

**Workshop on the FG on Electricity Balancing**  
**24<sup>th</sup> October 2011**

**Summary of the discussion**

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ACER first presented general framework guideline (FG) and network code (NC) development process. This was followed by a presentation on the project timeline, the exact process of drafting the Framework Guideline on Electricity Balancing and the role of the expert group on electricity balancing. The presentation also discussed the rationale behind the drafting of the framework guidelines.

The rest of the presentation focused on the scoping of the FG on electricity balancing and presenting the issues related to integration of balancing markets. The following main issues were outlined and discussed among the stakeholders and the panellists:

1. **Policy objectives.** One stakeholder noted that renewable energy sources (RES) should have the playing field levelled with other generation sources, i.e. integration of RES should be based on the market principles. Another stakeholder raised the question of regulatory barriers for demand-side participation and emphasised that the demand side should be able to participate in the balancing energy/reserve market. Integration of balancing markets should be done in a way that creates a balancing market, not a balancing mechanism.
2. **Evaluation criteria.** One stakeholder believed that one of the criteria that could be added is the enabling of demand side participation. Another stakeholder raised the question of balancing/weighing the different criteria in decision making between the policy options. The question of performance monitoring was also raised. Performance indicators should be used to help decide on the best solution and to make sure that proposed framework guideline is effective in fixing problems. Initial impact assessment will provide a qualitative evaluation of possible options.
3. **Consistency between different framework guidelines and network codes.** Few stakeholders emphasized the need to ensure a high coherency rate among different framework guidelines (Electricity Balancing, Capacity Allocation and Congestion Management, System Operation) and also among the criteria. There is a close link with regard to gate closure times between framework guidelines on CACM and balancing and this has an influence on the ACE netting.
4. **Policy options.** One stakeholder commented that a “no action” policy option and “no exchange of reserves” option should not be options at all, because some markets are already exchanging balancing reserves and energy. Some stakeholders proposed to eliminate unacceptable policy options at the beginning of the assessment and to concentrate on the most relevant solutions only.

5. **Harmonization issues.** Stakeholders noted that harmonization issues need to be checked against evaluation criteria. They questioned the extent to which national regulations will have to change, since this depends on the level of integration. One stakeholder noted that the sharing of balancing reserves requires less harmonisation than for example the sharing of balancing energy.

Some stakeholders emphasised that balancing market integration should contribute to overall market integration and should not preclude innovation. The overall aim of the framework guidelines should not be too restrictive but should encourage the development of the most effective solution.

Harmonization of gate closure times (GCT) was discussed by few stakeholders. They expressed the need to encourage the most effective solution, however harmonisation of GCTs might not necessarily be the most efficient thing to do. Gate closure time should define the time when volumes and prices for balancing energy become firm. Gate closure time should also relate to national gate closure times with respect to scheduling and balancing.

6. **Balance responsibility and imbalance settlement.** Some stakeholders see the need to harmonise balance responsibility and imbalance settlement to avoid undesired outcomes. Some stakeholders are of the opinion that imbalances should reflect interaction between price and demand and that real-time marginal price should determine imbalance price, which should be cost-reflective. Some believe that imbalance settlement should be portfolio based. One stakeholder emphasised the importance of solving the problem of balance responsibility of renewable energy sources, since a significant percentage of these sources outside balance responsibility could create problems. One stakeholder noted that cost allocations between countries and balance responsible parties (BRP) need to be considered to improve efficiency of balancing markets.
7. **Demand-side participation.** One stakeholder observed that demand-side already participates in the energy market and questioned whether it could also participate in the reserve market. Another stakeholder emphasised that it is necessary to define separate rules and requirements for demand and generation in order to enable participation of the demand side in the balancing market.
8. **Netting of Area Control Error (ACE).** Some stakeholders proposed that due to very technical nature ACE netting should be defined in System Operation Framework Guidelines. With regard to this they addressed the issue of defining appropriate size of control/balancing area. The question of ACE netting between different synchronous areas was also raised. One stakeholder questioned whether the definition of cross-border balancing also includes cross-zonal balancing.
9. **Path to achieve an integrated balancing market.** Majority of stakeholders support the definition of a basic target model with some core requirements and rules which are necessary to foster integration as the first step to an integrated balancing market. Proposing full integration would require very long implementation time. It is essential, however, to have a clear view of the final common target model, so that everybody is aware of the goal that should be reached. Stakeholders supported a step-by step approach with clear milestones to the way in which the target model should be achieved and emphasized the possibility to learn as the model develops. They suggested a regional approach in the implementation phase. Some stakeholders supported an ACER-like coordination as it is the case of AESAG.

