



## CRE consultation on the balancing roadmap of the RTE green book



### EFET response – 20 January 2017

The European Federation of Energy Traders (EFET) thanks CRE for the opportunity to provide its views on the green book published by RTE in June 2016 on the reform of the electricity balancing framework in France. We welcome the clear and pedagogical analysis performed by the regulator on RTE's proposals. We nonetheless regret that on a subject of such importance also for non-French market participants, neither RTE nor CRE has seen fit to translate the green book or the related consultation into English. Also, given that the RTE green book was published in June 2016, it would have been advisable to start the consultation sooner in order to allow more time for market participants to absorb the CRE analysis and prepare the answers to the great number of questions asked.

EFET has been and continues to be actively involved in the discussion around the reform of national electricity balancing frameworks in Europe: we took an active part in the drafting phase of the Electricity Balancing Guideline (EB GL) proposed by ENTSO-E, we are trusted contributors to the Balancing Stakeholder Group overseeing the pre-implementation of the EB GL through regional projects and we regularly provide recommendations to national authorities wishing to modify their balancing arrangements. With this contribution, **we bring the expertise of energy traders from all over Europe** together with a concrete understanding of the French market, all of which we hope will contribute to **widen the scope of the reflection on electricity balancing reform in France**.

Our experience in the field of electricity balancing reform has shown us that, too often, a conservative, nationalistic approach prevails without sufficient consideration of the benefits of more compatibility and, down the line, harmonisation of the national balancing frameworks in Europe. While we are aware that reforming balancing

arrangements is a particularly sensitive task, we remain convinced that the rationale for such reform should follow the same path as that of other timeframes, i.e. **striving to maximise welfare for the benefit of the European consumers as a whole** within the limits set by the preservation of system security and security of supply.

As a consequence, our contribution to the consultation questions challenges the belief of CRE that harmonisation is not desirable: **provided it does not endanger system security and security of supply, we believe that beyond a mere compatibility of national balancing frameworks, their harmonisation will bring welfare benefits to the European consumers.** Most notably, the extensive use of standardised balancing products by TSOs that CRE calls for cannot become a reality without a certain degree of harmonisation. While it may take time to adapt structures and behaviours both on TSOs' and market participants' sides, we should be ambitious with the reform of balancing markets and not resist substantial changes to existing balancing arrangements in France and in the rest of the continent. The TSOs will remain a corner stone of the balancing timeframe, but we urge the regulator to push reforms towards making it a truly competitive and transparent market, including across borders.

The regulator also ought to deepen the analysis performed by RTE in terms of the benefits and drawbacks of the French balancing system. Most notably, the TSO bases much of its analysis of the advantages of the French balancing system on the low cost of reservation of balancing capacity and activation of balancing energy thanks to the reconstitution of margins outside the operational window of balancing proper and the combination of balancing and congestion management. Given the lack of transparency on the use of margins and the repartition of costs between balancing and congestion management, there may very well be a transfer of costs between the balancing and the other timeframes which is not properly valued in the RTE analysis. **We expect the regulator to bring further clarity on the real benefits and drawbacks of the French balancing framework in a benchmark with a clear methodology that enables market participants to take an informed view on the matter.**

### ***Interaction of market timeframes***

*Q1: Are you in favour of RTE's proposal to set the 'neutralisation deadline' (and thus the programming and the cross-border intra-day exchange gates) one hour before the start of physical delivery? Do you think that in the end it will be necessary to reduce the 'neutralisation deadline' to less than one hour before the start of physical delivery?*

EFET has for many years supported the development and integration of EU intraday markets across borders and locally. We favour a shorter lead-time in order to maximise the possibilities for BRP to self-balance in the market: one of the most fundamental principle of a reform of balancing market is to give BRPs the longest time possible to adjust their position in intraday, as close as possible to real time, by means of liquid intraday markets. Furthermore, the TSOs should,

after balancing the system in real time in case of an event or disturbance, allow BRPs to correct their position as soon as possible and thus refrain to initiate system balancing actions for time periods in which BRPs can still manage their position.

One hour lead-time is the maximum that should be allowed. The ambition should be to reduce lead-time in order to have a gate closure time (GCT) closer to delivery. Shorter-term optimisation would also contribute to the greater contribution of RES-E and demand response in the market.

These evolutions must nevertheless be accompanied by improvements in transparency on (i) their position and (ii) the state of the system in real-time (or at least very close to real time). This is key to ensuring that market participants will self-balance in the intraday markets.

*Q2: Do you agree with RTE's proposal to align the number of cross-border intra-day gates on the imbalance settlement period, should it be reduced to 15 minutes?*

We agree with the RTE proposal to align the number of cross-border intraday gates on the imbalance settlement period (ISP) when France moves to a 15-minute ISP. Again, this is of high relevance for the contribution of RES-E and demand response in the market.

