

**Energie-Nederland response to the ENTSO-E consultation  
on the implementation framework for the exchange of  
balancing energy from frequency restoration reserves with  
manual activation.**

*Date: 12 July 2018*

**Energie-Nederland**

Energie-Nederland is the association representing the commercial participants in the energy market in the Netherlands. This includes generation, trade, supply, aggregation and services companies. Energie-Nederland believes that the transition to a carbon free energy system should be done by using the efficiency and innovation power of the energy market. Creating an international level playing field through market integration is key in this perspective.

**Contact information**

Contact for this response:

Ruud Otter

[rotter@energie-nederland.nl](mailto:rotter@energie-nederland.nl)



## Answers to the consultation questions

The sections below give the consultation questions with our answers. In this paper we have excluded the administrative questions in the beginning and start with question 8.

### ***8. Please add here your feedback related to the introductory Articles 1 and 2 'Subject matter and scope' and 'Definitions and interpretation'.***

It is incorrect to use social welfare in this context as the mFRR energy process is only one of the platforms that can be used to exchange energy, there is also the local intraday market, aFRR or passive contribution by BRPs. Measuring welfare should include all of these. In this context the objective is rather to find the right price to satisfy the balancing energy demand through the activation actions of the TSOs. The EBGL does not refer to maximisation of social welfare through balancing, but does refer to cost efficiency (EBGL Article 3).

Energie-Nederland thinks that TSO demands on the energy balancing market should come from actual imbalances, not from forecasted ones, to maximize the possibilities for BRPs to aim for system balance. Given that approach, inelastic demands are not appropriate. Another downside of inelastic bids is that only the pro-active TSOs activate balancing energy before real-time, thereby optimizing just their own balancing needs, hence this can never lead an optimal dispatch from a European perspective, a crucial flaw in the design of this market. Consequently, BSPs receive intransparent and overly complex price signals (imagine that a BSP who needs to decide to offer capacity to the aFRR or the mFRR market has to assess 28 different TSO approaches). To ensure a true European optimization it is vital that TSO demands are harmonized.

The reasoning of TSOs that only the elastic demand allows them to optimize between the different balancing products is also not convincing. The elastic demand only replaces price uncertainty given a pre-defined volume with volume uncertainty given a pre-defined maximum price. It is not clear why the latter would be a superior design choice compared to the former. We therefore question why TSOs cannot express the inherent uncertainty for acquiring balancing services for forecasted imbalances in volumes, while they can do so in prices? It is also not clear how TSOs will optimize their elastic balancing needs in the future when the cost of competing balancing products (i.e. mFRR through the MARI project and aFRR through the PICASSO project) will depend both on the availability and needs in other countries that will only be clear after the TERRE platform (and MARI platform in case of optimization with aFRR) has closed?

Regarding the potential use of elastic demand to optimize between Standard and Specific Products, we do not consider elastic bids the appropriate tool to do so. Specific Products can be defined by TSOs for two distinct reasons: economic and technical. If TSOs consider the Specific Product necessary for economic reasons, it implies some adjustments to the contractual framework for the capacity product while keeping the energy characteristics similar. In that case, there is no need for optimization between the two products through elastic bids as the EBGL foresees a procedure to convert Specific Products into Standard Products. This is more appropriate as it allows direct competition between the two, instead of a 'shadow' participation through elastic bids. If on the other hand TSOs consider the Specific Product necessary for technical reasons, it means that the Standard Product does not meet the needs of the TSO for particular balancing requirements. In that case, the optimization between the Specific Products and the mFRR Standard Product is not based on economic signals (i.e. the price through elastic imbalance needs) but on technical requirements. So also in that case, elastic imbalance needs are not a correct tool to choose between Standard and Specific Products.

**9. Please add here your feedback on Article 3 'High-level design of the mFRR-Platform'.**

Article 3-3-d: The condition "The frequency restoration power interchange is minimised if this does not impact the social welfare" leads to counter activation between BSPs and therefore de facto leads to clearing among market parties. Ideally this should be done through the intra-day market. However, since the CZID GCT is one hour to real time, it is impossible for the market to do so. We fear that with allowing these counter activations through the platform that the TSOs will have no incentive to further develop shorter lead times for the ID market. Therefore, a clear planning for the implementation of shorter lead in the cross border intra-day market, combined with the end date of the possibility of counter activations through the platform should be added to the proposal. In any case counter activations should be made fully transparent and the impact on the imbalance price neutralized.

