



– Consultation Response –

## **ACER public consultation on the amendments to the automatic frequency restoration reserve implementation framework and pricing methodology**

Brussels, 23 April 2024 | Europex welcomes the opportunity to respond to ACER consultation on the TSOs' proposal to amend i) the implementation framework for the exchange of balancing energy from frequency restoration reserves with automatic activation (aFRR) and ii) the common methodology for harmonising the pricing balancing energy and cross-border capacity.

### **1.1 Do you agree with the modifications intended by ACER on the adjustment of the technical price limits based on the maximum/minimum clearing price for SIDC?**

Partially.

### **1.2 Please provide an explanation for your answer.**

We agree with the modifications intended by ACER on the adjustment of the technical price limits based on both the maximum and minimum clearing price for SIDC. However, we are cautious on the logic of first reducing balancing technical price limit down to e.g., 10,000 EUR/MWh and then in mid-2026 increasing it (again) up to 15,000 EUR/MWh. Furthermore, mitigations should be considered to limit the risk of unjustified arbitrage between order and activation prices in SDAC/SIDC versus in balancing. For example, a proper reflection of production cost, demand value and alternative cost should also be applicable for balancing, thus limiting the difference in min/max technical price limits for balancing versus in SDAC/SIDC.

### **1.3 Do you consider that the introduction of a harmonized maximum/minimum price for balancing energy, at a lower level than the technical price limit (99,999 €/MWh) would be acceptable, if there would be a transparent mechanism to adjust the harmonized maximum/minimum price for balancing energy?**

Yes.

### **1.4 Please provide an explanation for your answer.**

As we understand the necessity to find a mitigation measure due to price peaks incidents and acknowledge the fact that there is a lack of competitiveness within balancing markets, we are in

favour of setting adequate technical price limits for the correct functioning of the algorithm. Indeed, it is important to set the technical price limits pursuant to Article 10(1) of the Electricity Regulation stating that *“There shall be neither a maximum nor a minimum limit to the wholesale electricity price. This provision [...] and shall include balancing energy and imbalance prices.”* Certainly, pursuant to the Electricity Balancing Regulation, this introduction must be accompanied with the implementation of an adjustment mechanism based on a transparent procedure including some predefined triggering conditions.

**1.5 At what level, in your view, shall the initial value of the harmonized maximum/minimum price for balancing energy be set?**

No answer provided.

**1.6 Please provide an explanation for your answer.**

While acknowledging the suitability of the VoLL as a possible solution to establish the harmonised maximum/minimum price for balancing energy, we express some caution due to its calculation complexity and the high volatility of this indicator among the different areas. Consequently, we believe that the initial level of the harmonised maximum/minimum price for balancing energy should be set only slightly above the SIDC maximum/minimum price level. While it is true that balancing markets and SIDC are different in their structure, it is necessary to consider that they take place in close succession of each other and that market participants incur almost the same level of costs and opportunity value for the activation of their resources. Consequently, defining maximum/minimum price levels for balancing at a level which is not much higher than for SIDC would minimise the risk of arbitrage, i.e., market participants withholding part of their capacity in order to get higher revenues in balancing mechanisms with more convenient conditions.

**1.7 Do you agree with the general settings of the considered balancing adjustment mechanism?**

Partially.

**1.8 Please provide an explanation for your answer.**

In order to avoid potential arbitrage between the different markets, it would be preferable to apply the same criteria as the adjustment mechanism for SDAC and SIDC to balancing markets. Thus, the increased steps in case the upward or downward threshold is reached should be set in a similar way.

**1.9 Do you agree that the balancing adjustment mechanism shall account for the specificities of balancing markets through specific conditions?**

Yes.

**1.10 Please provide an explanation for your answer.**

Considering that the usage of balancing platforms is currently characterised by potentially low level of competitiveness and that the products traded within different platforms pursue the same objective of preserving system security, we preliminary agree with the accounting for the specificities of balancing markets through specific conditions, in particular, with the one related to the level of competitiveness (i.e., specific condition 3).

**1.11 Do you agree with specificity 1 and the associated condition?**

Partially.