Given the vague wording of the question, we take this opportunity to express our support for a move to a harmonised 15-minute ISP at European level. We refer to our answer to Q15 for more details on this question.

*Q3: By the time and if the imbalance settlement period is reduced to 15 minutes, do you think that it is necessary to implement an intra-border cross-border gate every 30 minutes, at the borders where 30-minute products are already offered? If so, are you in favour of the timetable proposed by the CRE (analysis in 2017 and implementation in 2018)?*

We would welcome the introduction of cross-border intraday gates every 30 minutes at the borders where 30-minute products are already available, until France moves to an ISP of 15 minutes. The earlier this change could be introduced, the better.

*Q4: Do you have any further comments on the elements proposed in section 3.1?*

No further comments.

## ***Margin calls and dimensioning of reserves***

*Q5: Are you in favour of maintaining the margins model as proposed by RTE in France? In particular, are you in favour of maintaining the possibility for RTE to form margins before the closure of the last cross-border nomination gate?*

EFET has 3 main concerns regarding the use of margin calls (“appels de marge”) by RTE:

- The lack of transparency on the bid selection
- The lack of compensation of the non-selected BSP
- The lack of incentive for the TSO to maximise the use of standard products

These provisions in fact block the development of a liquid intraday market by establishing a single-buyer-market (TSO) for short-term flexibility, instead of the intraday market.

EFET therefore believes that **as a target, the margin calls model should disappear and be allocated towards either *balancing actions* or *congestion management actions***. Indeed, we believe that the model proposed by RTE does not fit well with the spirit of the EB GL, and somehow contradicts some of the objectives that CRE has set to defend:

- Given the ongoing discussions in the TERRE project and, in particular, the definition of the standard product for Replacement Reserve, EFET understands that the margin calls would be done via the use of specific products.
- The guideline foresees that specific products should be used as little as possible in order to maximise the use of standard products.

For the balancing-related part, **EFET wonders how the willingness of RTE to maximise the use of standard product will materialise as long as RTE wants to operate outside the operational window of one hour for balancing purposes**. EFET understands that RTE is using these margin calls in order to free spinning capacities some hours before delivery and hence, have the possibility to use these freed capacities closer to real time when needed. EFET therefore suggests investigating the possibility and benefits of contracting capacity products (on a day-ahead basis for instance), and then stick as much as possible to the use of standard products (having a shorter activation time). This would give comfort to RTE that enough capacity would be available when needed and allow RTE to maximise the use the standard products (despite their activation time of maximum 30 minutes).

For congestion-related issues, EFET believes that RTE has already sufficient tools to deal with congestion.

Last but not least, EFET read the draft proposal from TSOs on “activation purpose” presented at the last Balancing Stakeholder Group. The margin calls are listed under “network constraints” and not “balancing” activation purpose. EFET was surprised by this statement and believes that CRE should request further

clarification from the TSO as to the consequences of such a qualification of the margin calls. **EFET thinks that margin calls should not be listed as such in “system constraints” but that there should be a clear distinction between TSO actions for balancing (for instance, when margins are called in order to free some capacity on running units) and actions taken for congestion management issues.**

In the meantime, as long as margin calls are performed, EFET believes that they should be accompanied by full transparency, in case the merit order is not respected. In other words, **we are sceptical of the idea of using a “technical-economical” merit order activation.** The signal to the market and to the TSO should be clear: congestion problems should be revealed in order to trigger the right investments (in transmission but also in generation, demand response, and storage).

In addition, **there should be a fair compensation for the BSP(s) that have not been selected.** Today, there is a lack of proper market-based congestion management mechanism. This lack of compensation creates discrimination between market participants: some market participants lose an opportunity with their bid not being selected despite being cheaper than marginal price. EFET fully understands that the security and management of the grid might prevent some capacities to increase or reduce production or demand at a specific moment due to congestion problems. However, when such limitation occurs, there should be no opportunity loss inflicted on market participants without appropriate compensation. EFET therefore welcomes the statement of CRE that they are in favour of RTE looking into the possibility of implementing financial compensation for offers not activated due to congestion by 2017 (rules MA-RE v9). However, while CRE states that this reform will have to be studied and compared with other solutions, including D-1 contracting and transparent methods of redispatching in the short term, as well as a review of bidding zones in the long-term, we insist that a fair compensation of BSPs should not be seen as an alternative to other solutions: it should be granted in any case.

