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Position Paper

Public Consultation on the implementation framework for a European platform for the exchange of balancing energy from mFRR

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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 ACER's proposals on the design of the platform for manual active frequency restauration reserve (mFRR) and appreciates the efforts undertaken for the MARI project.

As the German TSOs organized within BDEW are, among others, responsible for the original drafting of the proposal the following BDEW comments have been developed without the German TSOs.

2. Questions

TOP 1 Elastic demand in the mFRR platform

All TSOs propose that a TSO demand for activation of standard mFRR balancing energy product bid can be submitted with a price to the mFRR platform. This allows TSOs to send both inelastic and elastic demand for mFRR to the platform. Whereas an inelastic demand will be satisfied at any price an elastic demand will only be satisfied if the price for the standard mFRR balancing energy product bids is equal or lower than the price of elastic demand.

An elastic demand can only be submitted by TSOs for the scheduled activation and the demand for direct activation is always considered as inelastic.

The elastic demand can be used by TSOs if there are alternatives for the TSO to the standard mFRR balancing energy product bids and/or if there is uncertainty about the expected imbalance in the future.

The Agency does not see a significant reason to prevent the use of elastic demand since it allows TSOs to perform efficient arbitrage between different balancing energy products with similar characteristics and to balance their system in the most cost efficient manner. This is consistent with the possibility for BSPs to arbitrage between different platforms such that if their bid was activated in one platform (e.g. mFRR) they can remove the equivalent bid from the other platforms (e.g. aFRR) – see Topic 3 for more details. However, in order to prevent that TSOs artificially introduce a cap on balancing energy prices the Agency also considers that such arbitrage should be linked to actually available data on the prices of alternative balancing energy bids available to TSOs at the time of submitting the demand to the mFRR platform.

With this regard, the Agency proposes to specify the above high-level principle in the implementation framework and to ensure that the application of elastic demand is defined and approved by the competent regulatory authority within the national terms and conditions related to balancing.

In that context, the Agency proposes to revise Article 3(4) from mFRR IF as follows:

The TSOs shall not put a price on their demand, unless this possibility is approved by the competent regulatory authority in the national terms and conditions. For this purpose, it may include in the proposal for national terms and conditions pursuant to Article 18 of the EB Regulation a proposal for application of elastic demand in the mFRR platform. This proposal shall respect the following high-level principles:

(a) the elastic mFRR demand can be only submitted for scheduled activation. Demand for direct activation shall be always inelastic;

(b) a TSO can submit an elastic mFRR demand in a positive or a negative direction with the price it is willing to pay or receive for the activation of standard mFRR balancing energy product bids;

(c) the elastic mFRR demand shall not be used in such a way that it imposes a cap on balancing energy prices permanently;

(d) the price for mFRR demand for positive balancing energy shall not be lower than the price of the cheapest alternative bids for positive balancing energy available to the concerned TSO at the time of defining the mFRR demand in that mFRR MTU, and the price for mFRR demand for negative balancing energy shall not be higher than the price of the most expensive alternative bids for negative balancing energy, respectively.

1. Do you agree with the high-level principles and conditions proposed by the Agency for elastic demand?

BDEW strongly disagrees with the proposal to allow TSOs to price their demands to the MARI platform on the basis of elastic imbalance needs. TSO should set their requested demand according to technical requirements for system security. According to the explanatory document the elastic demand is used only for scheduled activation where the TSO “would not be ready to pay any price”, but no longer for direct activation. Since the bids used for direct activation are a subset of the bids of the CMO for scheduled activation there will not be any price advantage.

TOP 2: Scheduled counter-activations

All TSOs propose to allow the simultaneous activation of an upward and a downward bid in the mFRR platform to maximise the economic surplus, which is also called scheduled counter-activations. All TSOs also propose to monitor the effects of such scheduled counter-activations on the market.

The Agency agrees that scheduled counter-activations can be useful for situations when there are negative balancing energy bids with higher prices than positive balancing energy bids and a simultaneous activation of both would increase economic surplus. Another situation where counter-activations would have a positive impact on the economic surplus is linked to more cost efficient activation of indivisible bids. In this case, only a part of the indivisible bid would be needed to satisfy TSO demand. If there is no counter-activations allowed this cost efficient indivisible bid would be skipped for a more expensive bid or the TSO demand would not be satisfied. With counter-activations it is more likely that the cost efficient indivisible bid can be fully activated together with another divisible bid in the other direction to ensure that supply equals demand. The argument against scheduled counter-activations is that it would give BSPs the incentive to refrain from providing indivisible bids and therefore develop the ability to provide these bids as divisible ones.

