ACER public consultation on aFRR Implementation Framework and Pricing Methodology

A Eurelectric response paper

April 2024

Eurelectric represents the interests of the electricity industry in Europe. Our work covers all major issues affecting our sector. Our members represent the electricity industry in over 30 European countries.

We cover the entire industry from electricity generation and markets to distribution networks and customer issues. We also have affiliates active on several other continents and business associates from a wide variety of sectors with a direct interest in the electricity industry.

We stand for

The vision of the European power sector is to enable and sustain:

- A vibrant competitive European economy, reliably powered by clean, carbon-neutral energy
- A smart, energy efficient and truly sustainable society for all citizens of Europe

We are committed to lead a cost-effective energy transition by:

investing in clean power generation and transition-enabling solutions, to reduce emissions and actively pursue efforts to become carbon-neutral well before mid-century, taking into account different starting points and commercial availability of key transition technologies;

transforming the energy system to make it more responsive, resilient and efficient. This includes increased use of renewable energy, digitalisation, demand side response and reinforcement of grids so they can function as platforms and enablers for customers, cities and communities;

accelerating the energy transition in other economic sectors by offering competitive electricity as a transformation tool for transport, heating and industry;

embedding sustainability in all parts of our value chain and take measures to support the transformation of existing assets towards a zero carbon society;

innovating to discover the cutting-edge business models and develop the breakthrough technologies that are indispensable to allow our industry to lead this transition.

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WG Market Integration & Network Codes

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Introduction

All TSOs submitted to ACER on 07 February 2024 their proposal to:

- the Second 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 (the 'Pricing Methodology Amendment Proposal'); and
- the Second amendment of Implementation framework for the European platform for the exchange of balancing energy from frequency restoration reserves with automatic activation in accordance with Article 21 of Commission Regulation (EU) 2017/2195 of 23 November 2017 establishing a guideline on electricity balancing (the 'aFRR IF Amendment Proposal')

ACER will review these proposals and revise them where necessary, in order to ensure that they are in line with the purpose of the Regulation (EU) 2017/2195 and Regulation (EU) 2019/943. ACER may also introduce editorial amendments to improve clarity, conciseness, consistency and readability of the Proposals.

The objective of this consultation is to gather views and information from stakeholders to inform ACER's decision-making. This consultation is addressed to all interested stakeholders, including regulatory authorities, market participants and transmission system operators.

The European Union Agency for the Cooperation of energy regulators ('ACER') will use the input from the consultation to inform its decisions on the Amendment Proposal, in accordance with Article 6(10) of Regulation (EU) 2019/942.

Related Documents

- Regulation (EU) 2019/942 of the European Parliament and of the Council of 5 June 2019 establishing a European Union Agency for the Cooperation of Energy Regulators ('ACER Regulation').
- Regulation (EU) 2019/943 of the European Parliament and of the Council of 5 June 2019 on the internal market for electricity (recast) ("Electricity Regulation).
- Regulation (EU) 543/2013 of 14 June 2013 on submission and publication of data in electricity markets and amending Annex I to Regulation (EC) No 714/2009 of the European Parliament and of the Council Text with EEA relevance.
- Commission Regulation (EU) 2017/2195 of 23 November 2017 establishing a guideline on electricity balancing ('EB Regulation')
- Commission Regulation (EU) 2017/1485 of 2 August 2017 establishing a guideline on electricity transmission system operation ('SO Regulation')
- Commission Regulation (EU) 2015/1222 of 24 July 2015 establishing a Guideline on Capacity Allocation and Congestion Management ('CACM Regulation')
- Annex I of ACER Decision on Harmonised maximum and minimum clearing prices 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 (CACM Regulation)
- Annex I of ACER Decision on Harmonised maximum and minimum clearing prices for single day-ahead coupling in accordance with Article 41(1) of Commission

Regulation (EU) 2015/1222 of 24 July 2015 establishing a guideline on capacity allocation and congestion management (CACM Regulation)

- Submitted documents:
  - Pricing Methodology Amendment and explanatory document
  - aFRR IF Amendment Proposal and explanatory document

Legal background

Pursuant to Article 30(1) of the EB Regulation, "all TSOs shall develop a proposal for a methodology to determine prices for the balancing energy that results from the activation of balancing energy bids for the frequency restoration process pursuant to Articles 143 and 147 of Regulation (EU) 2017/1485, and the reserve replacement process pursuant to Articles 144 and 148 of Regulation (EU) 2017/1485".