*Q6: Are you in favour of CRE's proposal to increase the transparency of the margins model? What concrete proposals could you make in this regard?*

As mentioned in our answer to Q5, EFET calls for more transparency on the use of margin calls and therefore, welcomes the proposal from CRE to reinforce the transparency on (i) the activations that are performed and (ii) their impact on the intraday market.

For instance EFET would welcome the following (non-exhaustive list):

- A publication with hourly granularity of the expected needed margins in D-1
- A publication with hourly granularity of the foreseen available margins in D-1
- A systematic publication of the actions undertaken by RTE in order to create margins, as well as the activation purpose (balancing, congestion)

- A publication of the merit order (volume, price – anonymously) for the margins offered
- An indicator on the system state (overall position of the system) in real time

*Q7: Are you in favour of CRE's proposal not to retain the two recommendations of Microeconomix proposed by RTE in the priorities to be addressed as of 2017?*

Yes, EFET is in favour of CRE's recommendation.

*Q8: Do you have any further comments on the elements proposed in section 3.2.1?*

EFET would like to take the opportunity of this consultation to remind CRE that in addition to the reservations we expressed on the margins model expressed in our answer to Q5, we still harbour concerns with the procurement of secondary reserves in France: EFET believes that maintaining a prescription, even if accompanied by a secondary market, is not the way to achieve economic efficiency. A market-based process, i.e. a process where full competition between market participants is ensured through a primary market, such as a tender, is the sole way to guarantee level-playing field and economic efficiency.

### **Scheduling**

As a traders' organisation, EFET does not have any comments on this section.

### **Coordination of balancing and congestion management**

*Q11: Are you in favour of maintaining an integrated management of the supply-demand balance and the flows on the network, as well as maintaining the absence of segmentation of the tenders submitted for the balancing mechanism according to need (supply-demand balance, network, margins ...)? In particular, are you in favour of maintaining RTE actions to manage local congestion ahead of the closure of the last cross-border nomination gate?*

Ideally, the merit-order list (MOL) should be fully respected and congestion management should be treated through adequate market-based mechanism (i.e. the TSO should call for incremental and decremental bids when needed).

However, if that would not be possible for technical/timing reasons, EFET does not see a problem to jointly operate congestion management and balancing as long as the following conditions are met:

- Any deviation from the MOL when activating balancing energy bids should be transparent and justified;
- The BSP for which a bid is rejected should be compensated for the lost opportunity;
- The deviation from the MOL should not have an impact on the imbalance settlement price: congestion is about network costs and should not be



borne by the BRPs that are not in balance at that moment. As a general principle, should a bid be skipped in the MOL and should another (more expensive) bid be taken in order to help/solve congestion issues, the imbalance settlement price should nevertheless be set at the level that would have been reached if the bid that was omitted had not been skipped. The additional costs should be recovered via the grid tariffs;

- The reservations previously mentioned in our answer to Q5 are also valid for this question.

As stated earlier, the price signal coming from congestion management costs should be correct in order to trigger the right investment decisions.

*Q12: Do you feel that the seven-step process described by RTE to manage network constraints during the exchange of balancing energy on European platforms is relevant?*

EFET does not support the process described for several reasons mentioned in our response to Q11.

*Q13: Do you think that a financial compensation mechanism, for offers in the balancing merit order but not activated because of congestion, represents an appropriate mechanism to give investment signals to market participants? Do you think that longer-term signals would be relevant? If yes, which ones?*

We refer to our answer to Q11. A clear and correct price signal is necessary to steer investments. This is applicable for market participants but also for the TSO. Only a correct, fair and market-based remuneration of congestion management actions allows to send the right investment signals.

*Q14: Do you have any further comments on the elements proposed in section 3.3?*

No further comments.

### ***Imbalance settlement period and price***

*Q15: If the imbalance settlement period was set at 15 minutes in Europe, would you support RTE's proposal to implement this change as late as possible?*

As stated in our reaction to the latest draft EB GL, EFET is convinced that harmonising ISPs across borders would facilitate the integration and efficiency of intraday market, and therefore, allow BRP to better self-balance close to real time. In our view, balancing market reform should promote efficient and liquid markets across all timeframe, including the intraday market, to enable market participants to balance their position as close to real time as possible. Harmonising ISPs closer to real time should facilitate this, by improving both intraday trading close to

real time (including across borders) and facilitating the cross-border procurement of reserve capacity and the exchange of balancing energy across borders<sup>1</sup>.

