

**ACER Call for Comments on the  
resubmitted Network Code  
Electricity Balancing**

**Evaluation of responses**

**July 2015**

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## 1 Introduction

Following the Agency's Opinion on the Network Code on Electricity Balancing ("Network Code") of 21 March 2014, ENTSO-E has submitted to the Agency a revised version of the Network Code. On 3 December 2014, the Agency issues a call to stakeholders to submit comments to the revised Network Code. The deadline for comments was 9 January 2015. The Agency received comments from 22 stakeholders, most of them from EU and national associations and some directly from the industry. The list of respondents is attached in the Annex 2 to this document.

The comments from the stakeholders can be summarised as follows:

1. Majority of stakeholders commended significant improvements of the Network Code. They noted that the Network Code is still not ambitious enough in terms of the deadlines for implementation of the regional and European integration models. They also asked for more clarity concerning the target models and related obligations on TSOs as well as to the definition of Coordinated Balancing Areas ("CoBA").
2. Many comments were related to the harmonisation of imbalance settlement. While there was no clear preference for the definition of the Imbalance Settlement Period ("ISP") as well as on the position and imbalance price, there was a general agreement that these elements of imbalance settlement need to be harmonised.
3. Stakeholders commented a lot on the roles and responsibilities of the different actors in the Network Code. They raised concerns about the possibility for TSOs to act as Balance Service Providers ("BSP"). They also raised concerns about many restrictions imposed on Balance Responsible Parties ("BRP") concerning their possibilities to balance themselves as much as possible during the intraday timeframe and balancing timeframes. With this respect, many concerns were raised about the Gate Closure Times ("GCT") in particular the intraday cross-zonal GCT and balancing energy GCT. They considered that these GCTs are not clearly defined, which might create overlaps between the intraday and balancing markets and limit the BRPs' possibilities to balance themselves.
4. Stakeholders had many diverging opinions on the standardisation of balancing products, whereas they recognised their importance for the functioning of the balancing market. They also asked for transparency and regulatory oversight of the product conversion.
5. The majority of stakeholders argued against the possibility to reserve or allocate cross-zonal capacity for the exchange of balancing services. They considered that the methodologies supporting such reservation or allocation should be carefully developed and consulted on. Strict regulatory oversight is needed to prevent abuse of dominant position of TSOs.
6. Many concerns were raised with respect to the central-dispatching model. Stakeholders asked to define self-dispatching model as a standard model and central-dispatching model as an exception and transition model. They also asked for more stringent rules for central-dispatching model in order to minimise the negative impact on the integration of balancing markets. Stakeholders emphasised the non-level playing field issue between BSPs in central-dispatching model and self-dispatching model.

## **2 Specific issues raised by the stakeholders**

The respondents raised a number of other issues regarding the Network Code Electricity Balancing. The main issues have been grouped into nine topics and are presented in the table below, alongside the opinion and the responses from the Agency.

Respondent's comment	The Agency's opinion and response
<b>1. General provisions</b>	
<p>One stakeholder asked for a clear definition of TSO-TSO model so that that the BSPs will get the same price as they would have in case of TSO-BSP.</p>	<p><b>Agree.</b> The Agency considers that this principle should be clearly defined in the Network Code. Nevertheless, the Network Code is clear on the principle of marginal pricing, which should ensure that BSPs will get the marginal price of all activated balancing energy bids, except in case of some specific bids, if different pricing method will be approved by the regulatory authority.</p>
<p>Several stakeholders noted the concerns about the lack of stakeholder involvement and consultation when developing the following:</p> <ul style="list-style-type: none"> <li>a) Proposal for establishment of CoBA</li> <li>b) Proposal and justification for TSOs to offer balancing energy themselves</li> <li>c) Development of the terms and conditions related to balancing</li> </ul>	<p><b>Agree.</b> The Agency has significantly improved the articles related to consultation and stakeholder involvement.</p>
<b>2. Coordinated Balancing Areas and targets</b>	
<p>Many stakeholders, while recognising the need to learn from the experience, asked for clear deadlines and targets with respect to the implementation of regional and European implementation models. One stakeholder, however, asked for longer timelines in order to be able to learn from experience from regional integration models and to allow more than one CoBA for European integration model for RR. They also commended the introduction of regional and European targets on imbalance netting. They ask for more clarity to share all standard and specific products within a CoBA. Their concerns are also related to openness with regard to size of CoBAs. They ask that CoBAs should follow the capacity calculation regions.</p>	<p><b>Agree.</b> The Agency is of the view that the implementation deadlines should follow the deadlines specified in the Framework Guidelines on Electricity Balancing. As the adoption of the Network Code could take a longer time than envisaged at the time of drafting the Framework Guidelines, this weakens the arguments for providing longer implementation deadlines. The Agency recognises the need for learning from experience and foresees that early implementation projects will provide enough experience for that purpose. The Agency also agrees to strengthen requirements on the size of CoBAs and the requirement to share all standard and specific products in a CoBA. The Agency, however, notes that CoBAs cannot follow the capacity calculation regions, which allocates bidding zone borders to regions, whereas CoBAs allocate the whole control areas to regions.</p>