The Methodology for pricing balancing energy and cross-zonal capacity used for the exchange of balancing energy or operating the imbalance netting process (the 'Pricing Methodology') came into effect on 24 January 2020 with the ACER Decision 01/2020.

The Pricing Methodology sets the limits to the maximum and minimum prices for all balancing energy product bids and the maximum and minimum values of the cross border marginal prices (CBMP). These limits are set to 15,000 €/MWh and -15,000 €/MWh until July 2026 (maximum and minimum transitional price limits) and will be set to 99,999 €/MWh and -99,999 €/MWh after July 2026 (maximum and minimum technical price limits).

According to Article 10(1) of the Electricity Regulation, "there shall be neither a maximum nor a minimum limit to the wholesale electricity price. This provision shall apply, inter alia, to bidding and clearing in all timeframes and shall include balancing energy and imbalance prices, without prejudice to the technical price limits which may be applied in the balancing timeframe and in the day-ahead and intraday timeframes in accordance with paragraph 2".

Article 10(2) sets out the principles for day-ahead and intraday harmonized maximum/minimum clearing prices: "NEMOs may apply harmonised limits on maximum and minimum clearing prices for day-ahead and intraday timeframes. Those limits shall be sufficiently high so as not to unnecessarily restrict trade, shall be harmonised for the internal market and shall take into account the maximum value of lost load. NEMOs shall implement a transparent mechanism to adjust automatically the technical bidding limits in due time in the event that the set limits are expected to be reached. The adjusted higher limits shall remain applicable until further increases under that mechanism are required" .

Pursuant to Article 30(2) of the EB Regulation, "in case TSOs identify that technical price limits are needed for efficient functioning of the market, they may jointly develop as part of the proposal pursuant to paragraph 1 a proposal for harmonised maximum and minimum balancing energy prices, including bidding and clearing prices, to be applied in all scheduling areas. In such a case, harmonised maximum and minimum balancing energy prices shall take into account the maximum and minimum clearing price for day-ahead and intraday timeframes pursuant to Regulation (EU) 2015/1222".

Pursuant to Article 41(1) of the CACM Regulation, "all NEMOs shall, in cooperation with the relevant TSOs, develop a proposal on harmonised maximum and minimum clearing prices to be applied in all bidding zones which participate in single day-ahead coupling."

The Methodology for harmonised maximum and minimum clearing prices (the ‘’HMMCP Methodology”) for single day-ahead coupling (SDAC) came into effect on 14 November 2017 with ACER Decision 04/2017.

The HMMCP Methodology for SDAC sets the maximum/minimum clearing price value which is applied in all bidding zones which participate in SDAC ("Harmonised maximum/minimum clearing price for SDAC”).

Pursuant to Article 54(1) of the CACM Regulation, “all NEMOs shall, in cooperation with the relevant TSOs, develop a proposal on harmonised maximum and minimum clearing prices to be applied in all bidding zones which participate in single intraday coupling.”

The Methodology for harmonised maximum and minimum clearing prices (the ‘’HMMCP Methodology”) for single intraday coupling (SIDC) came into effect on 14 November 2017 with ACER Decision 05/2017.

The HMMCP Methodology for SIDC sets the maximum/minimum clearing price value which is applied in all bidding zones which participate in SIDC ("Harmonised maximum/minimum clearing price for SIDC”).

