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ACER Framework Guidelines on Electricity Balancing (DFGEB-2012-E-004)

EDF Energy is one of the UK's largest energy companies with activities throughout the energy chain. Our interests include nuclear, coal and gas-fired electricity generation, renewables, and energy supply to end users. We have over five million electricity and gas customer accounts in the UK, including residential and business users.

EDF Energy supports the objectives of the Framework Guidelines (FG) on Electricity Balancing, to deliver efficient balancing at a European level through cross-border exchange. We recognise that optimal use of balancing assets throughout Europe will only be realised with a high level of co-ordination between TSOs. A number of trade-offs will need to be made in the final code, between national balancing regimes which are specifically attuned to local conditions, and the wider benefits of cross border trade. We therefore favour gradual implementation of the code where cost-benefit analyses are performed on a regular basis to validate the market design. It follows that the cost-benefit analysis for the 7-year-after-entry-into-force target should not be optional; the implementation of the seven-year target should be conditional on the demonstration of a positive net benefit.

The key points of our response are:

- There appear to be some serious contradictions in the FG. For example, the FG requires harmonious and maximally efficient cross-border trading (section 3.2.1). However, it goes on to state that the code must prohibit any charge for the use of cross-border capacity if available (section 4.2). This implies cross border capacity allocations have not been fully utilised at Day-Ahead (DA) or Within-Day (WD) stage, or too much capacity has been built, neither of which are economically efficient. The FG should focus on improved international market signalling to allow as much market participant balancing outside of gate closure as possible.
- Similarly, the FG needs a market-based selection of balancing services to work properly. However, national balancing reserve procurement is required to promote cross-border balancing exchanges (section 3.2.1), with markets available and promoted on every border. Regulated reserve capacity levels to meet 'control area' security criteria are also required. These activities are not, however, fully market-based. In the same way, availability and access of reserve is fine, but if the code intends to promote or require volumes, there will be market distortions. The market should determine volumes traded.

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- Reserves can be shared across borders only when there are no restrictions to physical flow in the balancing timeframe. This raises questions as to how and when a TSO may obtain confirmation of capacity being available.
- If there is no capacity available (i.e. market has identified the tightness and procured across borders at WD stage), it would be useful for the code to indicate how this could be resolved within its remit when the TSO's balancing reserves then go short.
- The FG could also be improved by clarifying which of the balancing actions, taken for various reasons over various timescales, should go into the imbalance price for any given balancing period. The details could be elaborated in the code but the FG should cover the balancing principles in general.
- Finally, the involvement of NRAs in approval of TSO capacity procurement (section 4.3) would be difficult practically to implement and operate.

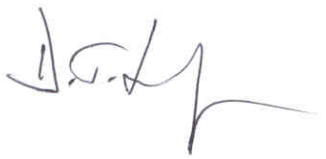
From the UK perspective there is no mention of which "exempt" interconnectors where charges for balancing services are permitted, nor the fact that DC links may have different operational constraints or possibilities. The capabilities of different interconnectors and how they are to support the aims should at least be noted or commented on in the FGs. The issue with the UK is that the entire cross border capacity should in principle be fully utilised with a combination of DA and WD nominations if cross border processes are efficient. The only exception should be in case of physical congestion on the network. On the other hand, the ability to quickly change the load pattern on HVDC links has value to the TSOs in terms of energy balancing their respective systems and we would expect them to do so using competitive references from their respective Balancing Mechanism (BM), within the remaining capacity still available, if any, or through reverse flows.

Leaving to the TSOs the ability to agree is offering the possibility to avoid unnecessary change to existing BM arrangements as long as they comply with the market based principle.

Finally, it would be beneficial for the FG to incorporate a section on modification or change process. Once the code becomes operational and binding, stakeholders (e.g. Balance Responsible Party and/or Balance Service Provider) might find that certain elements need changing or fine tuning. To ensure that ENTSO-e develops a process for managing change in the code, the FG should provide some direction.

Our detailed responses are set out in the attachment to this letter. Should you wish to discuss any of the issues raised in our response or have any queries, please contact Dr. Sebastian Eyre on 020 7752 2167, or myself.

Yours sincerely,



Denis Linford
Corporate Policy and Regulation Director

Attachment

Q1: Do you consider that harmonisation of the pricing method is a prerequisite to establish a TSO-TSO model with common merit order list for balancing energy? Do you support the use of the pay-as-cleared principle?

We agree the FG need to consider the pricing methodology as well as any operational / capability considerations that come with the prices offered (in line with UK's Balancing Mechanism (BM) today). We note that actions may be taken in the BM for a variety of reasons and with various dynamic characteristics. This may have an impact on actions required in longer timeframes. The impact on merit orders, marginal prices and imbalance prices will need therefore careful consideration.

The FG states that the Electricity Balancing Network Code(s) shall provide that the pricing method of the balancing energy products is harmonised and ensure an economically efficient dispatch of generation and an efficient use of demand response and balancing resources. It then goes on to state that the method shall be based on marginal pricing (pay-as-cleared) but does not specify whether this is limited to cross-border balancing or whether the intention is to extend the requirements to national balancing regimes.

Q2: Do you think the "margins" should not exceed the reserve requirements needed to meet the security criteria which will be defined in network code(s) on System Operation?

Reserve margins should be market-led not regulated. TSOs will reduce their reserve margins if it is economic and "safe" so to do. This will only occur if increased interconnection supports their economic and security of supply requirements.

Q3: Do you support to aim at similar target models for frequency restoration reserves and for replacement reserves? Do you think a distinction should be made between manually-activated and automatically-activated frequency restoration reserves in terms of models of exchanges and/or timeframes for implementation?

Yes, similar target models could be aimed for. Although the DC interconnection with the UK needs to be considered as it does not require the same type of intervention.

Q4: Do you support the timeframes for implementation?
The timeframes are challenging even for the most advanced markets. Implementation will likely involve IT change or system / methodology change, neither of which will be swift.

Q5: Do you consider regional implementation objectives as relevant milestones which should be aimed at in these framework guidelines on electricity balancing and the Electricity Balancing Network Code(s)?

EDF Energy is supportive of regional implementation, allowing markets to determine where there is opportunity and capture value accordingly. Provided markets can trade with each other across already interconnected borders, there is no requirement for

immediate full harmonisation. This allows for a pragmatic implementation focussing on existing and useful interconnector capacities.

Q6: Do you consider important to harmonise imbalance settlement? Do you think these Framework Guidelines on Electricity Balancing should be more specific on how to do it?

We expect that some aspects of imbalance settlement should not be affected by the FG, but others will be (e.g. calculation of cashout). The TSO receiving balancing services should apportion the cost of those services to its beneficiaries assuming that it is cheaper than other alternatives. However the costs/benefits realised by the provider of the balancing services (TSO & Generator) should be held separate from national cashout calculations. It would make sense to align end to end costs of balancing and delivering power (i.e. Balancing and Use of System charges and any ex-post charges) are harmonised. Otherwise the alignment of cashout alone will not work.

EDF Energy
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