

# **First amendment of Methodology for pricing balancing energy and cross-zonal capacity used for the exchange of balancing energy or operating the imbalance netting process**

in accordance with Article 30(1) of Commission Regulation (EU) 2017/2195 of 23 November 2017 establishing a guideline on electricity balancing

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Purpose:	<input checked="" type="checkbox"/> methodology draft <input type="checkbox"/> for ACER approval	<input checked="" type="checkbox"/> for public consultation <input type="checkbox"/> for final publication
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TSO approval:	<input type="checkbox"/> for approval	<input type="checkbox"/> approved
NRA approval:	<input type="checkbox"/> outstanding	<input type="checkbox"/> approved

All TSOs, taking into account the following:

### **Whereas**

- (1) This document provides an amendment to the Methodology for pricing balancing energy and cross-zonal capacity used for the exchange of balancing energy or operating the imbalance netting process in accordance with Article 30(1) of Commission Regulation (EU) 2017/2195 of 23 November 2017 establishing a guideline on electricity balancing ("EB Regulation") following the ACER decision 01-2020 of 24 January 2020.
- (2) European TSOs strongly support the European target model for integrated balancing energy markets, especially the implementation and Go-live of the platforms for the exchange of balancing energy, and see significant advantages resulting from it. However, due to developments and observations on balancing energy markets across Europe, all TSOs identified that technical price limits are needed for the efficient functioning of the market. Therefore, all TSOs consider it necessary to introduce the proposed amendment of the Pricing Methodology, namely an adjustment of the technical price limits and thus the maximum and minimum balancing energy prices.
- (3) The amended Pricing Methodology contributes to the objective of an efficient functioning of the market set out in Article 30(2) EB Regulation and to the objectives set out in Article 3 EB Regulation. In particular, by
  - (a) fostering effective competition, non-discrimination and transparency in balancing markets (Article 3(1)(a) EB Regulation) as an appropriate reduction of the maximum balancing energy price and an appropriate increase of the minimum balancing energy price do not have a negative effect on participation of BSPs and thus competition and liquidity of the market. The establishment of integrated balancing energy markets across borders on the one hand promotes competition and on the other hand bears the risk of cross-border spill over of exaggerated high balancing energy prices. Introducing appropriately adjusted maximum and minimum balancing energy prices limits the identified fundamental risks of integrated balancing energy markets to a reasonable level while the benefits remain. Balancing energy auctions as foreseen by EB Regulation do not necessarily provide an incentive for truthful bidding. Applying marginal pricing may therefore result in exaggerated balancing energy bids leading at least to inefficiencies in the balancing energy market causing distorted imbalance settlement prices.
  - (b) enhancing efficiency of balancing as well as efficiency of European and national balancing markets (Article 3(1)(b) EB Regulation) by setting maximum and minimum balancing energy prices according to technical and economic assessments and evaluations (as high as necessary and as low as possible). Additionally, appropriate maximum and minimum balancing energy prices can prevent that price spikes uncorrelated with the real-time situation (price spike not caused by a natural, but by an artificial scarcity situation) generate wrong and exaggerated imbalance settlement prices that may induce high financial risks for the balancing responsible parties, which they cannot escape even by best planning and forecasting to minimize their imbalances.
  - (c) integrating balancing markets and promoting the possibilities for exchanges of

balancing services while contributing to operational security (Article 3(1)(c) EB Regulation) as appropriate maximum and minimum balancing energy prices reduce the currently intolerable financial risks for balancing responsible parties resulting from the cross-border activation of balancing energy bids to a suitable level and does not limit free price formation.

