EuroPEX
Association of European
Power Exchanges

EuroPEX Response to the "*Draft Revised ERGEG Guidelines of Good Practice for Electricity Balancing Markets Integration (GGP-EBMI)*"

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Methodology

EuroPEX response to ERGEG consultation on "Draft Revised Guidelines of Good Practice for Electricity Balancing Markets Integration (GGP-EBMI)" is divided in three parts including the introduction, comments on the GGP-EBMI and proposals to improve the revised GGP-EBMI. EuroPEX response to the consultation aims to improve the proposed draft revised guidelines in terms of efficiency, accountability and transparency.

I. Introduction

1. On 20th of January 2009, the European Regulators Group for Electricity and Gas (ERGEG) launched a public consultation on Guidelines of Good Practice for Electricity Balancing Markets Integration (GGP-EBMI). The consultation aims to collect the views of interested parties on the revised GGP-EBMI. The revised GGP-EBMI is the result of previous consultation on this issue and the study on "the interaction and dependencies of balancing markets, intraday trade and automatically-activated reserves" carried out by consultants and financed by the European Commission[1].

2. EuroPEX welcomes the opportunity offered by ERGEG to comment on and provide input to the revised GGP-EBMI. It is indeed essential that consultations remain at the core of the regulators working methodology, and are applied in an efficient, non-discriminatory and systematic way.

3. EuroPEX understands that there should be a clear distinction among three concepts:

i. Free intraday energy markets, managed by Power Exchanges and open to all participants in the market (buyers and sellers), where energy is negotiated for all the future hours where a day-ahead energy market has already taken place and fix day-ahead prices. There are two main purposes for this market:

- The first is to complement the day-ahead trading opportunities with an organized place, open to all participants, to continue trading after the day-ahead time, until as close as technically permitted on each system;
- The second is a place where the parties can balance their positions due to unforeseen circumstances at day-ahead time. This minimizes the exposure to imbalance prices for participants.

ii. Reserve markets refer to where active and reactive power reserve is negotiated, open to all participants, if technically possible, and not only to producers. At reserve markets, the capability to generate or consume electricity as required by the system is traded and this does not imply being energy markets.

iii. Balancing markets, open to all kind of participants, if technically possible, not only to producers, where, for as far as needed, the System Operator balance production to consumption for time frame ahead that cannot be negotiated in any intraday market (typically one hour). Therefore this markets or mechanisms only negotiate energy of one sign, either positive or negative, as needed to balance the system.

[1] Draft Revised ERGEG Guidelines of Good Practice for Electricity Balancing Markets Integration (GGP-EBMI), [15/01/2009], p. 5.

II. Comments on the ERGEG consultation paper

4. EuroPEX shares the same idea argued by most of the respondents to the consultation launched by ERGEG from 8th June to 3rd August 2006 that there is a inter-relationship between balancing markets, intraday markets and the automatically-activated reserve markets and closely related to manually activated reserve markets, although each one operates in a different time frame and should be established to optimise possibilities between the balancing markets and the day-ahead or intraday markets, but without creating arbitrage mechanism between the balancing mechanisms and the day-ahead and intraday markets. EuroPEX shares ERGEG's view regarding efficiency, market based methods in balancing markets, promotion of competition and non-discriminatory access.

5. The genuine distinction between intraday and balancing markets is to be found in their nature and initial purposes rather than in their respective timing. The intraday markets and balancing markets are quite distinct in the objective of the market (free trading for intraday and single "buyer or seller" - the TSO - for the balancing market). A risk exists that these two markets if not well designed would compete with each other, leading to two inefficient markets and thus suboptimal balancing options.

6. Figure 1[2] shows an arrow pointing a balancing mechanism after the day-ahead market; this is misleading since balancing markets should wait until closer to real time, when there are no more opportunities for agents to balance their position in an intraday market. System Operator should not balance the system earlier than after all free markets since the problems that they are seeing might be solved alone by the market participants, in a free intraday market.

7. Cross border trading should be included in balancing markets or mechanisms in order to create more liquidity as well as to use the opportunity created by the fact that the last minute balancing needs of a system does not necessarily follow the predetermined scheduled economic usage of the tie-lines. Therefore the opportunity to balance the system at a cheaper cost using cross-border trades is quite important.

