

Response to the ACER Consultation on the methodologies for pricing balancing energy and cross-zonal capacity used for the exchange of balancing energy or operating the imbalance netting process

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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.

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Answers to the consultation questions

Topic 1: Balancing energy pricing period

Question 1

Do you agree with the replacement of the term BEPP with MTU?

Energie-Nederland agrees with the replacement of BEPP with MTU when BEPP is set to ISP.

Question 2

Do you agree with setting the aFRR MTU equal to the optimization cycle?

If not, how would you support the requirement for pay-as-cleared pricing and how would you address the inconsistency between the cross-zonal exchanges and the prices?

Energie-Nederland does not agree with setting the MTU equal to the optimization cycle. We agree with the argumentation mentioned by “one regulatory authority” in the consultation document. An MTU equal to the ISP results in consistent incentives for BRPs and BSPs as also observed by the Agency in the consultation document. Indeed the balancing energy market is about revealing the real time price for energy (which is the actual product in the balancing *energy* market).

Pricing per ISP also leads to consistency with the intra-day market. This makes it easier for market parties to hedge themselves for balancing risks in the intra-day market. This also gives consistent price signals in the other trading time frames.

Regarding cross zonal exchanges and prices Energie-Nederland does not expect a significant market distortion from pricing per ISP. If there is no congestion, prices are equal in both zones. If there is a congestion prices will be different for both zones (market decoupling) and the only inconsistency occurs when the switch from one activation direction to the other within an ISP. In our view this is neglectable compared to the benefits of having an effective balancing energy market that leads to the right incentives in the overall market.

Moreover, pricing per optimization cycle leads to fake accuracy. Market parties are not able to set meaningful prices on a 4 second basis. This pricing will be arbitrary and therefore also the prices versus the network state is not meaningful and accuracy is an illusion. Meaningful prices are prices where market parties can respond to. The shortest time frame for that is 15 minutes.

Balancing is one of the core responsibilities of the market. All contracts in the market are translated to a physical and accountable position on the system. However, close to real time market parties cannot act quickly enough to do so and the system operator has to facilitate centrally the final corrections of long and short positions through the balancing energy market by using means offered by the market. The real time processes are complex and will always be an approximation to make it work. It already starts with the

technical control target where the TSO has to deal with frequency deviations within 15 minutes. Pricing per ISP is an approximation, but allows market parties to act effectively in the balancing energy market. The balancing market is not a cost allocation mechanism, but the real time market for energy where market incentives should be consistently priced in relation with the intra-day market and for BSPs and BRPs in the market. Only then the market will receive the right incentives to act in all market time frames.

Topic 2: System constraints

Question 3

Do you agree that the purpose of using balancing energy bids for system constraints should be considered as an update of the CZC?

Energie-Nederland finds it hard to believe that TSOs can use FRR or even RR bids for redispatch purposes as these are very close to real time products and have limited time duration. Furthermore the exact location of the bids is not known, which make these bids ineffective for solving congestions. Redispatch should be done outside the balancing market.

Question 4

Do you agree that the CBMP should reflect actually available CZC at the time of the auction?

Energie-Nederland agrees with this principle. TSO should update the available CZC to the actual physical value towards real time.

If the ATC gets negative after the IDCZGCT, whatever the reason, TSOs should use the appropriate measure to solve the constraint outside the balancing market.

Topic 3: Pricing of SA and DA mFRR bids

Question 5

Do you agree with the proposed approach for pricing SA and DA mFRR bids?

Energie-Nederland believes that energy is the common product on the balancing energy market. This means that the price should be set across the products that deliver the energy: cross product marginal pricing. This means that the price in any ISP should be set by the highest (or lowest, in case of negative balancing energy) selected bid from aFRR, mFRR and RR. Only this will give the required real time price for energy in the balancing time frame.

Topic 4: Technical price limits

Question 6

Do you agree with the inclusion of a technical price limit at the proposed level? If not, what price limit do you consider as not interfering with the balancing energy market results?

Energie-Nederland agrees with the technical limit. We also agree with the proposed level as it allows for pricing at value of lost load. However, the price limits in the intra-day and day ahead market should be adjusted to the same level. If the expected value of loss load is exceeding this technical limit, it should be adjusted.

Topic 5: Pricing volume during deactivation of aFRR bids

Question 7

Do you agree with aligning the pricing in these two cases as proposed by the Agency? If not, please specify and justify your preferred solution.

This is not so much an issue under the BEPP is ISP regime, while it is a constant issue in the BEPP is 4 seconds approach. In the BEPP is ISP regime the problem is even less in the control request approach compared to the control demand approach. In the control request world as the set point request is tuned to the output of the AOF. This allows for activation and deactivation tuned to the system dynamics. But even then there may be energy delivered in the next ISP. In such cases this energy should be cleared at the marginal price during activation or at least the bid price.

Topic 6: Other comments

Question 8

Please comment on other topics indicating clearly the related Article, paragraph and sub-paragraph of the Proposal on pricing methodology.

Energie-Nederland supports 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.

Market parties need clear rules and simple, transparent processes (resulting in low entry barriers and thus more competition) in order to market flexible capacity in an efficient way. Correct price formation should ensure that the most economic capacity is activated to solve the imbalance. This will not happen as long as local imbalance considerations are leading for individual TSOs.

Energie-Nederland believes that the balancing market should be seen as the residual *energy* market where TSOs keep the system in balance through re-actively activating bids and settling BRPs with the cross product marginal price of each ISP.

The reactive approach is set in Title 3, Load-Frequency Control Structure in the SOGL: The purpose of FRR is to progressively replace *activated* FCR (143-1-b) and the purpose of RR is to progressively restore *activated* FRR and support FRR activation (144-1-a,b). This is a sequential approach with the FRCE as input and will use predominantly aFRR and only occasionally an mFRR product (Article 145-5). Imbalance settlement should be based on the marginal price of these activations where an entire (with consideration of congestions) region is being considered, in line with the day-ahead and intraday market. Simple and harmonized rules allow BSPs to offer their energy at the lowest possible price enhancing the overall system. The same price should also be used for BRP settlement to allow for consistent incentives.