

Consultation on the FCR cooperation



EFET response – 15 February 2018

The European Federation of Energy Traders (EFET) welcomes this opportunity for stakeholders to provide feedback on the TSOs proposal for a reform of the functioning of the cooperation for frequency restoration reserves procurement (“FCR cooperation”).

As general feedback, we believe the TSOs need to refine their proposal in the following areas:

- **Road map:** Sufficient time should be granted to market participants to adapt systems and staffing to potential changes. The proposal to start implementing fundamental changes such as auction frequency with only 4 weeks lead time between NRA approval and entry into force is not acceptable.
- **Cost efficiency of the cooperation:** some of the proposed changes were highly debated within EFET. Fundamental modification, especially with regard to auction frequency and product granularity should be supported by a cost-benefit analysis. The opportunity to establish a cross-border secondary market should be taken into account in this analysis.
- **Coordination between processes:** TSOs should ensure that Electricity Balancing and System Operation Guidelines implementation projects are not designed in silos. Due attention to other balancing processes and broader energy market design elements is needed. We have identified this as a potential problem for proposed changes in the gate closure time and product granularity.

Question 9: What is your opinion on the proposal regarding market design in Article 3 "TSO - TSO Model"?

-- Neutral --

Chapter 3 of the Electricity Balancing Guideline incentivises and mandates TSOs to procure balancing services in a coordinated manner. We regret the decision of TSOs – despite repeated demands from market participants – to request an exemption from the obligation to allow (cross-border) transfers of obligation between BSPs despite illustrations of potential economic benefits to this solution.

Nevertheless, considering the current functioning of the FCR cooperation, we do not oppose the proposal of the TSOs to follow a TSO-TSO model.

Question 10: What is your opinion on the proposal regarding market design in Article 4 on "Auction frequency"?

-- Disagree --

To date, the weekly frequency of the tenders appears to us as appropriate for the existing framework of the cooperation. The weekly auctions provide a good balance between the required bidding process on the side of market participants and the ability for a broad number of market participants to participate. Additionally, other measures considered in previous consultations on the FCR cooperation, such as product duration and the transfer of obligations, could achieve a lot in terms of the ability of all market participants to contribute to the FCR cooperation without the associated significant increase in the operational burden linked to a higher frequency of auctions.

We nonetheless note the intended target of TSOs to hold auctions closer to delivery. In our view, increasing the frequency of the auctions to a daily rhythm would be acceptable if the TSOs have identified that the current weekly frequency of the auctions impedes the participation of certain categories of market participants, such as renewable installation operators, demand response providers or storage asset owners. We note that the increased auction frequency was a request voiced by a portion of market participants in their responses to previous consultations on the functioning of the FCR cooperation. While their views should in no case be dismissed, neither should be the voices of other markets participants. Therefore, we request further explanation by the TSOs of the reasons behind this significant change proposal in the design of the FCR cooperation, with a clear identification of costs and benefits of the proposed new setup.

In this cost-benefit analysis, the participation of a potentially more diverse spectrum of market participants and their contribution to liquidity should of course be assessed on the benefits side. But we also want to draw the TSOs' attention – on the costs side – to the additional operational burden linked to daily tenders, which may lead some market participants to withdraw from the FCR market or reduce the amount and complexity of their bids. Once again, the added value of allowing cross-border secondary trading between BSPs should also be assessed as an alternative solution in the cost benefit analysis: it would have the advantage of maintaining the weekly frequency of tenders without too heavy a burden on market participants while at the same time allowing BSPs to adjust their portfolios bilaterally close to real time.

Question 11: What is your opinion on the proposal regarding market design in Article 4 on "Auction timing"?

-- Disagree --

No unnecessary, intermediate steps should be taken between 2018 and 2020. Each implementation step will require additional investments and changes from market participants that do not bring additional value. We therefore ask that if daily auctions are implemented, they move directly towards the target model.

