

## **ACER consultation on the Framework Guidelines on Electricity Balancing - Response from the European Wind Energy Association**

EWEA welcomes the publication of ACER Framework Guideline (FG) on Electricity Balancing. EWEA would like to respond to its accompanying consultation with the aim of facilitating integration of wind energy in order to meet Europe's climate and renewable energy targets.

The cost efficient integration of large amounts of wind energy depends, to a great extent, on the technical and market rules for balancing the power system. In particular, balancing variable sources of energy depends on performing this activity in an integrated European-wide market, beyond national borders or control zones. Therefore, the development of a pan European Network Code establishing cross-border balancing services and harmonising rules for their procurement and provision is of huge importance.

### Scope

EWEA considers that the scope of the Network Code (NC) on Electricity Balancing foreseen in this FG will be incomplete if all type of reserves are not included. Whilst the FG addresses the procurement and activation of frequency restoration and replacement reserves, it does not touch upon provisions for frequency containment reserves, excluding the possibility of harmonising technical characteristics and provision of these across-borders.

In this sense, EWEA sees no justification for not including market provisions for all type of reserves in the NC on Electricity Balancing. In our view this NC should set the necessary features to facilitate the future development of cross-border exchanges of balancing energy across all borders, at all time-scales and for all activation modes.

### Terms and conditions related to balancing

EWEA welcomes provisions included in the FG which state that the NC on Electricity Balancing shall be set to facilitate wider participation of demand response and renewable sources of energy in the provision of balancing energy (national and across-borders) through becoming Balancing Service Providers (BSPs). EWEA has continuously called for the establishment of an ancillary services market for all generators and we consider that establishing market rules and allowing participation in remunerated balancing services will be the first step to pave the way towards this.

Accordingly, EWEA supports and calls for the FG to stress even more the importance for the NC to foster liquid balancing markets and avoid undue entry barriers for new participants. Similarly, we strongly support the FG requirement for the NC to carry out harmonisation of gate closures as close as possible to real time delivery.

Therefore, EWEA calls for ACER to ensure that ENTSO-e strictly adheres to such provisions in the development of the NC on Electricity Balancing, namely:

1. Balancing Market opening for all generators;
2. NC should foster liquidity in the market;
3. Harmonisation of gate closures as close as possible to real-time delivery.

#### Procurement of balancing services

EWEA welcomes the requirement in the FG guidelines on close cooperation for TSO's to organise and procure reserves in a coordinated manner, particularly, for the determination of the amount of reserves necessary in their control areas. This must take into account potential gains from sharing of reserves and balancing energy. With increasing penetration of wind energy sharing reserves will decrease total system requirements and costs and will facilitate system integration.

Also, EWEA supports the FG requirement obliging TSOs to coordinate activation of reserves across borders and to counteract activation of balancing energy between adjacent control areas (i.e. netting of imbalances) whenever possible.

Should balancing energy be required, EWEA supports the FG requirement obliging TSOs to allow participation of non-pre-contracted reserves to provide, at least, balancing energy for replacement reserves as well as for manually activated frequency restoration reserves. This will allow non-discriminatory participation of wind generators which, usually, are not pre-contracted for the provision of such services.

However, the Framework Guidelines need to clearly stress that the NC shall define the characteristics for bids in such markets. As it stands today, it is not clear whether bids will be made by individual plant/consumer, portfolio of plants/consumers or both. This is especially relevant for wind generators as the aggregation of power output from wind farms significantly reduces its variability and increases firm capacity from wind power.

Furthermore, in line with the FG requirement on transparency for organising such markets, EWEA calls for provisions in the FG to include an independent market operator responsible for organising balancing markets, at least for frequency restoration and replacement reserves (see answer to question 3).

Moreover, the FG should stress requirements in the NC to ensure clear and transparent allocation of responsibilities and liabilities among BSPs. For example, the NC should define to what extent collateralisation of reserves is allowed and set clear guidelines for its application.

Finally, when establishing a market model with a common merit order for the procurement of balancing energy, EWEA calls for strict implementation of the FG requirement on transparency for the definition and methodology in the NC of any unshared bids (also called "margins") for cross-border balancing energy from replacement reserves, but also the inclusion of provisions for monitoring such decisions in case they are taken.

#### Reservation and use of cross-border capacity for balancing

The FG establishes that no cross-border transmission capacity reservation has to be made in the NC for balancing energy, not even for frequency containment reserves as these are

considered to be done within the control zones and with negligible cross-border exchanges. Whilst EWEA supports this principle and calls for the use of flow-based methods for cross-border capacity calculation and allocation - therefore prohibiting unjustified transmission capacity margin reservations - treating frequency containment mainly as a local service neglects the possibility of balancing exchanges across borders by imposing design constraints to a possible market development. If transmission capacity reservation allows for market creation of these types of reserves, the FG shall foresee provisions for the NC to consider it.

### **Answers to consultation questions**

***Q1: Do you consider that harmonisation of the pricing method is a prerequisite to establish a TSO-TSO model with common merit order list for balancing energy? Do you support the use of the pay-as-cleared principle?***

EWEA believes that pricing method harmonisation is not a prerequisite for establishing a TSO-TSO market model. A far more important prerequisite is the harmonisation of gate closure as close as possible to real time delivery and technical characteristics of balancing services. Furthermore, success of the model should be based on efficiency and liquidity of the market. These have to be carefully looked at when drafting provisions of the NC.