<p>Stakeholders welcome the obligation to assess every two years the opportunities to perform Sharing of Reserves.</p>	<p>The Agency expects that such obligations will contribute to decreasing the total costs of balancing.</p>
<p>One stakeholder asked for an obligation to use CMOL also for aFRR. Merit order activation should also be introduced for aFRR first at national level to enable smoother development of regional integration model for aFRR.</p>	<p><b>Disagree.</b> While the Network Code clearly prefers the application CMOL for exchange of aFRR products, introducing an explicit requirement might be premature, since its feasibility at EU level has not yet been demonstrated beyond reasonable doubts. The Agency also believes that enforcing merit order activation at national level first may be too onerous, since it implies the risk that changes in national aFRR design would not be in line with the regional and European aFRR design, which would imply further changes when implementing regional and European integration model.</p>
<p>Stakeholders asked to improve the objectives of the Network Code and to add the following objectives:</p> <ul style="list-style-type: none"> <li>a) Providing maximum possibilities to market participants to balance demand and supply in the other time frames;</li> <li>b) Providing economic incentives to market participants to balance themselves by revealing the real-time price of energy;</li> <li>c) Integrating the balancing markets.</li> </ul>	<p><b>Agree.</b> The Agency in general agrees with these objectives and has included them in the recommendation.</p>
<p>One stakeholder asked for clearer harmonisation of imbalance settlement (i.e. imbalance calculation and the calculation of imbalance prices) with the aim to achieve one harmonized methodology for Europe.</p>	<p><b>Agree.</b> The Agency in general agrees with this comment and has provided significant amendments to the article on harmonisation of imbalance settlement.</p>
<p>One stakeholder asked for the targets for RR process to be mandatory for all TSOs.</p>	<p><b>Disagree.</b> The Agency disagrees with this comment as the RR process has a strong overlap with the intraday market and should thus be considered as an exception rather than a general rule.</p>
<p>One stakeholder asked for the possibility that balancing market can designate third parties to develop rules and to operate the balancing market.</p>	<p><b>Disagree.</b> While the Agency has no reservations for the assignment of functions to third parties, such assignment should be limited to those functions that do not have an impact on Operational Security and integration of balancing market.</p>

<p>Few stakeholders were asking for cautious approach to harmonisation of imbalance settlement, by following the subsidiarity principle and allowing Member States to decide on ISP based on CBA and impact assessment. Many stakeholders pointed out the possible implication this may have on the metering equipment. Other stakeholders, on a contrary asked for more ambitious harmonisation of ISP, where any derogation from harmonisation of ISP should be restricted in time.</p>	<p><b>Partly Agree.</b> The Agency is of the opinion that harmonisation of ISP is an important feature of an integrated balancing market; however, it does recognise the need to perform an EU-wide Cost Benefit Analysis to support such harmonisation. Nevertheless, the Agency is of the opinion that national Cost Benefit Analyses should not take precedence over EU-wide Cost Benefit Analysis. The Agency also doubts that harmonisation of ISP is conditional on metering equipment, since it only implies the changes in profiling methodology.</p>
<p><b>3. Roles and responsibilities</b></p>	
<p>Majority of stakeholders asked to prevent TSOs to be able to offer the balancing services themselves, because of the unbundling rules in the third energy legislative package. If such possibility is allowed, the Network Code should provide stringent conditions for the proposal and approval of this possibility.</p>	<p><b>Partly Agree.</b> The Agency is of the opinion that indeed the TSOs should not be able to offer the balancing services themselves, because of the unbundling rules in the third energy legislative package. However, the Agency notes, that in some Member States such possibility is explicitly allowed. Thus, the Agency proposed to provide very stringent conditions under which TSOs may be given such a role.</p>
<p>Some stakeholders asked for more clarity how a BSP may operate independently from a BRP. They asked for:</p> <ul style="list-style-type: none"> <li>a) clear information exchange between these two parties to prevent counterproductive measures of BRPs;</li> <li>b) certainty that the BRP should be financially neutral to the actions of the BPS in its perimeter;</li> <li>c) that the arrangements are regulated in a contract between the BSP and a BRP, whether directly or indirectly.</li> </ul>	<p><b>Partly agree.</b> The Agency has recommended a new article in the Network Code that provides further clarity and harmonisation with respect to the aspects raised in this comment. While the Agency is of the opinion that independent BSP should be balance responsible, it considers that a contract with a BRP of the energy supplier should not be required.</p>
<p>Many stakeholders asked that the Network Code defines self-dispatching model as the target model for Europe and that central-dispatching system is considered as transitory model. In their views, TSOs should not be allowed to revert from self-dispatching to central-dispatching model.</p>	<p><b>Partly agree.</b> The Agency has defined a self-dispatching model as the standard model for Europe, whereas central-dispatching model is considered as an exemption in Member States where the underlying properties of the network do not allow for self-dispatching model. Nevertheless, the Agency does not consider central-dispatching model to be transitory as there is no assurance that self-dispatching model is feasible in the concerned Member States.</p>

