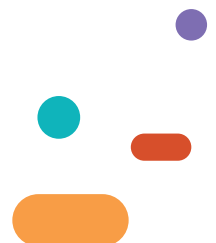


Response to the ENTSO-E consultation on “FCR cooperation” potential market design evolutions

10 February 2017



Introduction

This document give the response of Energie-Nederland to the Public consultation on “FCR cooperation” potential market design evolutions issued by ENTSO-E on 2 January 2017. Energie-Nederland represents the commercial players in the Dutch power, gas and heat market.

General questions to stakeholders

1. Could you briefly present your company or association and its involvement in the FCR market

Energie-Nederland is the association of commercial energy companies in the Netherlands. We represent companies that have a power, gas and/or heat position in the Dutch market in the complete value chain from retail to generation.

2. Do you have some general comments on this public consultation?

No

3. Do you have some comments regarding the consultation process?

Consultation through a web interface is difficult for associations as they have to consolidate view of all members. It also unclear how the input of associations is treated in comparison of individual companies.

Questions to stakeholders regarding auction frequency and timing

4. Do you prefer changing the auction frequency or keeping the weekly auction? – Please explain your answer.

Energie-Nederland prefers weekly auctions for now. The weekly auctions provide a good balance between the required bidding process at the side of market participants and the ability for a broad number of market participants to participate. An increase in auction frequency towards daily auctions would imply a significant increase in the operational burden. In a later stage, when the other measures are deemed insufficient, the market has gained more experience with the common auctions in the FCR cooperation and in line with the procurement frequency of other balancing processes, an increase in auction frequency could be considered. Shorter term auctions may allow more participants in the market, thus promoting competition.

5. If you prefer to increase the auction frequency, what frequency would you prefer: daily all days, daily working days only, other...? – Please explain your answer

If the auction frequency would be increased, we prefer daily auctions. In our view this would be the most efficient. Increasing the frequency further would increase the efforts to prepare the bids and could have a detrimental effect on the overall efficiency.

6. Do you prefer a short lead time (GCT D-1 or D-2) or a long lead time (GCT D-3 up to D-6)? – Please explain your answer

We are in favour of continuing the current lead time of organizing the auctions on Tuesday before the delivery week. An important element to keep in consideration is that the regional FCR auction takes place after potential local auctions such as in The Netherlands. If daily auctions would be implemented, we prefer that they take place in the day-ahead, before the energy market auctions.

7. In which case would there be benefits of having a relative long period between the GOT and the GCT? – Please detail your answer

We do not see any advantage in a longer period. See answer 6.

8. What are the relevant interdependencies with other markets? What would be the correct sequence according to you? – Please explain your answer

BSPs should have enough time between auctions to take into account the results of the previous auction / market in preparing for the next. Any simultaneous auctions with other balancing capacity products should always be avoided, as it does not allow to take into account the outcome of the other auctions. The only way to do so would be by implementing linked bids between different products, which would make the auctions significantly more complex.

With the current practice of weekly auctions, the interdependency with the energy market is less relevant. However, if the decision would be taken to go towards daily auctions, the interdependency with the Day-ahead market becomes also of importance. In that case, the auction outcome needs to be published before the gate closure time of the Day-ahead market.

Questions to stakeholders regarding product duration

9. What product duration do you prefer: weekly, weekly peak-offpeak, day (24h), 4 hours, 1 hour, other? - Please explain your answer

There is a need to move towards a more granular product duration so as to allow more types of assets or portfolios to participate to the auction. A good differentiation would be between a peak and off-peak product as they allow different types of assets to participate to the FCR market. Very short durations could be suboptimal because of the increasing efforts it would take to prepare many smaller bids.

10. If a shorter product duration would be implemented, would linking of bids in time or having multiple products be an important feature or do you consider that only independent auctions should be implemented? For which product duration does the introduction of linked bids in time make sense to you? – Please explain your answer

Linking of bids increases the complexity and therefore the costs to prepare bids. With a simple and transparent process BSPs can take the effects of other auctions into account. Therefore we think that linking of bids/ auctions will be less efficient. Transparency of the auction outcome will also decrease. However, in case of shorter product durations like 4-hourly blocks or hourly blocks, the ability to link in time becomes increasingly important and should be further assessed.

