

EFET response to European TSOs' consultation on the Trans European Replacement Reserves Exchange project



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The European Federation of Energy Traders (EFET)¹ welcomes the opportunity to provide its input on the consultation document prepared by ADMIE, National Grid, NGIC, REE, REN, RTE, Terna and Swissgrid on the Trans European Replacement Reserves Exchange (TERRE) project. EFET has welcomed and is actively involved since its inception in the initiative of ENTSO-E and individual TSOs to run pilot projects to help the design and pre-implementation of the electricity balancing target model. We also particularly appreciate the involvement of Swissgrid in the TERRE project considering the uncertainties relating to the status of the inclusion of Switzerland in the internal energy market, and see it as a sign of proactive and productive cooperation of the European TSOs.

EFET has in the past expressed concerns about the level of stakeholder engagement in the various Balancing Pilot Projects (BPPs)². While a number of ad-hoc workshops have been organised to inform market participants of developments in the TERRE project, this is the first full-fledged consultation on the state of play and future orientations of the project. We consider this consultation of utmost importance given the impact that the TERRE project will have on the implementation of provisions related to Replacement Reserves (RR) in the Electricity Balancing guideline – TERRE being the sole pilot project focusing on this type of reserves.

As a final word of introduction, EFET would like to reiterate a series of principles for the organisation of short-term market that should serve as a reading matrix to better understand the

¹ EFET promotes and facilitates European energy trading in open, transparent and liquid wholesale markets, unhindered by national borders or other undue obstacles. EFET currently represents more than 100 energy trading companies, active in over 27 European countries. For more information: www.efet.org.

² See common statement of EFET, Eurelectric, Europex and EXEA detailing suggestions for improved stakeholder engagement in Balancing Pilot Projects, 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.

detailed responses to the consultation questions below, namely that balancing market design should:

- **safeguard the liquidity and competitiveness of forward, day-ahead and intraday markets by allowing maximum opportunities for market participants to balance supply and demand as close as possible to real time – TSO balancing actions should be residual and only covering those periods where balancing in the energy market is not possible**
- **provide strong price signals through transparent, market-based marginal pricing**
- **be sustainable in the long-term and build on lessons learnt from BPPs**
- **focus on the overall efficiency of balancing markets**

0.1 Please share your overall questions or comments about the consultation document and TERRE project in general. (Please consider all questions before as some topics may already be addressed in a dedicated question)

EFET would like to attract TSOs' attention to the limited time allotted to answer this lengthy and complex consultation. Given the complexity of the project and the long history of the TERRE project, it is a challenge for organisations like EFET – with more than 100 member companies spread over Europe – to gather feedback and provide meaningful input in a short timeframe of four weeks.

Beyond the remarks already made in our introduction, EFET questions the scope of the consultation. TERRE is the only pilot project studying RR, and we expect it to have an important role in the implementation of the Electricity Balancing guideline provisions on the subject. Therefore, the question of the extension of the use of RR versus fostering of liquid cross-border intraday markets should be addressed, as well as that of the use of RR versus other types of reserves (in particular mFRR) in the countries currently covered by the project and beyond. EFET clearly advocates a market design where market actions are replacing the need for proactive and long-lasting activation of balancing energy.

1.1 Do you have specific comments regarding chapter 1 content?

The project covers only part of the EU market. In particular, countries where the TSOs have announced that they will not use RR, such as Germany and the Netherlands, are not included. EFET requests clarification on how cross-border aspects between two countries (like for example Germany and France) will be dealt with when the TSO on one side of the border uses RR and the TSO on the other side does not.

2.1 Do you have specific comments regarding chapter 2 content?

The note below Table 2-2 on the intraday cross-border gate closure times (GCTs) at the various borders concerned in the project mentions that *the harmonization of the local settlement rules will be tackled under the framework of the RR COBA implementation*. The TERRE project being the sole BPP focusing on the implementation of RR in Europe, it seems inappropriate that the question of harmonisation of settlement rules is set aside, to be dealt with in the future. Efficiency – in terms of costs and operational execution – is the primary objective of the reform of any balancing arrangements. While we are convinced that pooling RR resources at a regional level should improve efficiency, we also consider that harmonisation is not a goal in itself and that a careful consideration of related costs, risks and benefits is required. TSOs should therefore at the very least provide as of now an assessment as to the viability of the project without harmonised settlement rules, as well as an assessment of the impact of harmonised and non-harmonised settlement rules on the efficiency of the common RR procurement.

