

ACER consultation on its draft framework guidelines on electricity balancing

EDF Response

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Main messages

An efficient and well-functioning balancing mechanism is a key feature of an electric system which ensures security of supply and delivery of electricity with high quality standards, these two aspects being crucial issues to final customers as well as producers. As an introductory remark EDF therefore wants to stress out that **the establishment of a European-wide balancing market should be without prejudice to the current standards of frequency and security of supply. In this sense, a pragmatic stepwise approach towards the target model defined in the draft Framework Guidelines is needed.**

EDF is favourable to the principle of a **market-based approach** to balancing which would result both in the allocation of reserves to the best suited capacities and an economically efficient activation of reserve energies, with the aim of reducing the overall European imbalance management costs. In order to achieve this purpose of economical efficiency, **it is however important to make sure through cost-benefit analyses that the expected benefits of each step outweigh their implementation costs.**

EDF welcomes the level of stakeholder involvement and transparency requirement prescribed in the present draft Framework Guidelines. It is indeed of particular importance (i) to associate market participants in cost-benefit analyses as well as (ii) to make the annual progress report, to be provided by TSOs, publicly available.

EDF welcomes the identification and the requirement of a high level of TSO coordination in these Framework Guidelines for it is essential to an optimal use of capacities throughout Europe. This is all the more relevant in the case of balancing as it is the timeframe where the biggest national discrepancies remain. EDF believes that **a subtle balance will have to be found between the necessary harmonization of**

rules and methods and the practical implementation that should allow for national technical specificities to be taken into account, as is correctly expressed in these Guidelines with the possibility of having national specific products.

The draft Framework Guidelines describe a long and ambitious process that is rightly divided into pragmatic steps. **These steps seem to have highly different levels of costs as well as potentials for benefits.** Coordination among TSOs on the level of reserve capacity to procure, as well as market based procurement of reserves seem easier and less costly to implement than the netting of imbalances, which itself seems much easier and less costly to implement than the full pan-European optimisation of the activation of balancing energy. Yet, judging from the German experience, the first steps also seem to be the ones yielding the bigger gains. EDF therefore favours a **gradual implementation where cost-benefit analyses are performed on a regular basis** to validate the implementation of the steps to come. In particular, the cost-benefit analysis for the “7-year-after-entry-into-force target” should not be optional; **the implementation of the seven-year target should be conditional to the demonstration of a positive net benefit rather than the other way round as is written in the current form of the Guidelines.**

A high level of available transfer capacity is a key feature to maximize social welfare through the long-term, day-ahead and intraday markets and should therefore not be unduly restricted by the implementation of the European balancing market. In particular, **cross-border activation of balancing energy should not lead to an increase in the margins used by TSOs for capacity.** It should rather only be made in cases where unused capacity remains or when capacity has been explicitly reserved for that purpose. In case of explicit reservation of transmission capacity as described in chapter 4 of the draft Guidelines, market participants should be involved in the cost benefit analysis required to allow such a reservation. This involvement should not consist in a mere presentation of TSOs’ results to market participants at the end of the process, but rather take into consideration their experience in the assessment of the costs associated to such a restriction of capacity.

The strong interactions between intraday and balancing markets have to be taken into consideration in the design of cross-border balancing. Efficient and liquid intraday markets, where participants are properly incentivized and have the effective means to balance themselves as close to real-time as possible, should be striven for. This means that **TSOs should have to gather and make publicly available, as close to real-time as possible, all the information that would enable market participants to better assess their current positions.** It also implies that balancing actions by TSOs, as defined in these Framework Guidelines, as opposed for example to congestion management issues, should be made as reasonably close to real-time as possible and not prevent players from taking part in the intraday market.

Specific comments

Availability of close to real-time information

Beyond having the proper incentives to be balanced, Balanced Responsible Parties (BRP) should also be given the means to evaluate their position as accurately as possible. BRPs have the responsibility to both forecast as well as possible their future load and, as the case may be, generation from intermittent sources, though they have no way of monitoring them in real-time. Information on system load and generation could be used by BRPs to correct their imbalances close to real time and should therefore be made available by TSOs. Keeping this aim in mind, the information mentioned in page 14 should not only be shared amongst TSOs but also with market participants.

Mandatory vs. voluntary participation to the balancing market

In order to avoid competition distortions, **TSOs' choice to require or not unused generation capacity to be offered on the balancing market should be harmonized throughout Europe**. It would be discriminatory to have a mandatory participation borne by only a fraction of market participants when the aim of these Guidelines is to have all capacities competing in a common market for balancing.

In fact, in an efficient market with proper pricing of imbalances, there should be no need to require unused generation capacity to be offered on the balancing market.

Obligation for BRPs to have a balanced position in day-ahead

The obligation, mentioned in §5.2, for a BRP to have a balanced position as far in advance as day ahead is contradictory with the aim to develop an efficient and liquid intraday market. The responsibility of a BRP is to have a balanced position as close as possible to real-time. **The openness of his position ahead of real-time should be considered as his own risk policy and should not be altogether banned but subject to case by case scrutiny by regulators** (EDF shares ACER views that it could be detrimental to TSOs' forecasts if market players kept fully open positions in day-ahead, but efficient imbalance settlement rules should be sufficient to make it too risky for market players to keep fully open positions until intraday markets).

In case a producer has a strong uncertainty on the availability of his fleet (for example, when intermittent generation is important in a player's portfolio or when several plants are supposed to come back from outage on the same day), it can be better from a risk management perspective to leave a small fraction of the position open in day-ahead and only balance it in intraday according to the evolution of circumstances.

