Contribution ID: 42d89812-ce9c-48d2-b368-a87e35265b24
Date: 09/11/2021 15:46:24

Public Consultation on the amendment of the EU electricity balancing pricing methodology

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Public Consultation
On
the amendment of the EU electricity balancing pricing methodology

Public Consultation on the amendment of the EU electricity balancing pricing methodology

in accordance with Article 30(1) of the Commission Regulation (EU) 2017/2195 of 23 November 2017 establishing a guideline on electricity balancing

This consultation is addressed to all interested stakeholders, including regulatory authorities and transmission system operators.

Replies to this consultation should be submitted to by **10 November 2021, 23:59 hrs (CET)**.

Questions should be addressed to ACER at:
ACER-ELE-2021-016@acer.europa.eu

Introduction

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* **Is your input into this consultation confidential?**

- ○ YES
- ◉ NO

ACER will publish all non-confidential responses.

ACER will process personal data of the respondents in accordance with Regulation (EU) 2018/1725 of the European Parliament and of the Council of 23 October 2018 on the protection of natural persons with regard to the processing of personal data by the Union institutions, bodies, offices and agencies and on the free movement of such data, taking into account that this processing is necessary for performing ACER's consultation task. For more details on how the contributions and the personal data of the respondents will be dealt with, please see ACER's Guidance Note on Consultations and the specific privacy statement attached to this consultation.

Objectives

This consultation aims to gather views and information from stakeholders regarding the compliance of the proposal for the amendment of Methodology for pricing balancing energy and cross-zonal capacity used for the exchange of balancing energy or operating the imbalance netting process (the 'Amendment Proposal') with Commission Regulation (EU) 2017/2195 (the 'EB Regulation').
The European Union Agency for the Cooperation of energy regulators ('ACER') will use the input from the consultation to inform its decisions on the Amendment Proposal, in accordance with Article 6(10) of Regulation (EU) 2019/942.

Related documents

Regulation (EU) 2019/942 of the European Parliament and of the Council of 5 June 2019 establishing a European Union Agency for the Cooperation of Energy Regulators ('ACER Regulation').

Regulation (EU) 2019/943 of the European Parliament and of the Council of 5 June 2019 on the internal market for electricity (recast) ("Electricity Regulation).

Regulation (EU) 543/2013 of 14 June 2013 on submission and publication of data in electricity markets and amending Annex I to Regulation (EC) No 714/2009 of the European Parliament and of the Council Text with EEA relevance.

Regulation (EU) 2017/2195 of 23 November 2017 establishing a guideline on electricity balancing.

ACER Guidance Note on Consultations

ACER Decision 01/2020 on the Methodology for Pricing of Balancing Energy - Annex I

ACER Decision 04-2017 on the Harmonised Maximum and Minimum Clearing Prices for Single Day-Ahead Coupling - Annex I

All TSOs' proposal for the amendment of Methodology for pricing balancing energy and cross-zonal capacity used for the exchange of balancing energy or operating the imbalance netting process in accordance with Article 30(1) of Commission Regulation (EU) 2017/2195 of 23 November 2017 establishing a guideline on electricity balancing:

- Pricing_Methodology_TSO_Submission_Letter.pdf
- Pricing_Methodology_TSO_Study.pdf
- Pricing_Methododology_TSO_Explanatory_Note.pdf
- Pricing_Methodology_TSO_Amendment_Proposal.pdf

Latest MARI Accession Roadmap

Latest PICASSO Accession Roadmap

Legal background

Pursuant to Article 30(1) of the EB Regulation, “all TSOs shall develop a proposal for a methodology to determine prices for the balancing energy that results from the activation of balancing energy bids for the frequency restoration process pursuant to Articles 143 and 147 of Regulation (EU) 2017/1485, and the reserve replacement process pursuant to Articles 144 and 148 of Regulation (EU) 2017/1485”.

The Methodology for pricing balancing energy and cross-zonal capacity used for the exchange of balancing energy or operating the imbalance netting process (the ‘Pricing Methodology’) came into effect on 24 January 2020 with the ACER Decision 01/2020.

The Pricing Methodology set the limits to the maximum and minimum prices for all balancing energy product bids and the maximum and minimum values of the cross border marginal prices (the ‘maximum and minimum technical price limits’) to 99,999 €/MWh and -99,999 €/MWh respectively.

