Enel Group Response to Acer Consultation on

Framework Guidelines on Electricity Balancing

# General Remarks

Enel welcomes the ACER Framework Guidelines (hereafter FGs) aiming at introducing a European target model for balancing services. A well-functioning integrated electricity balancing market will increase the efficiency of electricity markets and facilitate the penetration of a growing share of intermittent renewable energy sources while safeguarding security of supply. The economic efficiency is ensured by the fact that TSOs will be able to use the lowest cost reserve products available, independently of the location of the Balancing Service Provider (BSP).

The last ENTSO-E’s report[[1]](#footnote-2) highlights even more the need to integrate national balancing markets by showing that different European Countries this summer could find it difficult to address situations in which system demand will be low and production from intermittent renewable resources will be high.

# Implementation of the proposed target models

The target model introduced by the FGs requires at least EU-wide harmonisation of products requirements, opening hours, pricing methods, imbalance settlement process, balancing perimeter, imbalance price, roles and responsibilities of market participants. Given that balancing markets have historically been national in scope, balancing markets integration and harmonization cannot be achieved in the short-run and it will require intermediate steps towards a single European balancing market.

However, the significat penetration of intermittent resources, promoted by European Directives and targets, calls for an acceleration in the integration of national balancing markets.

The proposed target model and the associated roadmaps present a high level of complexity that contrasts with the urgency of coping with current system security needs. The Initial Impact Assessment (see par. 6.2, p. 23) considers the model based on arrangements between local TSOs and foreign BSPs (TSO-BSP model) as *«a proven concept which has already led to a significant reduction of balance activation costs»* without implying *«significant implementation costs.»* In light of such positive experience, the FGs should explicitly recognise the positive role in terms of cross-border integration and TSOs’ coordination played by arrangements between local TSOs and foreign BSPs, which could thus be instrumental in a more smooth transition towards a TSO-TSO model with common merit order (CMO) providing the most cost-effective solution.

On the other hand, the failure to recognise the role of voluntary agreements between TSOs and BSPs could prevent European countries characterized by a high penetration of non-programmable RES to benefit from the possibility of using cost-effective balancing resources available in other countries. Not fully recognising the role of BSP-TSO agreements would thus lead to reduced consumer welfare.

# A level-playing field between RES and conventional generators

With respect to the integration of renewable energy sources (RES) into the single European Electricity market, as stated in the recently published European Commission Communication [[2]](#footnote-3): «*renewable energy should be gradually integrated into the market with reduced or no support, and should over time contribute to the stability and security of the grid on a level footing with conventional electricity generators and competitive electricity prices. In the long term, a level playing field needs to be ensured*.» To this end:

Access to preferential treatment for intermittent RES shall be reduced in time also by making intermittent RES financially responsible for their imbalances (as it is stated in § 5.2 of the Framework Guidelines). However, such action must be accompanied by the necessary market rule amendments that will give the possibility for producers to change their physical delivery positions closer to real time through shorter gate closure deadlines and enforcing imbalances rules at an aggregated level.

It is fundamental that the FGs require that the related Network Codes (hereafter NCs) define a set of common requirements for all BSP (including intermittent RES and loads), such as size, reliability and flexibility and a clear timeframe for their implementation.

# Consistency with other FGs and NCs

FGs and related NCs on Balancing Energy must be consistent with other FGs and NCs currently being developed. More specifically, FGs on Balancing must require that NCs are consistent with bidding zones and capacity calculation mechanisms laid down by the Capacity Allocation and Congestion Management rules as well as with the Grid Connection rules[[3]](#footnote-4).

# Frequency containment reserve procurement and participation to the market

A trade-off exists between the acquisition of Frequency Containment Reserves (FCR) and the acquisition of other type of reserves (Frequency Restoration and Replacement Reserves). A TSO can reduce the contestable market for Frequency Restoration and Replacement Reserves by increasing the requirements of FCR imposed upon power plants. Given that all types of reserve must be procured through market mechanisms, the only instrument capable of revealing the true market value of the services offered, we call for FCR economic compensation based on market mechanisms to be included in the FGs.

