



European Federation of Energy Traders

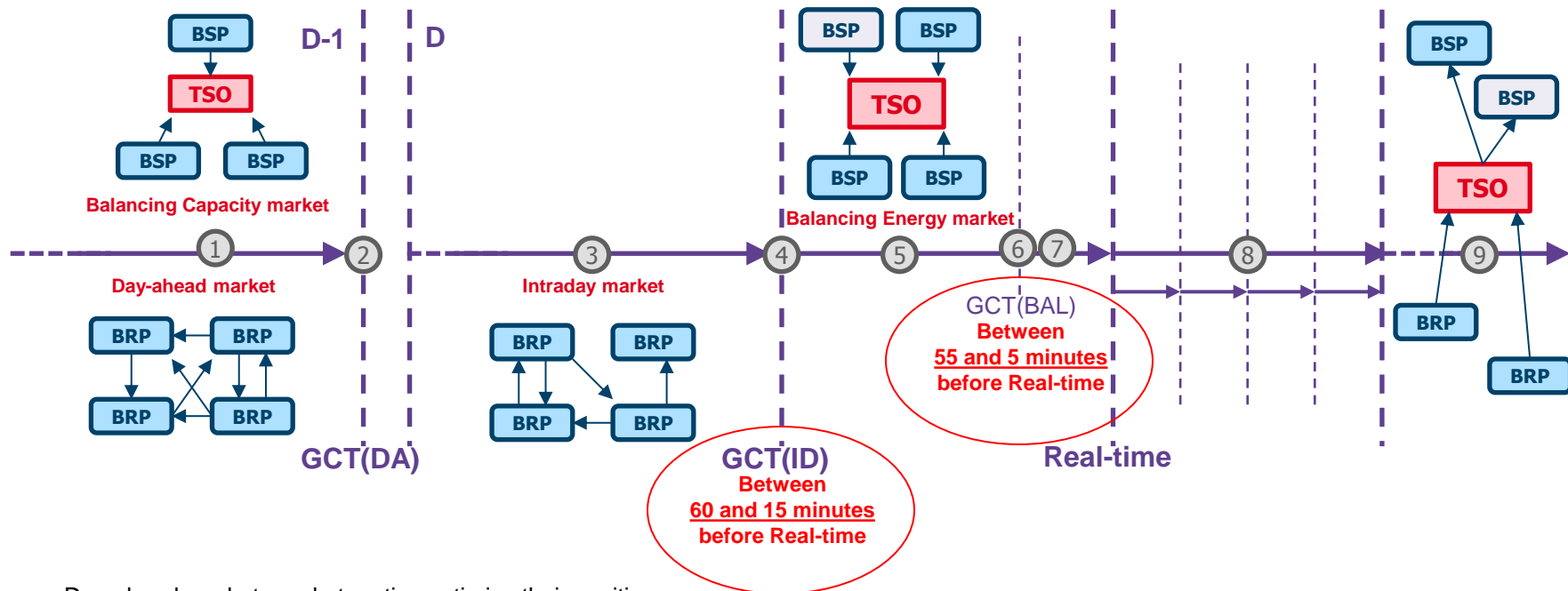
Comments on Network Code

Electricity Balancing

Brussels, 17/07/2013



Balancing market: visualisation



- ① Day-ahead market: market parties optimize their position
- ② Balancing Capacity market: Balance Service Providers (BSP) offer Balancing Capacity to Transmission System Operator.
- ③ Gate Closure Time of Day-ahead market: Balance Responsible Parties (BRP's) can no longer adjust their positions until opening of Intraday market.
- ④ Intraday market: BRP's can re-adjust their positions to balance their portfolio's in light of latest information and changes.
- ⑤ Gate Closure Time of Intraday Market: positions of Balance Responsible Parties are final.
- ⑥ Balancing Energy market: Balancing Service Providers can offer balancing energy bids to the TSO. All prequalified BSP's can participate, not only the pre-contracted reserves
- ⑦ Gate Closure Time of Balancing Energy Market: bids of Balance Service Providers for Balancing Energy are considered firm.
- ⑧ Balancing bids optimization: TSO's optimize the Balancing Energy bids, creating a (Common) Merit Order List.
- ⑨ Real-time: BRP's need balanced positions. TSO's ensure stability using the Balancing Energy bids.
- ⑩ Settlement: settlement is done for difference between notified positions of Balance Responsible Parties and their actual profile, and for activated balancing energy of Balancing Service Providers.

