cooperation right.

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.

² We refer to the common EFET, Eurelectric, EWEA and Europex letter on improved stakeholder involvement in the Balancing Pilot Projects for more details on the subject, dated 29 June 2015, available at: http://www.efet.org/Cms_Data/Contents/EFET/Folders/Documents/EnergyMarkets/ElectPosPapers/~contents/GBG2HD83V23SL8AF/Joint-Associations_BPP-engagement_26062015.pdf.

Question 1: Do you share RTE's interest in the cross-border optimisation of reserves through tenders?

Chapter 3 of the Electricity Balancing network code (ACER version of 20 July 2015³) incentivises and mandates TSOs to procure balancing services in a coordinated manner. We regret the decision of TSOs – despite repeated demands from market participants – to exclude the possibility of a direct BSP-BSP exchange of primary reserves despite illustrations of potential economic benefits to this solution, as highlighted in the RTE consultation.

Nonetheless, we welcome the interest of RTE to participate in cross-border optimisation of procurement of primary reserves through tenders with its counterparts in CWE. The FCR cooperation started by the Austrian, German, Dutch and Swiss TSOs is already active and we see benefits in the pooling of reserves at a wider scale with the inclusion of RTE – and later Elia and Energinet.

Question 2: Do you share the approach of RTE to only tackle primary reserves as a first step?

EFET agrees with the approach proposed by RTE to focus initially on the procurement of FCR - primary reserves – and leave the question of Frequency Restoration Reserves (FRR) – secondary reserves – for later discussion. The RTE proposal mainly looks at the participation of RTE in Balancing Pilot Project #2, which focuses solely on FCR.

As highlighted by RTE, some French Balancing Service Providers (BSPs) provide coupled FCR and FRR. A participation of RTE in coordinated FCR procurement at regional level should identify the effects of decoupling these services for the BSPs currently providing combined FCR and FRR, and analyse the overall welfare gains or losses induced by this change (at national and regional level).

Question 3: Do some differences seem problematic to you? If so, why?

Some differences highlighted between the French and German FCR procurement systems are significant, such as the rules for the control and penalties, and the rules on secondary markets.

Regarding the rules on control and penalties, RTE implies in the consultation document that despite fundamentally different philosophies – few controls with very high penalties in Germany, regular controls with lower penalties in France – the outcome of the two systems is quite similar in Germany and France. This may be true in terms of the actual penalties paid by market participants overall. But this means a significant difference in FCR procurement costs and risk management practices (including margining) at individual BSP level,

On the responsibility for failure to deliver and the possible exchange of reserves between BSPs, we also see a potential hurdle. The possibility for BSPs to exchange reserves between themselves after the operational window in France allows market participants to correct misalignments or underperformance of some of their committed units. It seems that the lack of such BSP-BSP reserve exchange option on the German side and the obligation to have a back up in market participants' portfolio unduly constrains market participants' possibility to adjust their portfolio and commitments freely. Besides, it is prone to constrain the volume of reserves available to market. If TSOs consider that this difference between the two systems is not problematic, it should not delay

³ All references to the draft Balancing network codes are made in reference to the ACER version of 20 July 2015. Articles numbers are adapted accordingly.

the participation of RTE in the FCR cooperation, but we recommend that TSOs participating in the cooperation assess the opportunity to allow for BSP-BSP adjustments.

We believe that RTE and its counterparts in the FCR cooperation should conduct a proper analysis of the effects of running a cooperation with some significant differences between the control areas and should present this impact assessment to stakeholders. Provided that such differences do not negatively impact fair competition between market participants in the various control areas – and here, an analysis of the control and penalty systems of the Austrian, Dutch and Swiss systems would have been welcome – we would not see such differences as problematic.

Question 4: Is the resolution of those problematic differences a prerequisite to the coupling of primary reserves markets, or is it acceptable to work towards resolving those differences at a second stage, once the markets are coupled?

While EFET believes in the benefits of harmonising rules and arrangements at regional and EU level, we think that the decision to harmonise specific market design elements should be guided by the overall welfare benefits that can arise from it. Should the harmonisation of the rules and arrangements detailed in the RTE consultation document significantly delay the cooperation of RTE with its neighbouring counterparts in pooling FCR resources, then TSOs should consider starting their cooperation on differentiated arrangements. It seems that the FCR cooperation is already operating on the basis of different FCR procurement models in Austria/Switzerland vs. Germany/The Netherlands. We therefore believe that the resolution of the differences between the French system and the others in the cooperation should not delay the participation of RTE in the cooperation, provided that TSOs pursue their analysis of the benefits of potential harmonisation and work towards harmonised rules and arrangements where these make sense from an overall welfare standpoint.

Question 5: Have you identified other important elements that were not mentioned?

No EFET comment.

Question 6: Do specific French market rules need particularly deserve to be retained?