In addition to the positive impacts of counter-activations on the economic surplus, TSOs said that at the moment it would be very challenging, maybe even impossible, to block counter-activations in the algorithm. Both restricting (e.g. no counter-activations at bidding zone level but allowed on cross-border level) and blocking counter-activations completely would increase complexity and the time needed for running of the algorithm, whereas these influences are not the only ones which have an effect on the complexity (e.g. linking of bids, indivisibility). The other issue is related to coherence between results, which would only be guaranteed with the optimisation goal of maximising economic surplus. Adding constraints and penalties in the algorithm for blocking counter-activations may result in less transparent and understandable results which would endanger the consistency between outputs (i.e. accepted bids, satisfied TSO needs, mFRR interchanges, price formation).

Given the arguments presented above, the Agency does not see the need to block scheduled counter activations. However, to address the concerns related to scheduled counter activations, i.e. negative impacts on parallel intraday markets, activations of bids that go against the purpose of the platform and the role of the TSO, the Agency sees a need to closely monitor the impact of such a design feature and wishes to therefore introduce additional reporting obligations for TSOs.

Therefore, the Agency proposes that all TSOs should publish a detailed report on the scheduled counter activations and analyse their impact on the market and the functioning of the mFRR platform, 3 years after the Go-Live of the mFRR platform. In this report, all TSOs should make a proposal for either keeping scheduled counter-activations or blocking them in the mFRR platform depending on the impact that counter-activations will have on the market and the mFRR platform.

2. Do you agree to allow scheduled counter-activations in the mFRR platform in order to maximise the economic surplus subject to reporting and monitoring of possible negative effects?

BDEW does not agree to allow scheduled counter-activations in the mFRR platform. Market liquidity that allows Balancing Responsible Parties (BRPs) to self-balance should be focused in the ID market. Capacity offered on the MARI platform in expectation to be (cross-border)

counter-activated against other market participants is lost to the ID market, irrespective of whether BSPs expect to be activated by TSOs or to be cleared against other cross-border market participants. Market participants should be able to take clear decisions where to offer their capacity - on the balancing market or the ID market. If the MARI platform would potentially offer both, it will syphon liquidity away from the (local) ID market towards a hybrid balancing and market-clearing platform. This will be detrimental to the ID market liquidity and to the ability of BRPs to balance their own perimeter and will therefore eventually lead to an increased need for the activation of balancing energy. TSOs' argument that these volumes will in any case be very limited, should be an argument against such counter-activations as the implied social welfare loss will therefore also be limited.

TOP 3: Declaration of bids as unavailable and their modification by TSOs

Article 9 of the mFRR IF proposal suggests that TSOs will have the possibility to modify bids in accordance with Article 29(9) of the EB Regulation or declare bids as unavailable in accordance with Article 29(14) of the EB Regulation.

In addition to this, all TSOs propose the possibility to mark direct activatable bids as unavailable to other TSOs, but not to themselves, in order to guarantee access to a sufficient amount of direct activatable bids. All TSOs would monitor the usage of such unavailable bids with the category named 'insufficiency of required reserve capacity' as the cause for changing the availability status.

The Agency understands the importance of providing the TSOs with the flexibility to act, by declaring bids as unavailable, when operational security limits are endangered or where the bids are no longer available because linked bids have been activated in other EU platforms. However, a more transparent framework is necessary, in order to make sure that all the relevant reasons for declaring bids as unavailable are clearly distinguished and sufficiently justified. The main motivation of this framework is to clearly specify and limit cases when TSOs can modify the bids submitted by BSPs in order to ensure that TSOs do not unduly discriminate between BSPs and the bids they have submitted to them.