Thanks for your attention



European Federation of Energy Traders

**Amstelveenseweg 998
1081 JS Amsterdam**

**Tel: +31 (0)20 5207970
Email: secretariat@efet.org
www.efet.org**

Network Code Electricity Balancing introduces some positive points:

- ➔ Confirmation of the strict separation of Intraday and Balancing market (Art.20)
 - Market parties can balance their position, offer excess capacity to balancing market and adjust prices (Art. 13)
 - Further clarification (on gate closures, reserve activation) is however necessary!

- ➔ Level playing field for all market participants with regard to balancing requirements (Art.7 and Art.34)
 - Harmonization of requirements extends to RES and DSM ensuring good integration
 - BRP requirements need further elaboration (Art. 14)!

- ➔ Marginal Pricing (Pay-as-cleared) as standard pricing method for balancing (Art.25)
 - Ensures good incentives for BRP's to balance their position
 - No deviation of this principle should be allowed!
 - Clarification needed on imbalance prices (Art. 50)

But some fundamental issues need to be resolved:

- ➡ Consistent and harmonised basic rules needed. Exceptions for “central dispatch” markets should be time-limited
 - Commission or ACER should control ‘derogation’ process. Member States do not usually award themselves derogations from EU law! (Article 61)
- ➡ Maximum consistency needed between price zones for trading, and price zones for balancing
 - “Relevant areas” for e.g. imbalance should ideally be the same as bidding zones to ensure consistent incentives on market participants (Art 2., Art. 50)
- ➡ Need for greater harmonisation to ensure consistency and maximum market participation
 - Case-by-case regulatory approval (Art.7(4)) = longest ever list of regulatory approvals ensures continuation of current fragmented market
 - Prices in forward, day-ahead and intraday markets are a function of the balancing\imbalance regime. Market coupling outcomes will be distorted by non-harmonised approaches to balancing.

And still serious issues concerning central elements of the Network Code:

- ➔ TSO's offering Balancing Services themselves (Art. 7(4a/b) and Art. 11(3))
 - Not possible without violating 3th energy package (unbundling)
 - Balancing Services should always be acquired in the market
 - Similar concerns in LFC network code (“mitigation”, “exhaustion”, ramping restrictions etc.)

- ➔ Vague definitions and requirements (Art. 7 and Art.14)
 - Risk of divergent and arbitrary interpretations in a later stage
 - e.g. “Market Parties” is used without defining it, implying TSO's could be BRP's (p.7 §8)

- ➔ Balancing Energy Gate Closure time (Art.20)
 - BRP's should be given maximum opportunity to balance their own position
 - To that end, GCT's should be clearly defined in time to avoid creep from TSO's on balancing opportunities for BRP's (see next slide): e.g. vague definition and activation process for RR

- ➔ Procurement method for Reserves (Art.22(1))
 - Price caps and obligations to provide are not market based
 - Only market based methods such as tendering should be allowed as a rule

Serious issues concerning central elements of the Network Code (cont'd):

- ➔ Automatic expiration of TSO-BSP model (Art.24)
 - After 6 years, TSO-BSP no longer possible, even without functioning TSO-TSO model
 - Expiration of TSO-BSP model made conditional on functioning TSO-TSO model, incl. CMOL
- ➔ Serious risk of a cumbersome algorithm requiring too much time (Art.28 and Art.55)
 - Optimization across various CMOL's presents risk being time consuming for balancing
 - Optimization should be done on limited number of CMOL's, which implies a limited number of Standard Products
- ➔ Cross-zonal capacity for Balancing Reserve (Art.30(4) and Art.31(1c))
 - Outside timeframes for other market participants for 'adequate' compensation does not incentivizes TSO's to procure capacity efficiently or optimally
 - Should be in competition with other market participants and at a market-based price
- ➔ No guarantee of a harmonized settlement period (Art.48)
 - Possible settlement period is not limited to maximum 30 minutes, violating the FG
 - CBA of settlement period should be executed according to FG (limited to maximum 30 minutes)