

Portuguese Ministry of Environment and Energy

Ms. Rita Branco

Chief of Cabinet of the Secretary of State for Energy

Revoking Despacho No. 4694/2014 establishing a price cap on secondary regulation band before the go-live of PICASSO

Brussels, 10th February 2025

Dear Ms. Branco,

A reliable and efficient electricity balancing market is the cornerstone of a well-functioning power system. This, in turn, delivers significant benefits to market participants, safeguards affordability and reliability for consumers, and enhances the resilience of the Portuguese electricity grid.

It is therefore of utmost importance to foster the necessary developments of the ancillary services markets in Portugal and to harmonize them as much as possible across Europe, following and implementing the European regulatory framework.

The removal of the price limit of the secondary regulation band is a necessary step before the go-live of the PICASSO platform for the exchange of the automatic frequency restoration reserve (aFRR), expected in 2025.

Background

- Despacho No. 4694/2014, issued on April 1st 2014 by the Secretary of State for Energy, established a quarterly mechanism to limit the price of the secondary regulation band, using the equivalent service price in Spain as a reference
- Following changes to adapt to the European balancing services framework effective November 19, 2024, the mechanism in Portugal has been adjusted to align with the new service parameters in Spain
- In reaction to the consultation on the revision of the mechanism, ERSE acknowledged that the secondary regulation market has changed significantly since the date of publication of Despacho No. 4694/2014

- In the on-going consultation of the Manual de Procedimentos da Gestão Global do Sistema do setor elétrico (MPGGS), ERSE specifies that the cessation of the price adjustment application requires an explicit revocation of the limitation mechanism by the Government

Benefits of removing the price cap

Removing the current price cap in the aFRR capacity market presents an opportunity to enhance the competitiveness and efficiency of Portugal's balancing market as it would allow to:

- Better reflect the true value of opportunity costs associated with dispatchable resources, empowering Balancing Service Providers (BSPs) to fully leverage their capabilities
- Foster RES participation in the aFRR process in Portugal, because the cap will be a barrier for renewable participation in the situations of lower prices in Spain
- Maximize the efficient use of both national and cross-border energy resources and ensure a smooth transition to the PICASSO platform, as aFRR capacity price would reflect the market conditions
- Provide greater clarity to market participants, empowering them to confidently plan and optimize their bids. In fact, the price cap currently applies on a quarterly, ex-post basis, creating uncertainty around the recovery of operational costs

In agreement with ERSE, we consider the current price limit of the secondary regulation band to be outdated and no longer aligned with Portugal's needs, therefore **we ask the Ministry to revoke Despacho No. 4694/2014 at the earlier occasion and no later than the go-live of PICASSO.**

Contact

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