The timing of the move to a 15-minute ISP should be established based on the expected benefits of the reform. EFET does not support the position of RTE to do it as late as possible, which lacks proper justification. The correct approach is to assess what are the necessary modifications of market design/model that are necessary in order to fully benefit from a common, 15-minute ISP. For instance, working on the development and implementation of a liquid and healthy intraday markets where market participants can trade products with granularity aligned with the ISP. Indicators on the evolution intraday liquidity could be used as one element allowing to quantify the benefits of a shorter ISP. Attention should also be paid to the benefits of a shorter ISP on the commercialisation of RES-E output, with a potential for RES-E to stick closer to balance and minimise system imbalances and reduce RES-E subsidy expenditures in the form of feed-in premium (“complément de rémunération”).

*Q16: Are you in favour of CRE's proposal to investigate in 2018 the suppression of the k factor in the imbalance settlement price in order to reach a "pure" single imbalance settlement price (without jeopardizing the financial neutrality of RTE's balancing activities)? If not why?*

We agree with the CRE proposal, but we believe that RTE should do more than just look into the matter of suppressing the “k” factor from the imbalance settlement price: action is required in that regard as soon as possible.

As stated in our position on latest draft EB GL, the option that remains in the text of the Guideline for TSOs to propose dual pricing for imbalances is prone to maintaining inefficient price signals from the balancing timeframe. Dual pricing has the potential to blur the price signals emerging from the balancing market, and runs the risk of creating a barrier for new entrants or market participants with small portfolios. It may also be a deterrent to the application of balancing responsibility for intermittent renewable energy sources in view of their full integration into the market.

EFET calls for the suppression of the “k” factor in order to have one single price of energy in real time. Having a correct price signal in real time is crucial for dispatch and investment decisions.

*Q17: Are you rather in favour of CRE's proposal to investigate in 2018 the choice between an imbalance settlement price equal to the weighted average price or the marginal price of all reserves? If you are in favour of maintaining an imbalance settlement price set at the weighted average price, why do you think this choice is a sufficient incentive for BRPs?*

<sup>1</sup> As expressed in our latest opinion on the draft Electricity Balancing Guideline published on 18 October 2016, harmonising ISPs may also come at a cost, as some control areas may not have the market framework that would enable them to reap benefits from a switch to a 15-minute ISP. This is recognised in the exemption of Art. 55.2 of the draft Guideline. However, the scope of this exemption – per synchronous area – seems to lack rationale and



EFET welcomes the CRE proposal to study the option to have a single marginal imbalance settlement price across all reserve types. EFET believes that having the real time pricing of energy correctly reflecting the state of the system and the value of energy is crucial.

The key principle to respect is the financial neutrality of the TSO. If imbalance settlement price is set at the marginal price across all products, BSPs must be paid at this same value. Until then, if the imbalance settlement price equals the volume weighted average of individual marginal prices, a pay-as-cleared principle should be applied per product for the BSPs.

EFET thinks that as a target, the marginal price of all products used during the considered ISP better reflects the state of the system and hence, gives a better price signal. Indeed, the type of product used by the TSO at a given moment to balance the system does not matter. This point is particularly true when considering shorter ISP, as foreseen by the balancing guideline.

In the meantime, applying pay-as-cleared per product and volume weighted average marginal price may be a good transitory solution (until a 15 min ISP is implemented), but it would fail to reflect the true value of energy during each ISP by slightly dampening it.

*Q18: Do you have any further comments on the elements proposed in section 3.4.1?*

No further comments.

### **Role of BRPs**

*Q19: In connection with strengthening incentives for BRPs, what additional information would you like the TSOs to share with the BRPs to inform them of the state of their perimeter? If necessary, specify the characteristics of this data (aggregation level of the information, frequency of sharing...) and the desired timeline.*

We expect RTE to publish detailed, though anonymised information on the state of the system, the positions, the imbalance price and metering data as close to real time as possible.

## **Standard products**

*Q24: Are you in favour of using a single standard product per reserve type? In the current state of discussions on the characteristics of such products, will you be able to offer them?*

Yes. Defining a limited set of standard products will improve competition and liquidity on the balancing market, including across borders.

As a trade association, EFET cannot comment on the capability of individual market participants to offer these products.

*Q25: For each type of reserve, are you in favour of an identical form between the standard products and the products that the BSPs will be incentivised to deliver locally, as proposed by CRE?*

Yes, but the most important for EFET is to make sure that the requirements between BSPs and TSOs are harmonised in the different countries in order to guarantee a level-playing field between BSPs across borders. Hence, we believe that the proposal of CRE to align the product exchanged by the BSPs with RTE should be the same as the products that the TSOs will exchange: this seems to be the most pragmatic approach to reach the goal to have harmonised rules between the BSPs in Europe.

*Q26: In particular, what would be the characteristics (especially full activation time) of the secondary reserve products that you would like to offer on the secondary reserve exchange platform? Are you in favour of establishing a selection of offers based on a national or regional merit order before the European platform for the exchange of standard secondary reserve products is put in place?*

EFET does not have a strong preference for the full activation time for aFRR products.