Based on the above, the Agency proposes to clarify the following aspects in the mFRR IF proposal:

1. Changes of bids are generally allowed before the TSO energy bid submission gate closure time, but after this gate closure time the changes are allowed only when new information become available;

2. The bids affected by the change should still be submitted to the platform and the changes of bids are limited to changes of available volume only;

3. The changes of bids are limited to cases related to operational security in TSO or DSO networks or changes related to activation of linked bids in other EU balancing platforms after the mFRR balancing energy gate closure time;

4. The changes related to operational security in connecting TSO network can be related to the congestions (thermal limits) or reserve capacity requirements (frequency limits);

5. Changes related to congestions or reserve capacity requirements should affect only the most expensive bids (which are less likely to be activated) and in case of congestions taking also into account their physical impact on congestion;

6. Changes related to reserve capacity requirements may affect only other TSOs, while the connecting TSOs may still activate these bids through the platform;

7. TSOs should provide to the mFRR platform and to affected BSPs clear reasons for these changes and report about these changes in aggregated form in annual reporting.

3. Do you agree with the proposed framework for changing of bids by TSOs? What additional elements would you consider necessary for enhancing the transparency?

The linking of bids between different balancing platforms is essentially a duplicated marketing of the same volume. Declaring those bids unavailable after activation in a preceding platform is neither a case of internal congestion nor an operational security constraint within the connecting TSO scheduling area, which are the reasons permitted in Article 29(14) EBGL for declaring bids unavailable. Therefore, in our view this procedure is generally not compliant with the EBGL. For practical reasons, with very restricted preconditions, this might be tolerable.

TOP 4: General principles for unforeseeably rejected bids

The proposal for mFRR IF does not describe in sufficient detail the principles for the algorithm optimisation and especially for matching mFRR bids with TSO demand. This relates to the question of complex optimisation with divisible and indivisible bids in cases when an indivisible bid is a marginal bid, but the whole volume of such bid cannot be accepted. TSOs propose to solve this problem in two ways:

(a) reject such indivisible bid and accept the next bids such that the TSO demand can be satisfied exactly. This would in general increase the marginal price and would mean that some indivisible bids would be rejected even though their price is below the marginal price (unforeseeably rejected indivisible bids – URiB);

(b) accept such indivisible bid but reject some volume of divisible bids with lower bid price such that the TSO demand can be satisfied exactly. This would in general keep the marginal price the same and would mean that some volume of divisible bids would be rejected even though their price is below the marginal price (unforeseeably rejected divisible bids – URdB).

While both options would be allowed by the algorithm, the TSOs explain that the algorithm would give preference to solution (a) and this preference would be expressed by penalising the occurrence of solution (b). The solution (b) would thus be implemented when the algorithm would have difficulty finding a solution (a). This is in contrast to the solution applied in

the single day-ahead coupling where divisible and hourly bids cannot be unforeseeably rejected (they are also called paradoxically rejected bids) and therefore only option (a) is allowed. The Agency would like to clarify the principles and preferences for the algorithm optimisation with regard to unforeseeably rejected bids. However, the Agency seeks the views of stakeholders whether the principles proposed by TSOs are acceptable.

4. Do you agree with the above principles for unforeseeably rejected bids?

Divisible bids with a bid price lower than the marginal price should not be rejected, in order to actively encourage the provision of divisible bids. With a simple selection according to price, this could easily be ensured. If the additional complexity introduced by complex bid structures prevents this, one could instead think about reducing this complexity for the sake of a transparent market with clear price signals.

TOP 5: Other Comments

5. Please comment on other topics indicating clearly the related Article, paragraph and sub-paragraph of the mFRR IF proposal.

mFRR bids can be flagged as scheduled activated or direct activated bids. The BSP does not know in advance if the bid is required for one or two ISPs. This does make pricing balancing capacity highly unclear. Furthermore, the question should be answered how bids for mFRR balancing energy can be differentiated between scheduled activated and direct activated bids? Thereby it should be considered that a scheduled activation can make a direct activated bid invalid.

To improve the functioning of the mFRR joint activation process and avoid costly complexity, we strongly recommend that the system should be built around the Scheduled Activation (SA) product only. An accurate dimensioning of automatic and manual reserves, especially as the two processes would be running in parallel, would in our view make Direct Activation (DA) of the mFRR product unnecessary. Restricting the standard mFRR product to SA would benefit the system by significantly reducing complexity, lowering cost, and improving transparency. We recommend deleting this definition and adapting Article 7 accordingly. In case both scheduled and direct activatable bids are nonetheless maintained in the proposal, we are concerned about we are concerned about consequences for trade, especially on CMOL definition and functioning.

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