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E.ON Response to the

Consultation on the Framework Guidelines on Electricity Balancing

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E.ON welcomes the opportunity to comment on the draft Framework Guidelines on Electricity Balancing published by ACER on April 24th, 2012.

E.ON generally agrees with the main conclusion of the Initial Impact Assessment, that a high degree of harmonisation is needed for the electricity balancing in European Markets. The existing differences in regulatory arrangements lead to a loss of efficiency. Furthermore the EU internal energy market requires stronger consistency between national frameworks.

The EU goal to increase the share of renewable electricity production not only changes the generation mix, but has a strong influence on the grid operations all over Europe. With renewable electricity becoming a cornerstone of the future electricity mix, it is inevitable, that renewable power producers have to take over responsibility for the electricity system, e.g. by active participation in balancing regimes. However, existing renewable production has to be treated in a way, that the owners do not experience a change in the guidelines as a retroactive cut, i.e. if existing assets are now obliged with system services, they have to be compensated financially.

Since the renewable production furthermore affects already now strongly the international electricity exchange, the cross border balancing rules have to be changed, in order to allow for a further increase of renewables within Europe. Additionally cross border balancing will also assist system adequacy, since the generation assets in Europe are then used in the most effective way.

E.ON does not support any ex-ante reservation of cross-border transmission capacity by TSOs for reserve capacity products and balancing purposes (Article 4). Allocation of the maximum available cross-border capacity to the forward, spot and intraday markets will ensure an efficient cross-border competition. After intraday gate closure, TSOs can make use of any unused transmission capacity for accessing balancing energy and potential reserve capacity.

If cross border reservation is to be permitted, it should be based on TSOs buying back capacity from the amounts allocated to market participants after closure of the intra-day market. TSOs can agree upfront to exchange balancing reserves, which need X MW cross-border capacity. TSOs would then release this capacity by countertrading /redispatch at market prices. This would over time be an efficient solution in case there is a positive socio economic value. This method has the advantage that it does not restrict cross-border trading and gives an automatic check if it has a positive socio economic value. Approval from all national regulators affected must be obligatory and market participants must be consulted.

E.ON believes that the following proposed requirement (Article 3.2.1) would not be proportionate: *"The Electricity Balancing Network Code(s) shall allow TSOs to require information on unused generation capacity after day-ahead and intraday markets."* TSOs have in general access to production data from large generation units and especially the requirement to provide information after intraday market closure would increase the administrative burden for generators. According to the intraday target model, intraday markets would close earliest 1 hour before delivery. At the same time generators would bid into the balancing markets and so TSOs will be aware of the amount of capacity that is offered. Additionally, all generators who were selected in the reserve capacity auction will have an obligation to have contracted balancing energy available.

In Article 3.1 the addition shall be made that *"the BSPs shall meet the reasonable and justified requirements (...) adopted by the TSO."* Further it must be clarified that the BSP shall provide only information to a respective Distribution System Operator if his unit is connected to the grid of this respective Distribution System Operator.

Article 5.2 obliges BRPs *"to provide a balanced program in the day-ahead time frame"*. E.ON is of the opinion that requiring a fully balanced position at day-ahead stage is detrimental to the development of liquid intraday markets. Instead the Framework Guidelines should state that *"BRPs provide the TSO with a reasonable forecast for the day-ahead position."*

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?

Yes, Harmonisation of the pricing method is crucial to allow for a level playing field.

Do you support the use of the pay-as-cleared principle?

Yes, E.ON supports the pay as cleared principle. However, both systems can function if they are designed in the right way.

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, the margin shall be kept at a minimum to ensure a competitive common merit order. When setting the margins it must be guaranteed that a considerable amount of bids is made available for sharing among TSOs and margins should be reduced over time.

Questions 3: Do you support to aim at similar target models for frequency restoration reserves and for replacement reserves?

Yes, we fully support to aim at similar target models for both reserves - for frequency restoration and for replacement.

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?

Yes, as automatically –activated reserves have to be treated in different way cross bidding zones than manually activated reserves.

Question 4: Do you support the timeframes for implementation?

It is important to set up timeframes for implementation. We believe that it is very important that ACER sets up interim goals to ensure that any delays are recognised, so corrective measures can be taken. This should be a lessons learned from the implementation of cross-border solutions for day-ahead and intra-day markets so far.

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)?

Yes, this would be the most efficient implementation approach. As pointed out by ACER during the AESAG on June 13th it would be beneficial to start a pilot. The guideline could oblige ENTSO-E to define in its network code pilot projects to facilitate bilateral (or even multilateral) TSO to TSO models with common merit order.

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, imbalance settlement should be harmonised and the network code on electricity balancing should define the principles.