



## **ETSO comments on ERGEG Draft Revised Guidelines of Good Practice for Electricity Balancing Markets Integration**

16 March 2009

ETSO welcomes the opportunity to comment on the revised ERGEG Guidelines of Good Practice for Electricity Balancing Markets Integration. Balancing activities are of crucial importance for the safe, efficient and economic operation of Power Systems.

ETSO has been actively involved in projects dealing with the harmonization and integration of balancing mechanisms over the past few years. ETSO's task forces have published several publicly available reports on the subject<sup>1</sup>.

Outlined below are several important points we wish to highlight as our formal response to ERGEG's consultation. However, ETSO is willing and available to discuss these comments in more detail should this be needed.

### **A. General comments**

ETSO welcomes the draft guidelines as a step in integrating European balancing mechanisms with the final aim of an effective, competitive single market for electricity taking into account system security and reliability. In our opinion the process of integrating European electricity markets should follow a progressive approach. Integrated day-ahead and intraday markets should in general be a pre-cursor to the integration of cross-border balancing mechanisms.

- ***Specificities and scope of balancing “markets”.***
  - o ETSO underlines that balancing activities are carried out on the basis of market principles. These activities cannot be considered as a market in the normal sense applicable to energy markets (from long term to intraday markets). Whereas these markets consist of voluntary energy trades between two electricity market players, balancing activities are achieved through a centralised pooling and activation of reserves, operated by TSOs according to clearly pre-defined principles, without any flexibility (TSOs are bound to buy whenever it is necessary). The costs of these activations are recovered from Balance Responsible Parties after real-time through imbalance settlement. The purpose of this system is to ensure system security in the most cost-effective way, and not to provide market players with opportunities to trade with each other. That is why ETSO considers that the term “balancing markets” introduces some confusion, particularly when it is interrelated to the context of “D-1 markets” or “Intraday markets”. Hence, ETSO suggests, for clarity, the use of the more appropriate term of “balancing mechanisms”.

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<sup>1</sup> Reports available at [www.ets-net.org](http://www.ets-net.org) under activities category.

- ERGEG’s definition of balancing activities clearly excludes automatically-activated reserves (e.g. p. 11). ETSO does not believe this definition to be entirely correct, as balance management refers to all processes and services associated with power system operation, which ensure short term power system quality and security. Thus, ETSO believes that automatically-activated reserves are within the scope of balancing activities<sup>2</sup> and that balance management is concerned with a broader activity than manually activated reserves.
- ***Scope of GGP-EBMI.***  
The scope of the guidelines is not entirely consistent throughout the document. Indeed, while automatically-activated reserves are clearly excluded in some parts of the document (cf. p. 11), primary reserve exchanges are explicitly dealt with in other parts of the document (e.g. chapters 5 and 6). This creates some confusion about the scope of GGP-EBMI. Moreover, if GGP-EBMI are to exclude completely automatically-activated reserves, this should be reflected more clearly in the title and terminology used in the document.
- ***Security.***  
ETSO underlines that the question of the integration of balancing mechanisms is deeply connected to security management issues, which are linked to local specificities like legal obligations made to different stakeholders or generation structure. ETSO considers that the importance of ensuring security in each control area is not stressed enough in the document. Thus, it should be made clear that cross-border exchanges of balancing services can only take place in so far as security in each control area is ensured, i.e. that balancing services can only be provided by a control area to another once its own security is ensured. This should be stressed as a “key principle” (possibly in chapter 4.2 regarding operational security), at the same level as economic efficiency.
- ***Imbalance settlement.***
  - The distinction between imbalance settlement and balancing activities needs to be better clarified. The document seems to mix the procurement and activation of reserves with imbalance settlement. This should be avoided as it leads to confusion in the intent in the text.
  - ETSO agrees that imbalance settlement should give the BRPs proper incentives to be balanced, and therefore disincentives for them to remain imbalanced. This principle should be more clearly stated in the report. ETSO suggests the guideline should clearly state that incentives must be designed to minimise imbalances (rather than “managing imbalance exposure”, p. 16), and that schemes enabling BRPs to remain imbalanced must be avoided.
- ***Reservation of interconnection capacity.***
  - ETSO supports a general principle that interconnection capacity normally shall not be reserved for cross-border exchanges of balancing services.
  - However, it should be stated that this general principle could be moderated if the reservation of interconnection capacity for cross-border balancing purposes could be clearly demonstrated to be of greater economic advantage than energy

