

ACER

Public Consultation on the amendment of the EU electricity balancing pricing methodology

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Topic 1: Technical price limits needed for efficient functioning of the market

Based on the legal provisions, ACER considers that a technical price limit is only allowed if it is needed for the efficient functioning of the market and if it puts no limit on free price formation based on demand and supply.

TSOs outlined in their explanatory note the fundamental risks they see as a reason why technical price limits are needed for the efficient functioning of the market. The fundamental risks, according to the TSOs, result from the application of marginal pricing in the balancing energy market and from the characteristics of the balancing markets (such as design of the balancing energy auctions)[1].

ACER observes that the analysis of the study is based on a different model than the one that will be implemented in the European platforms. The analysis is based on a pay-as-bid market with a two-step approach for the procurement of balancing energy taking place long before the real time. In this market, the bids that have been awarded in the balancing capacity market can be released from the balancing energy market if they will not be activated and bids can be placed again in the intraday markets which provides an incentive to bid very high prices in the balancing energy markets. The European balancing energy platforms will operate with marginal pricing model with a gate closure time of 25 min before the real-time with only a limited option to release bids after the balancing energy gate closure to the intraday market because of obligatory separation of balancing energy and balancing capacity markets. In addition, one national case has been analysed (with different conditions) and by analogy, it was concluded that the same principles would apply for the European target model.

ACER also observes that the study does not demonstrate that the proposed technical limits are necessary for the efficient functioning of the market.

[1] For further details, see the scientific study attached to the explanatory document.

Question 1a) In your view, could a reduction of the balancing technical price limits as proposed by the TSOs be justified on the grounds of a more efficient functioning of the market?

- Yes
- No
- **Partially**

Question 1b) Please provide an explanation for your answer

UFE is in favor of the free formation of price. However, during balancing timeframe, there is no real market because the customers are not able to react to balancing energy prices, as they are settled too close to the real time. Hence, balancing energy prices higher than the maximum real time value of energy that the customers would be willing to pay if the market were perfect, would not make economic sense. Reducing the balancing technical price limits to the level of the real time value of energy would address the issue of the lack of a true market during balancing timeframe.

This would lead to a more efficient functioning of the market, by considering all stakeholders perspectives and indirectly putting a price on customers' demand.

However, UFE would like to recall that it is not the task of TSOs to evaluate and prevent potential abuse of dominant market positions, which is specially provided for by relevant rules and regulations (e.g., REMIT) and competition law.

UFE also notes that the TSO proposal does not provide any evidence of the usefulness of technical price limits in terms of operational or IT issues or corrupted data for the proper functioning of the algorithms of European balancing platforms. While imbalance settlement prices depend on the prices issued from the balancing markets and on the local methodology used by TSOs, UFE would like to stress that BRPs are facing a risk with respect to imbalance prices when those are reaching irrelevant levels, in case of IT issues, operational issues or corrupted input data on the balancing platforms. **However, if putting a cap on balancing energy bids would certainly help, it would not be sufficient to cover all the cases.**

Therefore, UFE calls for a more holistic examination of all possible measures to reduce the risk of having irrelevant imbalance prices:

- if relevant, review of the methodology for harmonization of imbalance settlement (ISH),
- improvement of transparency in the criteria used for the choice of balancing products activated by TSOs
- better preparation for the go-live of the balancing platforms,
- mandatory solutions allowing to warn the BSPs in case of issues (IT / operational issues and corrupted data) and this in real time,
- more transparency from TSOs on the state of the system close to real time.

Topic 2: Level and the timeline for the lower technical price

In addition to the fundamental risks explained under 'Topic 1', TSOs also outlined transitory risks in their explanatory note as a reason why technical price limits are needed for the efficient functioning of the market. TSOs state that there is a critical mass of balancing service providers via the connecting TSOs or contracting TSOs required under EB Regulation on each European balancing energy platform for the market to function effectively and efficiently. All TSOs do not consider this requirement fulfilled at the legal deadline for the implementation of the European FRR balancing platforms due to the expected derogations to be granted to several TSOs based on Article 62(2)(a) of the EB Regulation. As a result of limited number of TSOs joining the European balancing platforms at the legal deadline, the competition could also be limited at beginning.

The transitory risks are also associated with changes to the local balancing energy market designs and adaption phase for all market participants as well as TSOs implementing the new market design nationally and cross-border. As a result of these changes, there could be increased vulnerability to errors which could lead to high prices not correlating with the real-time-value of energy (artificial scarcity situations).