Overall, we see Chapter 2 as very ‘light’ and merely a short description of the status quo. Ideally, it should go further, for example qualitatively exploring the differences between different markets, and explain which criteria are used for the activation of RR (and mFRR) and how overlap with market parties’ activities on the intraday market is avoided. Also, in the context of a possible harmonisation of GCTs and shortening of ISPs, it would be useful to get the understanding of the involved TSOs about the role they expect RR (and mFRR) to play considering the need to avoid overlaps and balkanisation of the intraday market.

Chapter 2 should also explain how procurement and especially activation of RR and mFRR affects imbalance prices in the various countries.

Finally, Chapter 2 does not clearly outline the impact on existing processes at all the TERRE borders, for example how the FBM at the French-Swiss border will be impacted.

3.1 Which formats of balancing energy offers are most attractive to stakeholders?

The format of the balancing offers is a critical element of the TERRE project. As detailed in our answer to question 3.8, there is a trade-off between simplicity and flexibility. Our preference is to focus on implementing the formats that are common to all markets (e.g. block offers) that enable existing approaches towards balancing to be preserved as much as possible.

While we see some merits to more complex formats, e.g. linked or multipart offers, as shown in Table 2.1, these are not common to all markets and, in the case of exclusive offers, are not currently used at all. Such formats could add a significant degree of complexity to the project TERRE algorithm and for market participants, and therefore could be envisaged at a later stage of implementation of project TERRE. For the time being, TSOs should focus on ensuring that bid formats do not prevent any technology from taking part in the balancing market, providing a non-discriminatory, level-playing field for all market participants.

3.2 Do stakeholders agree with the definition and features of the TERRE cross border product?

The general framework for the definition and feature of the TERRE product broadly follows that of other standard products as defined by BPP #7 on standard products. A few divergences appear nonetheless:

- Items (1) *Preparation Period* and (2) *Ramping Period* are irrelevant and inconsistent with the framework proposed in BPP #7. Only item (3) *Full Activation Time* should be relevant and should be included in the features of the product before the activation features, in line with BPP #7. The same product definition should be used for all BSPs offering the TERRE product as the one exchanged by TSOs between themselves (where only the Full Activation Time will be considered).
- Item (8) *Validity Period* seems unnecessarily restrictive: given the proposed hourly frequency of the clearing, the whole bidding process may be operationally intensive for market participants. Extending the validity period beyond 60 minutes may help mitigate this problem and incentivise participation of BSPs in the process, especially for smaller market participants.
- Item (10) *Maximum Offer Size* should be better defined, as the impact of the application of the local rules for indivisible offers is unclear. We see the potential for local applications of a low maximum offer size constraining the activation of bids exceeding this value by certain TSOs. This would in effect create unshared bids and could be a tool used to shield isolate a market from cross-border exchanges.
- Item (12) *Price* foresees the possibility of local caps/floors. Similarly to the previous point, we see a danger in non-harmonised price rules practically excluding bids from use in certain markets. TSOs and NRAs should work on removing price caps/floors to ensure that reserves exchanges are most optimal and economically efficient at a regional level. And certainly no new caps and floors should be introduced. Therefore the whole concept of “elastic needs” is strongly questioned (see also our answer to question 3.8).

3.3 What are the stakeholder’s views on BRP-TSO & BSP-TSO rules & requirements?

In line with our comments in response to questions 2.1 and 3.2, we support the TSOs’ objective to harmonise BSP-TSO and BRP-TSO rules and requirements to the fullest extent possible before the entry into force of TERRE, based on an appropriate cost-benefit analysis. NRAs should actively support this harmonisation process, and market participants should be consulted on the orientations considered by the project.

