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Date:
09/01/2015

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Vattenfall response to the ACER call for comments on the revised:

Network Code on Electricity Balancing

Vattenfall welcomes the opportunity to comment on the draft Network Code Electricity Balancing (NC EB). In the first part, we would like to share some general remarks in the form of high level principles that the integrated European balancing market should rest on. In the second part, we share our detailed comments on the draft NC EB.

General comments

Vattenfall supports a long term framework for balancing markets based on:

Full balancing responsibility for all

All market participants should be fully responsible for their imbalances, or contract the service to manage imbalances from a Balance Responsible Party (BRP). Services related to aggregation of demand should be carried out under full balance responsibility. If all market participants are exposed to the entire range of market risks, balancing responsible parties are incentivised to sell their production into the market, meet scheduling, nomination and balancing requirements. As a consequence, market prices will better reflect demand and supply variations, and reveal the true value of flexibility. In this way, the market will provide different ways to hedge risks with new products or contracts.

Marginal prices (pay-as-clear) for trade and settlement

A pricing of balancing energy and capacity according to pay-as-cleared supports cost-efficient allocation of flexibility. To fully support non-distorted market prices, there should be no price caps or restrictions on bid prices in the balancing markets, and the marginal bid should set the uniform price for all balancing energy. For settlement of imbalances, single price settlement plus a fixed fee on imbalances facilitates the decentralized balancing responsibility of variable energy sources and consumption that are challenging to forecast. The single price should correspond to the established price on balancing energy. If proven socioeconomically more efficient, resources that participate in the balancing market could be subject to a two-price settlement.

Economic incentives

Self-balancing by stakeholders is likely to be more and more important in the future system with growing shares of renewable energy sources. To meet this development, the plans of the BRPs should not be binding until close to real-time and the TSOs should provide transparent

information on imbalance prices and volumes as close to real-time as possible. This will facilitate that BRPs enter the operational phase in a favorable position for the TSO and system users. Real time publication of prices does not only reduce the imbalances but also drives down balancing cost. Vattenfall recognizes the TSOs' need for detailed information from production and demand units to support this development. However, any additional data requirements must be subject to a sound cost-benefit analysis. Furthermore, the TSO should not be able to require the BRP to change its binding plan without adequate compensation.

Market access

The balancing market should be open for everyone to participate in, e.g. Balance Service Providers (BSPs) without a contract for balancing capacity should always be allowed to place balancing energy bids to TSOs.

Harmonise and synchronise settlement periods and gate closure times at the border

There should be European harmonisation towards 15 minutes settlement of imbalances to support a balancing market that is fit for increasing variability and that opens up for trade between regions. The gate closures at the bidding zone borders should be harmonised to enable cost-efficient balancing.

Detailed comments

Coordinated Balancing Areas should follow capacity calculation regions

The concept of coordinated balancing areas can be compared with the capacity calculation regions in the guideline CACM. To prepare for a coherent and more time-efficient solution for regional balancing integration, Vattenfall suggests that the coordinated balancing areas follow the capacity calculation regions.

Ambition and commitment to the regional implementation steps should be sharper

Vattenfall shares ACER's concern that the draft lacks a clear, firm and ambitious timeline for the regional implementation steps towards a common European market. The first regional steps should be made more ambitious and aim for more integration by requiring that at least two coordinated balancing areas are included in the regional step. It shall further be implemented according to a shorter time plan as currently proposed. In addition, the code should prescribe when the respective models should be implemented not only when the proposal should be presented. The current lack of implementation guidance entails a risk for very lengthy processes and the stagnation of the European balancing market development.

Rules for European and regional decision making among TSOs should be included

Considerable details are to be developed after the Balancing Code enters into force. Consequently, the rules how TSOs shall make decisions on European and regional issues must be covered by the Code. A regional decision process for common decisions with a coordinated balancing area is missing. Vattenfall proposes that a transparent decision process for regional decision making, corresponding to article 9 of the guideline CACM should be added to the draft Balancing Code. The principles for qualified majority on European issues should also be taken from the guideline CACM ensuring consistency among the rules being developed.

Reservation of interconnector capacity for exchange of balance capacity may distort the D-1 and ID markets – counter trade should be added as the preferred methodology

Vattenfall shares ACER's concern that all forms of reservation of cross border capacity for balancing purposes should be subject to strict regulatory supervision. Vattenfall views that all cross border capacity should be allocated at all time frames. If the value of capacity increases between D-1 and the balancing time frame, System Operators could rely on counter trade to

free the necessary capacity. Thus, counter trade should be included as an alternative in the draft Network Code.

Requirement to be in balanced position D-1 time frame

Following the growing share of intermittent renewable energy sources, Vattenfall is of the opinion that the requirement on BRPs to provide a balanced position in the day ahead timeframe is not efficiently supporting cost-efficient balancing. The Network Code should rather focus on creating the right economic incentives for a balanced approach towards the operational phase as forecast errors gradually decrease. TSOs are responsible for imbalances occurring after intraday gate closure. Thus, the only plan from BRPs that should be binding and used in settlement of imbalances is the final plan sent to the TSO after intraday gate closure. This should be explicitly stated in the Network Code. Intraday gate closure should be as close as possible to real time (balancing market time frame) and preferably not exceed the number of minutes within an imbalance settlement period.

Activation of balancing energy bids

If the TSOs deviate from the merit order activation mechanism and activate balancing energy bids for balancing purposes not in merit order, the Code has to prescribe that such deviation must not affect the imbalance settlement price that should reflect the cost of balancing the system.

If balancing energy bids are activated for other purposes than balancing, those bids should not affect the price of imbalances. Thus, we suggest a sharper distinction between grid and balancing related activations that the draft Code prescribes. The Code should therefore state that the bids used for purposes other than balancing (e.g. grid related) shall not affect the imbalance price.

Transparency to facilitate self-balancing

Vattenfall supports ACER's view that imbalance prices and volumes should be published as close to real-time as possible to facilitate that BRPs enter the operational phase in a favorable position for TSOs and system users.

Requirements on imbalance settlement

Vattenfall wishes to underline that services concerning aggregation of demand should be contracted between a BRP and the TSO. We agree with ACER that the Network Code allows for too much flexibility in terms of harmonisation of imbalance settlement periods. Vattenfall views 15 minutes as focal point for the harmonisation of the imbalance settlement period.

Roles and responsibilities

In case the Balance Service Provider is not Balance Responsible Party for the aggregated demand, Vattenfall is of the opinion that the Network Code for balancing should include a requirement that services related to demand aggregation, at a minimum, are regulated in a contract between the referred Balance Service Provider and Balance Responsible Party.

Methodology for unshared bids

The possibility for TSOs to apply unshared bids as prescribed in article 41 is problematic. It implies that the volumes and reserves to which a capacity payment is rewarded could be withheld from the regional and European market. Thus, it leaves too much discretionary power to the national level and thereby may counteract the objective of integrating balancing markets. In the worst case, it could mean that a TSO rewards a capacity payment to all resources and in the second stage reserves all resources locally leading to cost inefficient balancing.