ACER does not agree that there is a requirement in the EB Regulation for a critical mass of balancing service providers on the European balancing energy platforms. The EB Regulation provides the possibility for derogation up to two years for TSOs to join the European platforms, without setting any threshold for the number of the balancing service providers or participating TSOs.

However, ACER understands the points made by the TSOs and agrees on the importance of having sufficient amount of balancing service providers and the TSOs connected to the European platforms for the effective and efficient functioning of the market. ACER also agrees that the transitory risks are lower the higher the competition is.

In order to ensure a smooth and successful transition towards integrated European balancing energy markets, applying a lower technical price limit could provide more confidence to all parties involved and facilitate the connection to the European balancing platforms.

All TSOs proposed in the Amendment Proposal that a technical price limit shall, in their view be higher than the harmonised maximum/minimum clearing price for single intraday coupling in accordance with

Article 54(1) of the CACM Regulation and lower than the highest value of lost load ('VoLL') among member states. All TSOs have decided to propose the technical price limit of 15,000 €/MWh as an average approach, because the base case VoLL for the European resource adequacy assessment is set to 15,000 €/MWh.

Question 2.1a) Do you consider that the lower price limit during the implementation of the integrated European balancing platforms until more TSOs connect to the European platforms would provide a safeguard for secure implementation?

- Yes
- No
- **Partially**

Question 2.1b) Please provide an explanation for your answer.

UFE considers that the main reason to set a cap is to compensate the market imperfections and estimates that it should be equal to the highest VoLL of the EU member states. These market imperfections will persist after the transitory period mentioned by the ACER and a cap will still be necessary.

However, ACER refers to transitory risks for the implementation of the European platforms in relation to the operational changes it implies for market participants and TSOs. Since UFE is in favor of a cap over the long term, UFE is not favorable to set a specific cap during the transitory period to secure the implementation of the platforms.

- This transitory period will be as well characterized by a progressive participation of BSPs and TSOs. UFE agrees that in such a transition period, the vulnerability of the platforms to errors might be higher and that situations with IT / operational issues or corrupted data might likely occur more often. A cap reduction would certainly help, in some cases, to protect BRPs from irrelevant imbalance settlement prices but it will not be sufficient to cover all the cases (See for example the issues in Spain or France on TERRE since the go-live). Moreover, situations with IT/operational issues or corrupted data might occur at any time though, including after the end of the transitory period. **Therefore, if the reduction of the technical price limits is to be done for this purpose, it should remain permanently and not be restrained to the transitory period only.**
- **While UFE recognizes the usefulness of reducing technical limits to address the lack of a real market in balancing timeframe, UFE does not believe that this reduction is the most adequate tool for the purpose to secure implementation of the platforms.** If NRAs and ACER fear that there are or will be some difficulties for the go-live of the platforms PICASSO and MARI, **UFE considers that other tools could be explored as relevant safeguards to secure European platforms implementation.** For example, improve the testing phase of the platforms by introducing parallel runs to test in advance the platforms and give confidence to BSPs and TSOs or put frameworks in place to supervise damages the IT issues or errors caused to or by the TSOs, BRPs or stakeholders in general.

Question 2.2a) How long in your view shall the lower technical price limit remain in place after the start of the operation of European platforms (foreseen for July 2022)?

- Lower technical price limit shall not be in place at all
- 6 months
- 1 year
- 2 years (until the expiration of all the derogations in accordance with Article 62(2)(a) of the EB Regulation)
- **Longer**

Question 2.2b) Please provide an explanation for your answer.

UFE considers that a price cap should be set to compensate the lack of a real market during the balancing timeframe. Therefore, unless a clear criterion is formulated upfront that would be used for assessing the necessity of getting rid of the measure, UFE sees no reason to withdraw the lower technical price limit after the start of the operation European platforms.

Question 2.3a) At what level in your view shall the lower technical price limit be set?

- Lower than 15,000 €/MWh
- 15,000 €/MWh
- **At the value of highest VoLL among member states**
- Higher than the highest VoLL among member states but lower than the existing technical price limit
- 99,999 €/MWh (existing technical price cap)

Question 2.3b) Please provide an explanation for your answer.

As previously mentioned, UFE considers that a price cap should be set to compensate the lack of a real market in balancing timeframe. UFE is therefore favorable with the reduction of the technical price limits **if the cap is set at the level of the highest VoLL among the member states**. Indeed, a cap equal to the highest VoLL would avoid prices which does not reflect a scarcity situation, but only the lack of a real market in the considered timeframe.

