bdew

Energie. Wasser. Leben.

BDEW Bundesverband der Energie- und Wasserwirtschaft e.V.
Reinhardtstraße 32
10117 Berlin
Telefon +49 30 300 199-0
Telefax +49 30 300 199-3900
E-Mail info@bdew.de
www.bdew.de

Position Paper

To the EXPLORE Model Report

Stakeholder Questions

Berlin, 21. November 2016

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 EXPLORE report and appreciates the efforts undertaken by the EXPLORE project to investigate the challenges of the further integration of the balancing markets of Austria, Belgium, the Netherlands and Germany.

As the transmission system operators (TSO) organized within BDEW are, among others, responsible for the drafting of the EXLORE report, the following BDEW comments have been developed without the German TSOs.

General comments

Self-balancing on a liquid intraday-market (ID-market) is essential precondition for a well functioning European energy market. Therefore it is necessary to strengthen the liquidity of the ID-markets and allow self balancing as much as possible and as close as possible to real time.

Any adjustment of the balancing market must not harm the further development of the intraday market nor increase the time gap between the gate closure time of the intraday markets and real time. In fact the aim should always be to further minimize this gap. Thus parallel running balancing and intraday markets should be avoided.

BDEW appreciates the effort undertaken by the EXPLORE project to investigate the challenges of applying a marginal price in practice. BDEW supports the inclusion of pay-as-bid into the decision alternatives.

Generally, BDEW believes that any predetermination of a preferred pricing method should be avoided.

The imbalance price per imbalance settlement period should reflect the actual costs for balancing.

2. EXPLORE QUESTIONS FOR STAKEHOLDERS

The EXPLORE target model

1. Do you feel interactions between balancing energy and wholesale markets have been sufficiently taken into account in the EXPLORE project? If not, what is missing?

BDEW is convinced the further developments of the short term markets (especially the day ahead and the intraday market) are the keys in order to achieve a truly European energy only market. The balancing market has only a minor and supportive function. This is also valid for the EXPLORE project and other projects for the cooperation and exchange of balancing energy.

Especially the development of liquid intraday and cross border ID markets is essential to promote a European energy only market and to minimize the volume and the need for balancing.

The development of the latest years has already shown that the incentives for BRPs are already well designed and have triggered improvements.

The more liquid short term markets are and closer the gate closure time is to real time in intraday markets, the more active self balancing for BRPs is enabled.

BDEW is convinced that the positive development of spot markets must be supported. Any change of the design of the balancing markets needs to be proven, if this function cannot be provided by the intraday markets.

Therefore, BDEW believes that the further development of any balancing model must consider the role of the intraday market and must not hamper its further development.

BDEW does not support a balancing energy market and strongly believes that the negative side-effects on intraday markets by reduced incentives and withdrawal of liquidity predominate. A balancing energy market actively prevents the evolution of a liquid intraday market close to real-time. The option of a liquid intraday market should be included in the design alternatives for EXPLORE.

A local intraday gate closure time of 0 to 15 min is in place in Germany already and must not be restricted by balancing energy markets. In fact, BDEW is convinced, that a further reduction of the cross border intraday gate closure time pursued.

2. Do you agree with the considerations in regards to marginal pricing? If not, could you elaborate?

The latest discussions among market parties have shown that a possible change of the pricing method lead to intensive discussions. A change of the pricing method will affect the risk exposure of all market parties and their business strategies. Thus BDEW is convinced the pricing method must be always analysed in context with all other modifications of the design of the balancing market. The issue of the pricing method should only secondary in the development of balancing market.

BDEW appreciates the effort undertaken by the EXPLORE project to investigate the challenges of applying a marginal price in practice. BDEW supports the inclusion of pay-as-bid into the decision alternatives.

The discussion on the required preconditions (homogenous good) for applicability of theoretical results on efficiency of marginal pricing and the conclusions on the complexity for creating bids are very helpful.

When coming to a final suggestion for a pricing method, the decision criteria should be clearly defined.

3. Do you support the EXPLORE conclusions in regards to the gate closure times?

As already mentioned in answer 1, gate closure times (GCT) in the intraday markets should be close to real time. This allows BRPs self-balancing as much as possible in a cross border ID market. BDEW is convinced that the ID GCT in all participating countries of the EXPLORE Model should be reduced to 15 min before real time, in order to enable BRPs self balancing as much as possible. Furthermore the cross border ID gate closure time should be further reduced to strengthen the exchange of energy between the participating counties in the intraday market. Any extension of the ID GCT in order to enable the exchange of balancing energy must be avoided. Therefore, BDEW generally opposes the introduction of a separate balancing energy market.

One important item that is missing in the proposed implementation of a balancing energy market is the release of procured volumes by the TSO, exceeding the original demand. The pre-contracted bids and free bids in the common merit order that become available for activation through the TSO must be restricted to the demand originating from the TSOs' dimensioning of reserves. The excess bids must be released by the TSO immediately after balancing energy gate closure and returned to the BSPs, for use in local intraday markets and portfolio dispatch.

4. Do you have any further suggestions on how to better streamline intraday and balancing markets?

BDEW does not support a separate energy balancing market as mentioned in the Guideline Electricity Balancing. Parallel running ID- and balancing energy markets must be avoided. BDEW is convinced that the introduction of a separate market for balancing energy will have serious negative effects on liquid intraday markets. The further integration of the ID markets and reduction of cross border ID GCT should be in the focus in order to allow self balancing of BRPs.

