



**Balancing Markets Integration,  
Intraday Trade and  
Automatically Activated Reserves**

**EREG Progress Report to  
the XIV<sup>th</sup> Florence Forum**

**Ref: E07-ELM-01-03**

**22-Aug-2007**

## Background Information

Following the presentation to the XII Florence Forum in September 2005 of the Position on Balancing Mechanisms Compatibility, ERREG has developed and published the Guidelines of Good Practice for Electricity Balancing Markets Integration (GGP-EBMI)<sup>1</sup> in 2006.

In summer 2006 an ERREG public consultation on these Guidelines has been conducted. Within the public consultation, ERREG received 15 responses from different stakeholders, including TSOs, market participants, etc. All the responses have been analysed and evaluated in detail. ERREG has published the evaluation document ([www.ergeg.org](http://www.ergeg.org)) and presented the results of the evaluation of the public consultation to the XIII Florence Forum in September 2006.

## Follow-Up on the GGP-EBMI

The GGP-EBMI have initially focused on *manually activated reserves*, addressing the integration of balancing markets within that scope, in the sense of the Electricity Directive<sup>2</sup> and in line with the Congestion Management Guidelines<sup>3</sup> according to the Article 8 of the Regulation<sup>4</sup>.

Based on the results from the public consultation and the discussion at the XIII Florence Forum 2006, a number of adjustments have been integrated in the second revision of the GGP-EBMI which was approved and published by ERREG on 6<sup>th</sup> December 2006.

Beyond that, the public consultation and the discussions in Florence in 2006 revealed the need and high priority for consideration of the *cross-border intraday trade* and *automatically activated reserves* in relation to the balancing markets integration (Fig 1).

---

<sup>1</sup> ERREG Guidelines of Good Practice for Electricity Balancing Markets Integration (GGP-EBMI), Ref. E05-ESO-06-08, 6 December 2006, ([http://www.ergeg.org/portal/page/portal/ERREG\\_HOME/ERREG\\_DOCS/ERREG\\_DOCUMENTS\\_NEW/ELECTRICITY\\_FOCUS\\_GROUP/E05-ESO-06-08\\_GGP-EBMI\\_2006-12-06.pdf](http://www.ergeg.org/portal/page/portal/ERREG_HOME/ERREG_DOCS/ERREG_DOCUMENTS_NEW/ELECTRICITY_FOCUS_GROUP/E05-ESO-06-08_GGP-EBMI_2006-12-06.pdf))

<sup>2</sup> Directive 2003/54/EC of the European Parliament and of the Council of 26 June 2003 concerning common rules for the internal market in electricity and repealing Directive 96/92/EC

<sup>3</sup> Congestion Management Guidelines, published in the Official Journal on 11 November 2006 (OJ L 312, 11.11.2006, p. 59 - 65)

<sup>4</sup> Regulation (EC) 1228/2003 of the European Parliament and of the Council, of 26 June 2003 on conditions for access to the network for cross-border exchanges in electricity.

