



ETSO COMMENTS ON ERGEG GUIDELINES OF GOOD PRACTICE FOR ELECTRICITY BALANCING MARKETS INTEGRATION

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General Comments

1- ETSO welcomes the opportunity to comment on the ERGEG Guidelines of Good Practice for Electricity Balancing Markets Integration. Balancing mechanisms are of great importance for the efficient and economic operation of Transmission Systems, and for ensuring system security. ETSO has constituted a Task Force on the question of Balancing Management (BM) harmonisation and integration. For these reasons, ETSO is particularly involved in the questions of BM adequacy to the needs, and evolution towards more economic efficiency.

2- ETSO agrees with the general description of §2, which describes the main characteristics of BM functioning, and with the general analysis of §3, which gives a qualitative description of principles required for an efficient BM and the benefits it can procure. ETSO also agrees with the qualitative benefits which can be obtained from BM harmonisation/integration: increase of competition and liquidity for offers; cross-border convergence, and potential reduction, of imbalance prices; and enlarged regions for imbalance treatment. ETSO finally approves the proposed evolution in two stages, which seems the most realistic approach: a first medium-term goal in order to achieve a certain level of BM compatibility, and a second long-term one aimed at integrating BMs in a common one (or several ones based on common working principles).

3- In order to promote the development of an improved European electricity market, several ways of progress can be studied. The benefits of BM integration should be compared to those obtained through a better integration of wholesale markets, such as coupling of day-ahead markets or development and integration of intra-day markets. Indeed, the energy volumes dealt with by BMs remain small, and those volumes should reduce in the future as far as improved intra-day market possibilities are offered, providing more efficient trading tools and risk hedging instruments for market participants, which will result in a better overall optimization. However, ETSO recognizes that harmonisation/integration of balancing markets should facilitate a more efficient integration of wholesale markets.

The benefits which are to be obtained from reserve/offers exchange between areas could be in practice reduced in the case of congested interconnection capacity: such congestion for example could prevent the use of available cheap upwards reserve in the exporting zone (low market price) for balancing needs in the importing zone (high market price) if no transfer rights were reserved within capacity allocations; on the contrary downwards reserve can be activated in the exporting zone, but would seemingly be not logical and not economic in a sound market. It is likely that the main opportunities for cost reduction due to BM integration will come from integration of BMs between interconnected zones without congestion between them. It must be recognised, however, that a gap can exist between what capacity is made

available to the market and what capacity is actually available in real-time. This gap can be used to the benefit of integrated balancing markets.

Considering cost/benefit analysis, some main aspects of the proposed integration scheme require important changes, and potentially significant investment: migration towards a common bid/offer design, IT developments for real-time sharing of offers, data standardisation, and many others. Thus the benefits of BM harmonisation and potential integration have to be soundly evaluated. Finally, benefits resulting from BM harmonisation or integration, as for energy markets, will not be realised if the necessary interconnection infrastructure is not reinforced where required.

4- Any fixed ex-ante reservation of interconnection capacity between two areas sharing balancing management, and where congestion occurs, is not preferred but if at all should be secured economically, and demonstrated on the basis of sound market signals. ETSO considers that, in general, it is preferable to allocate all capacity, except its security relevant parts such as TRM, according to market based principles, independently of the respective nature of the market, in order to maximise economic efficiency. The ownership of new merchant, and certain existing, interconnectors by independent operators, as opposed to TSOs, is also an important issue that should be recognised and addressed. A further matter that remains to be resolved is the pricing principle for capacity used in the balancing market. Efficient arbitrage between market segments requires proper pricing for capacity used in the balancing market.

5- ETSO underlines the important question of system security. As indicated above, balancing mechanisms are the main tool at the disposal of TSOs in order to manage generation/load equilibrium in the short term (minutes to hours) and, in many circumstances, to manage network congestion. Balancing mechanisms are vital when contingencies occur on the grid or in generation facilities. Hence, the question of BM integration must analyse the consequences of this issue, and must not be limited to the harmonisation of the mechanisms operation and its economic benefits. Also, the performance of generation reserve highly depends on the generation technology: hydro, coal-fired, gas-fired, nuclear plants do not offer the same service in terms of flexibility, speed of action, memory effects etc. Hence, for a good integration process, it is necessary to define responsibilities and rules to procure an adequate level and adequate performance of reserve on the whole integrated region and on each participating area.