EFET was satisfied to see that in the latest draft EB GL, the integration process no longer includes the concept of Coordinated Balancing Areas (CoBAs) but instead opts for an integration based on the use of a European balancing platform to which individual markets can plug-in. For EFET, the use of CoBAs posed the risk that the integration process would stall due to regional integration projects based on diverging market designs. The new approach to the integration process presented in the last draft is thus an improvement, as it will ensure that the target model of European integration is reached.

Nevertheless, we are conscious of the risk of difficulties in achieving an agreement on the European market platform. It is indeed an essential first step of the new approach and a key to keeping the tight deadlines of the Balancing Guideline. As the Balancing Guideline makes no clear choice of a target model for the balancing market, agreement on the target model may prove difficult. Hence, it may be interesting to establish regional merit orders before the European

platform is established to start the integration of neighbouring markets. This should however not lead to a situation where regional markets are ultimately difficult to integrate. Hence, specific attention should be paid to the governance of such regional approaches, and close cooperation between the various regional projects should be ensured.

*Q27: Are you in favour of having to re-submit your offer on another platform yourself? Do you share CRE's proposal to optimise interactions between platforms, if technically possible, in the medium / long term?*

We would welcome a process optimising the interactions between the different platforms, but that is not a priority for EFET. This should not soak up significant human and financial resources.

*Q28: Are you in favour of maintaining specific products? Do you share CRE's proposal to focus on the use of standard products? If so, what concrete proposals could you make to achieve this?*

We reiterate our view that the use of standard products should be maximised, and we refer to our answer to Q5 for more details.

*Q29: Do you think it is useful to ensure that standard products with a 30-minute delivery period can be offered if the operational window is reduced to 1h-1h15? What do you think of the CRE proposal to achieve this? What other solutions would you consider?*

RTE should aim to harmonise its product offering with that of other TSOs in Europe.

*Q30: Do you have any other comments on the elements proposed in section 3.5?*

No further comments.

### ***BSP remuneration and control***

*Q31: Are you in favour of implementing marginal price remuneration per type of reserve at the start of the joint European platforms?*

EFET is not opposed to the implementation of BSP remuneration at the marginal price per reserve type as a provisional measure at the start of the European platforms integration process.

As mentioned in our answer to Q17, EFET believes that having the real time pricing of energy correctly reflecting the state of the system and the value of energy is crucial and hence favours having a single marginal imbalance settlement price across all reserve types as a target. In turn, if a single, marginal

imbalance settlement price applies to all reserve types, BSPs should be remunerated with a single price for all reserve types.

The key principle to respect is the financial neutrality of the TSO. If imbalance settlement price is set at the marginal price across all products, BSPs must be paid at this same value. Until then, if the imbalance settlement price equals the volume weighted average of individual marginal prices, a pay-as-cleared principle should be applied per product for the BSPs.

EFET thinks that as a target, the marginal price of all products used during the considered ISP better reflects the state of the system and hence, gives a better price signal. Indeed, the type of product used by the TSO at a given moment to balance the system does not matter. This point is particularly true when considering shorter ISP, as foreseen by the balancing guideline.

In the meantime, applying pay-as-cleared per product and volume weighted average marginal price may be a good transitory solution (until a 15 min ISP is implemented), but it would fail to reflect the true value of energy during each ISP by slightly dampening it.

*Q32: Are you in favour of a remuneration for intake / injection offers that would incentivise the delivery of the activated volume in a progressive manner (market participants' benefits would then slightly decrease according to the imbalance, within +/- 20%, and then strongly decrease beyond that point)? Do you share CRE's view of not creating an adjustment settlement price that is different from the imbalance settlement price?*

We think that there should be one unique price for energy in real time. We don't think that there should be a different regime for a BSP that would not be able to deliver what it is supposed to deliver compared to a BRP that would not be in balance.

*Q33: Do you think it would be desirable for the control period to be set to 5 minutes?*

EFET does not understand why a programming/control period of five minutes is requested by RTE. Though we understand that the TSO is already performing its programming on a ten-minute basis, we fail to see the added value that a programming/control period to be respected by the BRPs with a different granularity from the ISP would bring to the TSO: it is to be expected that market participants will average out their delivery volume from the 15-minute ISP into five-minute blocks, which will not give the TSO better information than the prognosis they currently perform. It is also unclear what consequences this reform would have on the market.