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<sup>2</sup> A formal definition is provided in ETSO’s Balance Management Task Force report n°1 (2003), p. 3. This report is available at <http://www.etso-net.org/upload/documents/BalanceManagementinEurope.pdf>

exchanges or if it is required for security reasons. In particular such considerations may be an important part of investment analyses.

- ***Cross-border balancing models.***
  - ETSO supports a pragmatic approach: the progressive integration of European balancing mechanisms is a long-term goal. Thus, cross-border exchanges of balancing services are a first step whose achievement will rely, in the first instance on regional progress and solutions, with appropriate harmonization and standardization.
  - As it has already been stressed, it will be crucial to ensure that cross-border balancing initiatives do not endanger each control area's system security. In this perspective, the existence of differences between control areas, notably concerning technical requirements and remuneration for balancing activities, implies that cross-border balancing activities (whatever the implemented model is) shall be subject to approval by the affected TSOs in order to avoid strategic behaviour which might endanger system security.
  - ETSO supports an approach which fosters the most efficient way to implement cross-border exchanges of balancing services. In this respect, ETSO agrees that the TSO-TSO model seems to be the most suitable one for cross-border exchanges of manually-activated balancing services, at least as an intermediate step, without excluding that the TSO-Provider model can be considered as an alternative path in some particular cases. With regard to automatically-activated reserves, the TSO-Provider model may ultimately prove to be the most effective for operational reasons.
  - ETSO considers that these models may enable us to reap a large part of the economic efficiency of full integration while preserving the features and flexibility of each control area's security criteria and market design and avoiding very high harmonization costs. Thus, these models may provide a good trade-off on the way to the ultimate goal of an integrated balancing mechanism.
  - A sound technical and economic cost-benefit analysis based on already developed experiences and projects will be needed to determine the most suitable level of integration.

## **B. Comments on specific parts of GGP-EBMI**

### ***1. Introduction***

(p. 7, §3-4) Beyond market issues, it should be stated that the management of interconnections whose operator is not a TSO but which are captured by EU regulation 1228/2003 should not endanger the safety of electrical systems.

### ***2. Functioning of balancing markets***

(p. 11, §1) *“In a longer time span these automatically-activated reserves can be substituted by manually activated reserves whose activation prices are lower.”* ETSO would like this phrase to be updated in order to address the fact that the replacement of automatic reserves is a matter of security, not of price. Indeed, manual reserves are activated in order to restore the necessary regulating capability of automatic reserves.

### **3. Benefits of efficient electricity balancing markets and their integration**

(p. 13) Whereas the potential benefits of cross-border exchanges of balancing services are clearly emphasised, the need for a cost-benefit analysis of the process is not dealt with. In particular, ETSO suggests that potential investments and organizational changes (e.g. impacts on information systems) implied by the harmonisation process should be assessed and taken into account.

### **4. Key principles for efficient electricity balancing markets and their integration**

(p. 14, §4) The need for increased coordination between regulators and the “regulatory gap” concerning cross-border exchanges of balancing services have been noted for a long time. Thus, ETSO suggests that more proposals based on concrete examples would be useful to move on.