3.4 Does the TERRE product allow for the participation of all types of balancing service providers (e.g. RES, Thermal, and DSR)? And if not, what changes in the features will allow greater participation in the TERRE project?

EFET is a strong supporter of the integration of all capacity providers into the energy market. All market participants, whether operating generation assets, managing demand or storing energy, should be enabled to bid in a technology-neutral balancing market on a level-playing field.

In the case of RES-E producers, participation to balancing markets is an essential step towards full market integration, an important factor in the valorisation of RES-E in-flows, and a welcome contribution to market liquidity. Bidding of RR products by RES-E producers may, however, be limited by other constraints, such as the regulatory framework (e.g. support mechanisms), technology (e.g. metering and steering), or operational and contract constraints. All these elements may affect whether and how RES can bid into balancing markets. We call on policy makers in the concerned Member States and beyond to ensure that no regulatory obstacle can limit the participation of RES-E producers to the RR market in particular, and to all other markets in general.

3.5 What are your views on the application of the local features of the TERRE cross border product (e.g. Harmonization of price cap and floors or Maximum Bid Sizes for Indivisible Offers)?

In line with our comments in response to questions 3.2 and 3.3, we encourage TSOs to harmonise the features of the TERRE product to the fullest extent possible before the entry into force of TERRE, based on an appropriate cost-benefit analysis. We see a danger in non-harmonised rules and features practically excluding bids from use in certain markets, thereby weakening the optimality and economic efficiency of reserves exchanges at a regional level. NRAs should actively support this harmonisation process, and market participants should be consulted on the orientations considered by the project. Harmonisation should be done at the level of best practices where possible, so that it does not undermine efficiency at some borders by having to lower standards for the sake of harmonisation.

3.6 The number of bid formats (Divisible, Block, Exclusive, Linking Offers) which may be used by BSP represents a trade-off between the flexibility offered to BSP (with several types of offers) and the simplicity to offer bids and to run the algorithm (e.g., with only one standard type of offer). What are your views on this trade-off? Would you advocate for keeping all types of bids offered by TSOs or to reduce the number of possible offers?

As noted in our response to question 3.1, we believe it is prudent to first focus on the implementation of bid formats that are most common to all markets.

In general the future bid formats should ensure that no technology is hampered to take part in the balancing market, providing a non-discriminatory, level-playing field for all market participants. We attract TSOs' attention to the fact that introducing multiple and complex bid formats could be contradictory with the concept of a CMO and the idea of marginal pricing. While in a day-ahead

auction the use of block bids may not have a significant effect on the clearing process, in a balancing market with a fraction of the traded volume and the number of bids, the complex clearing process can heavily affect the clarity price signal, which would contradict the original intention of establishment of the CMO.

3.7 Do you agree with the proposed design of the TSO imbalance need?

The Maximum Size characteristic of the imbalance need is unclear. It seems to indicate a form of reciprocity, restricting the imbalance need of the TSO to the volume of shared bids that it is able to provide to the Common Merit Order List (CMOL). EFET sees no benefit in restricting ex-ante the imbalance need of a TSO to a volume of bids equal to the number it puts on the CMOL. It would incite a TSO to seek the remaining volume of imbalance need through local, Specific Products instead of sourcing it through the common platform.

3.8 Do you agree with the possibility for inelastic and elastic imbalance needs?

EFET has serious reservations about the appropriateness of allowing TSOs to price their imbalance needs on the TERRE CMOL. By pricing their bids and offers, and putting them on the CMOL together with bids and offers from market parties, TSOs are directly active on the market, potentially even setting the settlement price. In this way, TSOs are actually marketing the energy from their imbalances, rather than procuring balancing energy to deal with their imbalances. Besides, the non-harmonised methodologies for pricing the various TSOs' imbalance needs would further add to the confusion and lack on transparency as to the extent to which TSOs will effectively be active on the market.