One potential issue we can understand is that by having RR products scheduled and starting at the beginning of the ISP, TSOs face challenges in terms of frequency deviation. By requesting market participants to provide schedules with a five-minute granularity and by requesting a trapezoidal shape for the TERRE

standard product, the TSOs are “pushing” these challenges towards the market. EFET thinks that once standard mFRR products (which can be directly activated – or at least which do not necessarily starting at the beginning of an ISP) are available, the challenges of frequency deviation will be mitigated. Hence, EFET encourages TSOs to speed up efforts to set up the necessary framework for exchanging mFRR products.

In conclusion, we advise CRE to request further explanation on the rationale, implementation and expected benefits of this proposal before taking a final stance on it.

*Q34: Do you have any further comments on the elements proposed in section 3.6?*

EFET does not share the CRE position that specific products should necessarily be remunerated as bid. While switching to marginal pricing for specific products may result in competition issues for markets with low liquidity, it should nonetheless be the objective of RTE and CRE, in order to comply with the spirit of the EB GL, to switch to marginal pricing for all products as soon as liquidity improves. Therefore, CRE should request a more thorough reporting from RTE on the matter, as well as a regular update on the state of the liquidity on the concerned products.

### ***Reserves procurement between TSOs***

*Q35: Do you agree with the CRE proposal on the evolution of reserve capacity procurement on the basis of the standard products? What provisions would you propose to allow contracted capacities to be shared on European platforms (including direct or scheduled activation, block offers and provisions allowing only two activations per day)?*

EFET generally agrees with the RTE proposal and CRE analysis to move towards a procurement of reserves based on standard, shorter-term products. The sharing of reserves – beyond FCR – at a regional or European level however poses the question of the reservation of cross-border transmission capacity by the TSOs, which EFET does not favour. We refer to our response to Q38 for more details on this aspect.

*Q37: Do you share the proposal of RTE to maintain a procurement of certain capacities on an annual basis? Are you in favour of CRE's proposal to investigate the possibility of short-term procurement?*

As a matter of principle, we believe that shorter-term procurement of reserves would improve the liquidity of the intraday market. This is also likely to be enshrined in European legislation following the proposal of a draft recast Electricity Regulation<sup>2</sup>.

<sup>2</sup> Article 5.9 of the draft recast Electricity Regulation, COM(2016) 861: "The procurement of upward balancing capacity and downward balancing capacity shall be carried out separately. The contracting should be performed

*Q38: With regard to the sharing and cross-border exchange of balancing reserves, would you support the establishment of a pilot project for tertiary reserve? If not why?*

The cross-border reservation of transmission capacity for balancing purposes poses a risk to the previous trading timeframes. In the latest draft EB GL, the concept has been rebranded in Art. 39 to 43, but its effect remains the same: by allocating transmission capacity specifically for use in the balancing timeframe, TSOs remove available capacity from the allocation in the other timeframes, thereby restricting market participants' ability to adjust their position across borders in the most economically efficient manner.

The use of cross-border transmission capacity is a key element in the European market integration of forward, day-ahead and intraday timeframes. A major objective of integration projects such as the EU Harmonised Allocation Rules for forward transmission rights, day-ahead flow-based market coupling and the future platform for implicit cross-border intraday trading is to improve the access and use of such transmission capacity. Reserving cross-border transmission capacity for balancing purposes would turn the clock back on those improvements. EFET strongly recommends that all cross-border transmission capacity be available to the market, and that no pilot project is launched to analyse the different options for TSOs and DC cable operators to reserve transmission capacity for balancing purposes.

*Q39: Do you consider it necessary to reform the penalty regimes in the event of unavailability for the various reserve types before their specifications have evolved? If so, what would be your proposed timeline? :*

As mentioned above, especially in our answer to Q31 and Q32, we believe that a uniform pricing method should apply. The imbalance settlement mechanism should be consistent with BSP compensation, amongst others to guarantee the financial neutrality of the TSO. Hence, there can be no added penalty in specific cases that would in effect lead to dual BRP/BSP pricing in specific cases.

*Q40: Do you have any further comments on the elements proposed in section 3.7?*

No further comments.

### **Aggregation and offer constitution**

As a traders' organisation, EFET does not have any comments on this section.

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for not longer than one day before the provision of the balancing capacity and the contracting period shall have a maximum period of one day." Also, point 8.2.a of the draft recast Annex 1 to the previously mentioned document: "The procurement of balancing capacity shall be performed at the day-ahead and/or intraday timeframe". Available at: [http://ec.europa.eu/energy/sites/ener/files/documents/1\\_en\\_act\\_part1\\_v9.pdf](http://ec.europa.eu/energy/sites/ener/files/documents/1_en_act_part1_v9.pdf), [http://ec.europa.eu/energy/sites/ener/files/documents/1\\_en\\_annexe\\_proposition\\_part1\\_v5\\_861.pdf](http://ec.europa.eu/energy/sites/ener/files/documents/1_en_annexe_proposition_part1_v5_861.pdf).