Procurement of contracted reserves

It could be useful to have the draft Framework Guidelines stating that **the procurement of contracted reserves, both for Frequency Restoration Reserves (FRR) and Replacement Reserves (RR), could be made distinctly for upward and downward reserves**. For a given generation fleet, the opportunity costs to

provide upward and downward reserves indeed differ; it would thus be detrimental to the overall efficiency of the system not to allow for separate contracting of upward and downward reserves.

Role of Frequency Restoration Reserves (FRR)

The role of FRRs needs to be clarified. The definitions indeed state that FRRs are used *"to restore [...] power balance to the scheduled value after sudden imbalance occurrence"*. Moreover, according to the UCTE glossary, the aim of the secondary control is also *"to maintain its interchange power flow at the CONTROL PROGRAM with all other CONTROL AREAS (and to correct the loss of capacity in a CONTROL AREA affected by a loss of production)"*. However, the possibility to activate cross-border balancing energy bids implies that power balances could be set to new values. Some clarification is therefore needed.

Answers to ACER Questions

Question 1 - Do you consider that harmonisation of the pricing method is a prerequisite to establish a TSO-TSO model with common merit order list for balancing energy? Do you support the use of the pay-as-cleared principle?

Yes, harmonisation of the pricing method is an important prerequisite for a fair and efficient competition amongst balancing providers throughout Europe.

The use of pay-as-cleared will best incentivise a large number of potential balancing providers to participate in the market and come up with innovative balancing solutions.

Pay-as-cleared is likely to increase both imbalance costs and balancing prices, which seems both an incentive to reduce imbalances and promote balancing offers.

Question 2 - Do you think the "margins" should not exceed the reserve requirements needed to meet the security criteria which will be defined in network code(s) on System Operation?

Yes. Margins should only be allowed so as to warrant security of supply. As many offers as possible should be shared amongst TSOs. Furthermore, different and arbitrary levels of "margins" should not lead to strong discrepancies between countries. "Margins" should therefore not exceed the reserve requirements that have been set by TSOs through a coordinated process.

If an offer, that would have otherwise been activated for cross-border balancing, is being kept as part of the "margins", this offer should receive some kind of financial compensation. This is needed for the offers which are part of the "margins" without being part of the procured reserves.

Question 3 - Do you support to aim at similar target models for frequency restoration reserves and for replacement reserves? Do you think a distinction should be made between manually-activated and automatically-activated frequency restoration reserves in terms of models of exchanges and/or timeframes for implementation?

EDF believes that aiming *a priori* for similar target models for FRR and RR can be seen as a good thing. Yet, considering the essential differences in the dynamics of the two reserves and the related technical constraints, implementation feasibility and costs might prove significantly different. EDF therefore favours a progressive approach with systematic cost-benefit analyses. If these analyses yield different conclusions for the two kinds of reserves, the targets should be adapted consequently and it should be acceptable to have different models for FRR and RR.

The Network Code to come should allow for both automatic and manually activated FRR. The rules and technical constraints related to FRR should in principle apply equally to both types, but there should be the possibility of differentiated timescales for implementation if needed due to the existence of the current devices.

Question 4 - Do you support the timeframes for implementation?

Considering the absence of technical specifications in the draft Framework Guidelines and the need for cost-benefit analysis for each step, it is difficult to have a clear position on the timeframes set in these Guidelines, especially on the one forecasting the implementation of the final target model 7 years after entry into force of the network code. If the technical specificities for FRR and RR described in the future Network Code require hardware modifications to generation assets, the time needed to implement such modifications might exceed the timeframes presented in this version of the Framework Guidelines. Regarding nuclear generation for example, one should keep in mind that some changes could require a specific instruction, including the approval of the national nuclear safety authority, consequently making the proposed timeframes for implementation, insufficient.

The implementation of pan-European day-ahead and intraday markets, which are further away from real-time and thus probably less complex to implement, started as long ago as 2007 with the signature of the Memorandum of Understanding. One should not forget that balancing, being the closest to real time timeframe, plays a key role for system security and therefore requires a cautious analysis of the chosen design and efficient implementation.

Question 5 - Do you consider regional implementation objectives as relevant milestones which should be aimed at in these framework guidelines on electricity balancing and the Electricity Balancing Network Code(s)?

EDF welcomes the centralised approach adopted in these Framework Guidelines for it is essential to reach harmonization of TSOs' rules and practices. However, the regional initiatives currently developed in Europe could provide valuable information to be used in cost-benefit analyses or to help define the practical requirements that will have to be set in the future network code on balancing.

As stated previously, EDF much welcomes the harmonization of rules and practices as prescribed in these draft Guidelines and the setting of ambitious targets. Yet, EDF favours a step-by-step implementation with due analysis of costs and benefits before every step. These steps can be functional ones (as the 3-year, 5-year and 7-year targets described in the Guidelines) but could also be regional steps with groups of neighbouring TSOs implementing regionally the common European rules. This could allow for the best implementation practices to spread to the rest of Europe.

Question 6 - Do you consider important to harmonise imbalance settlement? Do you think these Framework Guidelines on Electricity Balancing should be more specific on how to do it?

Yes, it is important to fully harmonise imbalance settlement in order to avoid competition distortions. Harmonization must be foreseen on imbalance settlement as it is on balancing, in order to create a complete level playing field. It would indeed be discriminatory if providers faced different imbalance settlements in different countries for the same outages, for instance.

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