

ENTSO-E consultation on amendment to the TSOs' proposal for the establishment of common and harmonised rules and processes for the exchange and procurement of Balancing Capacity for FCR in accordance with Article 33 of Commission Regulation (EU) 2017/2195 establishing a guideline on electricity balancing



EFET response – 25 June 2021

The European Federation of Energy Traders (EFET¹) welcomes the opportunity to provide comments on the ENTSO-E consultation concerning the amendment proposal to the establishment of common and harmonised rules and processes for the exchange and procurement of Balancing Capacity for Frequency Containment Reserves (FCR) in accordance with Article 33 of Commission Regulation (EU) establishing a guideline on electricity balancing.

You will find below our responses and detailed comments on individual articles.

Article 4 - Auction frequency and auction timing

We see no valid reasons that justify a shortening of the GOT. Few market participants require more We 7 days in advance for their internal processes, in particular for their third party services.

Hence the GOT should continue to be D-14.

Article 8 - TSO-BSP settlement

EFET has raised concerns in 2020 with the clearing algorithm implemented in the FCR cooperation. Those concerns were not addressed in the current draft proposal. From an EFET point of view, the underlying flaw in the clearing algorithm is still present and with the introduction of an internal limit, the problem is aggravated. Hence, we propose a modification of the clearing algorithm.

An LFC block's core share is clearly defined in SOGL as 30 % of its total combined initial FCR obligations. The absolute values for the respective maximum FCR import are reported in the TSO demand, available at the TSO's tendering site regelleistung.net. For the Netherlands, the import limit is set at 79 MW. A price split between the cooperation and the LFC block of the

¹ The European Federation of Energy Traders (EFET) promotes and facilitates European energy trading in open, transparent and liquid wholesale markets, unhindered by national borders or other undue obstacles. We build trust in power and gas markets across Europe, so that they may underpin a sustainable and secure energy supply and enable the transition to a carbon neutral economy. EFET currently represents more than 100 energy trading companies, active in over 27 European countries. For more information: www.efet.org

Netherlands is expected only in those cases where the Dutch TSO is importing 79 MW of FCR (the export limit is irrelevant, since no exporting occurred since 2020).

However, in the period from Jan 20 to May 21, a price split in situations, where the Netherlands imported less than 79 MW (10 MW less on average), occurred frequently. This was the case for 55% of the auctions or a total of 1200 auctions in the respective period. On average the LMP_i for the Netherlands exceeded the CBMP of the cooperation by 128 €/MW. Similar situations occurred in Belgium.

The reason for this auction outcome has been identified by the TSOs as an implementation detail of the clearing algorithm, when dealing with indivisible bids. For satisfying an LFC block's core share, an indivisible bid exceeding the core share can be accepted, while the import limit is still considered hit and the LMP_i is applied.

We stress that this implementation of the clearing algorithm does not comply with the rules of the cooperation. The separation of marginal prices is clearly linked to the condition of the import limit being hit (exactly, not roughly). The clearing results for the respective situations cannot be classified as having hit the NL import limit. Hence, the CBMP should be set to the price of the last indivisible bid exceeding the core share and be awarded to every BSP in the cooperation.

In case the TSOs are not willing to accept this increase in the CBMP, at least an import limit should not impact the rest of the FCR cooperation and neither withdraw volume from the remaining demand, nor in turn dampen the cross-border marginal price. Another solution for implementing the clearing algorithm is required. The last indivisible bid could be rejected and subsequent more expensive divisible bids accepted instead to meet the core share (cmp. example below). If sufficient divisible bids are not available, a second tendering round is initiated. With the publicly available data, it cannot be determined, if further divisible bids were offered, but it appears to be highly unlikely that in neither of the 1200 situations no more divisible bid was available. Furthermore, BSPs' bidding behaviour would soon adapt to this preference for divisible bids in the clearing algorithm.

With the introduction of internal limits, the problem described above is doubled. When applying the same rules for dealing with indivisible bids for meeting an LFC block's core share or an LFC areas internal restrictions, up to 48 MW of indivisible bids can be paradoxically accepted at the LMP_i of the control area and control block, respectively.

In the definition of the application of the internal limits (Art 8b), it remains unclear how to deal with the remaining LFC areas, where no limitation applies. Do the bids of those LFC areas form a separate cross-LFC area-marginal price or do they contribute to the cooperation's CBMP? If the import limit of the LFC block was not hit, the latter should be the case. If not, there will be a LMP_i^{area}, LMP_i^{block} and CBMP^{cooperation}. This should be formulated more clearly.

Finally, we oppose the application of a unique internal limit (the 20MW limit) between DKW-DE. We propose that DKW should – as any other participant in the common procurement - only be subject to the standard FCR Cooperation rules prescribing only a (100MW) exchange limit.

Example for alternative clearing method, paradoxically accepting divisible bids²:

NL merit order: 29 MW cheap bids, 25 MW indivisible bid @ 200€/MW, 10 MW divisible bid @ 500€/MW

The algorithm is selecting the 25 MW indivisible bid over half of the divisible bid because the overall objective function is minimized.

1. $54 \cdot 200\text{€} + 1380 \cdot 100\text{€} = 148.800\text{€}$

Following the FCR cooperation rules, rather 5 MW of the expensive divisible bids should have been selected to cover the core share. This way the import limit is actually hit and the effects are restricted to the respective country.

2. $34 \cdot 500\text{€} + 1400 \cdot 105\text{€} = 164.000\text{€}$

From an algorithm's point of view, solution 1. is obviously preferable, but only solution 2 is complying to the rules of the cooperation.

² The example is taken from [ENTSO-E explanatory document](#) (page 8-9) and augmented with an expensive divisible bid and an alternative clearing rule.