As correctly stated in the consultation document, the proposed target FCR GCT in D-1 at 8:00 CET coincides with the envisioned GCT for aFRR in at least Germany and Austria. It is of vital importance that TSOs do not work on the different Electricity Balancing and System Operation Guidelines implementation projects in silos and avoid that different processes overlap, also taking into account timings of such processes at national level. Maintaining separate GCTs with sufficient time for processing results from preceding auctions is essential to make full use of flexible assets. Otherwise BSPs will need to opt out of one of the auctions and liquidity will generally suffer.

Generally, sufficient time for market-based fallback procedures has to be included.

Question 12: What is your opinion on the proposal regarding market design in Article 5 "Product"?

-- Neutral --

The current product duration of a weekly, base product is insufficient. More granular product duration allows more types of assets or portfolios to participate in the auction.

The exact granularity of the product is a question that is highly debated, including within EFET. The general feeling is that if weekly auctions are maintained (or until a switch is made to daily auctions), the introduction of peak/off-peak granularity would be a good step to ensure a balance between sufficient granularity and manageable complexity.

If and when daily auctions are introduced, provided that the cost-benefit analysis mentioned in our response to question 11 on auction frequency is positive, the granularity of the products will need to be adapted, to daily or sub-daily products. In case of sub-daily products, proper attention will need to be paid to other fundamental elements of market design when deciding on the exact granularity of the products in order to make FCR procurement coherent with them: we already see discrepancies between FRR product duration (4 hours) and solar PV blocks in Germany (6 hours) for instance.

We also believe that in order to ensure fair competition between market participants, establishing a cross-border secondary market is necessary. This would enable all market participants, regardless of their portfolio, to adjust their position closer to real time whichever the frequency of the auction, and hence reduce the need for daily tenders.

As stated in the FCR Consultation Report, the risk of deterministic frequency deviations (RFD) needs to be carefully observed, in particular in conjunction with constantly changing CMOs due to balancing energy market. For this reason a sufficiently long product duration should be considered.

We agree with maintaining the limitation of the FCR cooperation to symmetric bids.

Question 13: What is your opinion on the proposal regarding market design in Article 6 "Bid design possibilities"?

-- Disagree --

We agree with the allowance of both divisible and indivisible bids in all countries, removing the current situation with a CMOL split if an indivisible Swiss bid is the last accepted bid.

We question the need to limit the maximum allowed indivisible bid if an indivisible bid can be paradoxically rejected, as proposed by the TSOs. In this way, all BSPs can participate in the auction, irrespective of their technical limitations while TSOs remain assured that the auction outcome will be the economic optimum.

On linked and exclusive bids: In general, it should be avoided that linked or exclusive bids unduly increase complexity in the auction. However, especially if smaller product durations are introduced, linked and exclusive bids are required so that the participation of units with significant ramp-up costs and minimum running times of several hours is still possible. In order to restrict complexity, exclusive bids could be limited in terms of number of increment prices. All prices or increment prices of the exclusive bids should be published to ensure full transparency. Otherwise the total cost of FCR procurement will rise and the efficiency of the system will decrease.

Question 14: What is your opinion on the proposal regarding market design in Article 7 "Auction allocation algorithm"?

-- Agree --

The proposal simplifies the conditions under which the algorithm will consider indivisible bids.

TSOs have to provide full transparency on the auction algorithm and all necessary data to allow market participants to model auction outcomes. This will ensure efficiency in the bidding process.

Question 15: What is your opinion on the proposal regarding market design in Article 8 "TSO-BSP settlement"?

-- Agree --

We welcome the proposal of the TSOs which establishes a common TSO-BSP pricing methodology applying throughout the cooperation, based on marginal pricing. We consider the proposal in line with the Electricity Balancing Guideline.

The definitions of "import limit is hit" and "export limit is hit" should be clarified and the necessary preconditions should be replicable from the documentation of the auction algorithm result (see our response to question 14 on the auction algorithm).

Question 16: What is your opinion on the proposal regarding market design in Article 9 "TSO-TSO settlement"?

-- Agree --

We generally welcome the proposal of the TSOs for the TSO-TSO settlement of procured capacity. It is simple and coherent with the TSO-BSP pricing methodology. We consider the proposal in line with the Electricity Balancing Guideline.

We would welcome a practical example of the distribution mechanism as it is not clear what an allocation 'proportional to the absolute value of their net position' implies.