<p>Stakeholders also welcome the possibility for aggregation in central-dispatching model.</p>	<p><b>Agree.</b> The Agency also welcomes these changes in the Network Code.</p>
<p>Stakeholders asked for more clarity about the possibility to update the balancing energy bids after the balancing energy GCT.</p>	<p><b>Agree.</b> The Agency has removed this possibility from the Network Code, except in cases of unexpected outages.</p>
<p>Stakeholders had many comments on the obligations of BRPs to be balanced. Firstly they considered that BRPs should not be obliged to provide balanced position at day-ahead timeframe, but instead only at the end of intraday timeframe. Some noted that it is impossible for BRPs to be balanced in real-time. They also note that such provision implies different treatment of imbalances that support or are against the system imbalance and asked for single imbalance price for all imbalances.</p>	<p><b>Partly agree.</b> The Agency has amended the Network Code such that BRPs should not be obliged to provide balanced position at day-ahead timeframe, except where this requirement is explicitly proposed and justified by the TSO in the terms and conditions related to balancing and where the competent NRA has approved this requirement. The Agency also amended the requirements to be balanced in real-time. With this respect, the Agency also asked for harmonisation of position and imbalance pricing.</p>
<p>Few stakeholders asked more clarity about GCTs. They noted that the principle to allow market participants to balance themselves as close as possible to real-time is not reflected in the requirements for balancing energy GCTs and requirements on providing balanced position to TSOs.</p>	<p><b>Agree.</b> The Agency amended the Network Code such that the overlap between the intraday market and balancing energy GCT is minimised. Nevertheless, complete avoidance of such overlap is expected to be achieved with the gradual process of establishing mature and integrated intraday and balancing market.</p>
<p>Few stakeholders asked to prevent the possibility for TSOs to require BSPs to offer their unused generation capacity and other balancing resources after day-ahead market.</p>	<p><b>Agree.</b> The Agency agrees that such provision would be detrimental to the development of intraday market and has thus amended the Network Code to ensure that such requirement does not prevent market participants from trading within the intraday market.</p>
<p>Many stakeholders asked that the Network Code should provide maximum flexibility for market participants to dispatch and balance themselves. With this respect they asked for more real-time information on the system imbalances as well as imbalances of individual BRPs.</p>	<p><b>Partly agree.</b> The Agency notes that Regulation No 543/2013 (Transparency Regulation) already requires TSOs to publish system imbalance shortly after real-time. Nevertheless, the Agency considers that the publication of individual BRP imbalances is neither technically feasible nor required for more efficient balancing market when the imbalance settlement mechanism provides efficient market signals for self-balancing.</p>