**1.12 Please provide an explanation for your answer.**

We agree to consider the CBMPs formed both in PICASSO and MARI as a trigger condition for the application of the adjustment mechanism. Indeed, as MARI and PICASSO are both part of the balancing market, when applying the adjustment mechanism, it is correct to assess whether there are repeated structural price spikes in both platforms that justify the increase in the thresholds. Furthermore, we believe that in case of PICASSO, it is better, in terms of market design, to consider the weighted average of the CBMPs during the imbalance settlement period above/below the threshold, thereby not giving too much weight to individual price incidents related to a four-second period. Nevertheless, we believe that this specificity will be effective once the TSOs will have completed the adhesion process to both PICASSO and MARI.

**1.13 Do you agree with specificity 2 and the associated condition?**

Partially.

**1.14 Please provide an explanation for your answer.**

Despite having different characteristics, aFRR and mFRR products pursue the same objective of preserving system security. If TSOs cannot procure aFRR because of price incidents there is still the possibility to guarantee system security through the acquisition of manual reserve on MARI, if economically convenient. Consequently, we agree with the application of this triggering specificity. Nevertheless, while we believe that currently it is meaningless as most of TSOs have not completed yet the adhesion process to both platforms, this trigger condition may be still effective in the long-term.

**1.15 Do you think that the adjustment mechanism should be triggered if there were concerns about market competition (specific condition 3)?**

No.

**1.16 Please provide an explanation for your answer.**

We believe that the adjustment mechanism should not be triggered in case a lack of competition is verified, otherwise, there may be the risk that market participants would

submit bids at the increased technical price limits which do not reflect their marginal costs, thereby, pursuing higher profits.

**1.17 In case a condition about the lack of competition in the market would be introduced, what type of conditions would have your preference?**

No answer provided.

**1.18 Please provide an explanation for your answer.**

As stated in the previous question, the lack of competition is a condition that needs to be taken into consideration in order to avoid episodes of price peak in the market. To this end, it would be preferable to evaluate through an ex-post assessment if the CBMP has overcome the threshold because of an inefficient price formation. Nevertheless, we also believe that an ex-ante analysis related to the competitiveness level within balancing markets may be useful for the application of mitigation measures preventing price peak incidents. Overall, it is important to ensure that any adjustments of realised price peaks do not occur too frequently and do not undervalue the reliability of the fact that aFRR/mFRR prices will be kept firm and applicable.

**2.1 Do you agree with the change proposed by TSOs of the maximum transitional price limit from 15,000 Eur/MWh to 10,000 Eur/MWh and of the minimum transitional price limit from -15,000 Eur/MWh to -10,000 Eur/MWh?**

Partially.

**2.2 Please provide an explanation for your answer.**

We express caution about reducing the price technical limits in the transitional period. It would be more preferable to set price technical limits now in order to avoid in the future transitional costs, due to a new modification of the technical price limit.

**3.1 Do you agree with the alternative way to compute the aFRR CBMP proposed by TSOs?**

Yes.

**3.2 Please provide an explanation for your answer.**

We agree with this proposal as it avoids that the CBMP is set with respect to a bid that does not reflect the actual market conditions. Indeed, the CBMP should be set in order to provide correct price signals with respect to the actual resource scarcity and at the same time be reflective of the costs incurred by the TSO in the bids' selection. Indeed, it is crucial to avoid that TSOs pay for bids that are not necessary for system security and whose costs would be transferred to end-consumers and/or Balancing Responsible Parties as a component of Imbalance Settlement Price (ISP) in case of BRPs having imbalances.

#### **4.1 Do you agree with the possibility for TSOs to use an elastic aFRR demand with the proposed limitations?**

Partially.

#### **4.2 Please provide an explanation for your answer.**

We acknowledge that the elastic demand price for the part of TSOs' demand which exceeds the aFRR capacity requirement may be an effective mitigation measure to avoid price peaks within balancing platforms. Furthermore, we welcome the fact that this mechanism should not be used to impose a cap on balancing energy prices. However, due to the fact that the price - defined as the opportunity cost to procure reserves through other platforms - would be made by the TSO side, we believe that this should be a temporary measure that needs to be confirmed periodically through the monitoring of the competitiveness level and of consequent price peak incidents within the balancing markets. To conclude, it would be necessary to implement a parallel monitoring process that demonstrates if this kind of measure is justified also in the long-term.

#### **About**

Europex is a not-for-profit association of European energy exchanges with 33 members. It represents the interests of exchange-based wholesale electricity, gas and environmental markets, focuses on developments of the European regulatory framework for wholesale energy trading and provides a discussion platform at European level.

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