

Position Paper

Implementation framework for the exchange of balancing energy from frequency restora- tion reserves with automatic activation

Second Consultation

Berlin, June, 28th 2018

1. Introduction

The German Association of Energy and Water Industries (BDEW) represents over 1,800 members of the electricity, gas and water industry.

In the energy sector, BDEW represents companies active in generation, trading, transmission, distribution and retail.

BDEW welcomes the opportunity to comment on the transmission system operators' (TSOs) proposals on the design of the platform for automatically active frequency reserve (aFRR) and appreciates the efforts undertaken by the PICASSO project.

As the German TSOs organized within BDEW are, among other TSOs, responsible for the drafting of the proposals and this consultation paper, the following BDEW comments have been developed without the German TSOs.

2. General Comments and key messages

BDEW is convinced that further developments of the short term markets (especially the day-ahead and the intraday market) are the keys to achieving a truly European energy-only market. The common rules for the day-ahead – and the intraday market (ID market) are already determined in the Guideline Capacity Allocation and Congestion Management (CACM).

Balancing the own portfolio in a liquid ID market is an essential precondition for a well-functioning European energy market. Therefore, it is necessary to strengthen the liquidity in the ID market and to allow trading as close as possible to real time.

In the German market, after participating in the day-ahead market, all market participants can use the ID market for any corrections almost up to real time. Only remaining imbalances are then settled in the balancing market. Thus the balancing market has a supportive function. Despite this fact, it is a very well established, competitive and liquid market. This needs to be recognized and considered when adjusting the framework for balancing markets as according to the Electricity Balancing Guideline (EBGL), existing, well-functioning balancing markets must not be hampered.

Subsequently to the very strong development of the ID market in Germany, the volumes of activated balancing energy have been reduced significantly in the last five years. BDEW would therefore urge the PICASSO project to put a much stronger emphasis on the impact on the further improvement of ID markets.

The implementation of the PICASSO-platform and the adjustment of the balancing markets must not impede the development of the ID market nor increase the time gap between the gate closure time of the ID markets and real time. In fact, the aim should always be to further minimize this gap. The negative effects of a parallel running balancing energy market which potentially interferes with ID markets must be minimized. This would reduce the liquidity in the ID market, as market participants may need to divide their (limited) offerings. With over 1000 retail companies, this could also have a serious negative impact on the demand optimization. Therefore, returning all of the unused free bids to the balancing service providers (BSP) via Article 29(10) is essential.

For the determination of European auction times it has to be ensured that auctions are not performed simultaneously and do not overlap with national auction times. Furthermore, an efficient activation of balancing energy has to be guaranteed.

By defining a limited amount of standard parameters of the aFRR standard balancing energy product and leaving crucial product definitions (such as ramping, preparation and deactivation period) to be set on a local level, the PICASSO project fails to establish a level playing field for market participants of all connected market areas. More ambitious harmonization efforts should be undertaken in the future. This also holds true for the definition of the Full Activation Time (FAT). We are concerned that the current proposal for the FAT does not follow the principle to create a level-playing field.

3. Questions

1. Please add here your feedback related to the introductory Articles 1 and 2 ‘Subject matter and scope’ and ‘Definitions and interpretation’.

BDEW considers the maximization of social welfare as an objective of the aFRR process too. However, the maximization of social welfare should be the outcome of the overall market functioning, of which the aFRR process is but a partial component. The aFRR process can contribute to the overall maximization of social welfare by providing a clear signal to the market through cost-efficient procurement of balancing energy. The EBGL clearly reflects this reasoning in its objective of improved cost-efficiency and reduction in system imbalance and costs for society (EBGL Recital 11 and 14). The EBGL does not consider or mention the maximization of social welfare as an objective for the balancing market alone, and thus even less so for an individual balancing process.

Considering the aFRR process in isolation for any calculation of social welfare is therefore incomplete. The main objective of the aFRR process should thus be brought into line with the EBGL and have the cost-efficient procurement of balancing energy as its objective.

2. Please add here your feedback on Article 3 ‘High-level design of the aFRR-Platform’.

Item (d) states that the ‘most economic efficient bids’ in the common merit order list are activated. We understand that this selection is solely based on the balancing energy price of the bids.

It has to be clarified how market participants will be informed about which bids were activated and which ones were not activated. This information should be made transparent to all market participants.

3. Please add here your feedback on Article 4 ‘The roadmap and timeline for the implementation of the aFRR-Platform’.

Unfortunately, the proposal fails to create a level playing field for market participants. BDEW would prefer to see more ambitious steps to harmonize all relevant terms and conditions.

BDEW proposes to change Art 4(2)(b) to “The TSOs must take all possible steps to harmonize the terms and conditions related to balancing proposed at a minimum to the standards set in accordance with Article 18 of EBGL.”

4. Please add here your feedback on Article 5 ‘Functions of the aFRR-Platform’.

No comment.

5. Please add here your feedback on Article 6 ‘Definition of the standard aFRR balancing energy product’.

BDEW fully supports the choice for a FAT of 5 minutes. In order to procure a truly standard aFRR product over the PICASSO platform, fundamental product parameters like the FAT should unanimously be set to the final value of 5 minutes from the start.

Uniform standards regarding the FAT shall be introduced immediately with the start of the platform. In the view of BDEW no intermediate step with a FAT of 7.5 minutes should be implemented. This would cause a renewed implementation effort and thus leads to unnecessary costs for the market participants. Furthermore, allowing a FAT of 7.5 minutes with some TSOs and requesting a FAT of 5 minutes with others is contradicting the idea of a level playing-field. If the concerns for sufficient liquidity prevail in a few countries, the TSO could ask for a derogation, as foreseen in the EBGL.