Pricing and Settlement

5. Do you miss anything in the analysis on pricing and settlement in the EXPLORE report? If so, what do you miss?

While the report is frequently referring to the ambiguity of a marginal-price for continuous activation of aFRR, this is not reflected in the examples. The bid ladder divided into bids activated for TSO A and TSO B would need to be evaluated for every measurement interval (e.g. 4-sec). The examples indicate that a bid is activated for one TSO per BSP settlement interval, an individual bid can however be activated by multiple TSOs within the same ISP.

Furthermore, the frequently occurring situation of positive and negative activation within the same ISP should be clarified.

TSO-BRP settlement

6. Do you agree with the EXPLORE criteria used to decide between local and cross-border imbalance pricing? In case your answer is no, could you elaborate on why?

Local imbalance prices should reflect the current costs per LFC block. All costs for procurement and ensuring system security should be included in the grid tariff.

7. Do you agree with the EXPLORE conclusion of local imbalance pricing? In case your answer is no, could you elaborate on why?

BDEW agrees that the imbalance price should reflect the situation of the corresponding LFC block to comply with local TSO responsibilities (as defined in SOGL). Generally, the method for computing imbalance pricing and hence the imposed incentives should be consistent, to avoid market distortions for cross border markets.

TSO-BSP settlement

8. Which of the remaining TSO-BSP settlement options has your preference and why?

BDEW prefers a BSP settlement by pay-as-bid in the balancing market. BDEW proposes to investigate the development of liquidity and competition by the changes of other topics (harmonisation of products etc.) first, and prove settlement option in a later point in time.

Cost for balancing and redispatching actions should not be mixed and procured balancing capacities should not be used for other purposes. Redispatching is a procedure to solve network congestions which are not in the responsibility of BRPs.

9. Do you agree with the elimination of options that allocate different (marginal) prices to BSPs in one area for the same product? Could you elaborate your answer?

BDEW is convinced that different prices for BSP for the same product, per ISP should be avoided. There should not be multiple different prices for BSPs for the same product within one area. We do agree that if marginal pricing is used, remuneration for the identical product has to be the same for all activated BSPs. Also, BSP remuneration must not depend on TSO activation choices, the remuneration must be non-discriminatory and transparent.

10. Do you agree with the decision of per-product pricing (assuming one product for aFRR and one for mFRR)? Could you elaborate your answer?

BDEW agrees with the choice of per-product pricing, as the specific quality of a product needs to be reflected in the individual pricing.

When applying a cross-product pricing scheme, ISP-based products (mFRR, RR) unduly benefit from the potentially high common marginal price together with a high volume of activated balancing energy. The delivered volume is a block of energy, in contrast to automatically activated (and deactivated) products that generally have a small volume of actual balancing energy. This would mean, that activated aFRR and mFRR and RR in a certain point in time, are compensated with the same price, but offering different qualities of balancing energy (ramping time etc.).

aFRR concept

11. Regarding the requirements for the aFRR products, what is your preferred product (FAT product or setpoint product) and why?

The requirements for aFRR should follow the Transmission Code and be based on a product, which is already established. Harmonisation of standard products is an important step to enable cross border exchange of balancing energy. Standard products should only be offered for existing market segments**.**

BDEW supports the FAT product, as it does both allow for participation of all units and still rewards good regulation quality.

12. Could you provide your views on the advantages and drawbacks of the 2 control concepts (control demand and control request) if you evaluate that this choice impacts the BSPs?

While participation of all units that meet the required prequalification standards (FAT) must be guaranteed, we cannot see a point in deliberately downgrading units to meet the (s)lowest common denominator.

The simulation results clearly show the advantage of control demand in regulation quality.

The arbitrary “information on BSP ramp limitations” that is included into the activation decision in control request contradicts the idea of merit-order activation.

13. To which extent does the choice of the FAT affect the liquidity you are able to offer? Please precise for which type of technology your answer applies.

No answer.

mFRR concept

14. Do you support the criteria used to evaluate the mFRR product options? If not, could you elaborate why?

The requirements for mFRR should follow the Transmission Code and be based on a product, which is already established. Harmonisation of standard products is an important step to enable cross border exchange of balancing energy. Standard products should only be offered for existing market segments.

15. Which criterion do you feel is the most important?

No answer.

16. Which of the three remaining mFRR product options has your preference, and why?

No answer.

Conclusions

17. What are your thoughts on the priority for usage of cross-border capacities between the different (close-to-)real-time processes (ID; aFRR, mFRR exchange/sharing?)? What criteria should be used to evaluate choices in this?

BDEW is convinced that TSOs should not be allowed to block or hold cross border capacities for balancing purposes. Only remaining cross border capacities should be used for balancing.

Cross border capacities should be offered first to the forward market, and to the spot markets (Day ahead and Intraday) in order to achieve a maximum economic welfare and market efficiency.

Any reservation of cross border capacity would lead to inefficient market results, and the economic loss (price spreads multiplied with volume) is expected to be higher than the economic gain by the exchange of balancing energy.

However BSP should have the option to buy capacity in order to supply cross border balancing energy, as they also profit from being active in a cross border balancing market.

Ansprechpartner:

Dr. Matthias Grote
Telefon: +49 30 300199-1561
matthias.grote@bdew.de