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Response of EUGINE to the Consultation of ENTSO-E on Electricity Balancing Network Code: Methodology for Cost Benefit Analysis

1. Introduction

EUGINE is the centre of knowledge for engine power plant technology and electricity market design. Its members are the leading European manufacturers of engine power plants and their key components suppliers. They provide forward-looking solutions for flexible electricity generation (very short start-up and ramp-up times). EUGINE is very much affected by the European Internal Energy Market design and thus interested in the network codes drafting and implementation processes.

2. The balancing challenge

Renewable Energy Sources (RES) are playing a steadily increasing role in the EU power system. Unfortunately, due to wind and sun intensity variations, it is difficult to precisely foresee RES output and to match electricity production with demand. This “intermittency challenge” creates two important challenges in the internal energy

market: a “balancing challenge” (need for an appropriate electricity market design, including a suitable network code on electricity balancing, to address growing and more frequent imbalances between power generation and power demand) and a “flexibility challenge” (need for technologies like flexible power generation to complement intermittent RES). Current market designs work efficiently for power systems dominated by predictable supply and demand profiles. However, the trading arrangements were not designed to handle the growing unpredictable variations in electricity supply. Today they are not able to solve in a cost-efficient manner the challenge of balancing the generation and consumption of electricity within the changing European electricity markets. Therefore the market design has to be adjusted. Balancing arrangements have to provide efficient signals of the value of flexibility, influencing the type of capacity moving forward.

3. Comments on the methodology for cost-benefit analysis

3.1. General methodology

1-2. EUGINE agrees with ENTSO-E: benefits and costs should be monetised as much as possible in the general CBA approach in order to reduce the risk of getting subjective results. Objectivity of the cost benefit analysis should be one of the key objectives.

3-4: EUGINE generally agrees with the classification of objectives as proposed. However, we would like to comment on ‘avoids undue barriers to entry for new entrants’ and ‘technical feasibility’. We believe that balancing products should aim at maximising the European social welfare through a reduction of overall system costs. Therefore we think that balancing products should be designed in a way which helps to achieve this objective of minimising overall system costs through incentives for market participants to invest in innovative solutions meeting this condition. It is then the role and responsibility of market participants to develop new projects and enter

new markets. Similarly, the 'technical feasibility' condition should not lead to a technological status quo. Product design should rather stimulate technological innovations lowering overall system costs.

5-6. EUGINE agrees with the process for assessing the CBA evaluation approach as described. However, we have some doubts on its concrete feasibility for the whole EU. Some costs or benefits may be forgotten, counted twice or not precisely assessed.

7-8. EUGINE agrees with the definitions as stated in the report.

12-13. EUGINE acknowledges the advantages of option 2. However, this approach could be improved if a detailed assessment would be undertaken in the first five years and then replaced by the option of 'N+5 snapshot years'. With this approach, costs and benefits may be better evaluated without requiring excessive efforts.

14-15. EUGINE supports the approach proposed.

16-17. EUGINE supports the approach proposed.

18-19. EUGINE supports the approach proposed.

20-21. EUGINE supports the approach proposed.

22.-23. EUGINE supports the approach proposed.

29-30. EUGINE agrees with the sensitivity analysis for the parameters/variables listed in the report. Further variables related to CO2 and fuel prices (closure of plant, development of intermittent renewables, etc.) should be added to this list.

3.2 ISP harmonisation

EUGINE warmly welcomes the current reflection on the harmonisation of imbalance settlement periods. As the share of intermittent renewables in the overall energy mix is progressively and steadily growing, this is a very timely and important discussion.

In this context, EUGINE would like to highlight the work undertaken by the European Energy Exchange (EEX) to propose new products like the 'cap future product'. Such products may be an interesting solution to hedge price peaks on the short term intraday market and reduce the risk of 'possible higher costs for certain market entities' which is mentioned in the paper for consultation.

EUGINE believes that sharper imbalance price signals would create incentives to reduce imbalances and help stabilise the grid on the long run.