According to Article 10(1) of the Electricity Regulation, “there shall be neither a maximum nor a minimum limit to the wholesale electricity price. This provision shall apply, inter alia, to bidding and clearing in all timeframes and shall include balancing energy and imbalance prices, without prejudice to the technical price limits which may be applied in the balancing timeframe and in the day-ahead and intraday timeframes in accordance with paragraph 2”.

Article 10(2) sets out the principles for day-ahead and intraday technical price limits: “NEMOs may apply harmonised limits on maximum and minimum clearing prices for day-ahead and intraday timeframes. Those limits shall be sufficiently high so as not to unnecessarily restrict trade, shall be harmonised for the internal market and shall take into account the maximum value of lost load. NEMOs shall implement a transparent mechanism to adjust automatically the technical bidding limits in due time in the event that the set limits are expected to be reached. The adjusted higher limits shall remain applicable until further increases under that

mechanism are required".

Pursuant to Article 30(2) of the EB Regulation, "in case TSOs identify that technical price limits are needed for efficient functioning of the market, they may jointly develop as part of the proposal pursuant to paragraph 1 a proposal for harmonised maximum and minimum balancing energy prices, including bidding and clearing prices, to be applied in all scheduling areas. In such a case, harmonised maximum and minimum balancing energy prices shall take into account the maximum and minimum clearing price for day-ahead and intraday timeframes pursuant to Regulation (EU) 2015/1222".

TSOs' Amendment Proposal
All TSOs submitted to ACER on 26 August 2021 the Amendment Proposal.

The main element of the Amendment Proposal is to reduce the levels of technical price limits from 99,999 € /MWh to 15,000 €/MWh for maximum technical price limit and from -99,999 €/MWh to -15,000 €/MWh for minimum technical price limit.

All TSOs proposed in their Amendment Proposal an increase of the balancing technical price limits linked to the increase of The Amendment Proposal takes into account that if the harmonised maximum clearing prices for single intraday coupling in accordance with Article 54(1) of the CACM Regulation are increased by a certain amount above 9,999 €/MWh (and below -9,999 €/MWh respectively for harmonised minimum clearing prices), the technical price limits in the balancing market shall, be automatically increased (or decreased respectively) by this same amount.

The Amendment Proposal also contains some requirements in terms of reporting:
1) a yearly reporting obligation in accordance with Article 59 of the EB Regulation to assess the impact of the technical price limits on the efficient functioning of the market through key performance indicators; and
2) the submission of an extensive report to ACER no later than 2 years after the expiration of all respective derogations to European balancing platforms in accordance with Article 62(2)(a) of the EB Regulation to justify whether the technical price limits shall be maintained or amended.

ACER must adopt the decision on the Amendment Proposal in accordance with Article 5(6) of the EB Regulation by 26 February 2022. In the context of adopting the decision, ACER seeks the opinion of stakeholders on the issues listed below. Other comments and concerns are also welcome.

Topic 1: Technical price limits needed for efficient functioning of the market

Based on the legal provisions, ACER considers that a technical price limit is only allowed if it is needed for the efficient functioning of the market and if it puts no limit on free price formation based on demand and supply.

TSOs outlined in their explanatory note the fundamental risks they see as a reason why technical price limits are needed for the efficient functioning of the market. The fundamental risks, according to the TSOs, result from the application of marginal pricing in the balancing energy market and from the characteristics of the balancing markets (such as design of the balancing energy auctions)[1].

ACER observes that the analysis of the study is based on a different model than the one that will be implemented in the European platforms. The analysis is based on a pay-as-bid market with a two-step approach for the procurement of balancing energy taking place long before the real time. In this market, the bids that have been awarded in the balancing capacity market can be released from the balancing energy market if they will not be activated and bids can be places again in the intraday markets which provides an incentive to bid very high prices in the balancing energy markets. The European balancing energy platforms will operate with marginal pricing model with a gate closure time of 25 min before the real-time with only a limited option to release bids after the balancing energy gate closure to the intraday market because of obligatory separation of balancing energy and balancing capacity markets. In addition, one national case has been analysed (with different conditions) and by analogy, it was concluded that the same principles would apply for the European target model.