## ***Participation of intermittent renewable energies***

*Q49: How much priority and value do you attribute to the participation of RES-E in balancing?*

As a general principle, EFET thinks that the key signal coming from the market is the price. Only undistorted prices give an accurate signal for dispatch on the one hand, and for investment and divestment on the other hand.

With an increasing share of intermittent power generation in the European energy mix, precise price signals are more needed than ever to ensure the reactivity of market participants' dispatch decisions to rapidly changing demand and supply conditions. This massive penetration of intermittent generation will also need to be accompanied by investments in peak generation units, storage solutions and demand-side management. Only accurate price signals will allow market participants to identify the need and timing of such investments, alongside more traditional investment in generation and transmission capacity.

Hence, EFET thinks that it is vital that RES-E producers have the opportunity and means to participate in the balancing market, with the same rights and obligations as any other market participants. This equal treatment means in practice that balancing responsibility needs to apply to all types of generation, including renewables.

*Q50: Do you have any benchmark information on RES-E participation in balancing markets in other European countries?*

According to a study published by Wind Europe in September 2015 and updated in February 2016, France is lagging behind its Western European neighbours in terms of granting RES-E installations access to the balancing market<sup>3</sup>.

In Germany, the balancing market for mFRR ("Minutenreserve" or MRL) is open to the participation of RES-E installations with a direct marketing agreement, thanks to an adaptation of the pre-qualification rules. Further experience can be drawn from the strong participation of RES-E in the balancing market in Denmark, and the reflections launched on the subject in Great Britain.

<sup>3</sup> Wind Europe study on the balancing responsibility and costs of wind power plants, available at: <http://www.ewea.org/fileadmin/files/library/publications/position-papers/EWEA-position-paper-balancing-responsibility-and-costs.pdf>.

Q51: Depending on technology (wind, biomass, etc.), the type of support (purchase obligation, premium or no support mechanisms) and the existing or future nature of the installation, for which categories of renewable installations is the participation in the balancing market the most relevant? Please take into account, in particular, the impacts on the balancing mechanism and the costs that will be mirrored in the RES-E levy (CSPE).

Fundamentally, all generation technologies should be able to participate in the balancing market, as well as demand response and storage. There should be no discrimination between the different RES-E technologies, the imbalance price being the fundamental incentive for operators to offer what they can provide, or be penalised in case of delivery.

In terms of the different types of support, we see it unlikely for RES-E under purchase obligation and feed-in tariff ("obligation d'achat") to be able to participate in the balancing market, for the simple reason that their operators are handing out the management of the energy to EDF. Besides, these installations don't bear balancing responsibility. For RES-E installation benefitting from a feed-in premium ("complément de rémunération"), their participation not only to the forward, day-ahead and intraday markets, but also to the balancing market is very much to welcome. Pre-qualification criteria could be reviewed to ensure that they are not unduly barred from this segment of the market.

We believe that RES-E installations can contribute significantly to the balancing mechanism, all the more so with a shorter ISP that would fit better with their variability. Participating in the balancing market should also improve the profitability of these installations. With a larger part of the cost recovered from the market, the premium should also logically decreased, provided that the mechanism takes account of the revenues earned from the balancing market like any other market segment. This would have the positive effect of lowering the reliance of each installation on the CSPE.

*Q52: Do you intend to have RES-E installations participate in the balancing market in the next few years?*

As a trade association, EFET cannot comment on the intention of individual market participants to make their RES-E installations participate in the balancing market.

*Q53: Do RTE's proposals seem relevant and complete for the different categories? If not, what proposals would you make to encourage the participation of these different categories? What would be your proposed timeline?*

The shorter the procurement timeframe, the easier it would be for RES-E installations to participate in reserve procurement auctions. The design of the standard products should also aim to reach an appropriate balance between all different types of capacities, from conventional generation to RES-E, demand response and, in the future, storage.

*Q54: What kind of interaction do you see between the possible involvement of RES-E and the design of support mechanisms? Do you share CRE's analysis on the incentive of capacities with support mechanisms to participate in the balancing mechanism?*

EFET believes that the key signal for investment in renewables should come from a combination of the energy market and the EU Emissions Trading System (ETS). While subsidies have allowed a fast development of RES-E in Europe, they have also had negative effects on the wholesale electricity price, and perverse consequences in terms of the choice of location for RES-E installations – developers have rather chased subsidies than invested in locations that made most sense from an economic efficiency viewpoint.

