

Mr. Alberto Potoschnig
Director of ACER
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Concerning : GDF SUEZ response to the call for comments of ACER on the revised Network Code on Electricity Balancing

Dear Mr. Potoschnig,

GDF SUEZ welcomes the opportunity to respond to the consultation organized by ACER on the updated version of the Network Code Electricity Balancing (NC EB, version of 6 August 2014). We shared the concerns that ACER brought forward in its negative opinion of the previous version of this important Network Code (version of 23 December 2014). Implementing the comments made by ACER in its reasoned opinion would, in our view, bring the NC EB more in line with the original Framework Guidelines.

A good functioning, pan-European balancing market would be a major contribution towards completing the Internal Energy Market. Even though the balancing market itself is limited in size in comparison to the overall wholesale electricity market, it has a major impact on the markets in other time horizons (especially intraday).

On the one hand, a well-designed balancing market will incentivize market participants to participate both to the balancing market itself and to manage their portfolio in the other time horizons more closely. It can do this through better reflecting the actual value of the balancing energy in this final stage of the electricity market. This will lead to better imbalance management by BRPs to avoid costly imbalances and attract more – additional – balancing capacity by correctly rewarding BSPs for valuable, flexible capacity.

On the other hand, clearly separating the balancing market from the other timeframes – and particularly the Intraday market – enables market parties to better manage imbalances. Getting closer to real time allows a better informed view on any remaining imbalances. The presence of a well-functioning Intraday market makes it possible to correct for any emerging imbalances. For this to function well it is essential that market parties can adjust positions as close as possible to real time, and that no energy that could be available for the Intraday gets locked into the balancing market prematurely.

These two elements – balancing incentives and abilities towards market parties – are for GDF SUEZ cornerstones for a balancing market that fully contributes towards more active involvement of a wide range of market participants. This in turn will result in a more liquid electricity wholesale market and an economically more efficient market functioning. It is in our view also how the Framework Guidelines define the European Integration Model for the balancing market.

As a result, it is with these principles in mind that GDF SUEZ has evaluated the updated version of the Network Code Electricity Balancing and formulated its comments.

We recognize the efforts of ENTSO-E on bringing the updated version of the NC EB better in line with the Framework Guidelines. On a couple of points, there are some clear improvements:

1. Possible deviations by TSOs from the principles in the NC EB are made more strict and conditional on a roadmap in accordance with the Network Code (E.g. Art. 22.4 a-f; Art 32.5 a-f; Art. 34.6 a-d). It avoids that temporary, specific circumstances would result in permanent deviations from the European Integration Model. This could be a serious impediment to the integration of the European balancing market. We ask that ACER closely follows any requests for such exceptional deviations.
2. The implementation timetable and responsibilities of the different parties involved are better described and clarified (E.g. Art. 22-26; Art 13-21; Art. 29.2). Unfortunately it has also made clear that the NC EB in its current form does not lead to reach the implementation of the European Integration Model, as further explained below.
3. There is a much improved separation of Intraday and Balancing Energy markets. It is now clear that the Balancing Energy market cannot open before the Intraday market closes. This avoids that available electricity and flexibility prematurely exits the Intraday market and reduces its liquidity. We ask that the instruction to keep the Gate Closure Time as close as possible to real time, as well as the conditions under which this exemption can be granted (Art. 32.5 a-f), are strictly interpreted and followed.

Despite these improvements on the previous version of the NC EB, there also remain important points of concern to GDF SUEZ. These points have been raised previously, both by GDF SUEZ and other market participants, in previous consultations and discussions. If kept in place, they would be detrimental to the eventual integration of European balancing markets as defined by the Framework Guidelines.

1. **The Network Code should not constrain the ability of market parties to balance their own portfolio and self-dispatch their assets.** In the Internal Electricity Market, market parties have the right to buy and sell electricity to optimize their portfolio, and bear their balancing responsibilities. In order to allow Balancing Responsible Parties (BRPs) to take responsibility for their own imbalances, they need to be able to adjust their position and trade out their imbalances as close as possible to real-time. However, the Network Code currently takes a one-sided approach to the process of determining Balancing Energy GCTs, ensuring TSOs all the time necessary for preparing their balancing operations, thus potentially reducing market parties' opportunities to balance themselves.