Article 3-5: This clause is against the purpose of minimising overall cost in the balancing energy market through the platform. It seems that TSOs see each other as competitor here. We assume that this stems from the fact that the activation philosophy is not harmonised in the proposal, showing the importance of such a harmonisation.

**10. Please add here your feedback on Article 4 'The roadmap and timeline for the implementation of the mFRR-Platform'.**

The article is very vague. Energie-Nederland promotes a formalised framework that structurally involves stakeholders in the harmonisation process. It should be possible for stakeholders to propose harmonisation opportunities in an early stage between cycles.

The relationship with the further development of the lead times in the cross border intra-day market and the possibility for counter activations (see question 9) should be included in the planning.

As mentioned before Energie-Nederland believes that only a fully harmonised balancing market where the mode of activation is harmonized towards reactive management from TSOs leads to a true level playing field delivering the full efficiency potential for flexibility options by BRPs. However, we acknowledge that interim steps in harmonisation are probably unavoidable. Reasons for non-harmonisation should be clear and we would ask for annual reporting on the value of the inefficiency and the effect on the individual markets due to the lack of harmonisation.

**11. Please add here your feedback on Article 5 'Functions of the mFRR-Platform'.**

No comments

**12. Please add here your feedback on Article 6 'Definition of the standard mFRR balancing energy product'.**

To facilitate a well-functioning system, and avoid costly complexity Energie-Nederland believes that the mFRR platform allows for one activation method only. This can be either SA or DA with a preference for the DA product, but certainly not both. It seems inefficient to have two activation methods, four CMOLs and potentially different prices, which de facto makes DA and SA different products. An illustration of the added complexity is the settlement price discussion, as a SA takes just one ISP, and DA takes two ISPs, artificial incentives have to be introduced in order to facilitate the elasticity criterion and enough DA bids. All of this can be avoided by just using DA. The existing

standard products with a single activation method should be sufficient to fulfil TSO imbalance needs.

We observe that the description of the standard product is rather straightforward. However, Article 6-2, 6-4 and 6-6 open up for a wild variety in products as mentioned in the explanatory document. We do not agree with these possibilities as they undermine the idea of a single product exchanged across borders. The additional characteristics and obligations that remain possible on a local level would lead to de-facto different product (requirements) in the different countries. TSOs should not be able to impose additional, local obligations/characteristics on top of the harmonized Standard Product requirements.

Although the description of the standard products is rather straightforward, Energie-Nederland would like to have further clarity on the following details of the standard product:

- Does a BSP get remunerated based on the trapezoid that is shown (yellow line in figure 8 of the explanatory document)?
- How is a BSP incentivized to ramp faster (is the assumption that faster ramping is always in the right direction so the BRP profits from the imbalance price)?
- What if a battery has no ramping time?

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

Market players are primarily responsible for balancing the system through the concept of balancing responsibility. They apply their flexibility in all market time frames in order to minimise the exposure to the balancing energy market. Therefore, the intra-day market is essential to manage a portfolio. TSOs, as market facilitators should only reactively correct the residual system imbalance through the balancing energy market. Preferably this should not interfere with the intra-day market, but we acknowledge that some overlap is unavoidable. 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 that perspective we believe that the proposed BE GCT of 25 minutes falls short of the stated objective of the EBGL.

We also observe that the proposal does not provide a BE Gate Opening Time. We propose to include a BE GOT after the day ahead market around the GOT for the intra-day market.

***14. Please add here your feedback on Article 8 ‘TSO energy bid submission gate closure time for the standard mFRR balancing energy product bids’.***

We encourage TSOs to be ambitious in defining the TSO GCT and strive for a TSO GCT of 10 minutes before real-time, as the most accurate weather information is available close to real time. Therefore, the BE GCT should move even closer to real-time.

***15. Please add here your feedback on Article 9 ‘Common merit order lists to be organised by the activation optimisation function’.***

Energie-Nederland does not agree with separate merit order lists for DA and SA products. As mentioned before we prefer only one type of product, but even when both are kept they should be on the same CMOL and both cover just one ISP in order to harmonize the price as well.

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

The paragraph 2 seems to be overlapping with paragraph 3 of article 3. It may be clearer to refer in article 3 to the stated objectives in article 10.