As mentioned in our answer to Q3, we believe that the possibility for BSPs to exchange reserves among themselves to adjust their positions is an interesting feature of the French market. We believe that TSOs in the FCR cooperation ought to study how this solution could be implemented in the region.

Question 7: Do you share RTE's interest in participating to the cooperation?

We believe that the participation of RTE to the FCR cooperation is prone to bring benefits in France and in the region. The larger the pool of FCR TSOs can rely on, the less they will need to contract. We also subscribe to RTE's assessment that its participation to the FCR cooperation would increase competition on the primary reserves market, which has suffered in France from relative concentration. For all these reasons, we would welcome the participation of RTE in the FCR cooperation.

Question 8: Is the weekly frequency for tenders acceptable? Would you wish for a daily or monthly frequency?

As such the weekly frequency of the tenders seems appropriate to the current framework of the cooperation. From a pragmatic perspective, we propose that the inclusion of RTE in the FCR cooperation starts off based on the existing weekly tender.

In the longer term, a modification of the frequency of the tenders would depend on a number of elements:

- expectations in terms of liquidity: monthly or daily tenders may prove unworkable to some market participants, for whichever reason, who would withdraw from this market
- evolution of the rules on secondary trading: provided that secondary trading between BSPs is allowed, tenders can theoretically be pushed more in advance of real time (e.g. monthly frequency) as BSPs can adjust their portfolios closer to real time

Question 9: Is the 168-hour product acceptable? Would you rather retain the 168-hour product or support the introduction of peak/off-peak products?

Referring to our answer in Q8, we believe that for pragmatic reasons, starting the inclusion of RTE in the FCR cooperation with the current product resolution seems the best solution. A change towards a peak/off-peak product can only be done for all participating countries simultaneously without breaking the cooperation. However, we believe that in order to ensure fair competition between market participants, establishing a cross-border secondary market is necessary. This would enable all market participants regardless of their portfolio, to participate in the weekly tender based on a single product and adjust their position closer to real time. Should this not realise, RTE and the TSOs in the cooperation should investigate the possibility of introducing peak/off-peak products.

Question 10: Do you think the absence of cross-border BSP-BSP exchange of reserves (secondary market) is problematic?

As highlighted in our responses to Q3 and Q6, we believe that the possibility to exchange reserves between BSPs is a good feature of the French mechanism. TSOs in the cooperation should conduct a real assessment – including a consultation of market participants – on the subject before concluding that the cross-border exchange of reserves between BSPs “is not really useful”. We believe that such a system gives more flexibility to market participants and is likely to free up more reserve capacity – especially if the solution of the weekly tender based on a single product is maintained (cf. our answers to Q8 and Q9). A thorough analysis of the welfare cost and benefits of introducing such a measure should be performed by the TSOs in the cooperation.

Question 11: In the absence of cross-border BSP-BSP exchange of reserves with a secondary market in addition to the tenders, do you see options for improvement for the French secondary market?

No EFET comment.

Question 12: Is the absence of indivisibility of the product acceptable? Do the advantages of indivisible offers outweigh their drawbacks?

We believe that the absence of indivisibility of the product is acceptable. In the perspective of the possible cooperation with the other CWE TSOs, we believe that the absence of indivisible products will be necessary. Indeed, the indivisibility of products from Swiss BSPs currently poses problems to the seamless integration of FCR procurement in the existing cooperation. In situations with an indivisible Swiss bid being the last accepted bid, the CMO is split up. Adding indivisible products on the French side would increase the occurrences of decoupling.

Question 13: Is the absence of asymmetric products acceptable?

The inherent symmetry of the FCR signal justifies that there is no separate remuneration for balancing energy, as the amount of energy delivered and withdrawn is roughly the same. This way pricing the product is much easier than pricing separately the capacity and the provision of positive/negative energy. This also calls for sufficiently long procurement duration, as for single days or even shorter blocks, the assumption of an equal portion of positive and negative energy can no longer be maintained.

Question 14: Is pay-as-bid remuneration acceptable?

Yes.

Question 15: Is the current rule of cost sharing among TSOs acceptable? Otherwise, which principles should guide the evolution of this rule?

No EFET comment.

Question 16: Is the absence of a stakeholder involvement and co-decision structure in the cooperation acceptable?

EFET has warned ENTSO-E and individual TSOs of the lack of stakeholder involvement and transparency in decision-making within the Balancing Pilot Projects. For a project like the FCR cooperation, which is already running, a clear governance structure for the adoption/modification of rules on the design and for the monitoring of the operation of the mechanism is needed. Market participants should be involved in this process through appropriate consultation tools. Too many statements in the RTE document highlight the fact that TSOs in the cooperation consider certain elements useless or unrealistic, without proper justification and without a possibility for stakeholders to possibly oppose such executive decision that impact them.

Question 17: Considering the above-mentioned elements, would you accept that RTE joins the cooperation as it stands?