6. Please add here your feedback on Article 7 ‘Balancing energy gate closure time for the standard aFRR balancing energy product bids’.

The procurement of balancing energy must not interfere with other successful short-term markets, especially the ID markets, like it is stated in the EBGL, Article 3(1)(d). Therefore, our preferred option is that free bids exceeding the original TSO demand, must be returned to the BSP as foreseen in Article 29(10) EBGL. Otherwise liquidity is unnecessarily blocked by the TSOs. This does hold regardless of current gate closure times (GCT) of specific ID markets, as there is always the opportunity for local over the counter (OTC) trading and own portfolio use up to real-time.

In order to properly make use of the returned free bids, the balancing energy (BE) GCT should be set to 1 hour before real-time, so that after the TSOs’ clearing and the BSPs being informed, the latter has sufficient time to include the returned bids into the trading, scheduling and planning processes. Furthermore, the obligation for the TSOs to inform the BSPs on their bid status has to be included in the proposal. This information should entail which bids were activated and which ones were not activated in the common merit order list. If this flow of information cannot be ensured, it would lead to the fact that unaccepted bids from the aFRR auction would temporarily not be available for the mFRR auction and the continuous intraday trading.

(Local) ID markets are considered crucial to manage BSPs’ portfolio optimal close to real-time. Some overlap between the cross-border balancing processes and local ID markets seems inevitable but TSOs should aim to minimize them in order to safeguard the correct

functioning of (local) ID markets. This objective is explicitly stated in the EBGL through the requirement that the BE GCT is 'as close as possible to real-time' (EBGL Article 24(2)(a)).

In case the decision is made not to follow Article 29(10) EBGL, we question whether the chosen BE GCT time of 25 minutes is indeed sufficiently close to real-time. In this case, the TSO GCT remains at a range between 10 and 20 minutes before the beginning of the validity period. TSOs should therefore aim – and retain it as the TSO GCT value – to have a TSO GCT of 10 minutes before the validity period, and bring the BE GCT in line with that target, i.e. have a BE GCT of 15 minutes before real-time.

Beside the BE GCT, it is necessary to also include the BE gate opening time (GOT) into the aFRRIF, or at least some common requirements for the BE GOT. From an operational point of view, it can be more efficient to submit balancing energy bids to the aFRR-platform in bulk after e.g. the day-ahead market. Thereafter, BSPs can make further adjustments based on the outcome of ID and other balancing markets. For this to work, a sufficiently early BE GOT is necessary. Therefore, the aFRRIF should require at least a minimum time for the BE GOT (e.g. after the day-ahead market is closed), if not even a full harmonisation.

7. Please add here your feedback on Article 8 'TSO energy bid submission gate closure time for the standard aFRR balancing energy product bids'.

The aFRRIF should not contain a range for the TSO energy bid submission GCT. National regulatory Authorities (NRA) – and stakeholders – should be provided with a clear value for the TSO GCT to evaluate. BDEW proposes that TSOs should be sufficiently ambitious in defining the TSO GCT and strive for a TSO GCT of 10

minutes before real-time. The BE GCT should also be brought in line with this.

8. Please add here your feedback on Article 9 'Common merit order lists to be organised by the activation optimisation function'.

It has to be clarified who is in charge of the activation. BDEW has the opinion that this activation role should exclusively be performed by the TSOs.

9. Please add here your feedback on Article 10 'Description of the optimisation algorithm'.

Paragraph 2 seems to be overlapping with paragraph 3 of Article 3. It might be clearer if it is referred to Article 10 in Article 3.

Item (a) of paragraph 2 should not be referring to social welfare maximization as an objective of the optimization function. Points i. and ii. are no sub points of item (a) and should therefore be defined as stand-alone items. The objectives of the optimization algorithm should therefore state, in descending order of importance:

- (a) Maximizing satisfaction of the aFRR demand of individual LFC areas;
- (b) Minimizing the total amount of activation of standard aFRR balancing energy product bids, avoiding counteracting aFRR activation through implicit netting;

- (c) Minimizing procurement costs of the balancing energy through the selection of the low est-price bids on the common merit order list;
- (d) Minimize the amount of automatic frequency restoration power exchange on each border between LFC areas.

10. Please add here your feedback on Article 11 ‘Proposal of entities’.

No comment.

11. Please add here your feedback on Articles 12 and 13 ‘Governance’ and ‘Decision-making’.

The governance and decision-making include no reference to any stakeholder involvement, even though BSPs (and BRPs) may be impacted by the discussions and decisions taken there. There should be a clear involvement of stakeholders in these two processes, preferably as soon as possible in the discussions. In case a decision is to be taken, some formal stakeholder consultation should also be foreseen.

12. Please add here your feedback on Article 14 ‘Categorisation of costs and detailed principles for sharing the common costs’.

No comment.

13. Please add here your feedback on Article 15 ‘Framework for harmonisation of terms and conditions related to aFRR-Platform’.

Unfortunately, the proposal fails to use the opportunity of the PICASSO project to create a level playing field for market participants. Much more ambitious proposals are needed in order to establish such fair conditions. BDEW would prefer to see more ambitious steps taken to harmonise decisive factors such as pre-qualification requirements, standard balancing terms and conditions, network tariffs, ramping periods, penalties, security payments, contracting of balancing capacity (e.g. duration/length, remuneration, auction rules) and others, across Europe, in order to create a level playing field for all market participants.

14. Please add here your feedback on Articles 16 and 17 ‘Publication and implementation of the aFRRIF’ and ‘Language’.

No comment.

15. Please add here your general comments to the aFRRIF proposal.

See above ‘2. General Comments and key messages’

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