Overall, this proposal of elastic imbalance needs is a serious reconsideration of the separation of roles between TSOs and BSPs, which is at odds with the spirit of the Third Energy Package and its unbundling principle. TSOs should use inelastic imbalance needs – as is the case for all other balancing processes – and integrate the uncertainty on the required balancing energy into the volume of the imbalance need instead of the price. This will ensure a more transparent and less complex procurement process.

3.9 Do you have specific comments regarding chapter 3 content?

EFET does not have further comments.

4.1 Do you have any specific comments on the Balancing CMO description?

No comment (descriptive chapter).

4.2 What is your opinion on allowing internal and XB counter-activations?

In line with our response to question 3.8, EFET has concerns that internal and cross-border counter-activations could lead to a reconsideration of the respective roles of TSOs and BRPs. The core task of TSOs is to ensure system security. An efficient exchange of energy is guaranteed by market participants and indeed by market coupling. Counter-activations would grant a role to TSOs that we believe goes beyond that of managing BRP imbalances: BRPs are responsible for adjusting position in all timeframes, from forward to intraday, and the efficient functioning of these markets depends on their liquidity and depth. Allowing counter-activations by the TSOs would be tantamount to having market participants mandatorily exchanging bids beyond the gate closure of the intraday market. Considering that liquidity on the intraday market is often concentrated close to GCT, this would have the potential to reduce liquidity on the intraday market, which already suffers from limited dynamism in some of the concerned Member States. This would also contravene the principle of the Electricity Balancing guideline that both BRPs and BSPs should be given maximum opportunities to adjust their portfolio before intraday GCT.

4.3 Do you agree with the proposed treatment of HVDC losses?

EFET agrees with the proposed solution.

4.4 Do you have specific comments regarding chapter 4 content?

On section 4.3.2.3 on Unforeseeably Accepted and Rejected Offers (UAO/URO): while the Unforeseeably Rejected Offers are equivalent to PRBs in the day-ahead timeframe, EFET has questions regarding the use of Unforeseeably Accepted Offers. The remuneration of bids should certainly not be less than the requested price. However, the use of pay-as-bid for UAOs would introduce a discrimination in the treatment of the various offers and would go against the principle of uniform marginal pricing. While we support efforts to improve the efficiency of joint procurement of RR, amendments of such importance to the market design should not be decided without considering their impact on the intraday market and overall welfare. Therefore, a thorough assessment of the risks and benefits of introducing UAOs, as well as more details on the precise methodology considered by TSOs is needed for EFET to take a definitive position on the subject.

Along the lines of existing requests made by EFET in the framework of the use of Paradoxically Rejected Bids (PRB) in the Euphemia algorithm for the day-ahead timeframe, the use of UAO/URO should be fair and transparent. The framework designed for the use of UAOs and/or UROs should be clear and result in a demonstrable increase in overall welfare; regular reporting on the occurrence of the use of UAO/URO, as well as on their impact on social welfare, should be available to market participants.

5.1 Do you agree that the proposed settlement design is in line with the principles of the EB GL and the integration of balancing markets?

EFET supports the implementation of marginal pricing for the settlement of RR energy exchanged through the TERRE platform, along the lines of the ACER Framework Guidelines and the current version of the Electricity Balancing guideline. We do not believe that an alternative pricing methodology can be more efficient at European level. We understand these provisions as applying to settlement of both TSO-TSO and TSO-BSP exchanges.

5.2 Do you agree with the application of cross border marginal pricing, settlement of the block and the proposed design for the definition of Marginal Price between TSOs at the XB level?

EFET agrees with the proposed settlement design between TSOs, both for the pricing in the form of Pay-as-Cleared (marginal pricing) and the exclusion of the power ramps. In line with our comments in response to question 5.A, we request that the same design principles apply to the settlement between BSPs and TSOs.

We also agree with the elements on the calculation of the marginal price and on the settlement of price indeterminacies – which foresees a neutral solution likely to have the least impact on welfare. Regarding congestion rents, we agree with the TSOs that the methodology for allocation these rents should be aligned to that of other timeframes.

5.3 What is your perspective regarding the alignment of the TSO-TSO settlement procedure and the BSP-TSO settlement procedure?