#### **5.1 - 6.1 Reservation of interconnection capacity for reserve capacity exchanges**

- In chapter 5.1 (p. 19), “unexpected flows” resulting from primary control reserves seemingly refer to a part of TRM; presumably this does not mean that interconnection capacity can be reserved for the exchange of primary control reserves beyond the current level of TRM. These statements seem contradictory with chapter 6.1 (p. 21), which just states that primary control reserves can be exchanged, even in the case of congested interconnections, without making it clear if this could go beyond the current level of TRM in order to allow a cross-border procurement of such reserves. If this interpretation is confirmed, this may give the impression that primary control reserves are dealt with differently from other reserve capacities, and requires clarification.
- ETSO suggests the following change in chapter 5.1: replace “No interconnection capacity shall be reserved for cross-border balancing except to cope with unexpected flows resulting from primary control or for interconnections with no congestions.” with: “Interconnection capacity shall normally not be reserved for cross-border balancing except to cope with unpredictable flows resulting from primary control (as part of hazards covered by TRM) or when such reservations can be demonstrated to increase socio-economic welfare.”
- In chapter 5.1 (p. 19 §1), a definition of “interconnections with no congestion” would be useful: does the term refer to interconnections that never experience any congestion or interconnections whose likelihood of being congested are estimated small enough to implement a cross-border procurement of reserves, at least for the time periods when the interconnection is not congested ?
- Following the same analysis, the possibility to procure cross-border automatically activated reserves should not be forbidden (as it could be derived from chapter 6.2) for those periods where sufficient real-time residual capacity is available to transport the activated energy.
- In chapter 6.1 (p. 21 §1-2):
  - o It should be clearly stated that even a limited redistribution of primary control reserves could endanger the security of electrical systems if not defined and managed properly.
  - o It would be useful to clarify which TSO is referred to as “affected”.
  - o In order to avoid misunderstanding about the wording “no congestion”, and in order to comply with suggested changes to chapter 5.1, “Cross-border procurement of reserve capacity shall be possible only for primary control reserves or for interconnections

with no congestions” could be replaced by: “Cross-border procurement of reserve capacity shall be possible only for primary control reserves, when there is no risk that interconnections will be congested or when capacity is reserved according to exceptions given in chapter 5.1”.

### **6.3 Amount of reserve capacity**

(p. 24) In ETSO’s view, four points should be made clear regarding the possible harmonization process of security criteria:

- i. It must be taken into account that security rules depend on the specificities of each electrical system.
- ii. Defining more harmonised security criteria cannot be achieved without legal changes in the respective Member States. The process to reach such a target should be addressed by putting security issues on the top of the agenda, and would imply different evolutions of legislation.
- iii. Such a process would involve not only energy regulators and TSOs, but also other stakeholders such as the legal authorities and associations of electricity suppliers and consumers.
- iv. Depending on local legislation, whereas the role of regulators can be to approve the methodology used to determine the amount of reserve capacity to match security criteria, the determination of the amount itself (based on the validated methodology) should be the TSO’s responsibility. This should be made clear in the report.

### **9.2 Public data (pp. 30-31)**

- It is necessary to elaborate more detail on the required information, e.g. when energy (MWh) and when power (MW) are required.
- Some of the required information could become more difficult to compute in integrated balancing markets than is currently the case, which is due to the involvement of data regarding both interconnections and balancing activities. These likely operational difficulties do not question the relevance of releasing such information, but imply that it would be available as soon as computation processes make it possible, hence not necessarily just after real time but maybe rather over the next few days.
- While ETSO generally agrees with the list of data to be made available presented in GGP-EBMI, it should be kept in mind that some specific detailed information can be used by some market players as a basis for strategic behaviour and thus could be harmful to the well-functioning of electricity markets.
- ETSO recommends that ERGEG’S GGP-EBMI requirements are consistent with transparency rules in regional initiatives.
- In some cases, TSOs are subject to confidentiality rules which will have to be harmonised to enable them to publish all required information.

### **10. Glossary (p. 33, § “Balance responsible parties”)**

“Imbalance settlement gives a financial incentive for them to do so” (i.e. balance their positions physically): this is only true for 2-price-based imbalance settlement systems.