<p>Few stakeholders asked for consistent mentioning throughout the Network Code of the possibility that a third party can be assigned to perform certain functions instead of TSOs.</p>	<p><b>Partly agree.</b> While the Agency confirms the intention of the Network Code to clarify this possibility, it is however enough to specify once in the Network Code that references to TSOs should also be understood as references to third parties in case of assignment of tasks.</p>
<p>Few stakeholders raised concerns on the possibility that TSO can convert bids from specific products or integrated scheduling process bids before these bids are being shared with other TSOs in CoBA. They asked that this option is monitored and governed by specific rules ensuring fairness, transparency, non-discrimination and no financial benefit for the TSOs.</p>	<p><b>Agree.</b> The Agency has introduced specific requirements for the rules according to which such conversion will be performed.</p>
<p>Few stakeholders noted that the Network Code should establish clear principles to be adopted for drawing up the terms and conditions, i.e. principles of cost-reflectivity, non-discrimination to foster the participation of demand response and RES and to ensure the ability of BSPs to act independently of BRPs in all cases, not only when required by national legislation. The terms and conditions should actively overcome the barriers to demand side participation and aggregation that exist in many jurisdictions. Some other stakeholders expressed clear opposition for allowing the BSPs to act independently of BRPs.</p>	<p><b>Partly agree.</b> The Agency has recommended a new article in the Network Code that provides further clarity and harmonisation with respect to the aspects raised in this comment. Nevertheless, the Agency does not have sufficient evidence that entry barriers for demand aggregation exist in all member states and it thus deems it premature to impose such an obligation on all Member States.</p>
<p>Few stakeholders asked for more clarity that balancing market should be open for participation to all BSPs. BSPs without a contract for balancing capacity should always be allowed to place balancing energy bids to TSOs.</p>	<p><b>Agree.</b> The Agency has amended the Network Code to ensure clarity on this aspect.</p>
<p><b>4. Products</b></p>	
<p>Two stakeholders welcomed the progress in the level of detail relating to the development and review of methodologies for standard products, as well as the possibility to define minimal characteristics for standard products by appropriate range (instead of fixed values).</p>	<p><b>Agree.</b> The Agency also welcomes these changes in the Network Code.</p>
<p>Two stakeholders considered that this list of characteristics should ensure that, within the standard frame, the BSPs will be able to indicate in their bids the value corresponding to the actual dynamic performances of their units and that this list should mention a fixed start point and a fixed stop point to allow products corresponding schedule shifting.</p>	<p><b>Disagree.</b> While the Agency is opened to such a possibility when properly evaluated and consulted, prescribing such requirements in the Network Code might prove to be detrimental and create a market fragmentation.</p>

<p>Two stakeholders called for definitions of ramping and location for the characteristics of standard products, and for clarification on marking balancing energy bids being unavailable in alert state. One stakeholder urged that information on location of the connection of every unit within a bid, including the electrical node (in transmission or distribution network) is required.</p>	<p><b>Partly agree.</b> While the ramping is already defined in the draft LFC&amp;R Network Code, the definition of location is difficult to harmonise within the context of diverse structures of European networks. Thus, the Agency sees no other way than the location being defined in the terms and conditions related to balancing, subject to the local requirements about the details of network representation.</p>
<p>One stakeholder asked for early definition of standard and specific products. Another one argued for requirements on detailed characteristics of the standard and specific products. A third one deemed that standard products should be simple products, allowing for fast optimization algorithms and minimal time required for balancing.</p>	<p><b>Partly agree.</b> The Agency confirms that early definition of standard and specific products is needed; however, it also recognises that this cannot be yet defined directly in the Network Code. The Agency has thus proposed to shorten the deadline for the development of a proposal for standard products.</p>
<p>One stakeholder noticed that the possibility for TSOs to modify every bid presented by BSPs in a central-dispatching model does not seem to ensure enough transparency to market operators active in these markets. It also noted that BSPs located in central-dispatching model should not be discriminated compared to BSPs in self-dispatching model, when offering balancing services to be shared within a CoBA.</p>	<p><b>Agree.</b> The Agency has amended the Network Code to ensure that the rules for conversion of bids in a central-dispatching model follow strict rules to be developed by TSOs and approved by NRAs.</p>
<p>Regarding specific products, two stakeholders considered that (i) conversion of bids for specific products into standard products should be either precluded or the impacts induced by this conversion are neutralized and that (ii) those products should not only be considered as transitory but as a legitimate alternative way to balance the system if their necessity is assessed. On the contrary, two stakeholders believed that the use of specific products should always be the exception, as opposed to the rule and that ACER and NRAs shall exercise strict scrutiny when approving the methodology for the development of those specific products.</p>	<p><b>Partly agree.</b> The Agency has amended the Network Code to ensure that the rules for conversion of bids from specific products into standard products follow strict rules to be developed by TSOs and approved by NRAs. Nevertheless, the Agency sees the risk for the abuse of Network Code rules with the introduction of specific products. For this reason, the Agency sees the need for regular evaluation of the TSOs' needs to use specific products.</p>
<p>One stakeholder asked for more transparent and explicit information from TSOs to BSPs regarding the selection and activation process.</p>	<p><b>Agree.</b> The transparency requirements provided in Regulation No 543/2013 (Transparency Regulation) as well as in this Network Code should provide market participants with sufficient information on the activation of bids.</p>
<p>One stakeholder judged that there should be no pre-fixing of any pricing method in the definition of standard products or in the Network Code itself.</p>	<p><b>Disagree.</b> Based on wide support of stakeholders, the Agency has decided in the Framework Guidelines that marginal pricing method should apply to all balancing energy bids, unless its inefficiency is demonstrated by TSOs.</p>