Setting the technical price limit at an averaged VoLL could hinder the free formation of prices in the countries with a VoLL higher than the average. So, taking the highest VoLL among member states would permit to address partially the lack of a true market without hindering the free formation of prices.

However, UFE considers the following principles should be followed to define the values of technical price limits:

- The VoLL should be properly assessed and should be the result of the methodology developed in the framework of E-Reg Art 23.6 and decided upon by ACER back in November 2020.
- The VoLL is probably not a single value as it can vary from one country to the other and from one industry/type of consumer to the other. Any technical price limit for the clearing of balancing energy should never be lower than the ID price limits.
- The technical price limits should continue to be harmonized.
- Therefore, UFE is favorable to a **maximum** technical price limit if and only if this one is equal to the highest VoLL.

Question 2.4 Do you agree that the technical price limit shall increase once all TSOs have joined the European platforms? If you agree, at what level in your view shall technical price level increase?

As mentioned in 2.3.b), UFE disagrees with this proposition because UFE considers that the cap is set to compensate the lack of a real market during balancing timeframe and should be equal to the highest VoLL among the connected TSOs. The maximum technical price limit shall be reevaluated if there is a member state joining the European platforms with a higher VoLL than the limit already in place.

Topic 3: Automatic adjustment mechanism linked to balancing energy prices

Based on legal provisions (Article 10(2) of the Electricity Regulation), there shall be a transparent mechanism to adjust automatically the technical bidding and clearing limits in the day-ahead and intraday timeframes in due time in the event that the set limits are expected to be reached. The adjusted higher limits shall remain applicable until further increases under that mechanism are required.

The proposals on harmonised maximum and minimum day-ahead and intraday prices in accordance with Article 41 and Article 54 of the CACM Regulation shall take into account an estimation of the VoLL.

In ACER Decision 04/2017 on harmonised maximum and minimum clearing prices for single day-ahead coupling ('SDAC') in accordance with Article 41(1) of the CACM Regulation, the VoLL was not explicitly taken into account but rather a criteria was introduced for amending the harmonised maximum clearing price automatically whenever the market clearing price exceeds a certain threshold. The main purpose of the requirement to take into account an estimation of VoLL is that the harmonised maximum clearing price never restricts the free price formation. Therefore, an automatic adjustment mechanism ensures that the harmonised maximum clearing price is always above the clearing price that would occur in the absence of price limits.

In accordance with Article 10(2) of the Electricity Regulation, the same automatic principle shall apply in the intraday timeframe if a set limit in the intraday timeframe is expected to be reached.

Question 3a) Do you agree there shall be a transparent mechanism to adjust automatically the technical price limits if set limits in the balancing timeframe are expected to be reached?

- Yes
- **No**

Question 3b) Please provide an explanation for your answer.

UFE considers that there is no reason to adjust the maximum technical price limit above the highest VoLL among TSOs, as explained in 2.4. If the limit set to the highest VoLL were to be reached, a thorough and transparent analysis of the incident that led to such a price should be conducted, to learn from it and to take appropriate actions to improve the functioning of the market.

Topic 4: Other comments

Question 4) If you would like to comment on other topics please indicate clearly the related Article, paragraph of the Amendment Proposal and add a sufficient explanation.

The TSOs' proposal does not give any reasoning for the minimum price. UFE understands the need for a minimum technical price limit, preventing IT and technical issues. Symmetry of technical price limit is not a must (e.g. DA technical price limits). UFE, therefore, calls for a debate/specific discussion on the rationale for the value of this minimum price limit.

For the maximum technical price limit, UFE agrees with the VoLL as a minimal reference for upward balancing energy bids in relation to ISPs. Concerning the minimum technical price limit, UFE calls for a similar reasoning based on the "Value of Lost Generation" for downward energy bids. UFE would like to recall as well that with a techno-neutral approach, all means, and technologies should have the same incentives to participate to upward and downward balancing activations.

Since the TSO acts as single counterpart of BSPs in the balancing timeframe and buys/sells on behalf of BRPs, passing on balancing costs to them afterwards, the principle for setting the minimum technical price should be to reflect the alternative the TSO faces between balancing the system through the balancing market and resorting to (non-market-based) generation curtailment, when applicable, so that the cheapest measure for BRPs is chosen. This curtailment would a priori concern non-controllable RES; hence the associated cost for the TSO may differ depending on the national provisions on RES support schemes. Such a "Value of Lost Generation" could be assessed with a dedicated methodology to be developed.