

European Commission Workshop on Balancing

EURELECTRIC position

15. May 2009

Model for cross-border balancing & reserve market: TSO– TSO vs. TSO – BSP?

- EURELECTRIC supports the TSO-TSO model enabling formation of a regional balancing energy merit order by all the TSOs in a region
- Advantages of the TSO-TSO model:
 - Better optimisation of services between TSOs due to short-term nature of the balancing market and lack of system overview for individual participants
 - Lower level of complexity for BSP to provide services via their TSO to several TSOs
 - Faster integration due to need for less harmonisation at the start
 - Delivery across several borders (TSO- BSP model can only work for adjacent control areas)
- Before the TSO-TSO model is in place, TSO-BSP model should not be opposed
- In both models, TSOs should not be “trading” parties

Market design for balancing: types of reserves to be included?

- **NOT to be limited only to manually-activated (tertiary) reserves**
- **Merging of two (adjacent) control areas allows for usage of automatically –activated (secondary) reserves during the time the merger is active**

Market design for balancing: marginal pricing or pay-as-bid?

- **Marginal balancing energy pricing – preferred option**
- **Marginal pricing provides incentives to:**
 - Stay in balance in case of scarce balancing services due to sharp price increase, no penalties needed
 - to invest in appropriate generation capacity (peaking & rapid response capacity) that would offer balancing services
- **Consistency with wholesale market pricing (exchanges use marginal pricing) is important**

Imbalance settlement: with/without capacity component?

Source: KU Leuven report, table VI, p. 51

		System	
		only long	only short
B R P	long	BRP receives MPBAL↓	BRP receives MPBAL↑
	short	BRP pays MPBAL↓	BRP pays MPBAL↑

Source: KU Leuven report, table VIII, p. 58

		System	
		only long	only short
B R P	long	BRP receives MPBAL↓ – cap	BRP receives MPBAL↑ – cap
	short	BRP pays MPBAL↓ + cap	BRP pays MPBAL↑ + cap

MPBAL↓: Market Price for downward regulation, MPBAL↑ : Market Price for upward regulation, Cap: Capacity Component

EURELECTRIC:

- supports the concept of marginal price imbalance settlement
- does not support the idea of capacity component as:
 - 1) It will complicate the system and 2) impede harmonisation
- Socialisation of cost component is a more straight-forward solution

Access to interconnection capacity: no reservation of capacity?

- **Primary reserves (security insurance):**
 - Transmission Reserve Margin (TRM) to be used
- **Secondary/tertiary reserves (real-time energy delivery):**
 - No reservation of cross-border capacity for balancing purposes
 - Capacity allocation in the most efficient sequence -
 - > long-term, day-ahead, intra-day, balancing
 - Unused capacity of both regulated and merchant lines should be used

Access to interconnection capacity: availability of local reserves?

- **EURELECTRIC – critical to commitment of redundant local reserves in case of no cross-border capacity reservation**
- **TSOs should assess availability of the cross-border capacity and REDUCE locally reserved in accordance with the amount of common reserves available**
 - **Assessment of the cross-border reserve capacity situation should be done on day-ahead basis**
 - **Advantages of day-ahead assessment: more realistic assessment, bigger liquidity (small players)**


Cross-border interconnection capacity: charges?

- **Non-used capacity of both regulated and merchant lines - to be used for cross-border reserve and balancing purposes**
- **No pricing for this capacity as it is no longer available for the market after the gate closure and therefore has no further market value**
- **TSOs should not curtail the wholesale transmission schedules to use contracted reserves from abroad**



Implementation: next steps?

- **EURELECTRIC model is a more pragmatic approach:**
 - **make a gap analysis in Europe**
 - harmonisation of gate closures and plant prequalification are 1st steps
 - **implementation plan for Europe**
 - **pilot project on suitable borders**
 - low congestion
 - advanced markets
 - efficient cross border intra-day market in place
 - **implement according to plan**



Nordic?
NL-GE?
NL-BE?
GE-A?



EURELECTRIC position: summary

	KU LEUVEN/TRACTEBEL REPORT	EURELECTRIC POSITION
1	TSO-TSO model	Agree, TSO-BSP in starting phase ok
2	Secondary & tertiary reserves to be used for balancing	Agree
	Marginal pricing for balancing energy	Agree
	Imbalance settlement (capacity component in balancing energy price)	Too complex, cost socialisation
3	No interconnection capacity reservation	Agree
	Commitment of local redundant reserve capacity	Local reserves must be reduced by the amount of available cross-border reserves
	No interconnection capacity charges	Agree
4	Implementation: step-wise harmonisation	More pragmatic approach needed



BACK-UP SLIDES

An interim settlement scheme

		System		
		only long	only short	long & short
B R	long	BRP receives $MP_{BAL\uparrow}$	BRP receives $MP_{BAL\downarrow}$	BRP receives $MP_{BAL\downarrow}$
	short	BRP pays $MP_{BAL\downarrow}$	BRP pays $MP_{BAL\uparrow}$	BRP pays $MP_{BAL\uparrow}$

Caps on MP related to intra-day price or day ahead price

$MP_{BAL\downarrow}$: Market Price for downward regulation

$MP_{BAL\uparrow}$: Market Price for upward regulation

Four major steps

