

Consultation on the TERRE project



EFET response – 16 August 2017

The European Federation of Energy Traders (EFET) welcomes this opportunity for stakeholders to provide feedback on a broad range of subjects concerning the pilot project “Trans-European Replacement Reserves Exchange” (TERRE).

The timing of the consultation – opening on 30 June and closing on 16 August – is unfortunate. The consultation covers a cross-border topic that requires coordination spanning several countries. For a European organisation like EFET, gathering members’ input during the summer holiday period is extremely challenging.

I. Introduction

1.1. Do you have specific comments regarding Chapter 1 content? (Please indicate sub-chapter reference when possible)

This consultation only covers the cross-border framework of the TERRE platform. EFET would like to stress that local implementation processes should also foresee sufficient stakeholder involvement in each country. As the actual bidding will be a process between the BSP and its connected TSO, it is important that concerns of local stakeholders are taken on board. These processes of stakeholder involvement at a local level should start as soon as possible to allow ample time to adjust processes and IT systems.

We are also concerned by the lack of consideration of the possibility for market participants not directly connected to a TERRE TSO to propose RR bids on the common platform – either through their connecting TSO even if it does not use RR itself, or through TSO-BSP cross-border arrangements with TSOs participating in the

TERRE project. This is an important question relating to the equal treatment of market participants in Europe that was raised at multiple occasions in discussion groups but never taken up by the TERRE project. We encourage the project members to take a position on the options that could enable all market participants – connected to a TSO participating in the TERRE project or not – to provide RR bids for use on the TERRE platform.

II. TERRE TSO-TSO Model

2.1. Do you have specific comments on the LIBRA platform description?

No comment.

2.2. Do you agree with the allowance of counter-activations in TERRE and its impact on the marginal price and the ID market?

We generally do not agree to allow counter-activations by TSOs in TERRE, should such counter-activations go beyond what is strictly necessary to meet the balancing needs of a TSO. Counter-activations that clear bids between market participants that are not related to the balancing needs of a TSO exceed the boundaries of the balancing energy procurement process that is the objective of the TERRE platform. As a result, the TERRE platform would become a hybrid market of balancing energy procurement and intraday auction.

With this in mind, we do support the distinction suggested by the TERRE NRAs of “acceptable” and “non-acceptable” counter-activations: As long as a counter-activation is performed to meet a balancing need of a TSO, it should be acceptable. This includes the case where a counter-activation between BSPs is performed in order to clear a block offer that would exceed the balancing need of a TSO.

In addition to our general view above, we note that the consultation document identifies no impact of counter-activations on the intraday market. This assertion omits the point that the TERRE platform would offer market participants a way to trade across borders closer to real-time than the XB ID allows. This should also be seen together with the fact that the TERRE project foresees a BE GCT that is concomitant with the ID XB GCT, which means that the full results of the XB ID are probably not yet available at BE GCT. This leads to the same result, i.e. that market participants will have to make a choice between participating in the last minutes of the continuous intraday market before XB GCT or submitting offers on the TERRE platform. In this case, the possibility for counter-activations will directly impact the liquidity of XBID (see our response to question 3.5 for more details on the subject).

We also do not agree with the observation that excluding counter-activations would distort the price. The objective of the balancing market is to fulfil the balancing needs of TSOs and the cost of this should be an incentive towards BRPs to balance their portfolio in previous timeframes, especially the spot/intraday market. Including counter-activations pollutes the imbalance price with market activities. This is similar to the historic practices of referring to the day-ahead price for imbalance settlement. Such links – where still present – are currently being phased out as they do not give the correct price signals and are not in line with the Electricity Balancing Guideline.

TERRE TSOs also state that restricting counter-activations would result in the introduction of artificial inefficiencies. However, the objective of the TERRE platform is to allow TSOs to procure balancing energy as efficiently as possible. The objective of counter-activations is rather linked to optimising social welfare. As long as market participants still have means to optimise social welfare (via the intraday market), this should be a task that remains in the contestable domain of the market.

