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Feedback to Nordic Balancing Model's publication 'Single Price & Single Position -implementation in the Nordics - Common Market Design description

Danish Energy is pleased for the opportunity to comment on the publication 'Single Price & Single Position-implementation in the Nordics'.

To our understanding the Nordic TSOs suggest the implementation of the following in the Nordic electricity markets: Single position for all imbalances, single price model, requirements to follow productions plans and planning in balance and lastly, increased imbalance fees.

The implementation of single price model and imbalance fee

Danish Energy supports the implementation of a single price model, as this method is less complex and more transparent because all participants are settled in the same way. The suggested structure of the imbalance fee implies, in the case of Denmark, an introduction of an imbalance fee for all imbalances, regardless whether the imbalances aggravate or help the electricity system in a given imbalance situation.

Danish Energy supports the idea of introducing an imbalance fee, as a tool to create incentives for market participants. Market participants will, with an imbalance fee, have the incentive to move their activities from the balancing market to the preceding markets. However, Danish Energy cannot support the suggestion that all imbalances, whether they help or aggravate the electricity system, are imposed an imbalance fee.

In the paper the Nordic TSOs state: "*In addition, the imbalance fee may provide incentives to the market participants depending on the fee level.*"

Danish Energy agrees that it is important for participants to plan into balance, and that an imbalance fee will create incentives to avoid imbalances. Nevertheless, we do not see the reasoning for punishing participants, who despite their effort of planning into balance end up having an imbalance, if this imbalance help maintain the overall electricity system balance. Additionally, it is unclear how the Nordic TSOs justify imposing a fee on imbalances that help

the system, as these reduce the TSOs' costs. Imbalances help the system imply that the TSOs in that given hour need to buy less up- or downregulation and should thus not lead to increased costs. The proposed imbalance fee is thus in our opinion:

1. In direct contradiction with Article 44(1)(a) of the Electricity Balancing Guideline (EBGL), which states that the settlement processes shall reflect adequate economic signals which reflect the imbalance situation
2. A breach of Article 44(1)(i) of the Electricity Balancing Guideline (EBGL), which requires the settlement processes ensure the financial neutrality of all TSOs.

Based on this the Nordic TSOs should revise the current methodology such that an implementation of an imbalance fee does not simply become a source of income, but instead is used for creating correct incentives and signals for market participants.

Renewable energy

An imbalance fee will have a larger impact on producers of fluctuating renewable energy, as they to a lesser extent have the possibility to control their production. This problem will only accelerate with the implementation of 15 min. ISP, where there is a risk of having four imbalances per hour. In Denmark owners of renewable energy plants originally received compensation for their balancing costs (2.3 øre/kWh). This compensation has since been significantly reduced to 0.9 øre/kWh, which along with the possible introduction of an imbalance fee, leaves producers of fluctuating renewable energy very vulnerable. The Nordic TSOs need to consider this when determining the final structure of the imbalance fee.

Harmonization of the imbalance fee in the Nordics

Danish Energy is skeptical of the possibility to harmonize the imbalance fee in the Nordics, as the major geographical differences and technical differences of the electricity systems make it impossible to determine a Nordic imbalance fee, which is accurate and fair for all Nordic market participants. Moreover, there are other elements besides the imbalance fee, which are not harmonized in the Nordics. The argumentation for the harmonization is thus unclear, as a potential harmonized imbalance fee only will result in part of the imbalance settlement being harmonized.

Conclusion

Danish Energy suggests that the Nordic TSOs revise the market design so it considers the following:

1. The future vulnerability of producers of fluctuating energy
2. An imbalance fee should be structured so it better reflects the cost of balancing the electricity system and is consistent with the polluter pays principle.

Danish Energy is very open for dialogue in connection to the development of the market design for the Nordic imbalance settlement.

Yours sincerely
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