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Agency for the Cooperation of Energy Regulators (ACER)

[NC-Electricity-Balancing@acer.europa.eu](mailto:NC-Electricity-Balancing@acer.europa.eu)

8 January 2015

Dear ██████████,

**RE: Comments on the revised Network Code on Electricity Balancing**

Thank you for the opportunity to provide comments on ENTSO-E's final draft of the Network Code on Electricity Balancing (NCEB), published in September 2014. As a major European generation technology manufacturer, Wärtsilä has proactively participated in the EU energy policy debate with the EU institutions in Brussels, and worked with ACER and ENTSO-E in the network code development process and the various associated consultations to date.

We consider the electricity balancing arrangements to be critical in terms of enabling the wide scale integration of renewable generation onto the system, and in our view the harmonisation of electricity balancing arrangements is a critical component of the EU Target Model. Cross-border exchange of resources in balancing timeframes can play an important role in maintaining security of supply and in maximising output from variable renewable generation sources across Europe at the lowest cost to the consumer. Greater harmonisation can also lower barriers to entry for providers of flexibility and enhance liquidity in balancing markets, which could then flow through into intra-day and day-ahead markets.

We agreed with the level of ambition set out in ACER's Framework Guidelines on Electricity Balancing, as the principles therein accord with our vision of how well designed balancing arrangements can encourage the development of flexible resources. Our response to the initial draft of the NCEB thus focused on the areas in which we felt the Code fell short of the principles in the Framework Guidelines. We suggested that the final NCEB should be strengthened in a number of areas, for example:

- Gate closure times should be fully harmonised across Europe to maximise cross-border trade in balancing energy in balancing timeframes,

- Reserves should be procured in the short term as far as possible to drive the development of liquid short-term markets for flexibility,
- Balancing energy should be priced on a marginal, 'pay-as-cleared' basis to reflect the full value of flexibility close to real-time, and
- Imbalance charges should be set on a fully cost-reflective basis so as to create the right incentives for market participants to balance their own positions.

In addition, while we supported a pragmatic and incremental approach to harmonisation, we were concerned at the lack of a clear path from the regional approach to the Europe-wide target model mandated by the Framework Guidelines. Without clear interim targets, we were concerned that Coordinated Balancing Areas (CoBAs) may become entrenched, which may threaten the achievement of the Europe-wide targets. In turn, a number of the general objectives may not be met: there could be undue market fragmentation and there could be a lack of liquidity in Balancing Markets.

Following submission of our response, we engaged with you and the ACER team on these key areas, and we subsequently supported ACER's decision to seek amendments to the draft NCEB (picking up many of the issues we had raised in our response).

We are pleased to see that ENTSO'E's revised and final NCEB strengthened in a number of these key areas – in particular with respect to gate closure harmonisation and the inclusion of clear interim milestones to achieve Europe-wide harmonisation via the joining together of CoBAs. While we would have liked to see greater ambition in relation to the harmonisation of reserve markets and imbalance pricing, we can appreciate the pragmatic and gradual approach in these areas. Overall, in our view the final draft NCEB represents a further step in the right direction.

The implementation phase for the NCEB will be critical to ensuring that the core principles of the Code (and Framework Guidelines) are maintained and that the prescribed timelines are met. The implementation process should remain transparent and open, and we look forward to further opportunities to provide input along with other stakeholders.

With kind regards,

[Redacted signature]

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Market Development Director

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