We do not believe this issue will be resolved by the study that is mentioned in the consultation document. The difficulty with counter-activations is not the frequency of their occurrence, but rather the fundamental market design question of whether or not market deals should take place in a balancing procurement environment. Moreover, as explained previously, we expect an impact on the intraday liquidity as a result of market participants adjusting their bidding behaviour to the choice to make between Intraday and TERRE. Such change in behaviour will not occur in the parallel run but only gradually once TERRE goes live. As a result, any result of such an analysis will underestimate the detrimental impacts. EFET therefore asks that NRAs make a clear choice on how (cross-border) Intraday markets and the TERRE platform should interact before the TERRE platform goes live.

Finally, the question of counter-activations is largely caused by the proposed ability of TSOs to define their needs in an elastic manner (cf. chapter 2.5.1). This creates a demand-supply curve that is very similar to, e.g., the day-ahead market. If, on the other hand, the TSO imbalance needs would be expressed in a non-elastic manner, the imbalance needs of all TSOs could first be netted and subsequently matched with the upward or downward merit order list. This would make the process faster, more efficient and more transparent.

2.3. Which approach would you prefer to follow regarding unforeseeably rejected bids?

We prefer option 2 where only block offers can be unforeseeably rejected. This indeed creates incentives to formulate divisible bids and will mirror the practices of other market timeframes.

Irrespective of the chosen option, sufficient transparency should be provided to allow market participants to understand why certain bids are unforeseeably rejected.

2.4. Do you agree with the way energy losses are treated in TERRE?

We agree to treat the energy losses in a way that is comparable to the day-ahead market coupling.

2.5. Do you agree with the physical feasibility description and its calculation?

We agree to ensure that it is physically possible to accommodate the outcome of the TERRE process on HVDC Interconnectors.

2.6. Do you agree with the proposed interconnection controllability through TERRE?

We agree with the interconnection controllability as a tool for TSOs to relieve cross-border congestion. However, two important conditions should be met:

- Sufficient transparency should be provided for market participants to understand that an interconnection controllability action has been performed and what the result of this action was (constrained versus unconstrained outcome).
- Bids that were not activated due to an interconnection controllability action suffer opportunity loss (difference between bid price and pay-as-cleared market outcome) and should be remunerated for this. Otherwise, TSOs would be under-incentivised to solve the associated congestion.

2.7. Do you agree with the introduction of unavailable bids feature in the TERRE TSO-TSO process?

We understand that TSOs may need to reserve certain bids to deal with congestion or ensure sufficient balancing capacity. However, solving this through a system of unavailable bids is not the correct way.

Ideally, congestion would be dealt with in a separate mechanism or at least in a way that allows a clear distinction between balancing and congestion actions. This makes the cost of dealing with congestion apparent instead of hiding it through changes in the balancing market outcome. This would facilitate the allocation of costs to congestion management on the one hand, and balancing on the other hand, only the latter having an influence on the imbalance price.

If TSOs insist on using the balancing energy bids of the TERRE platform to manage congestion, it should at least closely mirror how it would be treated in a separate mechanism. This includes:

- sufficient transparency to identify which bids are marked unavailable by TSOs, and
- payment to market participants that suffer opportunity losses.

This last element is comparable to, e.g., first being activated upwards in the TERRE balancing market and subsequently activated downwards in a congestion market.

The situation is similar for bids made unavailable for local lack of margin. Ideally, TSOs pre-contract sufficient balancing capacity to ensure the necessary balancing margin instead of counting on sufficient capacity being available at any time. If TSOs insist on reserving certain bids in the TERRE platform, the associated BSP incurring an opportunity loss and should be remunerated. This is irrespective of whether the BSP is subsequently activated to ensure sufficient local margin or not, as the BSP will in any case not regain the difference between the bid price and the pay-as-cleared price on the TERRE platform.

Such a system has the added value that, if costs are properly allocated, it will not increase the imbalance price. Energy regulators will use their monitoring and sanction powers to ensure that the common balancing/congestion management merit order is not misused by market participants to artificially inflate congestion management expenditures.

