

ERGEG

By email: [electricitybalancing@ergreg.org](mailto:electricitybalancing@ergreg.org)

18<sup>th</sup> March 2009

**ERGEG – Public Consultation on the Draft Revised Guidelines of Good Practice for Electricity Balancing Markets Integration**

Dear Sir, Dear Madam

I refer to your January 2009 consultation on the draft revised ERGEG guidelines of good practice for electricity balancing markets integration.

We support the work of ERGEG in the development of energy liberalisation across the European Union. We have contributed to a number of Guidelines of Good Practice related consultations in the past on a variety of subjects.

In addition to our activities in our home market of Great Britain, Centrica and its affiliates is also active in the electricity markets in Belgium, the Netherlands, Germany, Spain and France. As a pan-European player, we thus support ERGEG's work in attempting to level the playing field across the European Union.

In response to your consultation, we have set out below some remarks on the draft revised guidelines. We look forward to working with ERGEG in its work towards the integration of balancing markets across Europe. I trust that you find this response from Centrica helpful. Please do not hesitate to contact me if you would like to discuss any issue raised in more detail.

Yours faithfully,



**Carys RHIANWEN**

**European Regulatory Manager**

Email: [carys.rhianwen@centrica.com](mailto:carys.rhianwen@centrica.com)

Tel: +44 (0)7979 566325

## **ERGEG Public Consultation on Draft Revised ERGEG Guidelines of Good Practice for Electricity Balancing Markets Integration**

Centrica welcomes this consultation by ERGEG on revised guidelines for electricity balancing markets integration. This is an important element in harmonising cross border electricity markets and key in helping competition develop in the internal electricity market.

Centrica is active in European electricity markets, primarily in North West Europe. Outside its home market of Great Britain, where it is active under the British Gas brand and via Accord Energy Trading, Centrica is also active in the electricity markets in Belgium, the Netherlands, Germany, Spain and France. As a pan-European player, we thus support ERGEG's attempts to level the playing field across the EU.

We support ERGEG's aim in developing guidelines of good practice for the integration of electricity balancing markets, and in this revised version we welcome the recognition by ERGEG of the interrelationship between balancing markets, intraday markets and automatically activated reserves markets.

As currently drafted, the guidelines set out how a general balancing mechanism works, along with the advantages and disadvantages of a general model. The guidelines do not offer any proposals for how an improved cross European mechanism should be designed, or indeed how ERGEG would actually propose to start linking up regulators and transmission system operators (TSOs). One example is the TSO-TSO model which is an important tool in improving the integration of balancing markets. In our opinion the alternative TSO-Provider model in place in some regions across Europe can favour affiliated companies and offers little to transparency and market liquidity.

ERGEG's guidelines encourage mechanisms to be built on fair, non-discriminatory and objective principles, which we support. However we anticipated that the guidelines would contain much more detail to aid market participants, network operators and national regulatory authorities in designing and developing enhanced balancing market rules. We believe that the high level nature of the guidelines as currently proposed will not necessarily lead to the introduction of robust and effective balancing rules. We also believe that there is insufficient drive within the paper towards an integrated balancing market. Greater emphasis on elements that can be harmonised in the short, medium and long term on the path towards an integrated balancing market would provide clearer signals to market participants in this area.

When consulting on draft guidelines, we would find it useful if ERGEG were to include summary tables or explanations of current practices across the EU, as this helps inform the debate. In this instance, a table showing compliance of network operators with the existing guidelines would have been informative.

Cooperation between transmission system operators and between national regulatory authorities (NRAs) is essential in designing and developing

compatible procedures. As a first step to harmonisation, measures either side of a market's border must be aligned. For this to occur, a strong lead by ERGEG, supported by the NRAs concerned, is essential, pending the establishment of ACER.

ERGEG states at the outset (Section 2) that the guidelines are restricted to procurement and activation of manually activated reserves. Automatically activated reserves are not within the scope of the guidelines. We disagree with this limited approach, and cannot find any justification for such a distinction. Not only does this open the issue to different classification across different Member States but also many procurement contracts will include elements of manually and automatically activated power reserves which cannot be separated in practice. The rules underpinning all balancing arrangements should be consistent.

Section 4.1 discusses governance and institutional arrangements and gives a clear role for national regulatory authorities, stating that they must coordinate with regard to cross border issues. The paper does not however discuss what the process should be if the national regulators disagree in their approach. This may be a role for the future ACER.

Whilst ERGEG states (in section 4.4) that rules for participation in balancing markets should be non-discriminatory, it appears to qualify this by stating that new entrant barriers should be removed 'as much as possible'. This is unclear. We believe that there should be a single set of criteria applied to users of a network irrespective of whether they are connecting generators, suppliers or traders in the balancing market. To do otherwise will lead to distortions in competition.

Another example of distortion in the balancing market is the withdrawal of interconnector capacity from market players for the purpose of cross border balancing. In section 4.5, ERGEG states that there should be no 'undue' withdrawal, but this is not explained further. We do not agree with the withdrawal of capacity for balancing purposes. The generally conservative nature of TSOs may lead to excessive reservation of capacity which in turn may result not only in inefficient use of capacity but also to extreme market reactions. If market participants do not make full use of interconnector capacity themselves in order to participate in balancing activities, then it is likely that the balancing regime in that particular Member State offers insufficient incentives to do so. Furthermore where cross-border capacity is not being fully utilised by market participants, it should be made available to the TSO if required for balancing activities, through the implementation of robust UIOLI rules. If such rules are not in place, it is not only the balancing market that suffers but the development of cross-border trade and competition.

We have concerns with Section 5 on reservations of interconnector capacity and Section 6 on contracted reserves. In order to avoid distortions to cross border trade, we do not think that capacity should be reserved on interconnectors for the purpose of balancing prior to the close of intra-day market. In the text of the guideline under Section 5.1, the words 'interconnections with no congestion' is not clear. In practice every interconnector may be congested at a particular time; thus it is unclear what

is meant here by ERGEG. The same terminology is used in the guideline in Section 6.1. Here too the phrase 'relatively small percentage' is too imprecise in our opinion.

We favour the TSO-TSO model, as apparently does ERGEG in Section 7. We note however that ERGEG would permit the TSO-Provider approach where incompatible gate closure and technical characteristics of balancing services cause difficulties. Whilst recognising that this might be worthwhile as an interim step, we would urge ERGEG and national regulators to set out a clear roadmap towards achieving the TSO-TSO model. This is an area where ERGEG can play a lead part in encouraging enhancements to current arrangements.

Similarly in designing guidelines for the design of balancing markets in Section 8, we would consider it useful if ERGEG were to adopt a stronger position and establish a clearer step by step approach to a harmonised balancing market. Roadmaps could be put in place by the relevant national regulatory authorities, taking into consideration the limitations of the existing regimes in the markets concerned. Nonetheless it is important to state that an integrated balancing market is the final objective.

On the subject of imbalance, the guidelines are not clear. We believe that the paper would be enhanced if greater explanations were given of the different models. The model used in Great Britain does not appear to be included at all. In Great Britain there is a two step approach. Firstly there are imbalance costs targeted to the individual network user to balance its own position as much as possible. Secondly there are balancing services use of system charges that reflect the residual balancing activities carried out by the TSO and whose costs are then smeared across all system users.

In designing the incentives to resolve imbalance positions, it is important to consider whether all market participants are able to respond to the signals. Regulators should remain vigilant to the possibility of inadvertently creating market distortions in the way in which the imbalance arrangements are designed. As in other areas of the electricity markets, regulators should also be vigilant to the abuse of market power within the wider balancing markets.