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CONSULTATION REPLY ON THE SINGLE PRICE AND SINGLE POSITION – IMPLEMENTATION IN THE NORDICS

Fortum appreciates the possibility to give our view on the Nordic Balancing Model Single price and Single position – implementation in the Nordics, Common Market Design description.

Fortum is a true regional energy company with presence in electricity production and/or consumption in all Nordic and Baltic bidding zones. Our regional presence allows us to witness every day the value that the regional resource optimization creates to our societies in increased welfare. We strongly believe that a stronger regional co-operation is beneficial and necessary for all our societies alike.

Fortum further considers that it is crucial to enable further integration of renewables in order to achieve the ambitious decarbonization goals set in the Nordics. The implementation of single price and balance are key to this as proper implementation enables cost-efficient market-based balancing of the power system.

General comments

Fortum finds that the intention of the “common market design” seems to be to introduce a harmonized Nordic model for imbalance settlement in line with EBGL(Electricity Balancing Guideline) and the ACER approved methodology for Imbalance Settlement Harmonisation(ISH). The documents itself advertises that is not exhaustive but does not explicitly list the things which are left out.

Furthermore, the document states that the intention is to support the current “Nordic balancing model” by a set of measures to achieve an expected behavior of market participants. Fortum questions whether the intention to support the current model can justify diverging from key principles in EBGL and/or ISH as shown later.

Fortum is worried that the proposal is more concerned about maintaining the status quo from every single perspective on a principle level instead of embracing the changes imposed by European legislation designed to support the energy transition.

Additional measures

In this section of the document it is advocated that the additional measures proposed are necessary in order to maintain the current balancing model and that the need for these additional measures can change over time if or when the so called “Nordic Balancing Model” is implemented. Fortum notes that the so called NBM model is not documented in any formal manner nor does the NBM program have a firm timeline. Therefore it is uncertain to what extent any of the proposed additional measures actually would become obsolete over time. Based on the current writing Fortum sees

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that there is a risk that these measures remain and that this as such means that the Nordic countries are not compliant with European legislation.

The actual reasoning for the additional measures is according to the paper: “to limit the incentives for self-regulation(taking active imbalances) which may arise in such a price model”. Fortum notes that active self-balancing could be a problem in combination with proactive TSO balancing actions. However, the intention of the single-balance model is to enable non-discrimination of market participants (following EBGL art 3(i) and(f) as well as ISH whereas section:

“the EB Regulation Articles 3(1)(f) and 3(1)(g), by neither allowing nor introducing discriminatory requirements. Additionally, for self-dispatching models, the specification of single position per imbalance area and single imbalance pricing per imbalance price area serves to move towards a level playing field for small market players and renewables and is an important step when facilitating an efficient framework for aggregation and storage.”

Fortum finds it troubling that maintaining the current balancing model is seen as a superior requirement to compliance with EBGL and ISH and questions whether this is acceptable.

Timeline

Fortum finds that it is positive that market participants concerns are heard when designing the timeline but find this timeline inconclusive as it lacks details and commitment.

Imbalance pricing

Again, with the pricing proposal the intentions seems to be to maintain consistency with the current balancing model. The proposal seems to indicate extension of the current pricing scheme where the day-ahead price for the period in question is used as the imbalance price when no dominant direction exists. Fortum cannot find justification for this in ISH or EBGL and considers that VoAA (Value of Avoided Activation) shall be calculated and used as specified in Article 9. of ISH. Maintaining the current model cannot be used as an argument for not complying with European legislation.

Requirement on following production plans

The proposal again targets at maintaining the principles of the current model rather than implementing the European legislation:

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“The Nordic TSOs propose to transform the settlement of the production imbalance into an enforceable requirement to follow production plans, for example a contractual or legal requirement. “

From a principle perspective Fortum finds the proposal in itself to be in conflict with EBGL art. 3 (i) and (f) as well as the whereas section of ISH as stated earlier. This is based on the fact that this requirement seems to apply to production units only and not to consumption. The document also suggests possibility for more detailed reporting than BRP on national level which would be in conflict with both EBGL and the harmonization approach.