At any rate, TSOs should make the system of unavailable bids fully transparent. This is especially pressing in Central Dispatch Systems (CDS) where Integrated Scheduling Process (ISP) bids are converted by the TSO into TERRE Standard Products. This process makes it especially difficult for market participants to assess to which degree their capacity is offered on the TERRE platform or withheld by the TSO for congestion or margin reasons.

2.8. What is your view on the proposed method for TSO-TSO settlement (pay-as-cleared and block energy settlement between the TSOs)?

We agree with the Pay-As-Cleared and block energy settlement methodologies.

2.9. What are your views on the proposed solution for price indeterminacies?

We agree with the proposed solution for price indeterminacies.

2.10. Do you agree with the definition of congestion rents?

We agree with the definition of congestion rents.

However, TSOs should clarify how the congestion rents and the interconnection controllability (cf. question 2.6) interact. Are congestion rents calculated according to the unconstrained outcome?

2.11. Do you agree with the proposal for caps/floor prices harmonization?

We agree with the need to harmonise the caps and floors on the prices, preferable by abolishing them in general. While it is prudent for TSOs to foresee a backup solution, its use should be avoided.

2.12. What is your point of view on the TSO-TSO XB commercial scheduling step?

We favour a decrease in the commercial scheduling step towards 15 minutes as soon as possible, given that it is implemented for both the intraday and balancing timeframes. BRPs should have a similar ability to self-balance their perimeter as TSOs have to solve any residual imbalances.

2.13. Do you agree with the proposed definition of imbalance needs and their flexibility and elasticity?

We do not agree with the proposal of TSOs to use elastic imbalance needs. By pricing their bids and offers, and putting them on the CMOL together with bids and offers from market parties, TSOs would be directly active on the market. This would be a serious breach of the unbundling principles embedded in EU legislation. In this way, TSOs would be in a position to set the settlement price and impose *de facto* price caps on the market. TSOs would be marketing the energy from their imbalances, instead of procuring balancing energy to deal with their imbalances.

On the other hand, the need flexibility would allow TSOs to provide some leeway to avoid unforeseeable rejected offers. However, the establishment of the volume of the need flexibility should be made fully transparent. The exact cost of procuring a slightly larger volume of balancing energy should not only be benchmarked by the resulting cost of the TERRE outcome, but also by any cost incurred by any subsequent counter-activation of other balancing products to correct for this additional volume.

2.14. What are your views on the proposed solution for the TSO-TSO process?

We have significant concerns with regard to the pre-tendering phase, given that the Balancing Energy Gate Closure Time (BE GCT) is proposed at H-60min in chapter 3.3.2. As a result, TERRE does not foresee any time between the closure of Cross-zonal Intraday and the XB BE GCT. We cannot agree with this. Market participants should be given sufficient time to update and submit offers after the XB Intraday is closed and results are published.

Related to this, it is unclear why some processes during the tendering phase – such as the calculation of the imbalance needs and the calculation/update of the ATC – can only be performed after BSPs have submitted their final bids, or why submission of bids should take more than a couple of minutes. Also the determination of any bids that are to be made unavailable should not take more than couple of minutes, as the underlying cause (congestion and even more any potential lack of margin) should be determined already some time earlier. We therefore propose to have the pre-tendering and tendering phase run in parallel to the maximum extent possible.

**2.15. Do you have any comments on the information given in this section?
(Please indicate sub-chapter reference when possible)**

No comment.

III. TERRE TSO-BSP and TSO-BRP harmonised rules

3.1. Do you have any specific comments regarding the criteria used to characterize the current local RR balancing product profiles and formats allowed by the LIBRA platform?

No comment.

3.2. Do you have any specific comments regarding the criteria used to characterize the current local BSP-TSO and BRP-TSO settlement procedures?

No comment.

3.3. Do you see a possible competitive advantage arising from delivering either the trapeze or block offer?

If the same shape is requested / incentivized for delivery in each country, we do not see a problem of a potential competitive advantage.