We would welcome the participation of RTE in the cooperation since we believe it is the right step forward. Nonetheless, this does not exonerate RTE and its counterparts in the cooperation from assessing ways to improve the rules and arrangements in the cooperation, with the input of market participants, with a view to increase overall welfare.

Question 18: Can you rank your three most important changes requests in the cooperation rules?

1. Establishment of secondary exchange of reserves between BSPs
2. Study on the impact of different criteria and rules (including controls and penalties) on the competition between BSPs in the different control areas of the cooperation
3. Establishment of a governance structure for the consultation of stakeholders and co-decision within the cooperation

Question 19: Do certain elements absolutely need to be clarified before a participation of RTE to the cooperation? Would a commitment to study these elements within an appropriate timeline be sufficient for RTE to join the cooperation as it stands?

We believe that the FCR cooperation as it stands so far has proved that it can function with certain differences between the different national systems for the procurement of primary reserves. Nonetheless, this does not exonerate RTE and its counterparts in the cooperation from assessing ways to improve the rules and arrangements in the cooperation, with the input of market participants, with a view to increase overall welfare. Therefore, a clear commitment to study the elements highlighted above and summarised in our answer to Q18 within a pre-set timeline should suffice.

Question 20: Do you share RTE's analysis (on possible alternative scenarios to the participation to the FCR cooperation)?

We reiterate our support for the participation of RTE in the FCR cooperation. Any decision not to go in that direction should be clearly justified.

Should such a decision nonetheless be taken, RTE should indeed study the possibility to share the procurement of reserves with other neighbouring countries, wherever feasible.

At national level, RTE should strive to amend the design of its procurement of FCR in compliance with Art. 37(2) of the draft Electricity Balancing network code, which foresees that the procurement of reserves should be market-based. A primary *market* for the procurement is the only acceptable market-based solution, irrespective of whether there exists or not a secondary market for the exchange of reserves between BSPs. An obligation with a secondary market – the current model in France – is according to us not compatible with the spirit of the draft network. All Balancing Services, including the provision of FCR, should be procured on a primary market to allow for a level playing field between market participants. Therefore, we believe that should RTE not succeed in setting up appropriate participation in cross-border procurement of primary reserves, the French obligation system should be reviewed in favour of a national tender process.

Question 21: In case a national tender would nonetheless be decided, which scenario should be considered?

At the moment we believe that RTE should focus its efforts on the various elements needed to integrate the FCR cooperation (see our answer to Q18). EFET will take a position on a specific design for a national tender mechanism at a later stage should the participation of RTE to the FCR cooperation not realise.

Question 22: Do you support the use of the existing www.regelleistung.net platform (with French translation of the specifications of the primary reserve contracts) or would you prefer that RTE set up a dedicated French platform?

We would welcome the use by RTE of the existing www.regelleistung.net platform: this will limit the number of tools used by market participants and avoid unnecessary development costs on the side of RTE.

Question 23: Does 1 January 2017 seem realistic as a launch date for the cooperation?

EFET does not have material elements to assess whether the launch date for the participation of RTE in the FCR cooperation on 1 January 2017 is realistic – in one way or the other. A precise timeline on the steps to take before the launch date would be needed to take a position on this subject.

Question 24: If the cooperation would need X months after 1 January 2017 to take account of the evolutions you requested, would you rather have RTE join the cooperation as early as possible, or only once the evolution has taken place? Would the value of X affect your response to this question?

As mentioned in our answer to Q19, we believe that the FCR cooperation as it stands so far has proved that it can function with certain differences between the different national systems for the procurement of primary reserves. Nonetheless, this does not exonerate RTE and its counterparts in the cooperation from assessing ways to improve the rules and arrangements in the cooperation, with the input of market participants, with a view to increase overall welfare. Therefore, a clear commitment to study the elements highlighted above and summarised in our answer to Q18 within a pre-set timeline should suffice.

Question 25: Do you share RTE's approach concerning the fallback mechanism, i.e. the use of the current obligation mechanism?

We do not fully share RTE's analysis concerning the fallback mechanism. We see little risk of a lack of bids being the main cause of going failure of the cross-border auction. Therefore, we believe that in case of decoupling of the French network from the cooperation, national auctions should be envisaged as a fallback. The current obligation system may be kept on an interim basis until auctions have proven viable and market liquidity has developed on the FCR market.

Question 26: Do you share RTE's approach concerning the optional participation to the cross-border tender, coupled with the provision of reserve capacity through the *Mécanisme d'Ajustement* and the fall-back mechanism described above?

We agree that participation in cross-border tenders for FCR should remain voluntary. We believe that provided that the mechanism design is set correctly, market participants will provide sufficient offers, and combined with the *Mécanisme d'Ajustement*, the risk of insufficient offers should be negligible.

Question 27: Do you see important elements to take account of in the evolution of the compensation regime, in conjunction with the cross-border tenders for primary reserves?

EFET does not have the necessarily elements to take a position on this element at the moment. We look forward to contributing to the work planned by RTE in 2016 on the subject.