

ERSE consultation on the reformulation of the Global System Management Procedures Manual (MPGGS)

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EFET response – 31 March 2022

The European Federation of Energy Traders (EFET) welcomes the opportunity to provide comments to ERSE consultations on the reformulation of the “*Manual de Procedimentos da Gestão Global do Sistema*” (MPGGS) to adopt Decision ACER 18/2020, on the harmonization of the methodology for the settlement of deviations.

Executive summary

- 1. We welcome the reform of the electricity balancing market in Portugal, however further reformulation of the MPGGS is required to ensure full compliance with the European regulations**
- 2. Imbalance settlement areas should be equivalent to bidding areas: we oppose the current concept of “*áreas de ofertas*” as it creates inefficiencies in the Portuguese balancing market and it increases the costs for the system and for the consumers**
- 3. Ensure the implementation of the principles of technology neutrality and market-based mechanisms in the provision of ancillary services as outlined in both Regulation (EU) 2019/943 and in the EBGL**

EFET stands ready to further contribute to the implementation of the EBGL in Portugal and we remain at the disposal of the Portuguese authorities, considering our extensive experience in reviewing European and national balancing mechanisms.

Detailed messages

a. Proceed with further reformulation of the MPGGS to ensure compliance and full implementation of European regulations

We welcome the harmonisation with European regulation with regards the imbalance settlement methodology, the elimination of balancing areas, the calculation of a single position for each BRP and the adoption of the European standard definitions (BRPs, BSPs, aFRR, etc.)

However, there are still many other provisions in European legislation that need to be incorporated into the MPGGS and which are not included in this review. Furthermore, some new provisions do not seem to comply with European legislation, in particular the concept of “*areas de ofertas*”. Therefore, we expect a **full compliance with European regulations, at least** in the second consultation to be published by ERSE in the second half of 2022.

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b. Provide a more comprehensive and detailed roadmap for EBGL implementation

EFET recognises the effort made by ERSE to give more transparency regarding the implementation process of the European network codes in Portugal.

Nevertheless, we request a more comprehensive and detailed planning in order to comply with Regulation (EU) 2017/2195 establishing a guideline on electricity balancing (EBGL), in particular with regards to:

- Participation of storage, independent aggregation and hybrid plants (which at the moment remain excluded from market access);
- Transition to 15-minutes Imbalance Settlement Period (ISP), considering also the need for adjusting the Market Time Unit (MTU) for 15' as well
- Implementation of market-based mechanisms to contract ancillary services

c. Move from dual to single imbalance price once 15-min ISP is implemented and free internal trades and elimination of portfolio constraint in continuous intraday market

EFET supports an early implementation of single imbalance price, being the preferred methodology in the Electricity Balancing Guideline (EBGL).

Single pricing is the only method which respects the principle of cost reflectivity. On the contrary, dual pricing has the potential to blur the price signals emerging from the balancing timeframe and runs the risk to create a barrier to entry for new entrants or market participants with small portfolios.

We envision a transition without delay from the hybrid model proposed to a pure single imbalance price as soon as the 15-min Imbalance Settlement Period (ISP) is implemented. It is crucial to implement a **periodic assessment of the imbalance model** in the following years due to the expected impact of important changes foreseen in the market design, both at national and European level. Moreover, as the calculation of a single position is going to be implemented in Portugal according to the current European rules:

- The **free adjustment of commercial schedules within and between BRPs prior the gate closure time of intraday** must be also allowed accordingly, in order to comply with article 17(3) of EB GL
- **Current portfolio constraint imposed in intraday continuous trading in Iberia must be eliminated** in order to achieve an efficient trading and a level playing field with the rest of bidding zones.

These changes must be coordinated with those to be made in the Spanish Balancing Terms and Conditions and current OMIE rules for Iberia must be updated accordingly.

d. We oppose the current concept of “áreas de ofertas”: imbalance settlement areas should be equivalent to the bidding areas

The proposal under consultation transforms the previous concept of balancing areas (“áreas de balanço”) into offer areas¹ (“áreas de ofertas”). Despite the elimination of balancing areas is a positive development, the concept of offer areas is **not aligned with European legislation**.

We remind ERSE that the **zonal market is one of its most relevant aspects in the European regulation** and it applies not only to spot markets (day-ahead and intraday) but also to balancing markets.

The imbalance price is the price signal on which markets will base trading decisions in all timeframes. A disconnection between imbalance settlement areas and market zones can only blur this signal and will have adverse circumstances on market participants’ ability to optimise portfolios at the lowest cost for society.

Therefore, the proposed “áreas de ofertas” have a high potential of increasing final costs for the system and for the consumers for the following reasons:

- Excessive complexity for market participants in providing frequency control services
- Discrimination between different technologies² without a technical rationale which creates market distortions, contradicts the principle of technological neutrality and market barriers to new technologies such as hybridisation and aggregation
- Unclear application of the concept of the offer areas on different ancillary services (frequency vs non-frequency)
- Impose unjustified local constraints to BSPs that should in their nature have a wider scope at the level of the control area

There is no rationale for the establishment of these “local” (and even worst for technology specific) markets to address problems that are to be managed at the level of the TSO control area (which in Portugal coincides with the bidding zone itself).