10. **Roles and responsibilities.** One group of stakeholders discussed typical roles and responsibilities of TSOs, BRPs and balance service providers (BSP). The group believed that the FG should be clear about the responsibilities of each. They emphasized a lack of harmonisation and clarity with regard to the split of operational responsibilities between TSOs and BRPs. Some stakeholders expressed the view that allowing the BRPs to balance themselves is not in the law and that BRPs have no legal responsibility with this regard. The legal responsibility is borne exclusively by the TSOs. To give some of these responsibilities to the market, the market would have to prove first that it can balance itself and that TSOs can rely on it. Essentially this comes down to the question whether one believes in the market or in centralized planning. One stakeholder however emphasised that there is a difference however i.e. difference that TSOs need to keep the balance each second, whereas the market needs to keep the balance within the market-time-unit.

Another group of stakeholders emphasized the need for maximum possibilities for BRPs to balance their positions themselves and to therefore move the incentive for balancing to the direction of the market and not towards the TSOs.

Clear roles and responsibilities for the BSPs and BRPs are particularly important in case of mandatory participation in a balancing market.

11. **Definition of products.** Many stakeholders agreed that it would be beneficial to define products from cross-border balancing energy. Even though there are differences when it comes to cross-border balancing reserves due to different procurement time-frames, the definition of products should still be possible. Some expressed the doubt that the model applied for tertiary reserves and energy could be applied to the model for secondary reserves and energy due to the different technical aspects (e.g. ramping time) that have to be considered in the procurement process. It is easier to exchange energy and more difficult to exchange reserve products due to different needs of TSOs. One stakeholder proposed to focus more on the exchange of tertiary reserve and less on secondary reserve.

Few stakeholders believe that FG and NC should harmonize the rules to make the products possible, but should not define the products themselves. The market should be able to define the products if the rules are flexible enough. In relation to the cross-border capacity, they believe that the market should decide on the way in which cross-border capacity is used in different timeframes. The market could show which products are the least expensive ones and this should incentivise TSOs to use less expensive products to balance the system. Other stakeholders responded that definition of products actually depends on the needs of TSOs; therefore, the market can not define these products from the technical side. The same applies to the procurement scheme and to the decision for the amount of reserves needed.

The discussion took place on how to create an integrated market for these products (e.g. secondary and tertiary), since different countries rely on different types of reserves. Doubts were expressed whether this could be achieved without common rules for EU. Rules cannot be different, because this would block trading and leading to false competition. One of the objectives of cross-border integration is also to create the right incentive for development of national balancing markets.

12. **Re-tradability of reserves.** One stakeholder proposed that every position in the market, including the reserves, should be re-tradable up to the real-time, which would make the reserve market more dynamic. Reserves are options for energy, with delivery in real-time, but the real-time delivery should be based on the market. "Use-It-Or-Sell-It" principle could also be applied for reserves and to introduce real-time reserve trading. Reserve contracts should not be fixed for delivery but flexible to be re-traded, therefore long-term non-

negotiable contracts should not be permitted. One of the stakeholders noted that the demand-side would also benefit with re-tradability of reserves. Another stakeholder responded that re-tradability is possible for energy part but not for reserves.

13. **Reservation of cross-border capacities.** Stakeholders in general agree that the market should decide on the use of cross-border capacities. There were however differences in opinions whether or not such a reservation is beneficial from a welfare/economic perspective. Some stakeholders agree that the market should decide by the means of prices if reservation is sensible or not, therefore the price difference between energy prices and balancing reserve prices should be a good indicator if reservation of cross-border capacities is beneficial from welfare economic perspective and it should be up to a regulatory decision. Reservation of cross-border capacities is a good way to integrate secondary reserve markets, where the reserve prices could differ a lot.

Some stakeholders opposed the reservation cross-border capacity for exchange of balancing reserves. They expressed doubts that reservation can create welfare gains. It shouldn't be left for the TSOs to decide but to the market. TSOs should be allowed to use only the remaining capacity after the market closes and thus allow reservation only in the shorter time-frames. Cross-border capacity reservation is indeed complex, but it should make sense to reserve capacity in the opposite direction of the congestion.