

BVES – German Energy Storage Association

Public Consultation on the establishment of common and harmonised rules and processes for the exchange and procurement of Frequency Containment Reserve (FCR) in accordance with Art. 33 of COMMISSION REGULATION (EU) 2017/2195 establishing a guideline on electricity balancing

Berlin, 13.02.2018

Introduction

The German Energy Storage Association BVES is the leading industrial association of German energy storage companies that is open to all technologies in the areas of electricity, heat, gas and mobility. Our association represents companies and institutes along the whole value chain of energy storage (R&D, industry, aggregators, operators).

General Comments

BVES appreciates the endeavour to improve the market design for FCR involving all relevant stakeholders. However, based on the current results seen in the FCR auctions, some of the points in this consultation seem of minor importance for the functioning of the market.

For BVES **market transparency** is of first priority. As a market participant it is not acceptable to get rejected although the bid is below the marginal price. All possible advantages of indivisible, symmetric bids or cross border markets do not outweigh a transparent market.

As well it is indispensable for BVES to have **uniform prequalification requirements for all BSP in a common market**. Batteries are classified as “technical units with a limited energy reservoir” (LER) and have to fulfil higher technical requirements to be able to enter the market. This clearly contradicts the technologically open approach according to the European law. However, batteries can provide their highest accuracy within milliseconds and are able to deliver FCR better than any other technology. Thus, it is indispensable to have a market design which is open to all technologies.

In the past, the process of changing market design for FCR has been the domain of regulators, e.g. in Germany by BNetzA in their ruling BK6-10-097. In these consultations, the grid operators were one participant, voicing their opinion on the future design evolutions. The current process, in which the system operators will only position themselves following the consultation of other industry stakeholders changes the dynamic of the process.

To decrease regulatory uncertainty, it would be advisable for the TSOs to declare their position regarding the different proposed changes as soon as possible. It would further be useful to

understand if industry stakeholders will have the chance to comment on proposals made by the TSOs following their recommendations to the regulators.

It is not clear at which point possible market design evolutions will be tested by a cost-benefit analysis in order to get a better understanding, how possible change proposals will impact the future FCR market and if the proposed changes will result in the aspired outcome.

Answers to the consultation questions

1. What is your name?

Helena Teschner, Senior Expert Politics and Regulatory Affairs

2. What is your email address? - Email

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3. What is the name of your organisation?

BVES – German Energy Storage Association

4. What is the market role of your organisation?

BVES is bundling the entire storage industry speaking for all technologies.

5. In which country(s) is your organisation present?

Germany

6. Which technology do you offer (or intend to offer)?

See answer 4.

7. Which amount of FCR capacity are you currently able to offer? –

As we represent all energy storage technologies, we also speak for a most of the 170 MW of prequalified battery storage systems in the German system. Until 2019 the German TSO are expecting around 300 MW in the FCR market provided by German BSPs.

8. Who is your connecting TSO?

No answer.

9. What is your opinion on the proposal regarding market design in Article 3 "TSO - TSO Model"? - TSO-TSO model

No answer.

10. What is your opinion on the proposal regarding market design in Article 4 on "Auction frequency"? –

A higher frequency of auctions (i.e. daily) could enable other technologies to take part in the FCR market. A shorter auction frequency may improve the predictability and open the field for a larger variety of technologies.

If the decision was made to change today's weekly auction frequency, BVES prefers an auction frequency on working days. The placement of bids on weekends and public holidays require a bigger effort and could result in an obstacle especially for market players with no automated bidding system.

In any case, a proper analysis on the functioning and welfare effects should be done before a decision on the auction frequency is done.

11. What is your opinion on the proposal regarding market design in Article 4 on "Auction timing"? – Explanation

BVES prefers a short lead time of GCT D-1 or D-2. Since forecasts (e.g. weather) are more accurate, this would allow a more flexible pricing. The only benefit of a long lead time of GCT D-3 up to D-6 would be the opportunity to enable working day bidding in case of weekends on public holidays.

12. What is your opinion on the proposal regarding market design in Article 5 "Product"? – Explanation

Shorter product durations allow more flexibility, but as well entail larger transfer-costs. The implementation in three intermediate steps is costly and complicated and should be done in a one-off approach. In any case, a proper analysis on the functioning and welfare effects should be done before a decision on the product duration is done.

BVES supports the continuation of symmetric products in the FCR.