- (d) contributing to the efficient long-term operation and development of the electricity transmission system and electricity sector in the Union while facilitating the efficient and consistent functioning of day-ahead, intraday and balancing markets (Article 3(1)(d) EB Regulation) as adjusted maximum and minimum balancing energy prices reduce the currently intolerable financial risks of balancing responsible parties resulting from the cross-border activation of balancing energy bids under the given conditions to a suitable level. These intolerable financial risks of balancing responsible parties mainly result from inefficiencies that are associated with the integrated balancing energy market not being mature from the beginning as many TSOs opted for a derogation delaying their accession to the FRR balancing energy platforms. Additionally, the simultaneous national implementation of the EB Regulation target market design, which is necessary to connect to the balancing platforms, results in significant changes of the existing local market designs. This lead to transitory effects significantly increasing the probability for materialisation of high price spikes uncorrelated with the real-time situation which would generate wrong incentives and exaggerated imbalance settlement prices. This would result in wrong incentives as frequent exaggerated high imbalance settlement prices lead to increasing market entry and investment barriers and thus prevent the foreseen development of the electricity transmission system and electricity sector in the Union.

Furthermore, all TSOs consider that the proposed level of maximum and minimum balancing energy prices does not limit the efficient and consistent functioning of the balancing markets as energy bids above the proposed maximum balancing energy price hardly ever occurred in the current local balancing energy markets. Taking into account that the price level of balancing energy bids under a pay-as-cleared scheme is in theory below the price level of balancing energy bids under a pay-as-bid scheme all TSOs consider that the proposed maximum balancing energy price does not interfere with the balancing energy market.

- (e) ensuring that the procurement of balancing services is fair, objective, transparent and market-based, avoids undue barriers to entry for new entrants, fosters the liquidity of balancing markets while preventing undue distortions within the internal market in electricity (Article 3(1)(e) EB Regulation). Price spikes uncorrelated with the real-time situation may result from transitory effects and an immature market. The probability of materialisation of these is even higher in the beginning of the balancing energy platforms as already elaborated in (3)(d). This may result in artificial scarcity situations becoming apparent in price spikes uncorrelated with the real-time situation. In a consequence, balancing responsible parties will be charged with unusual and exaggerated high imbalance settlement prices. The internal market in electricity must be prevented from these undue distortions. Therefore, all TSOs consider adjusting the maximum and minimum balancing energy prices as a suitable measure that accordingly can reduce the aforementioned risks. This ensures a fair, objective, transparent and market-

based procurement of balancing services and avoids undue barriers for the market entry of balancing responsible parties and investments into renewables and thus fosters the competition on the wholesale energy markets. Additionally, appropriate maximum and minimum balancing energy prices do not negatively impact liquidity on the balancing market.

- (f) facilitating the participation of renewable energy sources and support the achievement of the European Union target for the penetration of renewable generation (Article 3(1)(g) EB Regulation) as adjusted maximum and minimum balancing energy prices reduce the exposure of balancing responsible parties to unreasonably high imbalance settlement prices which would lower the willingness to invest into renewables, as they are very prone to imbalances because of the given forecasting inaccuracies of renewables.
- (4) The following changes additionally fulfil the principles regarding the operation of electricity markets listed in Article 3 REGULATION (EU) 2019/943 of the European Parliament and of the council of 5 June 2019 on the internal market for electricity (“Electricity Regulation”). In particular,
- (a) the proposed level of maximum and minimum balancing energy prices does not limit that prices are formed on the basis of demand and supply. In general, a free price formation is possible at the integrated balancing energy market. However, this may be affected by a price inelastic demand side (majority of TSOs are price takers as they will not submit a price sensitive demand to the FRR balancing energy platforms) and an oligopolistic supply side (limited and small number of BSPs per member state). In addition, the balancing service providers shall be enabled to rationally calculate their balancing energy bids based on their true operational costs and taking into account the activation probability depending on the bid’s position in the respective merit order list. All TSOs consider this condition to be met with the proposed level of maximum and minimum balancing energy prices. Additionally, the maximum and minimum clearing price for intraday timeframes pursuant to Regulation (EU) 2012/1222 serve as a limit that shall at least be met by the proposed harmonised maximum and minimum balancing energy prices.
  - (b) the proposed level of maximum and minimum balancing energy prices limit the risk for balancing responsible parties to be faced with exaggerated high imbalance settlement prices. This facilitates the investment into renewables (sustainable low carbon generation) and fosters their market entry as they are by nature very prone to imbalances and are unprotected against them despite the best possible forecast. Thus, they are very risk sensitive with regard to the threat of exaggerated high balancing energy prices.
  - (c) introducing the proposed level of maximum and minimum balancing energy prices facilitates fair competition thus ensuring security of supply by limiting market abuse because in a situation where a balancing service provider with market power is able to exercise its market power via establishing exaggerated high balancing energy prices it would effectively limit the abusive impact to the market by limiting the imbalance settlement price accordingly. This effect is strengthened by the largely inflexible demand side.
  - (d) the proposed level of maximum and minimum balancing energy prices limits the