Pursuant to Article 21(1) of the EB Regulation, “all TSOs shall develop a proposal for the implementation framework for a European platform for the exchange of balancing energy from frequency restoration reserves with automatic activation.”

The Implementation framework for the European platform for the ex-change of balancing energy from frequency restoration reserves with automatic activation (‘aFRR IF’) came into effect on 24 January 2020 with the ACER Decision 02/2020.

The aFRR IF describes the high-level design of the PICASSO platform.

Consultation topics and questions

Topic 1: Harmonized maximum/minimum prices for balancing energy

Background

The Pricing methodology proposal submitted by TSOs contains three main changes to the maximum and minimum technical price limits for balancing energy. These technical price limits will become applicable at the expiration of the transitional price limits (July 2026).

First, the level of the maximum technical price limit is reduced from 99,999 €/MWh to 15,000 €/MWh and the level of the minimum technical price limit is increased from -99,999 €/MWh to -15,000 €/MWh.

Second, the introduction of an adjustment of the technical price limit in order to ensure that if the harmonised maximum clearing price for the single intraday coupling in accordance with Article 54(1) of Commission Regulation (EU) 2015/1222 increases above 9,999 €/MWh, the maximum technical price limit shall automatically increase by the same amount. In this case, the lower minimum technical price limit shall automatically decrease by the same absolute value. This adjustment mechanism was already part of the transitional price limited introduced in the 1st amendment.

Third, TSOs propose to develop an adjustment mechanism of the technical price limit based on:
(a) the harmonized maximum and minimum clearing prices for SDAC and SIDC pursuant to Regulation (EU) 2015/1222;
(b) prices for balancing energy materialising at the European platforms; and
(c) the special characteristics and specific conditions at balancing markets.

Adjustment based on the harmonized maximum/minimum clearing price for SIDC

ACER observes that the adjustment of the technical price limits is based on the maximum clearing price for SIDC and does not account for potential adjustments of the minimum clearing price for the single intraday coupling, which was made possible following Decision 02/2023 on Harmonised maximum and minimum clearing prices for SIDC. As a consequence, the adjustment of the technical price limits based on the maximum clearing price for the SIDC, proposed by TSOs, does not ensure that the minimum technical price limit is lower than the harmonized minimum clearing price for SIDC. ACER therefore intends to revise the Proposal in order to ensure that the minimum technical price limit would always remain lower than the harmonized minimum clearing price for SIDC. ACER intends to make the same adaptation for the adjustment mechanism of the transitional price limit.

Question 1.1 – Do you agree with the modifications intended by ACER on the adjustment of the technical price limits based on the maximum/minimum clearing price for SIDC?

- Yes
- No
- Partially

Question 1.2 – Please provide an explanation for your answer.

Eurelectric disagrees with both the price limit proposal and the rationales behind it. Any price cap should be based on robust evidence and economic principles. We stand against setting a price cap that could restrict the free formation of prices and argue in favor of a balancing price limit set at a value representing the willingness to pay of European consumers to avoid a disruption in supply, aka the value of lost load in all markets. In terms of rationales, the price cap revision was motivated by concerns of price manipulation expressed by some TSOs and NRAs. Should that be the case, we advocate for the application of REMIT guidelines as the most efficient measure to address the root causes of strategic bidding. Finally, the timing of the proposed adjustments appears premature, considering the market's current developmental stage and the incomplete participation of all TSOs. Further maturity and investigations on the root causes of market abuse by strategic bidding, are necessary before implementing such measures.

Should a different price cap be set, it should foresee a mechanism for a harmonized automatic adjustment of the technical price limits for balancing energy market in the event that existing price limits may be reached. This mechanism should seek to adjust the balancing energy price cap based on both the maximum and minimum clearing prices for SIDC. We believe indeed that there should be a consistency of maximum and minimum clearing prices across timeframe, respecting an increasing rule for maximum clearing prices with respect to the timeframe when approaching real time (that is 0 < maxDA < maxID < maxBAL) and a decreasing rule for minimum clearing prices with respect to the timeframe when approaching real time (that is 0 > minDA > minID > minBAL). Indeed, being closer to real time means being closer to potential real physical scarcity or over-supply which only is discovered/realized in the real-time time frame (balancing).

