

## Position Paper

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

Berlin, 16. March 2009

The German Association of Energy and Water Industries (BDEW) represents 1,800 members of the electricity, gas and water industry. In the energy sector, we represent companies active in generation, trading, transmission, distribution and retail.

We welcome the opportunity to comment on the draft revised Guidelines for Good Practise on Electricity Balancing Markets Integration (GGP-EBMI).

### **General Remarks:**

The BDEW supports the consultation document as a necessary measure to move further towards a competitive single market for electricity, which offers both security of supply and reliability of systems across all borders. The consultation document provides a useful overall set of rules, which in our view should be applied to the various regional integration initiatives.

We concur with ERGEG's opinion that balancing market integration will reduce the total level of necessary reserves and therefore minimize balancing costs, enhance competition and reduce the risk of supply interruptions.

In order to reap these benefits, we see a regional, step-by-step integration as the most pragmatic approach to achieve the final goal of one single European market. This regional approach, of course, has to be accompanied by further harmonisation of the balancing regimes. Therefore, we welcome that ERGEG has drafted the GGP in order to submit it to the future Regulators' Agency as the basis for the future Framework Guidelines of the Agency.

In our view, however, a more detailed account of the interaction between day-ahead and intraday markets on the one side and balancing markets on the other side would be helpful in order to fully understand the issues connected with establishing a cross-border balancing market and harmonising the balancing regimes. We would therefore in particular support a further analysis of the cross-border intraday markets.

Defining balancing activities GGP clearly excludes automatically-activated reserves. In our view, balance management refers to all processes and services associated with power system operation, which ensure quality and short term security of supply. Thus, automatically-activated reserves are in the scope of balancing activities

BDEW agrees that establishing cross-border balancing markets will require close coordination of regulators, which will go beyond the existing coordination. We believe that the new Regulators' Agency will improve the consistent application of the rules by different regulators. We support ERGEG's observation that the maximum capacity of the interconnections shall be made available to market players. The enhancement of cross-border trade and the use of market-based mechanisms are the best means to foster competition in the electricity markets. We also fully support the finding that well-functioning day ahead and intraday markets are essential for the ability of market players to balance their portfolio. We also support transparency with regard to balancing information.

In the following, we comment on specific issues of the consultation paper:

#### **4.1 Governance and institutional arrangements**

BDEW notes that methodologies are still differing in market regions. Therefore, harmonisation of these issues is of paramount importance to fully establish a single market. The integration of national balancing markets will only be achieved if a market-based mechanism exists in all countries.

These GGP can be a cornerstone of enabling a smooth harmonisation at a later stage in the integration process.

However, we want to point out, that regional integration of balancing markets is not necessarily identical with integration on the level of regions defined by ERGEG.

The third package has already made concrete proposals for the implementation of the Agency for European Regulators, ACER. We believe that the agency will be in the best position to effectively coordinate regulatory solutions and therefore be responsible for cross-border issues.

#### **4.2 Operational security**

We agree that operational security is a central objective also for the functioning market, which, however, should not hamper further market integration. In order to strike the reasonable balance between these two objectives, we support ERGEG's observation that roles and responsibilities to ensure security in European power markets need to be defined explicitly and clearly.

#### **4.3 Market based mechanisms**

We fully agree that economically efficient balancing markets can only be achieved by applying market-based mechanisms. Any deviation from market-based mechanism in procuring balancing services has to be justified and should only be connected with overarching reasons of system security.

#### **4.4 Effective competition**

We agree that balancing market rules should be non-discriminatory and not establish entry barriers for new entrants.

#### **4.5 Impact on cross-border trade**

We strongly support that the maximum capacity of the interconnections and/or the transmission networks affecting cross border flows, unlimited to timeslots, shall be made available to market players, subject to safety standards of secure network operation. Cross border balancing shall in principle not lead to withdrawal of interconnection capacity from market players. We therefore do not see the issue that no “undue withdrawal” shall be affected, and would propose either deletion of “undue” or a further clarification.

#### **4.6 Incentives for balance responsible parties to be balanced**

BDEW agrees that imbalance settlement pricing must be cost reflective in terms of TSOs’ costs to procure the “missing” energy due to users’ imbalance position. This shall be a transparent process, in order to establish the right incentives for the market players. Imbalance settlement should give the BRPs proper incentives to be balanced and schemes enabling BRPs to remain imbalanced must be avoided.

#### **4.7 Transparency**

BDEW supports full transparency of relevant data relating to the balancing markets, enabling market parties to make informed decisions and enhancing the trust in the functioning of the

balancing markets. We also support transparent processes. Transparency requirements, however, should be proportionate and may not impose undue administrative burdens for the market players involved.

#### **4.8 Market monitoring**

We agree that regulatory authorities shall have adequate powers and responsibilities to monitor balancing markets. In our view, however, the current powers of regulatory and competition authorities are sufficient to ensure an effective monitoring of the market.

#### **4.9 Pragmatic approach**

We welcome ERGEG's endorsement of the initiatives on regional markets for a pragmatic approach to integrate the European balancing markets. The bottom-up process is best suited for achieving quick results. In contrast, all top-down approaches are deemed complex and bear the risk of difficulties in coordination. We, however, see the strong need for further harmonisation to avoid any distortion of competition.

## Comments on Specific Guidelines

**5.1** *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.*

We agree with the Guideline and support that there should be no reservation of capacity for cross-border balancing. Either there is no congestion, then the reservation is not necessary, or there is (at a certain point in time) congestion, then the reservation is not in line with the general principle.