Questions to stakeholders regarding indivisible/divisible bids

11. Do you prefer divisible bids only or divisible and indivisible bids? – Please explain your answer

Energie-Nederland members have a different preference for divisible and indivisible bids. Indivisible bids are easier to price, but the issue with indivisible bids is if the marginal bid is only used partly. As the market of the FCR cooperation is far larger than any national market, the risk of being the marginal bid is sufficiently limited as to be acceptable. Moreover, the clear choice for only divisible bids could also resolve the current issue of market decoupling between Germany and Switzerland in case an indivisible bid is the marginal bid.

On the other hand, the issue with the marginal bids could also be solved by the contracting practice of the TSOs. Instead of contracting an exact amount TSOs could also choose to contract the cheapest amount meeting the minimum amount of reserves. If the TSO needs e.g. 300 MW the TSO could also choose to contract more (e.g. 320 MW) that would lead to a higher volume (e.g. 320 MW). TSO should be more flexible in procuring the cheapest bids.

From a market perspective a combination of both indivisible and divisible bids would be possible. We therefore propose a system based on such a combination.

12. In case indivisible bids are introduced, what should be the maximum bid size? - Please explain your answer

In case of indivisible bids in the system, the maximum bid size should not be smaller than what reasonably could be delivered from one production unit. If not, the reason for indivisible bids (ability to split must run costs of production units over a larger delivery volume of FCR) would disappear.

Questions to stakeholders regarding Exclusive Offers

13. Should exclusive offers be allowed or not allowed in the whole cooperation? – Please explain your answer

Exclusive bids increase complexity and therefore the costs to prepare bids. With a simple and transparent auctioning process BSP's can take these effects into account. See also answer 10. If however also indivisible bids would be allowed, it could be of benefit to market participants to allow exclusive offers.

Questions to stakeholders regarding symmetric and asymmetric bids

14. Do you prefer symmetric bids, asymmetric bids or the possibility for having both? – Please explain your answer

The energy component should be remunerated in one way or the other. If not remunerated explicitly, the most important is that the BSP should be able to take the energy component into account in the pricing of the bid. Energie-Nederland is not opposed to a combination of symmetric and asymmetric bids. We see that asymmetric bids on the one hand attracts new players, but on the other hand increases complexity

15. If asymmetric bids are preferred, should these be procured in separate auctions for upward and downward FCR or in one auction for both upward- and downward FCR, possibly together with symmetric products?

The main principle should be: 'keep it simple and transparent'. So we do not support separate auctions.

16. In case of separate auctions - which auction should be carried out first? Or should both auctions take place simultaneously?

The main principle should be: 'keep it simple and transparent'. See answer 15.

17. If asymmetric bids are introduced, would the introduction of energy remuneration and/or BRP imbalance adjustment be necessary?

The energy component should be remunerated in one way or the other. If not remunerated explicitly, the most important is that the BSP should be able to take the energy component into account in the pricing of the bid.

Question to stakeholders regarding bid size and pooling

18. Is 1 MW minimum bid size sufficient or would a lower bid size facilitate your participation?

1 MW is already a small amount. Even if shorter durations are introduced we prefer to keep the 1 MW minimum bid size.

Questions to stakeholders regarding bid design

19. If only one of the following three options would be possible – indivisible bids combined with divisible bids, symmetric bids combined with asymmetric bids, and linking bids in time – what would be most important?

The most important is to allow for the combination of symmetric + asymmetric, since the difference is related to technical aspects. The other options have only economical aspects that can be taken into account by the BSP when preparing the bids.

Question to stakeholders regarding auction allocation algorithm

20. How do you see the possibility to create different bid structure compared to the need for easily understandable results?

The main principle should be: ‘keep it simple and transparent’. See answer 15.