The possibility of having a harmonized maximum/minimum price for balancing energy

Based on legal provisions (Article 10(2) of the Electricity Regulation), there shall be a transparent mechanism to adjust automatically the technical bidding and clearing limits in the day-ahead and intraday timeframes in due time in the event that the set limits are expected to be reached. The adjusted higher limits shall remain applicable until further increases under that mechanism are required.

In ACER Decisions 04/2017 and 01/2023 on harmonised maximum and minimum clearing prices for single day-ahead coupling ('SDAC') and Decision 02/2023 on harmonised maximum and minimum clearing prices for SIDC, criteria were introduced for amending the harmonised maximum clearing price automatically whenever some triggering conditions are met.

ACER is of the opinion that a harmonized maximum/minimum price for balancing energy with a value lower than the current technical price limit can be introduced in balancing energy markets if an adjustment mechanism is introduced based on a transparent mechanism including some predefined triggering conditions.

Question1.3 – Do you consider that the introduction of a harmonized maximum/minimum price for balancing energy, at a lower level than the technical price limit (99,999 €/MWh) would be acceptable, if there would be a transparent mechanism to adjust the harmonized maximum/minimum price for balancing energy?

- Yes
- No
- Partially

Question1.4 Please provide an explanation for your answer.

We hold reservations for the same reasons stated in our response to the Question 1.2. As European consumers cannot directly express their willingness to pay in balancing markets, Eurelectric consider that a cap at the maximum of European VOLLs would be acceptable.

1.5 At what level, in your view, shall the initial value of the harmonized maximum/minimum price for balancing energy be set?
10 000 €/MWh

- 15 000 €/MWh
- At the value of highest VoLL among member states
- Higher than the highest VoLL among member states
- 99,999 €/MWh (just keeping the technical price limit)

Question1.6 Please provide an explanation for your answer.

Should a lower maximum technical price limit be implemented, the initial value of the harmonized maximum/minimum price for balancing energy **should not be set below** the highest VoLL among member states. Indeed, the technical price limit should not hinder the ability of imbalance prices to reach the VoLL theoretically in all market. This aligns with the objective to avoid disrupting the optimal functioning of the balancing market and the imbalance price to correctly signal the cost of balancing actions by TSOs. Additionally, setting the harmonized price at the highest VoLL fosters consistency and fairness across member states / market players.

Criteria of the adjustment mechanism for balancing energy

In day-ahead and intraday, the triggering conditions for the adjustment mechanisms are defined as the minimum conditions that lead to an expectation of the harmonised maximum clearing price to be reached. Indeed, single events that can occur due to a specific, circumstantial set of conditions should not be considered as events leading to an expectation of the harmonised maximum clearing price to be reached and should therefore be excluded from the Triggering conditions.

The intraday adjustment mechanism is defined in Article 4 of Annex 1 of Decision 01/2023 and the main characteristics are described in Table 1.

Description	Parameters value
Price spike definition	Clearing price above **70%** in at least one connected bidding zone
Trigger conditions	triggers over at least **2 different days** in a rolling **30 days**
Transition period	**28 days**
Treatment of the transition period	No possibility to trigger the price adjustments
Increase steps if the upward threshold is reached [€/MWh]	**+ 500 €/MWh**
Increase steps if the downward threshold is reached [€/MWh]	**- 100€/MWh**
Specific conditions of intraday markets	No trigger in the continuous segment of SIDC

Table 1: Graphical representation of the intraday adjustment mechanism

ACER is of the opinion that the adjustment mechanism for balancing energy can largely follow the design of the intraday one. Specifically, ACER sees a priori no reason to change the threshold for the spike definition (70%), the trigger conditions, the transition period as well as the step for increase. A small difference would be that, in PICASSO, the price spike definition would be assessed at uncongested area (consisting of one or a group of LFC areas) level.