## 5. Procurement, exchange and transfer of balancing capacity

<p>Several stakeholders alleged that market-based procurement of balancing capacity should be done through a call for tender or auction. That the Network Code should clarify that a method based on mandatory provision of balancing capacity to the TSO in combination with secondary trading of such obligation, cannot be classified as market-based. Procurement of FCR should also be done with a market-based method.</p>	<p><b>Partly agree.</b> The Agency fully supports market-based methods for the procurement of balancing capacity for FRR and RR. In this respect, the call for tender or an auction are considered as standard model. However, a market-based process based on obligation and organised secondary market is for example used for EU emission trading scheme. Therefore, such process is already in place and considered by involved parties as a market-based process. Furthermore, in a highly concentrated market, such as reserve capacity market, market power abuse is a serious concern. In such a situation, a tendering process is more exposed to market manipulations than obligations with organised secondary market (as long as initial obligation allocation is well designed).</p>
<p>One stakeholder advocated for separate procurement of upward and downward FCR.</p>	<p><b>Disagree.</b> Due to the nature of FCR and the underlying technology, the Agency considers such explicit requirement as non-proportionate.</p>
<p>Two stakeholders are opposed to the one-month limitation on contracting for capacity, while another one required that balancing reserves should be procured in the short term as far as possible.</p>	<p><b>Partly agree.</b> The Agency considers that short-term procurement is more efficient and beneficial for the market as it allows for more accurate assessment of the needs as well as greater level of competition. This, however, does not preclude having longer procurement timeframes when approved by NRAs.</p>
<p>Three stakeholders called for pricing of balancing capacity (and energy) according to pay-as-cleared, without price caps or restrictions on bid prices.</p>	<p><b>Partly agree.</b> The Agency recognises the need for harmonised pricing of balancing capacity in case of common procurement. However, further requirements on balancing capacity pricing and bids will need to be further developed and justified before approval by regulatory authorities.</p>
<p>Two stakeholders supported that the possibility to implement a TSO-BSP model for the exchange of balancing capacity and energy for RR process is also maintained after the implementation of the regional and European target models.</p>	<p><b>Agree.</b> Such provisions are also supported by the Agency.</p>

## 6. Activation and exchange of balancing energy

<p>A majority of stakeholders asked for avoiding cross-zonal intraday market and balancing market taking place at the same time, while keeping the intraday GCT as close as possible to real-time. Some were of opinion that changing GCT for balancing energy in the Network Code should only be defined as an option, not as an obligation, since this provision could potentially restrict intraday trading opportunities. Some stakeholders insisted explicitly that the option to define the balancing energy GCT for Frequency Restoration Reserves with automatic activation (aFRR) should be removed, while another one recognised this provision as acceptable, but advocated that the manually activated balancing energy GCT should not be set further away than one hour before real-time. One stakeholder supported the definition of a harmonized balancing energy GCT for all products of a reserve process.</p>	<p><b>Agree.</b> The Agency agrees with the general principle that there should be no overlap between the intraday and balancing markets. This would require that balancing energy GCT would be set close to real-time. However, the Agency notes that such a principle would need to be gradually enforced and that some overlapping will exist at the start of the balancing market integration. The Agency also expects a progressive harmonisation of balancing energy GCTs for different products and processes.</p>
<p>A majority of stakeholders supported a pricing method for balancing energy based on marginal pricing. Only one preferred not to pre-define any specific pricing method in the Network Code, but rather to base it on a thorough cost-benefit analysis.</p>	<p><b>Agree.</b> The Agency is also of the opinion that the decision on implementation of marginal pricing set in the Framework Guidelines should be preserved and marginal pricing should be kept as the standard pricing method for balancing energy.</p>
<p>Two stakeholders advocated for a co-optimisation of different balancing energy bids from Frequency Restoration Reserves with manual activation (mFRR) and Replacement Reserves (RR) into a single CMOL.</p>	<p><b>Disagree.</b> The Agency notes that mFRR process is obligatory for all TSOs, whereas RR process is not. It is of utmost importance that the mFRR process in different CoBAs is designed in the same way to enable smooth merger and integration of CoBAs.</p>
<p>Two stakeholders considered that reference to the emergency state for the activation of balancing energy bids should be deleted, since the Network Code does not apply in emergency state.</p>	<p><b>Partly agree.</b> The Agency provided further clarity concerning the Network Code application. The Network Code applies in all system states, except when market activities have been suspended pursuant to the Network Code on Operational Security.</p>
<p>Two stakeholders asked that :</p> <ul style="list-style-type: none"> <li>a) if balancing energy bids are activated for balancing purposes and outside the merit order, such deviation must not affect the imbalance settlement price; and</li> <li>b) if balancing energy bids are activated for other purposes than balancing, those bids should not affect the imbalance settlement price.</li> </ul> <p>Another stakeholder claimed that TSOs should not be allowed to activate balancing energy bids for other purposes than balancing.</p>	<p><b>Partly agree.</b> The Agency fully agrees that activation outside merit order and for purposes other than balancing should not affect the marginal price of balancing energy and the imbalance price. However, the Agency sees no good reason to prohibit the use of balancing energy bids for other purposes as well.</p>