risk for balancing responsible parties to be faced with exaggerated high balancing energy prices unexpectedly and thus ensures effective regional cooperation. The cross border marginal price may be set by cross-border activation of balancing energy originating from a demand for balancing energy in another bidding zone. Although the national balancing energy market is mature, the exchange of balancing energy brings the risk of being exposed to unforeseen foreign market effects that cannot be influenced and predicted.

Furthermore, the proposed level of maximum and minimum balancing energy prices allows balancing responsible parties to be protected against non-sustainable price volatility risks and thus ensure efficient functioning of the balancing energy market. In particular, they protect balancing responsible parties from slipping into insolvency through no fault of their own and limit the uncertainty on future returns on investments into renewables.

- (5) Article 10(1) second sentence of Regulation (EU) 2019/943 allows for technical price limits which may be applied in the balancing timeframe. Therefore, all TSOs understand that Regulation (EU) 2019/943 does not restrict the possibility, provided by the Article 30(2) of the EB Regulation, of introducing technical price limits in the balancing timeframe.
- (6) For the purposes of this first amendment to the Pricing Methodology, the terms used shall have the meaning given to them in Article 2 of the Electricity Regulation, Article 2 of the EB Regulation and Article 3 of the SO Regulation and the definitions set out in Article 2 of Annex I of the Decision No 01/2020 of the Agency for the Cooperation of the Energy Regulators of 24 January 2020 on the Pricing Methodology.

SUBMIT THE FOLLOWING PROPOSAL FOR AMENDMENT TO ACER

**Article 1**  
**General Principles**

1. Article 3 – General Principles - All TSOs propose to amend Article 3 as follows:

a) Paragraph 3 shall be amended and be read accordingly:

«3. The maximum price for all balancing energy product bids and the maximum value of the CBMP shall be 15 000 €/MWh. The minimum price for all balancing energy product bids and the minimum value of the CBMP shall be -15 000 €/MWh. »

b) A new paragraph 8 shall be included and be read accordingly:

«8. No later than 18 months after the participation of all respective TSOs in the respective FRR balancing energy platform is mandatory, including the expiration of all respective derogations according to Article 62(2)(b) EB Regulation, all TSOs shall prepare a report and invite stakeholders to submit comments. The report shall justify whether the maximum and minimum balancing energy prices defined in Paragraph 3 of this Article for the respective balancing energy products should be maintained or amended. The final report shall be submitted to ACER no later than 2 years after the participation of all respective TSOs in the respective FRR balancing energy platform is mandatory, including the expiration of all respective derogations according to Article 62(2)(b) EB Regulation. »

c) A new paragraph 9 shall be included and be read accordingly:

«9. If the maximum balancing energy price defined in Paragraph 3 of this Article is reached by the harmonised maximum clearing price for single intraday coupling in accordance with Article 54(1) of Commission Regulation (EU) 2015/1222 of 24 July 2015 establishing a guideline on capacity allocation and congestion management, the maximum price for balancing energy shall be set to 5 000 €/MWh higher than the harmonised maximum clearing price for single intraday coupling in accordance with Article 54(1) of Commission Regulation (EU) 2015/1222.»