However, ACER sees the need to adapt the way the increased steps are applied to the harmonized maximum/minimum price for balancing energy. The reason being that, the harmonized maximum and minimum clearing prices for SIDC can be asymmetric while in balancing, it has been considered that it was preferable that they are symmetric. ACER therefore proposes to apply the balancing adjustment symmetrically to the harmonized maximum and minimum prices for balancing energy. For instance, if the upward threshold would be reached, the harmonized maximum price for balancing energy would be increased by 500 €/MWh and the harmonized minimum price for balancing energy would be decreased by 500 €/MWh. As a consequence of the symmetrical update of the harmonized maximum/minimum price for balancing energy, it is also required that, during the transition period (after an adjustment), events in both directions would be disregarded.

Question 1.7 Do you agree with the general settings of the considered balancing adjustment mechanism?

- Yes

- No
- Partially

Question 1.8 Please provide an explanation for your answer.

We believe that the general settings of the considered balancing adjustment mechanism require careful consideration. Presently, the cap stands at 15k€/MWh and is expected to rise back to 99k€/MWh by July 2026 which we would support. Eurelectric suggests that any modification to the current price limits should apply only after a thorough analysis is conducted and its results discussed with market participants.

If a decision is made to lower this cap, it should not fall below the highest VoLL among members states. Additionally, if the cap is set lower than 99k€/MWh, we are of the opinion that it must be accompanied by a symmetrical increase/decrease mechanism.

Specific conditions of a balancing adjustment mechanism based on the specificities of balancing markets

The intraday adjustment mechanism accounts for the specificity of intraday markets. Specifically, the harmonised maximum and minimum clearing prices for SIDC are not adjusted based on the SIDC continuous segment. The reason being that this would not be able to correctly represent the legal requirements of Article 10(2) of the Electricity Regulation: 'NEMOs shall implement a transparent mechanism to adjust automatically the technical bidding limits in due time in the event that the set limits are expected to be reached'. Considering the functioning of the SIDC continuous market segment (remunerating market participants based on the price of their bids (and trades) and not based on a single clearing price resulting from an auction and displaying more frequent extreme individual with little correlations to the market fundamentals), such mechanism would not be able to correctly adjust the technical bidding limits in the event that the set limits are expected to be reached.

ACER believes that, similarly, the adjustment mechanism for balancing energy shall also account for specificities of balancing markets through specific conditions.

Specific condition 1: One of the specificity of balancing markets is that aFRR BSPs, mFRR BSPs and BRPs may face different prices. The supply is reflected by the bids that market participants place. The granularity of the CBMPs, BSPs face can be 4 seconds in PICASSO or 15 minutes in MARI. The demand for balancing energy is implicitly reflecting the imbalances from BRPs. These imbalances are settled on a 15-minute granularity. In day-ahead and intraday, if a certain clearing price is reached, it means that a supplier was ready to sell at that price and that a buyer was ready to pay that price. Both suppliers and demand can trade at the same granularity and price. On the other hand, in balancing, it is not because the CBMP reaches a certain level during a 4 second period that a BRP was ready to pay that price because the BRPs have not been exposed to that 4 second CBMP (and had no possibility to trade at that granularity) but to a 15-minute price.

As a conclusion of this specificity, we would take as a specific condition that the trigger for mFRR should be a CBMP above/below the threshold. For aFRR, we would take as the trigger the weighted average of the CBMPs during the imbalance settlement period above/below the threshold. This weighted average of the aFRR CBMPs is also the value of the boundary condition defined in Articles 55(4) and 55(5) of EBGL (if only aFRR is activated).