Regarding the balancing energy GCT for central-dispatching model, one stakeholder required the regulatory approval of integrated scheduling process GCTs, while another one welcomed improvements regarding these provisions.	<b>Agree.</b> The Agency agrees that these important features of central-dispatching model should be approved by a competent regulatory authority.
Several stakeholders deemed the possibility for TSOs to apply unshared bids as problematic, because it would imply that the volumes of reserves to which a capacity payment is rewarded could be withheld from the regional and European market.	<b>Disagree.</b> The Agency has introduced the notion of unshared bids in the Framework Guidelines, for the purpose to safeguard the reserve capacity requirements during the integration process. However, the most important principle of unshared bids is that only the most expensive bids and some specific bids can be withheld from exchanging, thus minimising the overall impact on economic efficiency.
One stakeholder considered that the activation of balancing energy bids before balancing energy GCT should be allowed in specific circumstances (e.g. in alert and emergency state), though hedged with clear conditions, and that the conditions for the update of balancing energy bids after the balancing energy GCT should be further clarified.	<b>Agree.</b> The Agency does not prohibit such possibility to activate balancing energy bids before the balancing energy GCT in specific situations. The Agency has also clarified under which conditions the update of balancing energy bids after the balancing energy GCT is allowed.
One stakeholder asked for DSOs to have access to information from the bids, including operation schedules (as early as possible and at GCT at the latest) and activations of units in congested zones, in order to detect network constraints.	<b>Agree.</b> The Agency has preserved the Network Code provisions that require from BSPs to provide necessary information to DSOs during prequalification and operation.
One stakeholder asked to consider the role of third parties in the settlement of balancing energy and to be more transparent on activation purposes list (consulted by and visible to market participants).	<b>Agree.</b> The agency has provided additional requirements for publication of information on the activation purpose of each activated balancing energy bid.