In light of the fact that only undistorted competitive balancing markets are able to provide the right price signals, participation in the system balancing process should not be an obligation but an operator’s decision based on market dynamics. Such approach will promote competitive balancing of the markets by attracting the most efficient technologies able to provide the required services.

# Consistency with the third energy package

Finally, it is of utmost importance that in the FGs and related NCs the founding principle of the third energy package, meaning the effective unbundling between competitive and regulated activities, is respected. As a consequence, we deem necessary that FGs clearly state that balancing services cannot be provided by TSOs.

# Responses to the questionnaire

## Q1 – 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?

As already mentioned we consider the harmonization of products and practices, which include pricing methods, a prerequisite to establish the target model (TSO-TSO with Common Merit Order List). Regarding the principle of choice we believe that there is a strong interdependency between product diversity (in terms of flexibility, time of response, etc.) and pricing method: pay as cleared is appropriate in a market characterised by homogenous products; pay-as-bid is appropriate in case of the existence of heterogeneous products.

Therefore, we support pay as cleared provided that different cleared prices apply to different products differentiated by service quality, and that each of these different products is priced on a pay-as-cleared basis.

## Q2 – 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?

In our view, allowing TSOs to exclude the most expensive balancing bids from the Common Merit Order List, with the aim of providing an additional safety margin, should be allowed only after a positive outcome of an ad-hoc Cost-Benefit Analysis. The corresponding methodology should be developed by ACER together with NRAs and subject to consultation of interested stakeholders. Margins should thus be calculated in order to maximise social welfare.

## Q3 – Do you support to aim at similar target models for frequency restoration reserves and 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?

Yes we fully support the application of the same regulatory framework to both reserves - for frequency restoration and for replacement - on equal terms.

No, we do not believe that there should be any distinction between the regulatory frameworks reserves activated manually and those activated automatically.

## Q4- Do you support the timeframes for implementation?

As already stated we support the timeframes for the implementation of the target model proposed by the FGs. However, given the risk of delays, there may be a need in the interim period to promote and support existing bottom-up initiatives by recognising within the FGs the positive role voluntary transitional arrangements between local TSOs and foreign BSPs. This is especially true as they do not hinder the implementation target model or undermine the established deadlines.

## Q5 – 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)

We do not believe such milestones to be particularly relevant. However we believe the oversight role of Acer to be crucial in terms of complying with the deadlines proposed at EU level and using all its powers and tools to ensure the establishment of a single European balancing market.

## Q6 – 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, we advocate for an harmonization of imbalance settlement and we think that FGs should be more specific on how to settle imbalances. FGs affirm that all injections and withdrawals shall be covered, but it is not explicitly stated what is the "balancing perimeter" (by plant or by operator portfolio). We believe that the “balancing perimeter” should be harmonized at European level and set by operator portfolio as is the case in most EU Member States. Furthermore, such solution would provide critical support for an accelerated integration of intermittent RES in the energy market.

1. “Summer Outlook and Winter Review”, ENTSO-E, available at <https://www.entsoe.eu/news/announcements/newssingleview/article/entso-e-publishes-summer-outlook-and-winter-review/?tx_ttnews%5BbackPid%5D=28&cHash=b9716d0ffa516057037035a67ff53ce1> [↑](#footnote-ref-2)
2. “Renewable Energy: a major player in the European Energy Market”, Communication from the Commission to the European Parliament, the Council, the European Economic and Social committee and the Committee of the Regions, Brussels 6.6.2012, COM(2012) 271 final, p. 4 [↑](#footnote-ref-3)
3. Demand Connection Code and Requirements for Grid Connections applicable to all generators [↑](#footnote-ref-4)