We believe that, save for nascent and immature technologies, financial subsidies should be gradually phased out. A broader participation of RES-E installations in the balancing market should improve the financial viability of these installations. Hence, regulated financial support in the form of subsidies for renewables should be reviewed in light of the gains the profitability they gain by participating in the balancing market and providing ancillary services.

As long as financial support is still provided, feed-in premiums should be calculated on the energy that is fed into the system rather than the energy that is programmed.

*Q55: Do you have any further comments on the elements proposed in section 3.9?*

No further comments.

### **Consultation process**

*Q56: Do you consider the proposal to implement a "fast track" procedure relevant? If so, what do you think of the process described?*

EFET welcomes initiatives aiming at increasing administrative bodies' responsiveness to propose and implement measures improving market functioning. At the same time, taking the necessary time to consult market participants is crucial in order to reach an appropriate balance in decision making, as the TSOs, which have vested interests in the question of electricity balancing, are already a strong influence. CRE should ensure that any fast-track procedures have the appropriate checks and balances in place.

*Q57: Do you have any further comments on the elements proposed in section 3.10?*

No further comments.

## **Winter Package**

*Q58: Do you have any comments on the provisions proposed by the European Commission for the winter package concerning the contracting of reserves (see CRE analysis in section 3.7)?*

The European Commission proposal in the Clean Energy Package regarding the regional **dimensioning** of reserves is a way forward to ensure that the procurement of reserve takes due account of the contribution of neighbouring bidding zones in all cases. Harmonisation in this context is positive in the sense that it will ensure more equity between the BSPs in the various bidding zones of a region, and should restrict potentially overly restrictive practices of certain TSOs.

The regional **procurement** of reserves is as such an interesting idea, but poses the fundamental question of the need or not to reserve cross-border transmission capacity for that purpose. EFET has repeatedly expressed its opposition to the reservation of cross-border transmission capacity by the TSOs for balancing purposes. We refer to our response to Q38 for more details on this matter.

*Q59: Do you have any comments on the provisions proposed by the European Commission for the winter package on demand-side response and their participation in balancing markets?*

EFET welcomes new actors in the market. We have two main reservations on the Clean Energy Package regarding demand response:

EFET is opposed to the development of technology-specific balancing products. This would clearly be a step back compared to the impressive work that has been conducted over the last months on developing a limited set of standard products that TSO will exchange. This would fragment the market and reduce liquidity and competition.

EFET also strongly disagrees with the Electricity Directive approach consisting in only allowing a compensation for imbalances created at the level of the supplier. This neglects the role of BRP and in particular, the fact that at moment of activation, the BRP of the impacted client continues to inject electricity. Therefore, the BRP should be paid for this injected electricity. The problem goes far beyond possible imbalances created at the level of the BRP perimeter.

Hence, we strongly believe that:

- Balance responsible parties (BRPs) must retain their pivotal role in the European electricity market design and continue to enjoy corresponding rights as well as responsibilities. As a consequence, third party aggregators should have the same balancing responsibilities with the same rights and obligations as all other market participants. They could do so either by becoming BRPs or by outsourcing this function to another market participant (which is possible for any market participant). If a third party

aggregator does not take balance responsibility, then the TSO should take measures to immunise a supplier, which acts as BRP on behalf of a consumer served by the aggregator, from the normal consequences of any imbalance resulting from that consumer's demand reduction;

- When a third party aggregator diverts energy through a demand response activation to make it available to the wholesale market (i.e. the TSO or another market participant), this energy is still sourced and injected onto the grid by the supplier of the activated customers and will be used somewhere else in the system. As a consequence, there needs to be clear information channels and appropriate measurement tools to clearly quantify the volume of energy shifted by the consumer and re-routed by the third party aggregator. As with any other transaction in the market, the supplier should therefore – in this specific case – be remunerated by the third party aggregator for the sourced energy in a market-based way. The same holds true for capacity that is made available by third party aggregators to network operators as a new tool to ensure a secure operation of their grids<sup>4</sup>.

*Q60: Do you have any further comments on the provisions proposed by the European Commission for the balancing winter package?*

EFET is in the process of finalising its reaction to the wider set of proposals made by the European Commission in the Clean Energy Package. We will communicate our paper to CRE at a later stage.

<sup>4</sup> Excerpt of the joint statement of 28 July 2016 issued by EFET together with Eurelectric and Europex on demand-side response aggregation, available at:  
[http://www.eurelectric.org/media/285588/efet\\_europex\\_eurelectric\\_joint\\_statement\\_on\\_dsr\\_-\\_final\\_20160728\\_clean-2016-2200-0007-01-e.pdf](http://www.eurelectric.org/media/285588/efet_europex_eurelectric_joint_statement_on_dsr_-_final_20160728_clean-2016-2200-0007-01-e.pdf)