In line with our responses to questions 5.1 and 5.2, we believe that the TSO-BSP settlement procedure should be aligned on the TSO-TSO settlement procedure. Considering that all BSP bids will compete on the same CMOL, introducing different TSO-BSP settlement procedures would skew the playing field and effectively introduce discrimination between market participants.

5.4 Do you have specific comments regarding chapter 5 content?

EFET does not have further comments.

6.1 What are your views on the methodology used and assumptions made in the Cost Benefit Analysis?

EFET believes it is complex to isolate the costs and benefits of the exchange of RR on the one side, and that of other changes in the balancing market design, either at local, regional or European level. For instance, the CBA should clarify what portion of the suggested benefits can be attributed to the introduction of an imbalance netting process or the harmonisation of local changes in market design (e.g. harmonisation of GCTs, shortening of ISPs), and which benefits can be directly attributed to the joint RR procurement.

6.2 What are your views on the results of the Cost Benefit Analysis?

More detailed information to assess the methodology would be welcome, but the assumptions explained in Chapter 6 and the definition of the counter-factual scenario look reasonable.

Much more complex is the assessment of the results and their validity for 2018. In the Spanish case, for example, the evolution of GCT from H-4 to H-1 will change the volumes of balancing energy and the remaining ATC for balancing markets. We understand it is complex to simulate the future behaviour of market participants, but the use of historical data in this case is misleading.

6.3 Do you think the conclusions of the Cost Benefit Analysis are valid for the expected market in 2018?

See our response to question 6.2.

6.4 Do you have specific comments regarding chapter 6 content?

EFET does not have further comments.

7.1 What are your views on the reduction of XB scheduling step for balancing?

EFET is in favour of increasing the granularity of the cross-border scheduling step, given that it is implemented for both the intraday and balancing timeframes.

7.2 What are your views on the interactions between the TERRE process and the XB intra-day market?

We support the approach favoured by the TSOs of having the TERRE GCT after the closing of the intraday market. This would best allow market participants to adjust positions on the intraday market and improve its liquidity. We nonetheless remark the limit time given to BSPs to prepare and submit bids for TERRE between the intraday GCT and the TERRE GCT. The exact timing of the TERRE GCT is not yet set (between one hour and 45 minutes before real time). Considering the update of national schedules following the XBID computation process, this could mean an extremely short time that may make it difficult – if not impossible – for BSPs to adjust and submit their bids.

We understand there is no easy solution to this problem. We therefore request that:

- Market participants are kept involved in further developments on the exact timing of the TERRE processes between H-1 and real-time.
- Some processes of the tendering phase – between H-Xmin and H-45min – are performed in parallel to the pre-tendering phase; specifically the calculation of the imbalance needs and the calculation/update of the ATC could be performed while market participants still submit or update their offers.

7.3 What are your views on the frequency of the clearing (one single clearing per hour)?

The proposed frequency of the clearing is consistent with the current schedule step of one hour. If the schedule step would be further reduced, the frequency of the clearing should be reconsidered to ensure that overlaps between balancing and the (cross-border) intraday market are avoided.

However, it should be recognised that an hourly clearing – and potentially even more frequent in the future – may be operationally intensive for market participants. To mitigate this somewhat, the validity period of bids could be extended beyond 60 minutes, as referred to in our answer to question 3.2.

7.4 Do you have specific comments regarding chapter 7 content?

EFET does not have further comments.

8.1 Do you have specific comments regarding chapter 8 content?

EFET does not have further comments.

9.1 Do you agree with the proposed methodology for the calculation of available transmission capacity used by TERRE solution for both AC and DC borders? If not, what would be your proposal?

Regarding the proposed methodology for the calculation of ATC at DC borders, EFET would like to stress that the use of a pre-defined maximum ramp rate is only acceptable for DC links between two distinct synchronous zones if such ramp rates are defined by the technical capabilities of the DC link itself. It would not be acceptable if system ramping constraints were translated in a ramp rate for the DC link.