Specific condition 2: Another specificity of balancing markets is that the supply is splitted in different products (aFRR and mFRR). This can lead to a situation in which high CBMPs take place in one balancing platform while cheap bids are still available in another balancing platform. In this situation, it would not be meaningful to increase the harmonized maximum/minimum price for balancing energy because there was still cheap supply available.

As a conclusion of this specificity, we would take as a specific condition that there is both a trigger in PICASSO and in MARI for the same 15min period or imbalance settlement period.

Specific condition 3: A specific condition that can also be considered is that the adjustment mechanism would not be triggered if the price formation was put into question due to the lack of competition in the market. This condition could take two forms. First, an ex-ante condition that would check some indicators of the competitivity of the market (high market concentration, existence of pivotal BSPs). Second, an ex-post assessment on whether the CBMPs that would lead to an adjustment arises from an efficient price formation (e.g. whether the offers from BSPs reflect marginal cost (incl opportunity costs)).

Question 1.9 Do you agree that the balancing adjustment mechanism shall account for the specificities of balancing markets through specific conditions?

- Yes
- No
- Partially

Question 1.10 Please provide an explanation for your answer.

As stated before, Eurelectric stands against a price cap at a lower level than the highest VoLL among members.

Should such a adjustment mechanism be applied Eurelectric acknowledges that it should account for some specificities of balancing markets. As developed below, Eurelectric disagrees with some of the conditions considered by ACER.

Question 1.11 Do you agree with specificity 1 and the associated condition?

- Yes
- No
- Partially

Question 1.12 Please provide an explanation for your answer.

N/A

Question 1.13 Do you agree with specificity 2 and the associated condition?

- Yes
- No
- Partially

Question 1.14 Please provide an explanation for your answer.

mFRR and aFRR are different products that may be covering different needs of the system. As such, Eurelectric considers that activations of one type of product consistently beyond the price threshold over a full ISP should lead to a price cap adjustment regardless of the price reached for the other type of reserve. For instance, situations where only aFRR was

capable to respond to a given contingency thus inducing a price spike on aFRR and not mFRR should lead to a price cap adjustment. Eurelectric also considers that price adjustments should be coordinated across platforms.

Question 1.15 Do you think that the adjustment mechanism should be triggered if there were concerns about market competition (specific condition 3)?

- Yes
- No
- Partially

Question 1.16 Please provide an explanation for your answer.

As stated before, Eurelectric considers that any concern regarding price manipulation should be tackled through an NRAs assessment notably applying the REMIT guidelines. As part of this assessment, it is appropriate to consider all prequalified volumes for assessing the level of market concentration. Eurelectric firmly considers that assessing the competition status of markets falls outside the scope of TSOs roles and responsibilities.

Eurelectric is concerned that the proposed criteria are unclear and could lead to uncertainties and lack of visibility regarding the evolution of balancing energy prices. Eurelectric understands that the competition concern is temporary and linked to the limited number of accession to the mFRR and aFRR platforms so far. A more simple approach that would provide greater visibility could be for example to consider any price adjustment once a sufficient number of TSOs has joined the platform. Eurelectric also underlines that a swift accession of TSOs would alleviate the risk they seem to see.

Question 1.17 In case a condition about the lack of competition in the market would be introduced, what type of conditions would have your preference?

- Ex-ante condition
- Ex-post assessment
- Other

Question 1.18 Please provide an explanation for your answer.

Eurelectric call for a condition that can be verified and forecasted easily (e.g. a hard deadline).

Question 1.19 Please provide any extra comments you would have on the design of a balancing adjustment mechanism.

TSOs again neglect the reasoning brought forward by the market participants. All of the proposed measures will further reduce the commercial attractiveness of the balancing energy market.