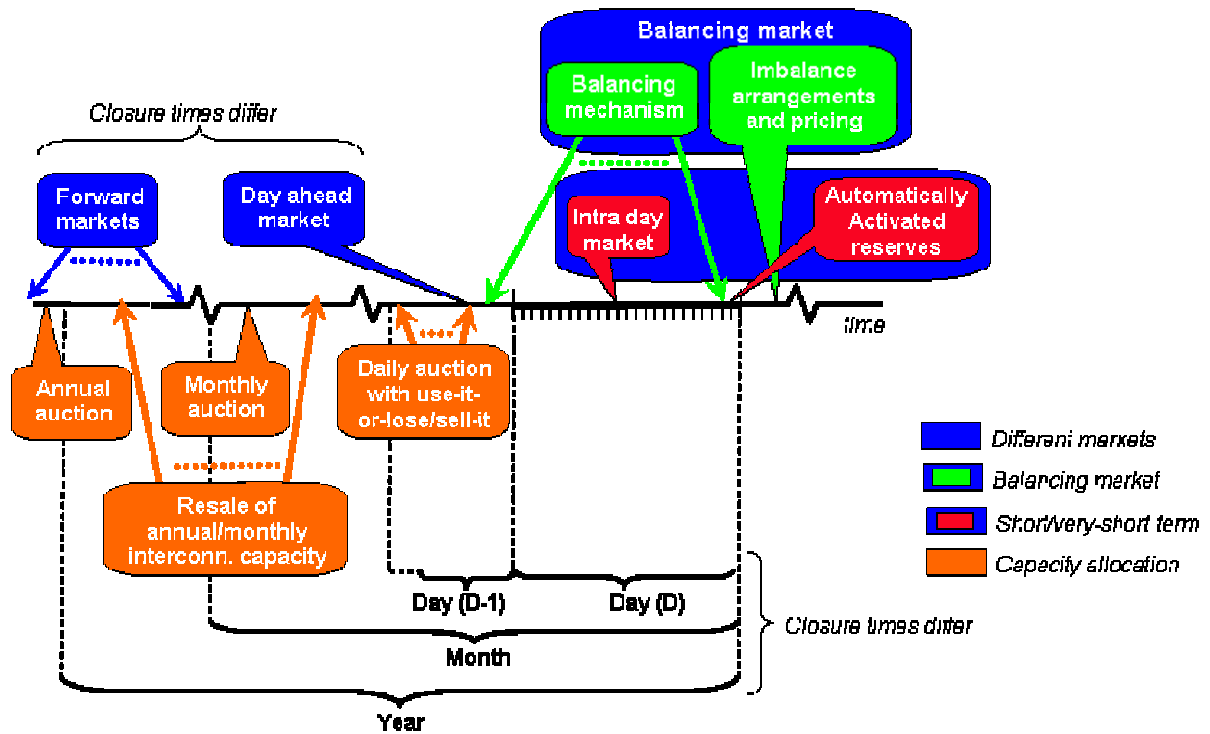


Figure 1: Balancing, intraday trade and automatically activated reserves

Due to the complexity of these additional two issues, a dedicated task for that has been included in the ERGEG Work Programme 2007. The final outcome of that task will be the ERGEG advice to the European Commission in 2008, on the common approach to the integration of electricity balancing markets, cross-border intraday trade and automatically activated reserves. To achieve that, a detailed Study commissioned by the European Commission will be conducted during 2007 and early 2008, followed by the public consultation in 2008 and final revision of the GGP-EBMI which will also address the issues of cross-border intraday trade and automatically activated reserves accordingly.

### Study on Interaction and Dependencies of Balancing Markets, Intraday Trade and Automatically Activated Reserves

The Terms of Reference for the Study have been developed and adopted by the ERGEG and DG TREN, identifying the objectives, benefits, scope and key issues. Well organized and efficient functioning and interaction of balancing markets, intraday trade and automatically activated reserves have a number of benefits:

- Well designed national balancing markets that operate in an economically efficient manner using market based methods, encourage market entry and competitive conditions to develop and allow system costs to be minimized.
- Given that there are gains to be made from trade, these benefits can be enhanced if adjacent connected balancing markets are made compatible such that TSOs and market parties can access both markets.

- Intraday capacity allocation for congestion management becomes an obligation for all the Member States from 01. January 2008 onwards, according to the CM Guidelines cf. Article 8 of the Regulation (EC) 1228/2003.
- Reciprocal access to intraday and balancing markets can further lead to the following benefits:
  - Provide TSOs with access to a more diversified generation technology mix and further opportunities to offset deficit and surplus net generation positions; this way it becomes easier for the TSOs to minimize balancing costs and increase efficiency.
  - Contribute to sharing reserves and security of supply. Each TSO will be able to call balancing power from other involved TSOs in a market-based way, contributing in that way to the reduction of the risk of supply interruption.
  - Increased efficiency for market participants who would be able to refine their positions closer to real time. This will reduce their risk of being out of balance and therefore paying imbalance prices. This will further reduce the balancing burden on TSOs
  - Increased level of competition so that possibilities of abuse of market power in any one of the balancing markets are reduced.
- Finally, balancing market integration in combination with the efficient intraday trade and an adequate system for the automatically activated reserves will enhance the price formation confidence and liquidity, foster competition in general, and help the overall cost minimization. Integration will also be an opportunity to increase levels of transparency for market participants.

The existing balancing markets in Europe allow for a market based procurement of balancing power and energy within single countries / control areas. Balancing markets are generally national in scope (or even smaller). The fact that most local balancing markets within Europe are mainly dominated by one or a few national suppliers calls for consideration of cross-border integration of balancing markets. The prerequisites for allowing a cross-border exchange of balancing power and energy and allowing a reciprocal access to national balancing markets will be further evaluated, including also an analysis of the impediments for the development of cross-border balancing markets resulting from the differences in the design of national markets (e.g. obligatory / voluntary participation, payment schemes: energy-only payments / capacity and energy payments, pay-as-bid/marginal price energy payment, gate closures, time of procurement, need for capacity reservation, etc.).

The relation to and inclusion of automatic reserves in cross-border balancing markets will be analyzed further and the practical approaches / solutions for that proposed. In particular, it should also be analysed whether differences in definition and procurement of automatic reserves between different countries and control areas introduce a barrier in cross-border markets in balancing. Any possible and/or necessary countermeasures for ensuring operational security in the single control areas as well as within the synchronous areas shall be addressed.

Moreover, as continuous trading platform appears as a serious option for intraday cross-border exchanges, the Study will analyse whether it is feasible and efficient that the intraday capacity platform is accessible to one or several competing intraday trading platforms and how a platform for cross-border balancing trade could be linked or integrated to the intraday trading platform(s) and have access to the intra-day capacity platform.

The Study will also take into account the relevant “externalities” such as:

- The risk of abuse of market power
- Proper market surveillance
- Transparency requirements.

Beyond the detailed considerations mentioned above, the evolution of the Internal Electricity Market in the EU in general and the future integration of balancing markets in particular will be considered from a general, integrated view.

Balancing market integration linked with the efficient intraday trade and an adequate system for automatically activated reserves will support the price formation confidence and liquidity, foster competition, help the overall minimization of costs and increase the transparency for all market participants.

It is anticipated that the draft of the Study will become available during 2007 and that the study will be completed in the first half of 2008, including also practical proposals and recommendations on the way forward and implementation steps. Following the Study completion, a public consultation will be conducted and the respective results presented at the Florence Forum in 2008.

Eventually, a formal ERGEG advice to the European Commission will be provided in autumn 2008, the work which is currently foreseen for the ERGEG Work Programme 2008.