Item (a) of paragraph 2 should not be referring to social welfare maximization as an objective of the optimization function. The objectives of the optimization algorithm should rather state, in descending order of importance:

- Maximizing satisfaction of the mFRR demand of individual LFC areas;
- Minimizing the total amount of activation of standard mFRR balancing energy product bids, avoiding counteracting mFRR activation through implicit netting;
- Minimizing procurement costs of the balancing energy through the selection of the lowest-price bids on the Common Merit Order List;
- Minimize the amount of automatic frequency restoration power exchange on each border between LFC areas.

**17. Please add here your feedback on Article 11 'Proposal of entities'.**

No comments.

**18. Please add here your feedback on Articles 12 'Governance'.**

The proposal ignores stakeholder input in the platform. Energie-Nederland urges TSOs to include the advice of stakeholders on expert groups and board level. This would smoothen the implementation and operational processes and foster transparency. Furthermore, NRA approval should be included in the decision making process.

Article 12-1: What exactly is "unjustified economic advantage" in this context. It shouldn't be related to the energy balancing market, as this should be financial neutral to TSOs.

**19. Please add here your feedback on Article 13 'Decision Making'**

The proposal ignores stakeholder input in the platform. Energie-Nederland urges TSOs to include the advice of stakeholders on expert groups and board level. This would smoothen the implementation and operational processes and foster transparency. Furthermore, NRA approval should be included in the decision making process.

**20. Please add here your feedback on Article 14 'Categorisation of costs and detailed principles for sharing the common costs'.**

No comments.

**21. Please add here your feedback on Article 15 'Framework for harmonisation of terms and conditions related to mFRR-Platform'.**

The article is very vague. Energie-Nederland promotes a formalised framework that structurally involves stakeholders in the harmonisation process. It should be possible for stakeholders to propose harmonisation opportunities in an early stage between cycles.

As said before Energie-Nederland believes that only a fully harmonised mFRR market leads to a true level playing field delivering the full efficiency potential. However, we acknowledge that

interim steps in harmonisation are probably unavoidable. Reasons for non-harmonisation should be clear and we would ask for annual reporting on the value of the inefficiency and the effect on the individual markets due to the lack of harmonisation.

**22. Please add here your feedback on Articles 16 'Publication and implementation of the mFRRIF'.**

No comments

**23. Please add here your feedback on Article 17 'Language'**

No comments.

**24. Please add here general comments on the proposal.**

We fully support the objective of creating a European balancing market in line with the markets in the other timeframes (forward, day-ahead and intra-day) as this will enable a successful energy transition. That said we notice this concept is severely challenged and we must conclude that the proposed implementation frameworks for aFRR, mFRR and RR give the impression that TSOs see each other as competitors rather than entities that have to work together to operate the single Europe electricity system as one. Many provisions seem to safeguard the autonomy and financial positions. There is reference to national legislation in several articles and an important part of this legislation may be TSO regulation with possibly perverse incentives for cooperation. Here we see a challenge for NRAs to streamline this.

If the NRAs do not succeed it is foreseeable that the effort to set up the European platforms does not lead to any gains in social welfare at all, or worse would lead to a decrease of welfare. Market parties need clear rules and simple processes in order to market the flexible capacity in an efficient way. Correct price formation should ensure that the most economic capacity is activated to solve the imbalance. This will clearly not happen as long as pro-active and reactive TSOs coexist, as proactive TSOs will activate (RR, mFRR) before real-time while reactive TSOs do not.

We have concerns with the proactive way of balancing. Firstly, we do not understand how it is possible to forecast an imbalance. Clarity is requested how this is done, why it is needed (the duty of TSOs is to restore frequency in 15 mins so no need to solve something that has not taken place), and how it is beneficial, as there is always the risk that the forecast was wrong and that the activated capacity is redundant or has aggravated the situation. Secondly, freedom of dispatch is compromised as the flexibility from BRPs is suspended during these crucial last minutes before real-time. Pro-active balancing of a TSO lead to socialisation of energy costs (including the costs of wrong forecasting imbalances) of balancing and thus distorting incentives for BRPs inside and outside an LFC area.

Energie-Nederland believes that the balancing market should be seen as the residual market where TSOs keep the system in balance through re-actively activating bids and settling BRPs with the marginal cost of each ISP. This approach will use predominantly aFRR and only occasionally an mFRR product. Such clarity allows BSPs to offer their capacity at the lowest possible price enhancing the overall system. However, this proposal and also the proposals for the other products lack the provisions for the interaction of the different balancing products. Moreover, the pricing methodology is also essential to judge this proposal for implementation. Therefore, we expect a consultation on the complete framework of balancing platforms and their interaction in a later stage.