European Federation of Energy Traders
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Amstelveenseweg 998
1081 JS Amsterdam
+31 20 520 7970
secretariat@efet.org
www.efet.org

Elia consultation on its study on "the Day-ahead Balance Obligation of the Balance Responsible Parties"

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EFET response – 20 October 2020

The European Federation of Energy Traders (EFET*) welcomes the opportunity to provide our comments to Elia consultation on its comprehensive study on the Day-ahead (DA) Balance Obligation of the Balance Responsible Parties (BRPs).

With the adoption of the Capacity Allocation and Congestion Management Guidelines (CACM GL) in 2015, the Electricity Balancing Guideline (EB GL) in 2017, and the recast Electricity Regulation 2019/943, Europe is in a place to accelerate the integration of electricity spot markets and balancing mechanisms. In that regard, the integration of balancing mechanisms is still lagging behind that of intraday, day-ahead and forward markets. For EFET, it is not only important that balancing mechanisms across Europe become more integrated, but also that this integration is done in a way that strengthens and improves the functioning of the electricity market as a whole.

In this context, the absence of harmonised rules at European level around imbalance settlement and balancing responsibility – which are ruled by national terms and conditions according to the EB GL – does not favour the establishment of a level-playing field between BRPs, and ultimately between participants to the European energy market. We deplore this situation and have called for true European approach to these questions[1]. In this sense, we welcome the approach taken by Elia to look into these questions from a broader angle than a pure national one, and to have studied various designs applied in other Member States in order to make proposals for the Belgian system. In the absence of a mandate or a will to harmonise balancing responsibility rules at European level, we see this approach as conducive of positive change through the adoption of best practice.

Turning to the Elia proposal to remove the obligation to submit balanced nominations in day-ahead (DA), we support this initiative as a significant improvement to market functioning on the one hand, and to intraday (ID) market liquidity on the other hand.

[1] See EFET response to the ACER consultation on the TSOs methodology for imbalance settlement harmonisation

* The European Federation of Energy Traders (EFET) promotes and facilitates European energy trading in open, transparent and liquid wholesale markets, unhindered by national borders or other undue obstacles. We build trust in power and gas markets across Europe, so that they may underpin a sustainable and secure energy supply and enable the transition to a carbon neutral economy. EFET currently represents more than 100 energy trading companies, active in over 27 European countries. For more information: www.efet.org

Simplification of market functioning

As explained in the Elia report, DA balancing requirements are not fundamentally needed to manage the system from a TSO viewpoint and are impossible to be properly monitored. Besides, given the increasing volatility of power generation (intermittent production) and demand (pick up of demand response), DA forecasts are far less reliable than when this obligation was put into the Belgian grid code in 2002. This means that the quality of information may not be ideal on the one hand, but also that the position of BRPs is more likely to change between D-1 14:00 and real time (i.e. 10 to 34 hours later).

We also support the comments made by market participants that the DA balancing requirement may put traders without physical assets at a disadvantage compared to asset owners, as the latter may be in a position to tweak forecasted physical positions.

In summary, it appears that the DA balancing requirement does not respond to a necessity in terms of system operation, may not provide information that is relevant for system management in real time, and may even create competitive disadvantages for certain market participants. A removal of this requirement would be a welcome simplification to market functioning.

Improvement of intraday market liquidity

We also agree with Elia that the DA Balance Obligation has an impact on the liquidity of the ID market and may be a barrier for entry for new market participants. As highlighted in our recent paper on intraday market design[2], DA balancing requirements are an impediment to the free optimization by market participants of their full portfolio across all timeframes until the gate closure of the intraday market as well as across borders. As ID markets grow and are expected to continue doing so, portfolio optimisation until intraday gate closure time will become more and more relevant.

Therefore, we support turning the obligation to be balanced in DA to a simple notification of physical schedules without concern whether a market participant's commercial position is balance or not in DA (regardless whether the market participant is an asset owner or not) at the earliest occasion. This would both ensure that TSOs receive accurate information for planning purposes in a timely manner, and remove a considerable restriction on the free formation of prices.

In terms of implementation timeline, we do not see a specific need to have a stepwise approach to this rather simple reform. However, should this be a condition for acceptance of the reform by all parties, we see the step of "authorised balancing deviations in DA" proposed by Elia as an acceptable way forward. These new authorised deviations should then be set large enough to see the actual effects of the reform. Return on experience on this intermediate step should be done rapidly (within one year) to allow the reform to progress to the next step.

[2] See [Towards an efficient intraday market design in electricity- EFET position paper]