ACER also observes that the study does not demonstrate that the proposed technical limits are necessary for the efficient functioning of the market.

[1] For further details, see the scientific study attached to the explanatory document.

Question 1a)
In your view, could a reduction of the balancing technical price limits as proposed by the TSOs be justified on the grounds of a more efficient functioning of the market?

- (●) Yes
- ( ) No
- ( ) Partially

Question 1b)
Please provide an explanation for your answer.

ELFi represent large end users in the electricity market who’s electricity purchases are based on liquid, transparent and logical sub-markets. Market structure in the electricity markets must be based on risk levels which will support logical behaving in the market. Therefore, it is reasonable that technical price caps are step by step increasing all way from day-ahead markets via intra-day markets to balancing markets. If price caps between markets are not logical or are too wide, then it will affect negatively to the function of the markets together. For end users it will be shown via artificial high prices or low liquidity or both of those.

ELFi believes that the risk for high imbalance prices limit producers' sales into the day-ahead and intra-day markets and keep a too large share of their resources for balancing markets. This would distort functioning to the market. If imbalance prices with current technical price cap (99999 €/MWh) realize, it will likely lead to bankruptcies and even higher balancing service prices for the end-users.

Current level of the transparency the balancing market are based on the perfect liquid market and high level of competition. In a fully efficient and transparent market, the BRPs would be able to react on the balancing (imbalance) prices. As we all know balancing markets is far from perfect in there is much room for improving competition and liquidity.

ELFi fully support decision to adjust the bidding limits as proposed by ENTSO-E.

Topic 2: Level and the timeline for the lower technical price

In addition to the fundamental risks explained under ‘Topic 1’, TSOs also outlined transitory risks in their explanatory note as a reason why technical price limits are needed for the efficient functioning of the market. TSOs state that there is a critical mass of balancing service providers via the connecting TSOs or contracting TSOs required under EB Regulation on each European balancing energy platform for the market to function effectively and efficiently. All TSOs do not consider this requirement fulfilled at the legal deadline for the implementation of the European FRR balancing platforms due to the expected derogations to be granted to several TSOs based on Article 62(2)(a) of the EB Regulation. As a result of limited number of TSOs joining the European balancing platforms at the legal deadline, the competition could also be limited at beginning.

The transitory risks are also associated with changes to the local balancing energy market designs and adaption phase for all market participants as well as TSOs implementing the new market design nationally and cross-border. As a result of these changes, there could be increased vulnerability to errors which could lead to high prices not correlating with the real-time-value of energy (artificial scarcity situations).

ACER does not agree that there is a requirement in the EB Regulation for a critical mass of balancing service providers on the European balancing energy platforms. The EB Regulation provides the possibility for derogation up to two years for TSOs to join the European platforms, without setting any threshold for the number of the balancing service providers or participating TSOs.

However, ACER understands the points made by the TSOs and agrees on the importance of having sufficient amount of balancing service providers and the TSOs connected to the European platforms for the effective and efficient functioning of the market. ACER also agrees that the transitory risks are lower the higher the competition is.

In order to ensure a smooth and successful transition towards integrated European balancing energy markets, applying a lower technical price limit could provide more confidence to all parties involved and facilitate the connection to the European balancing platforms.

All TSOs proposed in the Amendment Proposal that a technical price limit shall, in their view be higher than the harmonised maximum/minimum clearing price for single intraday coupling in accordance with Article 54 (1) of the CACM Regulation and lower than the highest value of lost load (‘VoLL’) among member states. All TSOs have decided to propose the technical price limit of 15,000 €/MWh as an average approach, because the base case VoLL for the European resource adequacy assessment is set to 15,000 €/MWh.

Question 2.1a)
Do you consider that the lower price limit during the implementation of the integrated European balancing platforms until more TSOs connect to the European platforms would provide a safeguard for secure implementation?

- (●) Yes
- ( ) No
- ( ) Partially

Question 2.1b)
Please provide an explanation for your answer.

> When new instruments like platforms are established in the markets risk of technical or human behaving failures are greater than in normal operational phase. However, ELFi believe that market liquidity,

transparency or level of competition will take more time than we can now estimate. Decision about technical caps over 15000 €/MWh should be separate decision based on the function and structure of the market.