Topic 2: Transitional price limit

In Decision 03/2022, ACER has introduced a maximum transitional price limit at 15,000 €/MWh and a minimum transitional price limit at -15,000 €/MWh. These transitional price limits are applicable until July 2026. The reason for these transitional price limits was to mitigate the risks in the initial phase of the platforms and allow time for TSOs to gather experience on the functioning of European platforms and perform an analysis of the

balancing markets.

The Pricing methodology proposal submitted by TSOs contains a change of the levels of the maximum transitional price limit from 15,000 €/MWh to 10,000 €/MWh and from -15,000 €/MWh to -10,000 €/MWh for the minimum transitional price limit.

Question2.1 Do you agree with the change proposed by TSOs of the maximum transitional price limit from 15,000 Eur/MWh to 10,000 Eur/MWh and of the minimum transitional price limit from -15,000 Eur/MWh to -10,000 Eur/MWh?

- Yes
- No
- Partially

Question2.2 Please provide an explanation for your answer.

We disagree with the proposed change of reducing the maximum transitional price limit from 15,000 Eur/MWh to 10,000 Eur/MWh and decreasing the minimum transitional price limit from -15,000 Eur/MWh to -10,000 Eur/MWh. Our objection is based on the following key points:

- We believe that setting a price cap at 10k€/MWh without demonstrating market manipulation through formal inquiry makes it challenging to claim that all observed bids above 10k€/MWh are irrational. Therefore, asserting that the choice of a 10k€/MWh price cap will not push units out of the market is questionable. The elastic demand should tackle the issue of price sensitivity well enough.
- We recommend that TSOs consider a more nuanced approach for evaluating bid efficiency and not rely solely on SDAC and SIDC for this purpose. Indeed, the emergence of new technology assets in the market has increased and is displacing thermal plants out of the reserve market. They are not always primarily dedicated to balancing services and have different cost structures and energy constraints, which can lead to different balancing energy bidding behavior.
- The 10k€/MWh price cap lacks a robust economic rationale and is too restrictive, particularly compared to the SIDC price cap. It may not provide a sufficient incentive for market participants to minimize their imbalances. This goes against the requirements of the Electricity Balancing Guideline, which has clear provisions on the need for incentives for market participants 'in keeping and/or helping to restore the system balance' in preamble (17) and art.44.1(c). The lack of sufficient incentive for BRPs may lead to additional imbalance volumes that TSOs need to tackle, with both cost and security implications.

Topic 3: Alternative way to compute the cross-border marginal price

In the current implementation of the PICASSO platform, the activation optimisation function (AOF) performed by PICASSO takes place before the activation by the local TSO Load frequency controllers. This design can lead to discrepancies between the bids selected by the PICASSO AOF and the bids activated by the TSO controllers. As a consequence, the aFRR CBMP can be set by a bid that is selected by the AOF but that is not activated by the local TSO controller. To mitigate the impact of this discrepancy, TSOs propose to amend the way the aFRR cross-border marginal is computed in the following way:

- The CBMP for positive standard balancing energy product bids in an uncongested area would be computed as the maximum on all LFC areas of the uncongested area of the minimum between (i) the price corresponding to the setpoint for automatic FRR activation of positive standard aFRR balancing energy product bids in their respective local merit order list for positive aFRR; and (ii) the price corresponding to the volume of positive standard aFRR balancing energy product bids selected by the aFRR AOF in their respective local merit order list for positive aFRR.
- The CBMP for negative standard balancing energy product bids in an uncongested area would be computed as the minimum on all LFC areas of the uncongested area of the maximum between (i) the price corresponding to the setpoint for automatic FRR activation in their respective local merit order list for negative aFRR ; and (ii) the price corresponding to the volume of negative standard aFRR balancing energy product bids selected by the aFRR AOF in their respective local merit order list for negative aFRR.

ACER is of the opinion that, as described by TSOs, it is not meaningful that the aFRR CBMP would be set by a bid that is not activated by the TSO controllers.

Question3.1 Do you agree with the alternative way to compute the aFRR CBMP proposed by TSOs?