Without prejudice to other services with more local characteristics, such as congestion management or even some non-frequency services (e.g. voltage control), the “áreas de ofertas” are not fit for balancing purposes.

We recall ERSE that no other EU Member State has perimeter limitations analogous to the offer areas and most countries work with *portfolio bidding* without this resulting in network security problems.

Therefore, **the concept of offer areas should be revised and eliminated**, at least with regard to non-local system services (such as frequency services).

¹ Offer areas are defined as “conjunto de Unidades Físicas ligadas na mesma área de rede e pertencentes a um mesmo Agente de Mercado, para as quais se agregam, nomeadamente para a participação nos mercados de serviços de sistema”. Procedure 5 states that each thermal generation unit represents in itself an offer area, and that each renewable source technology is framed in one of 7 geographical offer areas, and the same is for demand.

² Separation of consumption and generation (with a certain renewable technology) and the allocation of a specific area for each thermal plant

e. The concept of offer areas should not interfere in efficient trades in energy markets: merging of units in OMIE markets and direct nomination to TSOs

Current OMIE rules impose one unit bidding in energy markets (“*Unidade de Oferta*”) per one scheduling unit in the TSO processes (“*Unidade de Programação*”)³.

ERSE’s proposal also introduces a differentiation for scheduling units, by imposing market participants a split between the part of the portfolio with assets able to provide ancillary services (for all market participants, whether is generation, supply, etc.) and those that are not, even if just for the purpose of participating in day-ahead and intraday markets. Furthermore, this split has then a second breakdown into “*áreas de ofertas*”.

The current scheduling units are going to be split in those providing ancillary services (the so-called “*áreas de ofertas*”, with the current zonal constraints) and those not providing ancillary services. We foresee new bidding units popping out in the OMIE market due to the combination of this arrangement and OMIE rules.

We suggest that scheduling units (“*unidades de programação*”) should not be differentiated like this, especially for the purpose of participation in the spot market of bilateral contracts, but to consider that, for the purposes of ancillary services (and assuming the qualification criteria differ between them) qualification criteria are to be considered but under the same bidding unit.

Otherwise, this goes in the opposite direction of our call for portfolio bidding in energy markets in Iberia. We urge to implement portfolio bidding in MIBEL energy markets. As the second-best option (and as a temporary measure), **we suggest ERSE to at least allow the merging of scheduling units active and not active in ancillary services in one bidding unit, and allow direct nomination to the TSO after day-ahead and intraday markets.**

f. All ancillary services should be contracted through market mechanisms while respecting the principle of technological neutrality

On one hand, the provision of primary and tertiary reserve capacity without any kind of remuneration for generation remains mandatory, which is contrary to the principles of technological neutrality and market-based contracting defined in European regulation. In particular:

- “*Banda de reserva de regulação*” product has all the characteristics of a standard tertiary capacity product, but continues to be contracted through a discriminatory mechanism, both in terms of technology (open only to demand) and size of the assets (excluding smaller customers even through aggregation). We remind ERSE that this product is supposed to be temporary and hence phased out by the end of 2022.
- “*Mercado de banda secundária*” does not foresee unilateral products to encourage technological neutrality and the participation of all technologies, as it maintains the obligation of offers in both directions

On the other hand, the contracting of non-frequency system services in Portugal in not done through market-based mechanisms despite this requirement is set in the European regulation.

³ Rule n. 12, page 31: “Cada unidad de oferta, sea de venta o de compra, corresponderá con una unidad de programación.” https://www.omie.es/sites/default/files/2021-06/corr_reglas_06052021.pdf

These services include voltage control, rapid reactive current injections, inertia, short-circuit current, stand-alone start capacity and isolated operating capacity.

g. Along with the MPGGS, also the Regulation of Grid Operation requires a deed revision

The current Regulation of Grid Operation sets most of the basic principles and concepts regarding ancillary services, including frequency services (balancing).

This Regulation (“Regulamento de Operação das Redes”), which was last revised in 2017, requires a deep review in order to comply with European legislation, ACER decisions and also with the current Decree-Law 15/2022, namely in what concerns:

- Concept alignment
- Market-based mechanisms to contract ancillary services
- Technology neutrality

For example, Article 32 still considers that, for several services, some market participants must mandatorily provide them without any form of remuneration, including for Frequency Containment Reserve (FCR).

f. Improve transparency by organising regular webinars with market participants

We call ERSE and REN for greater transparency and involvement of market participants throughout the electricity balancing reform in Portugal. In particular, we encourage the organisation of regular webinars to ensure an appropriate engagement of all market participants and a smooth implementation of European regulation.