Question 2.2a)

How long in your view shall the lower technical price limit remain in place after the start of the operation of European platforms (foreseen for July 2022)?

- ○ Lower techanical price limit shall not be in place at all
- ○ 6 months
- ○ 1 year
- ○ 2 years (until the expiration of all the derogations in accordance wit Article 62(2)(a) of the EB Regulation)
- ◉ Longer

Question 2.2b)

Please provide an explanation for your answer.

ELFi believe that market liquidity, transparency or level of competition will take more time than we can now estimate. Decision about technical caps over 15000 €/MWh should be separate decision based on the function and structure of the market.

Question 2.3a)

At what level in your view shall the lower technical price limit be set?

- ○ Lower than 15,000 €/MWh
- ◉ 15,000 €/MWh
- ○ At the value of highest VoLL among member states
- ○ Higher than the highest VoLL among member states but lower than the existing technical price limit
- ○ 99,999 €/MWh (existing technical price cap)

Question 2.3b)

Please provide an explanation for your answer.

ELFi consider that ENTSO-E’s proposal is well rationalized as it reflects the level of VOLL and fit well into the current value chain of the electricity market.
ELFi believes that technical price limit shall be same level or greater than the bidding limit in XBID. Market structure should motivate BRPs use XBID in the first hand for amend their imbalances.

Question 2.4

Do you agree that the technical price limit shall increase once all TSOs have joined the European platforms? If you agree, at what level in your view shall technical price level increase?

Absolutely no.
Please see our answer for the question 2.1. and 2.2.

Topic 3: Automatic adjustment mechanism linked to balancing energy prices

Based on legal provisions (Article 10(2) of the Electricity Regulation), there shall be a transparent mechanism to adjust automatically the technical bidding and clearing limits in the day-ahead and intraday timeframes in due time in the event that the set limits are expected to be reached. The adjusted higher limits shall remain applicable until further increases under that mechanism are required.

The proposals on harmonised maximum and minimum day-ahead and intraday prices in accordance with Article 41 and Article 54 of the CACM Regulation shall take into account an estimation of the VoLL.

In ACER Decision 04/2017 on harmonised maximum and minimum clearing prices for single day-ahead coupling ('SDAC') in accordance with Article 41(1) of the CACM Regulation, the VoLL was not explicitly taken into account but rather a criteria was introduced for amending the harmonised maximum clearing price automatically whenever the market clearing price exceeds a certain threshold. The main purpose of the requirement to take into account an estimation of VoLL is that the harmonised maximum clearing price never restricts the free price formation. Therefore, an automatic adjustment mechanism ensures that the harmonised maximum clearing price is always above the clearing price that would occur in the absence of price limits.

In accordance with Article 10(2) of the Electricity Regulation, the same automatic principle shall apply in the intraday timeframe if a set limit in the intraday timeframe is expected to be reached.

ACER sees no reason why the same principle for adjusting automatically the technical price limit if set limit in the balancing timeframe is expected to be reached should not apply for the balancing timeframe if the prices reflect the true scarcity. Automatic adjustment mechanism ensures that there is no restriction to the free price formation. Furthermore, instead of taking into account the highest VoLL among the member states (which estimation is very difficult to be determined), an automatic adjustment mechanism would mimic the value of VoLL and the price limit would eventually stabilise at it.

Question 3a)
Do you agree there shall be a transparent mechanism to adjust automatically the technical price limits if set limits in the balancing timeframe are expected to be reached?

- ○ Yes
- ◉ No

Question 3b)
Please provide an explanation for your answer.

It is important to analyze and understand the reasons behind high prices before any further actions.
In theory temporary dominant market position which are born by grid failure could be the reason for high prices. By increasing technical price caps problem is not solved vice versa it could seriously harm functioning of the market and market players trust of fairness of the price.

Topic 4: Other comments

Question 4

If you would like to comment on other topics please indicate clearly the related Article, paragraph of the Amendment Proposal and add a sufficient explanation.

ELFi cannot highlight enough role of the market surveillance in the balancing markets. It is important to have adequate resources under REMIT. Market surveillance is an ex-post measure and will help in a situation if prices reach un-reasonable high levels.

Contact

Contact Form