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Position Paper

Comments on the revised Network Code on Electricity Balancing

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1 Introduction

The German Association of Energy and Water Industries (BDEW) represents over 1,800 members of the electricity, gas and water industry. In the energy sector, BDEW represents companies active in generation, trading, transmission, distribution and retail.

BDEW welcomes the opportunity to comment on the revised Network Code (NC) on Electricity Balancing. As the transmission system operators (TSO) organized within BDEW are, among others, responsible for the drafting and the revision of the Network Code, the following BDEW comments have been developed without the German TSOs.

2 General comment on Implementation

Unfortunately, the revised NC still leaves many issues to NRAs for approval. BDEW would like to emphasize that harmonized balancing rules in the NC are essential to build the Single European Market. Important parts of the NC are postponed by 1-4 years after the network code will come into force. It is however important that the NC must be implemented as binding and remain stable over time.

3 Specific comments on the Network Code Electricity Balancing

Article 22 ROLE OF THE TSOs

No. 1:

One essential element of a common European market is the way of dispatch. The current draft allows the operation of both: Self Dispatch and Central Dispatch. But both approaches lead to different interactions between Balancing Responsible Parties (BRP) and TSOs. Central Dispatch should be a transitory solution in the European internal electricity market, in order to allow generators, storage operators and demand response operators to compete on an equal basis. Hence, a Self-Dispatch system should be defined as a clear target model in the NC to be implemented after a defined transitional period. Switching between both approaches should only be permitted from Central Dispatch to Self-Dispatch and a transition to Self-Dispatch should be mandatory.

No. 4:

There should be no option to allow TSOs to offer balancing energy themselves. TSOs are central buyers and therefore cannot be sellers at the same time, and should not under any circumstances be allowed to produce electricity. Furthermore, BDEW believes that, this option is against the “Third Energy Package”, which stipulates that TSOs can neither own, nor operate liberalized assets, e.g. generation assets. The NC does not include any provision that would address this issue and how to prove that Balancing Service Providers (BSP) are not able to provide sufficiency in balancing bids. Finally, Member States should not be able to

legislate against market based balancing. This would hinder the development of the internal market. Therefore, BDEW strongly recommends to delete Art 22 Nr. 4.

Article 32 BALANCING ENERGY GATE CLOSURE TIME

No. 4 and No. 5:

BDEW is convinced that the introduction of a separate market for balancing energy will have serious negative effects on liquid intraday markets. BDEW believes that the intraday market is an essential tool to allow BRPs self balancing as close to real time as possible. Any similar market running in parallel with the intraday market will have effects on liquidity and pricing. At least for markets with already very short gate closure times for intraday markets (e.g. 15 minutes) concurrent operation cannot be avoided if an additional balancing energy market would be introduced, which in turn may even result in lowering the incentives for self balancing.

Currently the price for imbalance settlement is based on the costs for balancing energy fixed at the time of the auction. For balancing capacity BSPs calculate the prices for balancing energy offers well ahead of real-time (i.e. for FRRa in Germany this can be up to one week ahead) which also include a risk premium for uncertainties regarding plant availabilities and market developments. In a system with a short-term balancing energy market, the price for balancing energy will be equal to the intraday price in situations when there is no scarcity of energy. As a consequence, BRPs would have less incentive for self balancing in the intraday market.

Thus, BDEW strongly recommends that any provision that could potentially restrict intraday trading opportunities should only be designed as a option in the Network Code Electricity Balancing. BDEW recognizes that in electricity markets without a sufficiently liquid intraday market, a short term market for balancing energy can serve as an intermediate step towards a liquid intraday market. However this can **only** be an intermediate step.

Chapter 4, Art 43 RESERVATION OF CROSS ZONAL CAPACITY FOR TSOs

BDEW is convinced that the reservation of cross-border capacities by TSOs for balancing purposes has to be avoided. Such reservation would withdraw the transmission capacity from the market and thus reducing the ability for market parties to manage possible imbalances themselves and letting customers benefit from price convergence. Instead, BDEW believes that the full available cross border capacity should be allocated to the market and used for forward capacity allocation, day ahead market coupling and cross border intraday trading. Any remaining unused capacity after the intraday gate closure can then be used for cross-border balancing.

However, if the possibility for a reservation will still be foreseen, it is very essential that it must not only be clearly justified but also the procurement process for cross border balancing energy must be market based, fully transparent and non-discriminatory.

Chapter 5, Art 52 GENERAL SETTLEMENT PRINCIPLES

Clear price signals are essential for an efficient functioning market. In general BRPs should be responsible to balance between supply and demand. Appropriate financial incentives should encourage them to use the market for this objective. Hence, BDEW recommend that the wording of principle 1(d) in Art 52 should be much stronger defined. BDEW thus proposes the following wording:

“1(d) the settlement principles shall ~~encourage~~ **ensure** that the Balance Responsible Parties are balanced as close to the physical reality as possible or help the system to restore its balance.”

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