- Yes
- No
- Partially

Question3.2 Please provide an explanation for your answer.
We have reservations due to the lack of quantitative assessment provided by TSOs proving the effectiveness of this measure. Only with a graphical illustration in the Explanatory Notes, the envisaged effect is highlighted. Therefore, the changes should be accompanied by an evaluation of the efficiency and impact of the measure compared to its objective once the platform has reached a certain level of maturity, i.e. 2 years after all TSOs have joined.

Advantages of the current approach outlined in the Explanatory Document of the Pricing Proposal include "[..] transparency, auditability and robustness of the price determination approach. The price determination is not affected by local behaviour of TSOs or BSPs [..]" and according to stakeholder preference the "simplicity of the approach and consistency with other market time frames, that also determine the prices based on the clearing result." Eurelectric therefore asks that irrespective of the CBMP determination, TSOs enhance their efforts to provide transparency on the CBMP formation.

Eurelectric therefore asks that irrespective of the CBMP determination, TSOs enhance their efforts to provide transparency on the CBMP formation.

Topic 4: aFRR elastic demand

The aFRR IF proposal introduces the possibility for TSOs to use an elastic demand. Specifically, TSOs would be allowed to put a price for the part of their demand that exceeds the aFRR capacity requirement resulting from the application of the ratio between aFRR and mFRR of the FRR capacity requirement determined for the relevant LFC block pursuant to the dimensioning rules as referred to in Article 157 of Regulation (EU) 2017/1485. The proposal also foresees that TSOs shall not use the elastic aFRR demand in such a way that it imposes a cap on balancing energy prices for all LFC areas or bidding zones.

ACER believes that the possibility for TSOs to use an elastic demand would allow them to better reflect the trade-off between extra cost and better frequency quality; and would therefore improve system efficiency.

Question4.1 Do you agree with the possibility for TSOs to use an elastic aFRR demand with the proposed limitations?

- Yes
- No
- Partially

Question4.2 Please provide an explanation for your answer.

We are also concerned about the impact that the introduction of elastic demand will have on the creation of new specific products by TSOs and more intensive use of the existing ones. Specific products should not be used as a complementary tool for ensuring reserves are available if aFRR elastic demand cannot be satisfied.

Eurelectric therefore considers that if elastic aFRR energy needs are to be integrated in the aFRR IF and used by TSOs, it should be accompanied by a clear and enforceable governance to ensure that its implementation and use are kept within the allowed framework. This framework should have limitations regarding the ability of elastic aFRR energy needs to act as price caps, the necessary up-front transparency on its definition and use, and the avoidance that its use would lead to additional specific products or additional use of specific products.

Eurelectric also requests that the use of elastic aFRR energy needs for the aFRR process is reassessed on a regular basis. This reassessment should cover both the compliance of the use with the stated objective, and the continued use of the elastic imbalance need.

Topic 5: Other comments

Question5.1 If you would like to comment on other topics please indicate clearly the related Article and paragraph of the proposal and add a sufficient explanation.

- Eurelectric urges ACER to take all necessary steps to ensure that all TSOs comply with the legal deadline to join the PICASSO platform as these accessions will be the first "measure" that will allow high price mitigation.

- Comment regarding Art. 3 of the "Second amendment of Methodology for pricing balancing energy and cross-zonal capacity used for the exchange of balancing energy or operating the imbalance netting process" related to the amendment of Art.9.c of the Pricing Methodology:

  We oppose any reduction in the granularity or frequency of quarterly pricing reports and advocate against the proposed simplification of these reports from quarterly to annual. Additionally, we stress the importance of maintaining this reporting not only during the transitional period but also beyond, ensuring its accessibility to the public.

Eurelectric pursues in all its activities the application of the following sustainable development values:

Economic Development

- Growth, added-value, efficiency

Environmental Leadership

- Commitment, innovation, pro-activeness

Social Responsibility

- Transparency, ethics, accountability

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