GDF SUEZ would therefore ask ACER to consider that the Network Code would be more objective regarding the determination of GCTs, in particular with regard to:

- BRPs' right to change position as close as possible to real time is strengthened (Art. 25.5).
- Intraday Cross-zonal GCT as close as possible to real time by making sure there is no undue delay caused by the Activation Optimization Function (Art. 32.4 c).
- Not allowing TSOs to oblige BSPs to offer them all remaining capacity after the Day-ahead market, given that the Intraday timeframe still allows for further (re)balancing (Art. 25.4), and the fact that it would allow BSPs to update their bids close to the balancing energy GC, market monitoring being needed to ensure proper functioning.

Additionally, BRPs should also be provided with the necessary information to optimally perform self-dispatch. This includes information on the current state of the system (to be included in Art. 8) and the activity of third party aggregators acting as BSP within its perimeter (Art. 27.4 c).

- 2. The Network Code Electricity Balancing should make its final goal of achieving an integrated pan-European balancing market binding and the timetable explicit.** In its current form, the NC EB does not set a deadline for the achievement of the European Integration Model for the different balancing products. It only requires TSOs to come up with a timetable 5 years after Entry into Force (EiF) of the NC (Art. 14.4; Art. 16.5; Art. 18.5; Art. 20.4). We understand the need for some flexibility to take into account the experience and lessons learned from the regional integration model and the Balancing Pilot Projects. But it should not leave the door open to an open-ended postponement, confining balancing flexibility to a fragmented market of several CoBAs. GDF SUEZ asks that both TSOs and the market have some view on when a pan-European balancing market should be achieved.

GDF SUEZ is also concerned that TSOs are allowed to make modifications to the European integration model (Art. 14.3; Art. 16.4; Art. 18.4; Art. 20.3). This model is defined by ACER in the Framework Guidelines and should not be opened to revision by TSOs. The NC EB should restrict itself to specifying a path towards the European Integration Model. We ask that this option is removed, in particular regarding the implementation of marginal pricing (“pay-as-cleared”) as key principle in the different balancing markets.

Finally, with regard to the European Integration Model, GDF SUEZ would like to point out that not all balancing processes should necessarily be part of the final Integration Model. For instance, once the full integration of aFRR and mFRR is achieved, including a Common Merit Order List (CMOL), there should be no further need for Imbalance Netting (IN). Imbalance Netting is a technical optimization of balance activation, while an aFRR/mFRR CMOL is a more advanced market-based activation. Both, however, are mutually exclusive. IN should thus not be part of the final integration model.

- 3. The Standard Products for inclusion on the Common Merit Order Lists should be simple products.** Simple products ensure the actual integration of the balancing markets on an equal footing. Keeping more complex products allows that existing, national balancing products are kept. This fragments the pan-European balancing market, removing a large part of the gains from integration. For both TSOs and BSPs, limiting balancing products should not pose a problem. TSOs can achieve the required balancing profile by combining balancing bids, activating bids in parallel if necessary. BSPs on their side can combine resources in portfolio bids to achieve requirements that are out of range for single capacity sources.

Additionally, simple products allow for fast optimization algorithms and minimal time required for balancing. More complex products, including ranges as currently foreseen in the NC (Art. 29.5), requires lengthier optimization of divergent products. This lengthens the required time for the cross-border balancing market, moving the Gate Closure Time of Intraday further away from real time. These periods closest to real time are the most valuable to market participants to include the latest, most accurate information in the balancing of their portfolio or react to unforeseen incidents.

If the NC EB is to be in line with the Framework Guidelines, achieving the full potential of integrating the balancing markets and to allow the market as much opportunity as possible to self-balance, it should include an explicit choice for simple block products as Standard Products.

While GDF SUEZ wishes to strongly emphasize the importance of addressing these points, we also recognize the importance of moving forward with the Network Codes to avoid stalling the entire process.

As a final remark, we would like to stress that the adoption of an ambitious Network Code Electricity Balancing is critical for the success of the Balancing Pilot Projects (BPPs) as precursors of the Coordinated Balancing Areas. The early start of several BPPs is positive considering the deadlines of the NC EB. However, we see that a clear and ambitious regulatory framework would give better incentives towards TSOs to consider and design the BPPs with complete integration as the final target. It has become clear that the Network Code will have to be the main driver in the integration process, with the BPPs as a supporting tool. We also take this opportunity to ask ACER its support ensure better stakeholder involvement in the elaboration and implementation of the different Balancing Pilot Projects.

Our experts are available for further clarification and discussion.