8. EuroPEX agrees that balancing mechanisms should be operated in an economically efficient manner and that imbalance arrangements and pricing should be both simple and transparent. The best scenario should be where imbalance volumes in a Control Area were negligible and cost effective.

[2] Draft Revised ERGEG Guidelines of Good Practice for Electricity Balancing Markets Integration (GGP-EBMI), [15/01/2009], p. 11.

9. The real-time operation of a power system requires a continuous balance between supply and demand. Planning of required supply is greatly correlated to demand forecast as well as to wind generation forecast. The balancing needs to be well managed not only to guarantee security and stability of the power system but also to establish an efficient and reliable electricity market since an increased amount of energy traded in the balancing markets as consequence of imbalance could lead to inefficiency. The existence of liquid intraday markets will provide an opportunity for market players to solve most of their problems in a free trading environment, avoiding the exposure to imbalance charges.

10. For an economically efficient electricity wholesale market to flourish it is essential that a number of criteria are met, particularly the determination of the merit order which influences the short-term operation of the units. It is therefore important that merit order determination procedure does not contribute to market distortion or encourage market power. The balancing market merit order should be based on prices, except when a technical unfeasibility is reached.

III. Proposals for improvement of the proposed Guidelines

11. Power system requires real time continuous balance between supply and demand in order to guarantee system stability. Overcoming imbalances implies that bids and offers can be activated, with repercussion to the price of trade. The imbalance can be reduced with liquid regional intraday markets driven by Power Exchanges.

12. When demand forecast does not match the actual demand or wind generation forecast does not match the actual generation, there might be shortage or surplus of generation capacity that needs to be tackled in a shorter-term than the day-ahead market, such as in the intraday market.

13. The Draft Revised Guidelines of Good Practice for Electricity balancing markets Integration (GGP-EBMI) should consider that market parties responsible for system balancing should be accountable for deviations. This approach could encourage minimizing the requested reserves to operate the system.

14. Balancing risks and associated costs should be borne by market parties and not by market platforms. The exchange could therefore be exempt from any delivery risk and specifically from subsequent collateral coverage at the TSO.

15. The merit order of the balancing market is a way of ranking available sources of energy, especially electrical generation, but open to all participants if technically viable, in order of their price for selling electricity, so that the cheaper seller power plants are more likely to be called to generate rather than the expensive ones; that is why transparency on prices for balancing market is essential.

16. Determining the merit order based on other factors than price may encourage the use of less efficient generation, with repercussion to the overall functioning of the electricity market since the cheapest generation is not necessarily the one with higher priority. It is therefore again worth underlining that the balancing market merit order needs to be based on prices, unless technically unfeasible.

17. EuroPEX, on behalf of European power exchanges, is in favour that the Draft Revised Guidelines of Good Practice for Electricity Balancing Markets Integration (GGP-EBMI) should include the guideline which considers an unbiased, transparent methodology that needs to be adopted by the entities responsible for determining the merit order. When the balancing market merit order is not respected, the technical reasons behind that should be published as well as the most updated "merit order".

18. A well functioning market requires clear and transparent indexation based on supply and demand fundamentals. Imbalance charges can be calculated on the back of the market index, this method provides a level of transparency that helps to facilitate trade activity and liquidity from all market parties in prior timeframes (mainly day ahead and intraday) as they can asses pricing risk levels when taking or not taking a position. Furthermore, a market based, transparent, and compatible systems for price setting and activation of bids in balancing markets is essential.

19. EuroPEX believes that, in order to support the further development of the IEM, it is essential that a consistent approach is defined to the provision of market related information to wholesale market participants (and the general public) including suppliers, generators, energy traders, large customers and demand side participants. Relevant market information should therefore be made available to all market participants and the public in general as soon as possible.

20. In the balancing market, analysis of the best market opportunities, performance of the best possible imbalance management and evaluation of the best opportunities to maintain the equilibrium between supply and demand, require that all necessary information is made available to all concerned parties as soon as possible.

21. The balancing market in itself is not a real market but a market based tool to balance the system and to price imbalances. This imbalance price should be a strong incentive for parties to voluntary trade out of any predictable imbalance, e.g. the imbalance price should be such that in any case it would have been more beneficial for a party to trade out this position via the intraday market. This can be achieved by implementing design parameters regarding price levels.