

Market Coupling Steering Committee (MCSC) informal questionnaire on the supply of balancing capacity by market participants relevant to co- optimised energy and balancing capacity bidding formats

Brussels, 5 November 2024 – We appreciate the MCSC informal survey and the public workshop.

General comments

Since the early stage of drafting of the Electricity Balancing network code, we have questioned the concept of reservation of cross-border transmission capacity by the TSOs for balancing purposes.

While we understand that this project is a requirement of the EBGL and the Clean Energy Package (CEP), we invite TSOs and NRAs to refrain from setting up balancing capacity cooperations, based on co-optimisation.

We appreciate that ACER decided to wait for the implementation of this project until the technical complexity for the algorithm and market bidding is manageable. We also appreciate that the TSOs and NEMOs will carry out further R&D activities as a crucial first step.

The theoretical benefits of co-optimization might materialise if implemented under certain circumstances that have huge market implications. We believe that the complexity of co-optimisation has so far been underestimated.

Its implementation would lead to significant interventions in the current market design for established and liquid day-ahead, intraday and balancing markets. There is a high likelihood that the theoretical benefits will not be achieved, leading to suboptimal use of cross-border capacity. This could cause market distortions and inefficiencies at significant social cost, far outweighing any of the benefits.

In addition to the potential benefits, these possible drawbacks should be considered in the R&D for the upcoming two years:

- costs of implementation and adaptation of operating systems and processes;
- increase of algorithm computational times;

CONSULTATION RESPONSE



- need for bid linking;
- transparency decrease (it could be more difficult for the operators to understand the reasons behind accepted/not accepted bids).
- Fall back solutions in case of SDAC decoupling, as well as the increase of risk of decoupling under the – more complex – co-optimisation context.

Finally, Energy Traders Europe will not be able to comment via the bidding guide process policies or to some of the questions of this survey due to antitrust. Therefore, further research will have to be done via single interviews or surveys with market participants.

Detailed responses

1. What assets does your company own or operate?

Other. We are an association that represents more than 170 companies with a wide range of assets.

2. Are you currently participating in the balancing capacity market?

Yes, our members are participating in the balancing capacity market.

3. Do you currently see opportunities to decrease or increase demand/production on short notice, provided this would be profitable?

No comments due to antitrust policies in our association.

4. If you replied "yes" in question 3:

a) Would you use a specific asset (e.g., battery, demand response), or a combination of assets? If it's a combination, what factors influence the 'shift' between different assets or technologies?

b) What characteristics or market conditions might prevent the participation of a single asset?

c) Is it possible to reserve this capacity the day before operation?

5. What kind of costs would you incur by reserving, for example, 1 MW for a specific period the next day to provide balancing services to the TSO?

No comments due to antitrust policies in our association.

CONSULTATION RESPONSE

6. *The simplest option, from the market design perspective, would be to use offers consisting of a volume in MW and a price in Euro/MW for one or several MTUs the next day. What additional attributes would be necessary for a balancing capacity bid in a co-optimised setup to help you optimise the utilisation of your asset(s), aside from MW(h) and Euro/MW(h)? For example, would you need dependencies between assets, dependencies with off-takers, efficiency rates, minimum/maximum delivery time, or resting time?*

There is a fundamental flaw in the considerations underlying the idea of clearing balancing capacity and day-ahead energy based on the same bids.

“In theory, both day-ahead and balancing capacity markets can, be cleared based on the same bids assuming that balancing capacity prices are mainly defined by the opportunity costs resulting from the day-ahead market profits. ”

(https://consultations.entsoe.eu/markets/informal-questionnaire-on-the-co-optimisation/supporting_documents/241011_MCSC%20Informal%20survey_Webinar_update_d.pdf)

While a trade position in the day-ahead market can be reverted in subsequent markets up to delivery, an accepted balancing capacity bid is firm and cannot be traded away. Hence, the opportunity loss of a flexible asset is obviously higher than the forgone day-ahead profits.

7. *If activated by the TSO to deliver balancing energy in real time following the D-1 procurement of balancing capacity bid for, for example, one MTU, how would this impact your ability to deliver in the same direction (up or down) in the subsequent MTUs? For instance, a battery fully charged at 2 MWh may deliver 1 MW for two hours, but then it needs to be recharged, which could lead to a violation of your balancing capacity procurement obligation. Similar constraints may pertain to other assets.*

Introducing specific relaxations applying to certain technologies is contradicting the idea of a common market with a defined standard product (technology-neutral).

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8. *What would be necessary for you to consider continuing or starting participation in future markets for balancing capacity under a co-optimised design, assuming attractive profit opportunities exist? Which design choices (e.g., bid attributes) do you find important?*

It is difficult to answer this question without knowing the type of linking. We need more advanced linking.

The bid attributes must ensure the same flexibility as of today to consider continuing or starting participation in future markets for balancing capacity under a co-optimised design. The no-step back principle is essential for market participants.

Linking all products with intertemporal links between all market time units (MTUs) needs to be facilitated by the new products.

The structure of the products, both balancing and electricity products, must allow market participants to communicate how contracting of one product affects volumes and prices of the other product. Effectively, each market participant would need to enter price/volume curves into each market for each potential outcome in the other market.

It is unlikely that co-optimization will add to the attractiveness of balancing capacity markets and will encourage participation of new bidders. The revenue potential will probably not be increased, and bidding complexity will pose additional entry barriers, instead of eliminating those.

9. *Additionally, please share any ideas for a future bid design in a co-optimisation setup that have not been covered by the questions above.*

It is important that offers can be linked in terms of bindingness, exclusivity, and divisibility. Electric and balancing bids are logically related from the participant's perspective. Detailed support for interconnection and binding/exclusivity is essential to avoid market inefficiencies.

Ensuring maximum flexibility for bidders is crucial, including family offers, exclusive offers, and conditional and interdependent offers across markets and products, according to market granularity and the entire day interval.

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The bid design without an explicit price for balancing capacity R&D seems to point towards a central dispatch and unit bidding model. This will remove market participants ability to price balancing capacity. It is a major market design change that should not require further assessment or R&D in the next two years because:

- It requires a change in the day-ahead market towards unit-based bidding.
- It requires correct reflection of technical parameters of underlying assets, which is near-impossible given the wide range of assets and way of representing such assets across market participants.
- It would further burden the algorithm with additional complexity at a time when performance is under strain.
- It removes the ability from market participants to define and implement bidding strategies and choices of markets to be active in.
- Market clearing and transparent price formation as it is will disappear and instead of providing a clear price signal to forward markets and long-term investments, SDAC results will be at the discretion of ambiguous algorithm decisions.

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