13. What is your opinion on the proposal regarding market design in Article 6 "Bid design possibilities"? – Explanation

BVES prefers to stay with divisible bids. The implementation of indivisible bids would increase complexity and demand for transparency.

The analysis on indivisible bids applies mostly to conventional generators. As not all technologies offering FCR today and in the future have must-run limitations, this is a technology-specific argument, which is to be rejected for the design of a technology-neutral market. A market design should not consider technology specific considerations.

BVES does not see the need for a maximum bid size and supports at least a minimum bid size of 1 MW and bid resolution 1MW.

To support future technological solutions such as residential storage, swarm projects and commercial and industrial storage, a smaller bid size and resolution would be favourable.

Similar bid resolutions are already present in the Spot market and ancillary service markets in other international markets.

14. What is your opinion on the proposal regarding market design in Article 7 "Auction allocation algorithm"? – Explanation

No answer.

15. What is your opinion on the proposal regarding market design in Article 8 "TSO-BSP settlement"? – Explanation

Marginal pricing would be the option of choice having a perfect competition. As this is currently not given, BVES prefers to stay with the pay-as-bid method.

Under a pay-as-bid regime, individual BSP can still bid at their marginal cost, therefore the argument for wider market participating through marginal pricing seems wrong. The marginal pricing regime further assumes that all BSPs could bid at their marginal cost, as fix costs have already been recovered. This is however only true for assets, which operate in different markets. Other assets, such as batteries have to capture their variable and fixed costs in the FCR auction and can therefore not bid on marginal cost basis. The change in TSO-BSP settlement should therefore consider, if the changes are technology neutral.

Looking at historical prices it is getting clear that strategic behaviour plays some role in the bidding strategy of some participants as they obviously are not gaining for profit maximization but trying to give price signals. This violates the principle of the FCR market which has to be free of discrimination.

In a pay-as-bid regime such behaviour is rather costly and therefore limited to a certain extent. Marginal pricing regime only works efficient if competition is perfect. It gives much more room for strategic behaviour if individual participants do not strive for profit maximization. For such participants it becomes very cheap to set price signals and drive the market in a direction they wish. The market principles would be violated in many instances. As an example we refer to the auction for the period from 06-12 Feb 2017 where the marginal price was 3.019,00€/MW while lowest price was 1.340,00€/MW. There never was a reason for a rational participant to bid a price like this if he would intend to maximize income from his services.

In any case, a proper analysis on the functioning and welfare effects should be done before a decision on the pricing method is done.

16. What is your opinion on the proposal regarding market design in Article 9 "TSO-TSO settlement"? – Explanation

No answer.

17. What is your opinion on the proposal for the process of joining of new parties as described in Article 10 "Accession of new parties"? – Explanation

BVES supports the idea of a European Energy Union and ergo as well the approach of cross border markets. As stated before (in General comments) the indispensable precondition is to

have uniform conditions and requirements in a common market.

BVES is not satisfied with the degree of harmonisation of the common FCR market. Focusing on the prequalification criteria, there are serious differences which imply an uneven level-playing-field of technologies. A unification of all standards and market rules is indispensable and urgently required.

Currently, existing differences in energy availability requirements within the common FCR market constitute artificial market entry barriers for new technologies in some TSO regions. Not mentioned in the consultation, different degrees of freedom in the operation of battery assets in the common FCR market constitute an additional barrier for the common FCR market.

18. What is your opinion on the proposed roadmap for implementing the proposed changes in the market design as described in Article 11 "Implementation roadmap"? – Explanation

Market transparency and reducing disruptions of the market are of first priority for BVES. Changes of the balancing market design create costs for BSPs, that must be recovered in the balancing market. The longer the changing process takes and there are no reliable market conditions, the more negative effects for the liquidity and on competition are to be expected. We favour, that the decided changes are implemented in one single action.

19. What is your opinion on the requested exemption for not allowing cross border transfer of capacity obligations as described in the "Draft Proposal for the exemption of the FCR Cooperation Parties from the obligation to allow balancing service providers to transfer their obligations to provide balancing capacity in accordance with Article 34(1) of COMMISSION REGULATION (EU) 2017/2195 establishing a guideline on electricity balancing"? - Explanation

BVES prefers to strengthen other flexibility tools, such as product duration etc.

Cross border transfer seems however only applicable for larger providers and a market design should not focus on specific technologies.

If an exemption for not allowing cross border transfer is granted after all, then it should be limited in time (e.g. five years) and reviewed in due course. In addition, technological developments should be included.

20. Do you have any other remarks / questions?

No answer.