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Comments on Draft Revised ERGEG Guidelines of Good Practice for Electricity Balancing Markets (GGP-EBMI)

Danish Energy Association, associations for electricity producers, traders and distributors in Denmark in general support our European organisation, EURELECTRIC, response to the Draft Revised ERGEG Guidelines of Good Practice for Electricity Balancing Markets. We would like to highlight some of the points that we find very important.

We agree that balancing market integration is a key issue in the development of the internal electricity market, and we are certain that the importance of this issue will increase significantly in the future. Investments in new renewable power generation will increase and future demand for balancing services will be substantial.

Cross-border issues extended to issues between control areas

The guidelines explicitly handle cross-border issues. In our opinion it should be made clear that the guidelines generally apply to issues between control areas (there could be more in one country) and also apply where internal congestions lead to different price zones.

Separation between balances

Keeping system balance is a key responsibility of the TSO. Market participants are therefore through guidelines and codes obliged as far as possible to keep their own balance regarding their bids into the market. Introducing e.g. intra-day trade enables the market participants to eliminate most of their imbalances, hence reducing the TSOs need to buy additional system- and balancing reserve capacity.

However, it is very important to make a clear separation between the TSO responsibility to maintain system balance and individual market participants keeping their own balance. In the Nordel-area system balance is adjusted within the regulating market, whereas the balancing market is where the market participants can adjust their own balances. A liquid balancing market is important; especially in order to reduce the TSOs need for system and balancing services.

TSO-TSO approach

We support ERGEG's view of using the TSO-TSO approach as a model for cross-border sharing reserves and balancing due to the very short-term nature of the balancing market. We strongly advocate for the TSOs in an area as large as possible to form a common balancing market merit order taking actual transmission capacities/congestions into account. The TSO-TSO approach also leads to faster integration as a lower level of harmonisation is needed at the start.

TSO as a market facilitator

We believe that the role of the TSO should be restricted to acting as a market facilitator, forwarding all economic incentives from market transactions to the market participants. Investment and generation incentives must be directed to those who supply balancing power. In order to develop the internal market, this key principle should apply to cross-border balancing trade as well as national markets.

ERGEG points out that the integrated market will help the TSO to minimise balancing cost. We believe that the main benefit of the integrated market will be efficient utilisation of balancing resources. Efficient utilisation of resources is a result of a "correct" price level rather than a "lower" price level.

Need for Transparency

Transparency is fundamental to achieve an efficient competition in a liberalised market, and therefore we strongly advise that increased transparency and monitoring should be given priority. Especially as TSO should be neutral bodies in balancing and reserve markets, it is very important that a high level of transparency of TSO actions is obtained. For example if a TSO in case of system security reduces capacity, it has to be fully documented. Furthermore, market participants should have full access to the balancing market in order to compare the cost of imbalance, charged by the national TSO, to the balancing market price.

Marginal pricing is preferred

The ERGEG proposal describes two pricing options regarding balancing service settlement. We believe that the pay-as-bid option does not provide needed long term incentives in order to invest in balancing power capacity. As the proportion of intermitted power generation in the European energy-mix will increase in the future, proper incentives for investments must be in place. Economic theory supports that only a marginal pricing option will result in efficient allocation of resources and provide optimal investment incentives. We do not consider marginal pricing to be more sensitive to market power. On the contrary, we believe that pay-as-bid pricing may result in reduced transparency and less liquidity.

Interconnectors – regulated and merchant lines

We find that both interconnectors - regulated and merchant lines - should be covered by the Guidelines of Good Practice for Electricity Balancing Markets Integration. Non-used capacity of merchant lines should be used for cross-border reserve and balancing purposes as this capac-

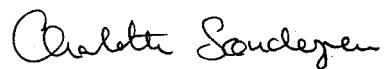
ity is no longer available for the market after gate closure and therefore has no further market value.

Gate closure

We believe that harmonised gate closure should be a top priority, regardless of balancing market integration. Harmonised gate closure is a prerequisite for integrating and coupling markets and should be considered as a key obstacle to the development of the internal electricity market.

We hope that you will take our considerations into account. You are mostly welcome to contact us with comments or questions.

Best Regards



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