

VIK-Position

on

ACER Consultation – Framework Guidelines on Electricity Balancing

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Introduction

VIK welcomes the Draft Framework Guidelines on Electricity balancing for the further development, creating an internal energy market (IEM) in Europe. In our opinion it will be a long way to reach an international level playing field, because the design of the balancing markets and mechanisms in different member states are different. Such historical national specificities, like generation portfolios, significant presence of internal congestions and level of interconnections with foreign markets should be considered creating a European wide harmonized electricity balancing market. The wide variety of balancing market designs existing at European level is generally believed to hamper the integration process.

VIK recommends the following:

- National achievements must not be abandoned

While the process of integrating the national balancing markets should be undertaken carefully to not jeopardize system stability, it is important to build on national experiences and achievements. Therefore, the framework guidelines should at least support the existing national balancing markets and not force any member states to take a step back.

For example, the German Balancing Market has made a huge progress over the last few years and today is a common market which is integrated across the control areas of the four German TSOs. In close consultations and in cooperation with all market participants such as TSOs, energy generators, energy-traders and industrial energy-consumers and – generators, the German regulator sets binding rules that ensure an functional and efficient balancing market for frequency restoration and replacement reserves. While there is still room for improvement, e.g. with regard to participation of industrial load in downward reserve markets, these rules generally enable i.e. industrial enterprises to offer load- and generation-capacity for the national balancing market. Therefore it was necessary to create a daily or maximal weekly auction and provide an opportunity of small offer sizes and block-offers. The increasing numbers of providers in the German balancing market enhanced the competition and the security of this balancing system, especially in the markets for secondary and tertiary upward balancing reserves. That this system runs very well, was also the result of the report by the German regulation authority, which analyzed the situation of the German control area last winter. Taking into account the specifics of the German grid and the generation situation after the decided transformation of the energy system, the balancing market operated successful and effective.

- **Create a competitive market for balancing services**

From this example it becomes clear that the ultimate goal should be to create, in the medium or long-term, a real market for balancing services, where BSPs may competitively offer their capacity. To achieve this, the market rules need to be defined in a way that allows for a high number of participants to be active on this market – not only public generators, but also industrial self-generators as well as industrial loads and other load aggregators. Thereby, dominant market positions, e.g. by incumbent generators, can be avoided.

- **Imbalance prices should be set symmetrically**

The above-mentioned report of the German regulation authority about the situation of the German control area during last winter has also shown, that the existing system of symmetric prices for imbalance settlement assists to protect the market for arbitrage transaction against wholesale market prices. Therefore we see no reason to change the symmetric price system, based on a 15 minute period, because the German experiences show, that it runs very well.

Changing the system would have the effect, that asymmetric prices for imbalance can increase the financial risk of small portfolios who comprise only few customers, as operated e.g. by industrial enterprises. Every little deviation has a direct financial effect on the imbalance settlement costs during the 15min-period, even if the portfolio is in balance on average. This effect can be much higher if the prices for imbalance settlement are asymmetric.

On the other hand, large portfolios, i.e. operated by big energy suppliers, have the advantage, that the probability of positive and negative imbalances in the same offsetting each other time is much higher, because of the great amount of customers. This is an enormous advantage and it minimizes the financial risk of these big portfolios. When deviating from a symmetric imbalance price, the result could be that small portfolios will close down their business because of this effect, which in turn will exclude smaller suppliers and industrial consumers from actively participating in the wholesale market, which is very harmful for competition.

- **Ensure regionally optimization of balancing reserves**

In the beginning of the German balancing model the TSO were allowed to reserve a certain level of balancing capacity to fulfill the security criteria of their own control area. This capacity was out of competition. Currently, with the implementation of a common open competitive bidding system by all German TSO and the experience of the first years, has shown, that such an extra security capacity for each control area is not necessary at all. Because these experiences were missing for an European balancing market it is advisable to secure an appropriate amount of balancing capacity in every member state in the first step. For this, the permission of “margins”, as they are mentioned in the proposal, are necessary for the TSO to ensure the security in every member state. But in the result of this proposal, these margins could be very expensive for the imbalance settlement price, if these balancing energy margins based only on the most expensive bids. For an economic system, this mechanism has to be reconsidered.

- **Ensure a high level of transparency**

To achieve market confidence by the market participants, a high level of transparency is necessary. For this it is important, that every market data, being relevant for the stakeholders behavior, should be published in a free and non-discriminatory manner. This includes also the available cross border capacity. It should also be guaranteed that a common European balancing market do not reduce the cross border capacity in other markets i.e. the wholesale markets (day-ahead or intraday). These markets are important for self-balancing of BRP and the most efficient, transparent and economic way for other market players, i.e. energy traders or industrial companies, to balance their own portfolios. This reduces the need of TSOs to procure national and/or cross-border balancing reserves.