Whilst in the medium to long run a TSO-TSO model needs to harmonise pricing methods, achieving a common merit order initially depends more on cooperation in information sharing and TSOs adoption of real-time online communication technologies. Therefore, practices such as the establishment of control centres like CORESO and CECRE with advanced forecasting tools should be encouraged in the FG.

Provisions in the FG must ensure the NC on balancing contains a clear, fair and transparent method of reserves pricing that guarantees non-discriminatory treatment for generators. In this sense, EWEA calls for removal of any capacity-based component in this pricing, so that real-time energy prices are based mainly on the balancing services procured and not on the capacity insurance they provide. Existing market distortions worsen when non-harmonised procurement of reserves in neighbouring systems contains capacity payments. In these cases, there is evidence that the exercise of market power by local large participants hampers competition and cross-border cooperation.

The pricing method should be market-based and take into account capability and availability of the generator as well as the provision of the balancing service itself. In our view marginal prices (pay-as-cleared) provide cost-reflective figures allowing transparent long-term comparison between generators and reliable optimisation calculation of total system cost.

***Q2: Do you think the “margins” should not exceed the reserve requirements needed to meet the security criteria which will be defined in network code(s) on System Operation?***

Yes, EWEA believes that “margins” should not exceed reserve requirements needed to meet security criteria. Sparing local reserves and not bidding them into a common merit order constrains competition and does not allow fair comparison when costing balancing. Therefore, the NC should include provisions to ensure that any margins are duly justified.

EWEA believes that the FG must ensure that the procurement of balancing services can access information of all available resources to achieve cost minimisation and take advantage of reserves sharing and low cost balancing services.

***Q3: Do you support to aim at similar target models for frequency restoration reserves and for replacement reserves? Do you think a distinction should be made between manually-activated frequency restoration reserves in terms of models of exchanges and/or time frames for implementation?***

The FG does not foresee different market models for balancing across-borders using replacement reserves or frequency restoration reserves (TSO-TSO with a common merit order list for both). Whilst the TSO-TSO model facilitates harmonisation of technical aspects and drives faster integration of markets, it creates exclusive relations between participants and the TSO responsible for the control area leading to potential market distortions, such as asymmetry of information and exercise of market power. Having a single buyer (TSO) with the knowledge of all bids and needs for balancing services while the seller only knows its own bid lends itself to potential gaming in the market on the buyer's side, to the detriment of market liquidity and overall efficiency.

Therefore, EWEA calls for provisions to include an independent market operator responsible for organising balancing markets. This can be an entity such as a power exchange or a market coupling company. This solution should be considered at least for frequency restoration and replacement reserves. Moreover, greater clarity on frequency containment reserves should be made in the NC on Electricity Balancing.

Furthermore, market integration of balancing services, especially for RES and wind, requires balancing areas greater than the current ones to make the most of variation smoothing and increased accuracy of forecasts that the aggregation of power outputs delivers. Therefore, market participants should be able to bid in any market independently of the TSO responsible for its local control area. This would allow more participants to offer reserves, increase competition and reduce the possibility of domestic players exercising market power.

***Q4: Do you support the timeframes for implementation?***

EWEA agrees that Framework Guideline should state that the implementation of the Network Code in national rules and regulation should allow for sufficient time for market players to adopt the new regimes. Existing market arrangements in certain systems may require some flexibility that acknowledges its differences to meet cross-border requirements while not jeopardizing system stability.

However, a clear and bold timetable that allows the completion of the Internal Energy Market by 2014 as proposed in Target Model is required. The timeframes laid down in this FG seem to go well beyond this.

***Q5: Do you consider regional implementation objectives as relevant milestones which should be aimed at in these framework guidelines on electricity balancing and the electricity Balancing Network.***

No opinion.

**Q6: Do you consider important to harmonise imbalance settlement? Do you think these Framework Guidelines on Electricity Balancing should be more specific on how to do it?**

EWEA considers that imbalance settlement harmonisation is of high importance. In fact, it may be more relevant than harmonisation of pricing reserves. The design of the imbalance mechanism has important consequences on the interactions between balancing and day-ahead markets.

Whilst applying penalties to imbalances allegedly encourages their avoidance, it can also incentivise strategic gaming behaviour in day-markets (i.e. bidding towards system imbalance) and may excessively penalise wind generators as wind forecasting can deviate up or down. Clearly, such balancing provisions put them at a disadvantage compared to conventional generators as their forecasts become more precise with shorter time horizons closer to delivery, but they have few or null opportunities to use them in real time operation.

Therefore, provisions in the FG must ensure that imbalance settlement is harmonised and designed to be cost-reflective and market-based. This means it should contain the true price of balancing, including procurement costs, but without any other components such as penalties. It also should be calculated with the same price (marginal) from the market in which imbalances were created (i.e. spot price and not price from the balancing market). This also means that the design of the imbalance settlement has to be a zero sum game for the TSO, i.e. not a source of revenues.

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The European Wind Energy Association (EWEA) is the voice of the wind industry, actively promoting the utilisation of wind power in Europe and worldwide. Over 650 members from nearly 60 countries, including manufacturers, developers, research institutes, associations, electricity providers, finance organisations and consultants, make EWEA the world's largest wind energy network.