3.4. Do you agree with the description provided to describe the current local GCT situation for RR?

No comment.

3.5. Do you have any specific comments regarding the definition of the BEGCT and the proposed timings, namely the proposal of the BEGCT to be H-60min?

We strongly disagree with the proposal of establishing the BE GCT at H-60 minutes. As the XB ID GCT is also set at H-60 minutes, BSPs will not be able to take into account the final results of the XBID into their offers for the TERRE platform. As a result, market participants will have to make mutually exclusive choice during the last moments of XBID to bid their capacity either in XBID or in TERRE. This will result in loss of liquidity in one or both markets and would imply a *de facto* move of the ID XB GCT further away from real-time than the current H-60 minutes. This goes at least against the CACM Guideline that foresees an ID XB GCT of H-60 minutes. Moving the BE GCT at least to H-55 minutes would alleviate these concerns.

3.6. Apart from the elements given in Chapter 3, do you think other TSO-BSP and TSO-BRP elements should be harmonized? If yes which ones?

Even though a full harmonisation of the relation between BSP and BRP would go too far in the short run, some alignment may be necessary; e.g. the reference price at which imbalance is penalised.

3.7. Following the information provided in Chapter 3, could you indicate, what are your three harmonisation priorities?

We consider the following three elements as high priority for harmonisation:

- Balancing Energy Deviation Settlement Price, including any additional penalties or market regulation rules
- Imbalance Adjustment
- Removal of caps and floors to the bidding price.

3.8. Do you have any additional comments regarding Chapter 3 content? (Please indicate sub-chapter reference when possible)

No comment.

IV. Transparency

4.1. Do you foresee any potential competitive advantage arising due to the timing and the nature of the information published?

No comment.

4.2. Do you have any specific comments regarding Chapter 4 content? (Please indicate sub-chapter reference when possible)

We request that the following data be included in the common publication:

- Capacity – Price curve
- Information on the cross-border capacity: how much is available/used; which borders were constraining
- Information on interconnection controllability actions: differences between constrained and unconstrained auction outcomes
- If elastic imbalance need is kept: bidding structure by each TSO (volume and prices of elastic imbalance needs)

V. Governance

5.1. Do you have any specific comments regarding Chapter 5 content? (Please indicate sub-chapter reference when possible)

No comment.

VI. Local implementation – market rules

6.1. Do you have any specific comments regarding Chapter 6 content? (Please indicate sub-chapter reference when possible)

We would welcome a more structured approach with a clear timeline on how the changes will be tackled and implemented in each country.

VII. Planning

7.1. Do you have any specific comments regarding Chapter 7 content? (Please indicate sub-chapter reference when possible)

We are worried about the lack of information on the on-going processes for the (local) implementation. Market parties need sufficient time to adjust their processes and systems to the new TERRE requirements. This means that for a parallel run by the end of 2018, the requirements should be available at the latest by Q3 2017. Given the current state of discussions in the individual TERRE project countries, this seems hard to reach. Without a sufficient time-horizon for implementation, participation to the parallel run and the TERRE platform from the beginning may not be possible.

Moreover, the requirements of local implementation should be established in consultation with (local) stakeholders. For this, at least one consultation on the TERRE implementation at the local level should be organised, ideally combined with a more interactive and iterative process of stakeholder feedback. Given the timing ambition for the parallel run and go-live, the urgency for these elements is increasing. We therefore ask the TERRE project team to stress with each individual TSO the importance of such transparency and stakeholder interaction for the smooth implementation of TERRE.

VIII. Next steps

8.1. Do you have specific comments regarding chapter 8 content? (Please indicate sub-chapter reference when possible)

As explained in our answers to questions 2.12 and 2.14, we favour the increase of the schedule steps and propose to streamline processes to accommodate future increases in the daily TERRE gates. The Imbalance Settlement Period is expected to decrease to 15 minutes by 2025 at the latest and the Clean Energy Package foresees a Market Time Unit in line with the ISP. It would therefore be prudent that the TERRE project anticipates the new market circumstances that will accompany these changes.