In this regard, the cited example of the IFA cable is acceptable. However, for DC links within a synchronous zone, as for example between Spain and France, any limit on the ramping rate should be justified by technical or dynamic grid constraints. This implies that for such borders no pre-defined maximum ramping rates should be used as they may vary depending on the prevailing state of the grid.

9.2 Do you have specific comments regarding chapter 9 content?

EFET does not have further comments.

10.1 Do you have specific comments regarding chapter 10 content?

In line with our introductory statement, we believe that the TERRE project being the sole pilot project focusing on RR, it will have a decisive effect on the implementation of related provisions in the Electricity Balancing guideline. While we welcome the type of ad-hoc workshops that have been organised in the past to inform market participants of developments in the project, a more structured stakeholder engagement platform that allows two-way communication in the final stages of the project design and throughout its implementation would be necessary.

11.1 Do you have specific comments regarding chapter 11 content?

See our response to question 10.1 and various transparency requests throughout this document.

12.1 Which features (if any) of local balancing market design needs to be harmonized for an efficient functioning of the TERRE project? If several, please rank the first three you consider the most important to harmonies.

As already mentioned in previous answers, EFET considers it necessary for local rules to be harmonised, based on an appropriate cost-benefit analysis, in order to provide a level-playing field and fair competition between BSPs of different countries. Examples include:

- Pricing rules:
 - whether BSPs are settled according to a Pay-as-Bid or a Pay-as-Cleared scheme has an impact on bidding behaviour and should thus be harmonised.
 - Price floors and caps should be removed, as they limit how BSPs may bid compared to BSPs in other countries.
- Settlement rules: whether or not ramping rates are included in the remuneration of BSPs has an impact on the pricing of bids and should thus be handled the same for all BSPs.
- Penalties: the impact of failing to deliver balancing bids is integrated in the pricing of bids and should thus be the same for all participants.

We encourage TSOs to take an active role in harmonising RR product features to the fullest extent possible. We see a danger in non-harmonised rules and features practically excluding bids from use in certain markets, thereby weakening the optimality and economic efficiency of reserves exchanges at a regional level. NRAs should actively support this harmonisation process, and market participants should be consulted on the orientations considered.

12.2 Do you share the expectation from TERRE TSOs (i.e. the caps and floors in balancing energy markets should be removed by the entry into force of TERRE)?

Yes, see our responses to questions 3.2 and 12.1.

12.3 In case this cannot be done before the entry into force of EB GL, do you agree on the transitional application of the solution through settlement? Or which is your view regarding a backup solution?

We do not think the transitional arrangement is an acceptable solution for the reasons explained in our responses to questions 3.2 and 12.1. TSOs should work on removing price caps/floors to ensure that reserves exchanges are most optimal and economically efficient at a regional level. This process can be started as of now and should be strongly supported by NRAs as a no-regret measure.

12.4 What is the minimum amount of time that market participants need to update your RR balancing offers after receiving the results of the cross-border intra-day (XBID) process?

As mentioned in our response to question 7.2, the precise time available for market participants to adjust their offers is not yet set, but the consultation document suggest an extremely short time that may make it difficult – if not impossible – for BSPs to adjust and submit their bids. Market participants should be involved in discussions on how to extend this time as much as technically possible.

12.5 Do you consider there are other key issues that need to be harmonized to avoid significant distortions between BSP across TERRE Members States?

We refer to our response to question 12.1.

12.6 Do you have specific comments regarding chapter 12 content?

EFET does not have further comments.

13.1 Do you have specific comments regarding chapter 13 content?

Provided that TSOs and NRAs work in parallel with the project implementation to harmonise diverging market rules and features, based on an appropriate cost-benefit analysis, we have no comment on the planning of the project.

In line with our general remark on the short period of time for consultation and due to the fact that this is the first of a series of consultations, we expect that there will be further consultation on design aspects of the TERRE project. The roadmap presented foresees a consultation on implementation in 2018 but market participants should be able to have a say on the final draft design proposal.

14.1 Do you have specific comments regarding chapter 14 content?

EFET does not have further comments.