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Joint statement of EFET, eurelectric and MPP regarding the establishment of harmonised rules and processes for the exchange and procurement of Balancing Capacity for Frequency Containment Reserves (FCR)



6 June 2018

On 26 April 2018, the TSOs of the FCR cooperation submitted to their respective NRAs a proposal of common rules for the regional FCR cooperation project, in line with the Electricity Balancing Guideline (EBGL). Within six months all of the relevant NRAs shall decide on this proposal.

Market concerns with a rushed, one-month implementation of daily auctions following TSOs' refusal to establish a secondary market for FCR

The proposal foresees a change in the procurement cycle from weekly to daily auctions. This change is supposed to be implemented by 26 November 2018. However, taking into account the 6-month NRA approval period, this would leave just 4 weeks of implementation time for market participants. This change will require major adjustments to market participants' systems, processes and contractual arrangements, all of which will be required to place orders on the FCR cooperation platform from 26 November 2018 onwards. As previously stated in our responses to the draft proposal of the TSOs, we do not see this one-month implementation time as feasible, and the TSO proposal risks creating a major market disturbance on the FCR procurement market. To assume that market participants start pre-implementing the TSO proposal before the final NRA decision at own risk is also not realistic as they need all final approved details for this major IT project.

The reason for this rather hasty market design change is due to the fact that implementing daily auctions is a prerequisite for TSOs to apply for the exemption from the cross-zonal transfer of obligations according to Article 34 (1) EBGL. Together with Article 65, this article is to be applied 12 months after the entry into force of the EBGL.

Many market participants have criticised throughout the consultation process the general refusal of the TSOs to implement a secondary market. We remain of this opinion, and consider the justification provided by the TSOs in their post-consultation report of 26 April unsatisfactory. But while we could dwell longer on this debate, the objective of this note is to point at the unreasonable burden market participants are supposed to bear and the related risk of market disruption as a result of the TSOs' decision.

Need for clarification by the regulators of deadlines in the Electricity Balancing Guideline

The EBGL formulation is not precisely clear on the deadlines of applicability for all individual requirements, and interpretations in that regard differ. While Article 34 (1) indeed requires a secondary market to be in place by 12 months after entry into force of the EBGL, its practical implementation is governed by the terms and conditions related to balancing in Article 18 (5)(b). The terms and conditions themselves are to be implemented by 12 months after approval of the relevant methodology by the NRAs.

A similar approach could be applicable to the introduction of daily FCR auctions and the subsequent request for exemption according to Article 34 (1). If there are other rules in the EBGL preventing this, or if different interpretations exist, the NRAs should provide clarity on these points and protect market participants from unintended adverse consequences resulting from the TSOs' understandable will to stick to EBGL deadlines.

Implementation of new FCR procurement rules should respect the letter and spirit of the Guideline, without unnecessary steps aimed to cater solely to TSO interests

Against this background, and if NRAs indeed grant TSOs the exemption from establishing secondary markets, we strongly urge TSOs and NRAs to reconsider the start of daily auctions in the FCR cooperation and to change it to mid-2019, together with the introduction of marginal pricing. This would ensure not only that market participants have sufficient time for implementation, but also that any intermediate implementation step of daily pay-as-bid auctions (which would only be needed for six months) is avoided.

Further confusion is provided by the TSOs' post-consultation report stating that according to Article 24 (2), the TSOs of the FCR cooperation intend to comply with the EBGL target of a Gate Closure Time close to delivery. Article 24 (2), however, refers to the Balancing Energy Gate Closure Time only. The rules for the procurement of balancing capacity are laid out in Article 32 and require the procurement process to "be performed on a short-term basis to the extent possible and where economically efficient" (Art. 32 (2b) EBGL).

Finally, we want to emphasise that the FCR cooperation has been a very successful project, strengthening the development of a consistent European market design. It is of great interest for all members to sustain this cooperation. We do not have the intention to jeopardise the FCR cooperation, but in contrary to find a compromise and maintain the positive activities.