## 7. Cross-zonal capacity for balancing services

<p>A majority of stakeholders argued that any ex-ante cross-border capacity reservation for optional balancing needs should be avoided, whichever the reason or the applicant for such capacity reservation (mostly by TSO, but also by market participants) in order to maximize the use of cross-zonal capacity for the forward, day-ahead and intraday energy markets. Only the remaining unused capacity after the intraday GCT can be used for cross-border balancing. Only one stakeholder supported the idea that cross-border capacity can be reserved or allocated for balancing purposes.</p>	<p><b>Disagree.</b> The Agency has explained within the Framework Guidelines that reserving or allocating a portion of cross-zonal capacity for exchanging reserve capacity for balancing purposes may provide higher social welfare than allocating it for the exchange of energy. This option should provide more benefits to the final consumers and more efficient use of infrastructure and resources. Nevertheless, the methodologies for such reservation or allocation should be carefully developed in order to prevent abuse of dominant position of TSOs and asymmetry of information.</p>
<p>According to many stakeholders, counter trade should be included as an alternative to reservation of cross-zonal capacity for balancing purposes.</p>	<p><b>Partly agree.</b> While countertrade may indeed be added to the list of possible methodologies to ensure sufficient cross-border capacity for balancing purpose, it is premature to specify it as explicit requirement since cross-border intraday markets are not sufficiently developed to ensure the efficiency of such a process.</p>
<p>Many stakeholders also proposed that if the possibility for a reservation is kept within the Network Code, then :</p> <ul style="list-style-type: none"> <li>c) TSOs should procure such cross-border capacity directly (TSOs buy capacity at their “own” auction) or TSOs buy back capacity that was first allocated to market participants;</li> <li>d) all forms of reservation of cross border capacity for balancing purposes should be subject to strict regulatory supervision;</li> <li>e) the socio-economic efficiency should be proved and published by TSOs. Also any procurement process for cross-border balancing energy has to be market-based, fully transparent and non-discriminatory; and</li> <li>f) some clarifications are expected on what kind of ‘updated information’ would reveal that reserved cross-zonal capacity is not any longer needed for the exchange of balancing capacity, as well as some guidance or rules around what happens when it is evident that parties are not using or will not use the capacity they reserved for balancing reasons.</li> </ul>	<p><b>Partly agree.</b> The Agency agrees that TSOs should access cross-zonal capacity under equal conditions as market participants do. For this reason, the Agency is of the opinion that after some transition period, co-optimisation shall be the only methodology for such reservation. With respect to the buyback or countertrade, the Agency is of the opinion that such options need to be carefully developed and evaluated to prevent negative outcomes. The Agency agrees on the regulatory supervision and transparency of socio-economic efficiency and that reserve procurement process behind cross-zonal capacity reservation should be market-based. The Agency also provided some clarifications and simplifications to the principle of releasing cross-zonal capacity when no longer needed.</p>
<p>One stakeholder also expressed specific concerns on the proposed methodology for reservation or allocation of cross-zonal capacities for the purpose of balancing market. The concerns relate to the methodology where the market value of cross-zonal capacity for exchange of energy is compared to the market value for exchange of reserve capacity.</p>	<p><b>Disagree.</b> The Agency considers that the methodology based on comparison of market values is adequate and sufficiently robust to ensure that the use of cross-zonal capacity for exchange of balancing capacity will increase the social welfare and efficiency of infrastructure use.</p>

<p>With regard to pricing of cross-zonal capacity for the exchange of balancing energy or imbalance netting process, one stakeholder highlighted that losses associated to balancing transactions are very difficult to calculate and to allocate to individual network users. Such allocation could imply distortion in the market.</p>	<p><b>Agree.</b> The Agency considers that charges for losses, if applied, would only apply to individual cross-border transactions. Similar principles should apply for day-ahead, intraday and balancing timeframe.</p>
<p><b>8. Settlement</b></p>	
<p>Some stakeholders suggested reviewing the key principle for settlement to ensure that energy imbalances are settled at a price that reflects the real-time value of energy. BRPs should be responsible for their balance between supply and demand and should always be encouraged to use the market for this. The cost of balancing energy between BSPs and TSOs should be equal to the cost of imbalance settlement between BRPs and TSOs.</p>	<p><b>Partly agree.</b> The Agency has clarified some objectives of the settlement process to ensure prices reflect real-time value of energy. The Agency also notes that it is important that market participants balance themselves during the regular market timeframes. However, the Agency considers that self-balancing during the balancing market timeframe should remain optional, as in some areas, self-balancing may induce significant congestions inside bidding zones or in neighbouring bidding zones. The Agency also agrees that the costs of imbalances should in general represent the costs of balancing energy.</p>
<p>One stakeholder advocated for harmonization of the basic principles for imbalance price calculation. A large majority of stakeholders supported the single pricing methodology for imbalance settlement: individual imbalances must be settled at the same price, irrespective of the direction of the individual imbalance and irrespective of the type of portfolio (no dual pricing). This price should be set at the marginal price of activated energy bids in the balancing market. Some nevertheless recognise that if proven socioeconomically more efficient, resources that participate in the balancing market could be subject to a dual price settlement.</p>	<p><b>Partly agree.</b> The Agency also prefers single prices for imbalance settlement. However, in the Network Code, the Agency has provided the possibility for TSOs to develop a proposal in which circumstances and under which criteria the dual pricing would be more efficient than single pricing.</p>
<p>One stakeholder insisted that any deviation from the CMOL activation or any activation for other purposes than balancing should not affect the price of imbalances.</p>	<p><b>Agree.</b> The Agency has provided more clarity with this respect in the Network Code.</p>
<p>Regarding the ISP, one stakeholder asked for 15 minutes being the focal point for harmonisation of the ISP. On the contrary, another stakeholder expressed the concern that a harmonised ISP at maximum 30 minutes would be too short and would severely damage the possibilities for demand to participate in the market. In addition, the criteria and methodology for cost-benefit analysis for the imbalance settlement should be explicated. Some stakeholders emphasized the importance of a thorough CBA especially taking into account the costs resulting on DSOs and retail market participants, before making changes to the ISP.</p>	<p><b>Partly agree.</b> The Agency recognises the need for thorough cost-benefit analysis for the final decision on harmonisation of ISP. However, such analysis can be done before the entry into force of this Network Code. The Agency has provided a provisional decision to harmonise ISP, subject to the cost benefit analysis. The Agency is not in favour of national cost benefit analyses as a way to exempt certain Member States from EU-wide harmonisation.</p>

