



ETSO Comments on EURELECTRIC Position Paper Towards Market Integration of Reserves & Balancing Markets

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I- General Comments

ETSO welcomes the opportunity to discuss EURELECTRIC analysis on the question of reserve and balancing markets integration.

ETSO agrees with EURELECTRIC's approach which consists in producing a target model, in an early stage of integration on these topics, which should then be reached step-by-step.

ETSO believes that the development of cross-border reserve and balancing market integration should be the third step after the integration of cross-border day-ahead markets, currently under way, and the integration of intraday markets.

ETSO underlines that the integration of Reserves and Balancing markets is a question deeply connected to security management issues, which are linked to local specificities like legal obligations made to different stakeholders, generation structure, and others. The target of defining a simple and unique model for this integration is a huge and complex task, on which ETSO has already given its main orientations in its report "Balance management harmonisation and integration" (Jan 2007).

Considering the model proposed by EURELECTRIC, ETSO agrees with the general principles and views developed in the paper.

In the following, several important points, from the ETSO perspective, are underlined. Some of these comments reflect elements which have been enlighten during the meeting hold between experts of the two associations in October 2008.

II- Specific comments

Those comments follow the main core principles developed in the EURELECTRIC paper.

II-1 Security of supply

ETSO welcomes the fact that EURELECTRIC analysis is presented as being concerned by the potential impacts of balancing integration on security of supply.

This TSO main responsibility can be jeopardised by inadequate implementations of markets integration, concerning for example a clear definition of responsibilities of the different kinds of market participants, or the conditions under which TSOs could rely on a part of reserves located abroad.

ETSO agrees that the adequate level of reserves should be defined on the basis of technical needs, which procurement cost vary along with markets conditions. Nevertheless, whatever the socialised recovery mechanisms of these costs are, ETSO firmly underlines that TSOs, responsible for defining reserve levels, procuring them and activating them, are really and deeply involved in the question of designing sound and adequate economical approaches for reserve procurement and balancing actions, in order to minimise the burden of these elements on the community of market participants and consumers. TSOs are usually not allowed to gain profit from managing this activity and they should consequently not incur financial risks on it. However, TSOs are directly concerned with the common objective of managing a cost effective process.

II-2 Responsibilities of market participants

ETSO agrees with EURELECTRIC on the point that the responsibilities of the participants to reserve and balancing mechanisms have to be precisely defined, in a transparent way, in order to ensure a safe mechanism and to facilitate new participants to enter this specific market area.

Nevertheless, this question of responsibilities is wider, because the question of the adequate level of reserves raises the question of the respective responsibilities of market players and TSOs. ETSO underlines that TSOs are responsible to define and procure the adequate level of reserves able to face given technical criteria (such as maximum risk accepted to face sudden loss of infeed), agreed by the stakeholders and governments. On the contrary, there exists a risk associated to insufficient position hedging by BRPs, which can for example result from serious under-evaluation of demand to serve within their portfolio, or from strategic behaviours consisting in taking positions on some high price markets while being short on others. This kind of behaviour can request very important and unpredictable reserve levels, which TSOs can not permanently procure. If the TSOs were responsible for procuring all operational reserves requested to cover any position taken by market participants, it would lead to over-contracting operating reserves, thus withdrawing capacities from day-ahead markets and increasing total costs of reserves.

II-3 Limited TSO involvement in the market / Market aspects

ETSO agrees with the general principle that all activities in this field, from procurement of reserves to energy activation, should rely on a general market-based approach. It also agrees with the principle that balancing should, as far as possible, reduce interferences with markets, and that, specially, intra-day markets and balancing mechanisms principles have to be organised in a satisfying way, in order not to reduce opportunities for market participants to correct their imbalances on intra-day liquid and transparent markets. Nevertheless, the implementation of such principles must be done with specific considerations of its impacts on security, specially for cross-border balancing issues.

Regarding the more precise elements held by EURELECTRIC, ETSO agrees with the necessity to avoid over-contracting and the principle that, when applicable depending on local regulation, the over-costs (if any) of balancing actions undertaken to solve internal congestions must not affect imbalance prices.

Concerning imbalance settlement, EURELECTRIC advocates a “two-price” system, and ETSO agrees, but the price matrix in figure 14 represents in fact a one-price (not a two-price) model. ETSO believes that categorical use of this approach could encourage gaming and provide disincentives to minimize imbalances, and thus, requests more analysis to assess its properties.

More specifically, considering that balancing is aimed at dealing with inevitable imbalances and generation/consumption outages, and is not a place where market participants can procure predictable energy needs, ETSO considers that imbalance pricing methodology should deliver incentives to be equilibrated and should not deliver any incentive to procure energy at a price lower than the energy market prices (D-1 and/or intraday ones).

In addition to this, ETSO agrees with the principle that no imbalance settlement model should provide excessive revenues or losses to TSOs. The corresponding imbalance between costs and revenues should be distributed/recovered among all stakeholders. There are several options currently applied throughout Europe which need to be further analyzed in order to propose a European wide methodology.

ETSO disagrees on a particular proposal of EURELECTRIC, dealing with reserve procurement process. EURELECTRIC considers that these capacity markets should be organised fully and only in D-1 (in order to facilitate new entrants access to this market). ETSO believes that this approach is too rigid and does not address :

- on the economic side, the fact that there are –probably- situations, for example with a dominant generation portfolio based on storable resources (hydro, nuclear...), where a mix of long term and short term procurement should result in lower total costs; hence, TSOs being willing and bound to act efficiently, there exists situations where contracting on longer periods is more efficient;
- on the security side, the fact that procuring all the reserves 24 hours ahead could result in heavy uncertainties on the TSOs aptitude to ensure a sufficient capacity, if such a D-1 procurement would fail to procure it. For the majority of TSOs, with considerations of local structure of generation, markets arrangements, legal obligations, it is necessary to begin this process earlier.