We would like to stress however, that unexpected flows can have very different reasons that go beyond those resulting from primary control. I.e. they may result from short term load fluctuations (load noise). We would therefore prefer the guideline to read as follows:

5.1 new: No interconnection capacity shall be reserved for cross-border balancing except for a security margin that is associated to primary control.

**5.2** *When setting up cross-border exchanges of balancing energy after gate closure of day ahead and intraday markets, any charge on access to interconnection capacity for balancing energy shall be prohibited. Only new interconnections exempted under Article 7 of Regulation (EC) 1228/2003 may upon request, be exempted from this provision.*

We agree with this guideline

**6.1** *Cross-border procurement of reserve capacity shall be possible only for primary control reserves or for interconnections with no congestions. Redistribution of primary control reserves through cross-border procurement shall not exceed a relatively small percentage of control area requirements and shall be subject to affected TSOs' approval.*

We acknowledge the considerations supporting this Guideline, but would like to point out that it leaves a wide discretion concerning the interpretation of "a relatively small percentage". A further clarification would be helpful.

However, we note, that limited redistribution of primary control reserves could endanger the system security.

**6.2** *TSOs shall implement mechanisms allowing cross-border trade of manually-activated balancing energy as long as system security is not endangered. Those mechanisms shall not discriminate between balancing energy bids and offers from local and neighbouring markets. Adequate procedures for the agreement of exchange schedules shall be set up to allow cross border exchange of balancing energy.*

We agree with this guideline. However, TSOs should not “*trade*” among each other manually activated resources but to use available balancing energy from abroad when it is cheaper and interconnection capacity is available. Thus, “*trade*” should be rephrased to “*exchange*”

**6.3** *The amount of reserve capacity shall be set according to defined security criteria and approved by regulators.*

BDEW supports the harmonisation of security criteria as a step for the integration of balancing markets. The security criteria should be consequently defined by the Agency.

We would like to point out, however, that a regulatory approval of the amount of reserve capacity would not only require substantial legal changes in a number of member states, it would also shift the responsibility for system security towards the regulatory authority. We would therefore propose to rephrase the guideline as follows:

6.3 new: The amount of reserve capacity shall be set according to defined security criteria that are to be approved by regulators.

**7** *Towards integrating balancing markets, the TSO-TSO approach shall be seen as the preferred solution whereas the TSO-Provider approach may be implemented in case of incompatible gate closure and technical characteristics of balancing services*

Although we agree that the TSO-Provider approach may not be easy to implement under the given circumstances, we are not sure whether the TSO-TSO approach will yield better results in the future. In particular, when harmonisation of the procurement processes for balancing services will have been implemented, a TSO-Provider approach may be more efficient and beneficial. We believe that the TSO-Provider approach offers considerably more gains in rap-

idness and efficiency and that it should therefore form the target model over time. In order to decide this issue, however, more information and further analysis is needed.

In general we would recommend an approach similar to the German internet platform for primary, secondary and minute reserves, which is based on a market system.

Further specific remarks

Without harmonization of prequalification and product requirements the TSO-TSO model is difficult to implement. In this case, the delivering TSO has to ensure the deliverance of the needed product appropriate to requirements of the demand TSO. Due to the fact, that in the "TSO-TSO model without common Merit Order" the delivering TSO acts as a vendor in the neighbouring control area, he has to intercept the failures of the supplier, too. Thus, this model may have practical drawbacks.

The proposal to cancel out imbalances of control areas as far as possible and to compensate only remaining overall net imbalance implicates an complex interaction of TSO individual frequency controller. Elaborate technical and informational controller interconnection has to be realised. The practical implementation would have to be analysed in detail.

*8 Full harmonisation of balancing markets is not a prerequisite for cross-border balancing. Thus cross-border balancing implementation should precede definition and implementation of a standard market design.*

*In a step-wise process, harmonisation of gate closures and technical characteristics of balancing services is not a prerequisite. But increased compatibility would be highly valuable and allow enhanced cross-border balancing exchanges.*

*The coexistence of different balancing services settlement schemes may be a barrier to crossborder balancing exchanges. Whereas there is a lack of consensus on a preferred scheme, it is clear that in the integrated balancing market settlement must be resolved in a common way.*

We agree that balancing settlement rules should be harmonised as far as technically possible. We support a merit order based on marginal pricing, as this method leads to most efficient allocation of resources.

In the explanatory remarks, ERGEG mentions different methods for imbalance settlement. BDEW underlines that whatever method is in place, balance groups should be incentivised to stay near-balance.



**9.1** All information required for the effective functioning of the integrated balancing market shall be structured, aggregated appropriately and made available to the public in a format which takes into account the needs of all market players.

We agree with this Guideline.

**9.2** The data published in each control area shall include balancing market rules (including mechanisms to allow cross-border balancing) and lists of data defined below. Information shall be published in the local language and in English. All of the information published must be kept available at least for two years after the publication of the final update.

We support transparency with regard to information relevant for balancing and would encourage a central place of publishing such data.

Auction results of buying balancing capacity should be published soon after the auction. Moreover, information on the balancing status of the control areas should be made public as well as prices for balancing energy.

**9.3** Regulators shall include in their evaluation of congestion management methods, mentioned in Article 1.10 of the amended Congestion Management Guidelines annexed to Regulation (EC) 1228/2003, a chapter on cross-border balancing. This chapter shall evaluate implemented mechanisms and on-going projects. It shall also highlight impediments to implementation and enhancement of cross-border balancing.

We agree with this guideline.

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