21. Please rank the three options in decreasing preference order – Please explain your order preference.

We prefer the basic price ranking in option 1: simple and transparent, but we do not see the issue with indivisible bids (see answer to question 11). Ranking cannot be given in that respect.

Questions to stakeholders regarding cross border transfer of capacity obligation

22. Is cross border transfer of capacity obligation an important feature? – Please explain your answer

In general, XB trade is very important and for FCR this is relatively easy. Cross border capacity is not an issue since there is already a reservation in the Transmission Reserve Margin (TRM) for FCR. We do not understand the issue with the controller settings for each TSO when the product is harmonized we expect the controller settings to be harmonized as well.

23. In case you think XB transfer of capacity obligation is an important feature, do you think its relevance decreases when auction frequency increases and when product duration decreases? Is there a specific breakpoint in terms of auction frequency or product duration where it would not be that important anymore? – Please explain your answer

A reduction in product duration would indeed theoretically decrease somewhat a need for the transfer of capacity obligations as the period – and thus the risk – to be covered is reduced. However, the benefit of the ability to transfer remains present in almost all time-horizons as it still continues to decrease the risks for BSPs and allows for economic re-optimization, irrespective of the product duration. As such, we do not see a specific breaking point where the cross-border transfer of capacity obligations would be redundant.

24. In case of implementation would you support a simple mechanism such as first come first served? – Please explain your answer

See answer 22: Energie-Nederland does not see a cross border capacity allocation issue. The first come first served principle would be an acceptable starting point for the cross-border transfer of obligations, as it is simple and easy to implement. An evaluation of the mechanism and possible alternatives could be performed after some experience of such transfers is gained.

25. In case of implementation could you please comment on the example proposal made?

The proposal could work.

Question to stakeholders regarding TSO-BSP settlement

26. Do you prefer pay-as-bid or marginal pricing? – Please explain your answer.

We prefer marginal pricing, since it is less sensitive to strategic behavior. Marginal pricing also gives better incentives to new entrants, because pay-as-bid calculation are more complex for new innovative technologies.

Questions to stakeholders regarding the level playing field and the level of harmonisation of the national market rules

27. Are you satisfied with the degree of harmonisation of the common FCR market (satisfied, mixed, not satisfied)? - Please explain your answer.

Not satisfied yet: on the common FCR market we see room for improvement (see answer 28), and the level playing field is also influenced by differences on other markets (intra-day, different balancing rules, etc.).

28. Do you consider any of the existing differences as critical concerning level playing field? If yes, please list the most critical differences from your point of view and give an explanation why this is relevant concerning level playing field.

Any difference in contracts, pre-qualification requirements and monitoring result in different risk profiles. Also the differences in penalty regime (TenneT = 10x Elia), Energy Availability Requirements and back up rules are obstacles for a real level playing field. Different risk profiles lead to different bidding. TSOs should not increase their cooperation without harmonizing these differences first.

29. Please list and sort the 3 most important market rules harmonization (as described in chapter 7 of the consultation document) priorities for your company

The priority issues for harmonization are:

- the split of the current product into two products (a peak and an off-peak one);
- the change of the current Pay-as-bid settlement to Pay-as-Cleared; and
- the cross border transfer of capacity obligation between BSPs.

30. Could you list and sort the 3 most important topics that should be addressed for your company

Conceptually Energie-Nederland has the following priorities regarding integration of the FCR market:

1. Harmonisation of all aspects of the FCR market is the most important aspect of the integration of this market in order to create a true level playing field.
2. Efficiency should be the key factor. That does not mean that the costs for TSOs are the lowest, but that the total costs for society (including the costs for BSPs and BRPs) are the lowest
3. the auctioning system should simple and the outcome should be transparent, understandable and predictable for market parties in order to provide easy access to that market

31. Do you have any other comments regarding FCR?

The FCR cooperation of Austria, Belgium, Germany, Switzerland and the Netherlands has provided many experiences that should be taken into account. In general the cooperation has proven to be a success and shows the importance of harmonising even smaller differences in the different countries.