<p>Some stakeholders insisted that the principle of the financial settlement should be widespread to cope with the case where the BSP and the appointed BRP are not the same player. Even if the imbalance adjustment is perfectly made and the BRP does not suffer from any imbalance, the imbalance adjustment process constitutes de facto a physical transfer of energy from the perimeter of the BRP, which implies a payment from the BSP to affected BRPs to settle the cost of related energy. The settlement of balancing energy with a BSP independent from a BRP should be based exclusively on metered activation and should correspond to the request from the TSO. This is to ensure the applicability of the principle of BRP neutrality after the activation of balancing energy services provided by a BSP active on its perimeter.</p>	<p><b>Agree.</b> The Agency has provided additional clarity in the Network Code with respect to independent provision of demand response. Thus, keeping the BRP neutral should be the main principle for such a model. Nevertheless, the Agency is of opinion that the exact modalities on the settlement between independent BSP and BRP should be defined in the national terms and conditions related to balancing.</p>
<p>One stakeholder asked for clarification on how the costs of transmission constraints are recovered.</p>	<p><b>Disagree.</b> The Network Code is specifically dedicated to balancing and it is thus sufficient to specify that the costs of transmission constraints shall not be recovered with the imbalance prices.</p>
<p>One stakeholder considered that the imbalance calculation for wind power generation should consider the uncertainty related to the forecast of this specific technology.</p>	<p><b>Disagree.</b> The Agency considers that such exception for a specific technology would not ensure equal treatment of all BRPs and technologies. It would also imply socialisation of some balancing costs and insufficient balancing incentives and price signals.</p>
<p>One stakeholder highlighted that TSOs responsibility related to the assessment and reporting of energy activations should not be minimized.</p>	<p><b>Agree.</b> The Agency considers that Regulation No 543/2013 (Transparency Regulation) as well as improvements with respect to publication of information pursuant to the Network Code should provide sufficient transparency of TSOs' balancing actions.</p>
<p><b>9. Algorithms, Reporting and Cost-Benefit Analysis</b></p>	
<p>One stakeholder asked that the CBA should explicitly assess the impact of new provisions on retail market, where different ISPs can have significant operational impact (retailers' IT systems, data communication systems, etc.). Another stakeholder asked the objectives for the cost-benefit analysis to include the efficient integration in the overall market design, as well as the potential impacts on local, regional and EU markets and competition.</p>	<p><b>Agree.</b> The amended Network Code additionally specifies those objectives.</p>

## **Annex 1 - ACER**

The Agency for the Cooperation of Energy Regulators (Agency) is a European Union body established in 2010. The Agency's mission is to assist National Regulatory Authorities in exercising, at the Community level, the regulatory tasks that they perform in the Member States and, where necessary, to coordinate their action. The work of the Agency is structured around the working bodies, composed of the Agency staff members and staff members of the National Regulatory Authorities. These working bodies deal with different topics, according to their members' fields of expertise.

This report was prepared by ACER Electricity Balancing Work Stream of ACER Electricity Working Group (AEWG).

## Annex 2 - List of Respondents

No	Organisation	Type
1	BDEW	National association
2	DSO Associations (CEDEC, EDSO for Smart Grids, EURELECTRIC and GEODE)	EU Association
3	COGEN Europe	EU Association
4	EDF	Industry
5	Edison	Industry
6	EFET	EU Association
7	Elexon	Industry
8	EnBW	Industry
9	Enel	Industry
10	Energy UK	National association
11	EON	Industry
12	EUGINE	EU Association
13	Eurelectric	EU Association
14	Europex	EU Association
15	EWEA	EU Association
16	Finnish Energy Industries	National association
17	GDF SUEZ	Industry
18	Regulatory Assistance Project	Other
19	Statkraft	Industry
20	Swedenergy	National association
21	Vattenfall AB	Industry
22	Wartsila	Industry