One aspect of the current settlement formulation is incomplete: For a TSO that procures his core share in a separate auction (NL, BE), a situation can occur that all of the remaining demand is imported from the FCR cooperation. As there is then no bid to derive the LMPi from, which is required for TSO-TSO settlement, how is the cost for this TSO calculated in the following TSO-TSO settlement?

We believe that the core share of each country should be put into the common procurement.

Question 17: What is your opinion on the proposal for the process of joining of new parties as described in Article 10 "Accession of new parties"?

-- Agree --

We generally agree that new parties to the cooperation need to abide by the rules eventually agreed by the TSOs and NRAs currently participating on the cooperation. The sentence "hen joining the FCR Procurement parties might be asked to

implement a phase of limited operation for a limited period of time" is not clear for us, in terms of the limitations that this will impose on TSOs wanting to join the cooperation. The conditions for joining the cooperation should not deter TSOs to do so.

We welcome the importance that the TSOs give to information transparency towards market participants in this article. We ask that clear timelines and conditions (import/export limits, phases of limited operation) are established when new TSOs join the cooperation. We also request that stakeholders are duly consulted, not only to informed, about the request of a new TSO to join the cooperation.

Question 18: What is your opinion on the proposed roadmap for implementing the proposed changes in the market design as described in Article 11 "Implementation roadmap"?

-- Disagree --

We refer to our response to question 10 on auction frequency. In the absence of any justification by the TSOs for a move to daily auctions, we can only guess some of the reasons for such a proposal. While we do not oppose this as a matter of principle, we a clear identification of costs and benefits of the proposed new setup to understand the urge to move to daily auctions.

If and when daily auctions are introduced, provided that the cost-benefit analysis mentioned in our response to question 11 on auction frequency is positive, we strongly disagree with the timeline proposed by the TSOs. The timeline to implement changes in market participants systems for the first proposed intermediate step would be far too short: Considering the official timelines in the Electricity Balancing Guideline, the approval of the TSOs' proposal by the NRAs will likely be issued in October 2018. This leaves only 4 weeks to market participants to adjust systems and staffing to the proposed changes. Stakeholders cannot be forced to start implementation based on an assumed NRA approval outcome. A minimum of 6 months should be granted to market participants for implementation, starting from the NRA approval. Therefore, we propose avoiding unnecessary intermediate steps and not start implementation before 1 July 2019.

Question 19: What is your opinion on the requested exemption for not allowing cross border transfer of capacity obligations as described in the "Draft Proposal for the exemption of the FCR Cooperation Parties from the obligation to allow balancing service providers to transfer their obligations to provide balancing capacity in accordance with Article 34(1) of COMMISSION REGULATION (EU) 2017/2195 establishing a guideline on electricity balancing"?

-- Disagree --

We oppose the outright exclusion of a cross-border secondary market by the TSOs based on the justification of the establishment of daily tenders.

We refer to our response to question 10 on auction frequency. We do not see an urge to move to daily auctions. To date, the weekly frequency of the tenders appear to us as appropriate for the existing framework of the cooperation. The weekly auctions provide a good balance between the required bidding process on the side of market participants and the ability for a broad number of market participants to participate. On the contrary, we believe that allowing the transfer of obligations could achieve more in terms of ability of some market participants to contribute to the FCR cooperation without the associated significant increase in the operational burden linked to a higher frequency of auctions.

We warn the TSOs against the possible drop in liquidity in daily tenders as the important operational burden may lead some market participants to withdraw from the FCR market. Rather, we encourage the TSOs to allow cross-border secondary trading between BSPs or pooling arrangements so that tenders could remain on a weekly frequency without too heavy a burden on market participants and to allow BSPs to adjust their portfolios bilaterally close to real time. Rather, the TSOs of the cooperation should concentrate on developing a cross-border secondary market.

Question 20: Do you have any other remarks / questions?

More consideration should be given to ensure a level-playing field between participants to the common procurement. Especially elements such as penalisation and pre-qualification should have a clear path towards alignment and/or harmonisation. This is currently lacking in the proposal of the TSOs.