Another significant area which will need to be addressed when considering reserve services is the differences that exist between control areas in terms of responsibilities and obligations of producers, consumers and TSOs concerning the balance of the system at any point in time.

6- ETSO agrees that any eventual fully integrated balancing markets (such as that contemplated in the reference model currently being evaluated by ETSO, and described in paragraph 8 below) may envisage a centralised coordinating role, which may have responsibilities in the determination of reserve activation and managing inter-area congestion. However, the responsibilities of such a party would have to first be carefully considered in relation to the responsibilities and obligations of TSOs operating in control areas. ETSO therefore believes that the harmonisation and initial integration of balancing markets is best addressed by coordination among TSOs. This approach is being pursued in response to ERGEG's Regional Initiatives, which should result in enhanced cooperation between TSOs in the relevant regions.

7- ETSO considers that a practical step-by-step approach is to be preferred. In that sense, the importance of a “compatibility” step should be emphasised in the Guidelines, and could be detailed (such as minimum technical product compatibility and commercial compatibility of product value). ETSO agrees that this compatibility can be achieved, as described in §8, through two implementation options (“direct participation system” or “TSO to TSO model”) which should be selected on the basis of the most appropriate solution for the circumstances and the most economic to improve efficiency.

ETSO encourages its members to study this compatibility step, reduce the barriers to its implementation, and quickly implement it, in order to achieve economic benefits. A practical approach should be based on making compatible firstly those BMs which (i) have a quite close architecture and comparable reserve products and which (ii) are not too restricted by interconnection congestion.

ETSO also believes that the opportunity and the practical steps of this movement towards compatibility, then integration, shall be appreciated, on a given region, not only on the basis of BMs, but in a larger perspective, taking into consideration: coupling of energy markets, enhancement of interconnections, and the possibility of balancing with other regions.

8- To facilitate the harmonisation and integration of BMs, ETSO’s Balance Management Task Force is currently designing a Balance Management Reference Model. This envisages the regional integration of BMs, and consideration will therefore be given to the issues involved in implementing such a model. As such, this could serve as a guideline in the process of harmonisation and integration.

Detailed Comments

§2: 1st paragraph: even if it’s not always the case, ETSO suggests that ERGEG underlines that imbalance pricing should (and not only “can”) encourage actors to be balanced, as it’s an important feature for BM to work well and ensure security.

§2: 2nd paragraph: presently, it’s not always the case that generation and load parties must notify their expected physical positions.

§2 “Governance...”: regarding Directive 2003/55/EC and the responsibilities description, the sentence is somewhat confusing: ETSO considers that TSOs have competency to achieve well-functioning of the BM, whereas regulatory authorities are “responsible for fixing or approving prior to their entry into force, at least the methodologies used to calculate or establish the terms and the conditions for the provision of balancing services”.

§3: the sentence “This price is likely...the generator might receive for production” does not appear to be clear. Should the end be replaced by: “...compared to the price of this energy on the energy short-term markets”?

§3 “Imbalance arrangements and pricing”: In order to achieve a sound economic signal, the imbalance costs should be recovered, as far as possible, on those causing the imbalances, and not on all the users or a combination of them.

§5 Security of grid operation: the Guidelines emphasise the need for harmonisation of reserve products. ETSO agrees with the principle, but the actual difficulty must not be

underestimated: product differences are linked to structural differences of generation units (for example between a highly hydro system and a mainly nuclear system the requirements and technical constraints are different) and to differences of needs (systems with high level of wind turbines will require a different quality of reserves).

§6 Table 1: imbalance prices could be more difficult to compute in an integrated BM than presently, because the settlement process will include data from different TSOs and address the cases where different prices occur; hence it is unlikely that they would be available “just after real time” but rather “just after end of calculation”.

§8: In an integrated BM, imbalance prices have to be unique as far as there is no congestion between areas. When congestion occurs, an adequate settlement process must be in operation, so that different imbalance prices on the different “separated” areas are revealed and coherent with the actual requested offers in those areas.

§8: it should be underlined that a given area can only be fully integrated into one region. However, harmonisation of BM processes and facilitation of cross-border reserve trading may be possible via a number of regional initiatives.

The same terminology, “balancing power” is used both for the physical power procured by the TSOs to actually balance the system in real time, and the accounting power applied ex-post to settle the Balance Responsible Party’s imbalances. As these are different products, often priced according to different rules, it would be logical to adopt different names for them.

Standardise several expressions in the text such as: “imbalance” versus “out of balance”