Additionally, the requirement poses the BRP to follow the production plan sent 45 minutes prior to the operational hour which would be penalizing for intermittent renewable capacity. In effect, this requirement would also hinder integration of more intermittent renewable generation and as such not be compliant with amongst others EBGL whereas 1, 6, 17 and art 3(g) and should therefore be considered by the relevant NRA´s under Article 62 Derogations paragraph 8(d):

“When assessing the request for derogation or before granting a derogation at its own initiative, the relevant regulatory authority shall consider the following aspects:”

“the impacts of non-implementation of the concerned provision or provisions, in terms of non-discrimination and competition with other European market participants, in particular as regards demand response and renewable energy sources;”

The follow-up of the requirements related to production plans is proposed to be monitored by so called KPI´s established and calculated in the imbalance settlement process.

As a starting point Fortum considers that the requirement on production plans seems to have no legal justification and that the measures include several national components. As such, any requirements specifically targeting any specific BRP or asset type should be deemed as discriminatory and as such not compliant with above-mentioned legal requirements. Furthermore, potential for national solutions should be kept at a minimum and always separately justified and monitored.

Furthermore Fortum is worried that such a requirement limits the possibility for BRPs to balance their portfolios close to or in delivery as flexible production cannot be used to adopt to changing demand at the same or other BRP (through an open intraday market).

Requirement for planning in balance

The second measure proposed contains a suggestion on a legal or contractual requirement to:

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“The BRP shall strive to plan into balance, i.e. close its expected position in the wholesale market (before the balancing timeframe).”

Fortum cannot find legal justification for such additional requirement in the paper. In addition, the wholesale markets continue until and in some Member States to after delivery. Therefore it is incorrect to state that the wholesale market ends when “balancing timeframe” starts.

A controversy can however be found between the obligations to plan in balance and to follow its production plans. A BRP which has consumption in its balance would then not be able to alter its production schedules in order to cope with late changes on the consumption side without being in conflict with one of the measures.

BRP fees and fee levels

Additionally, the model proposed in the paper includes an additional fee structure which is claimed to be in line with EBGL art. 44(3) and to be developed to cover unspecified costs as well as incentivize BRPs. Fortum notes that according to EBGL such additional settlement mechanisms can be proposed but should be based on shortage pricing function and that any such proposal shall be approved by each NRA.

“Each TSO may develop a proposal for an additional settlement mechanism separate from the imbalance settlement, to settle the procurement costs of balancing capacity pursuant to Chapter 5 of this Title, administrative costs and other costs related to balancing. The additional settlement mechanism shall apply to balance responsible parties. This should be preferably achieved with the introduction of a shortage pricing function. If TSOs choose another mechanism, they should justify this in the proposal. Such a proposal shall be subject to approval by the relevant regulatory authority.”

Fortum cannot find either the shortage price function, costs nor further justifications in this proposal.

Fortum conclusions

Fortum considers that the proposal does not contain proper justification for the so called mitigation measures. It is also worrying that Nordic TSOs’ ambition level for European harmonization and implementing European legislation seems to be quite low. Furthermore, the Nordic countries have an ambitious target for decarbonization including more renewables. Additionally the market participants have addressed the need for market-based rebalancing up to delivery in the NBM stakeholder forums arranged by the TSOs. Stakeholders have concluded that the pan-European model to

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balance renewables close to real-time in the intraday market is needed to facilitate cost-efficient scheduling and to minimize balancing actions and costs for TSOs. This conclusion is also present in the study from TU Berlin by Koch, Hirth 2019:

“Christopher Koch, Lion Hirth Short-term electricity trading for system balancing: An empirical analysis of the role of intraday trading in balancing Germany's electricity system”

https://depositonce.tu-berlin.de/bitstream/11303/10242/3/koch_hirth_2019.pdf

“Highlights

- Since 2011 wind and solar energy nearly doubled; balancing energy decreased by 50%.
- One reason for this is the expansion of short-term electricity trading.
- It is now common to trade electricity around the clock, and on a 15-min basis.
- In general, the paper finds support for efficient short-term electricity markets.
- Good market design allows integrating large volumes of renewable energy at low cost.”

Therefore Fortum proposes;

- EBGL and ISH principles of non-discrimination of market participants is followed to enable integration of renewables;
 - Removal of the mitigation measure related to following production plans
- The legal or contractual obligation to “plan” in balance is removed in order to enable market participants to support the power system
- The ACER approved ISH methodology is followed;
 - Imbalance volume fee is removed as a mitigation measure
- Market participants are enabled to balance the power system via an open market based mechanism as proven efficient in Central Europe and by Hirth and Koch
- Nordic TSOs introduce aFRR energy market as soon as possible and move to reactive balancing