



## **PENTALATERAL ENERGY FORUM**

*Directors General meeting – 6 June 2016*

### **Penta Directors General meeting – June 6, 2016**

#### **Introduction:**

In June 2015, the Penta ministers defined in their 2<sup>nd</sup> Political Declaration milestones on security of supply, on market integration and on flexibility. They agreed to review the work in June 2017 and intended to communicate interim results regularly, in particular holding out the prospect of the deliverables for June 2016.

This DG meeting aims at taking stock of the progress made and milestones achieved so far, at giving political guidance for implementing the 2<sup>nd</sup> Political Declaration and at defining the action points for the coming year. Most importantly, decisions have to be taken on Penta's further ambitions on flexibility.

#### **Progress made and milestones reached so far:**

1. The Flow-Based market coupling (FBMC) methodology for Day-ahead markets was further improved;
2. A roadmap for a second regional Penta generation adequacy assessment (GAA) with further improvements in the methodology was agreed;
3. Key messages regarding possible cross-border participation in system adequacy mechanisms are delivered;
4. Regional measures to remove barriers for flexibility options have been identified.

#### **Action Points:**

##### SG 1 – Market integration

1. The main objective of the SG 1 is to further improve the cross-border exchange of electricity in Day-Ahead and Intraday markets. Since the launch of FBMC in May 2015, price convergence has generally increased and more exchange of electricity across borders has been observed in the Day-Ahead markets in many hours. In the last twelve months, several aspects of the market coupling have been improved: the operational quality and stability of the calculations have been strengthened, a dialogue with market parties has been established, a coordinated Intraday capacity calculation process has been implemented and a solution has been developed for a mathematical problem of the algorithm arising in times of high prices. First discussions have taken place with regard to the implementation of FBMC methodology and operations in Eastern Europe and beyond. The Penta states support the attempt of the TSOs to work closely together with the countries in the Central Eastern European (CEE) region on introducing day-ahead FBMC in CEE and align it with the FBMC approach in the Penta region.

- The next steps for the work in SG1 will be to continue the **further improvement of FBMC methodology and operations** for the Day-Ahead markets, based on the requirements settled in the approval package of the FBMC approach and **intensify our efforts on improving intraday market coupling**, particularly by
  - determining the possibility of incremental improvements of capacities for cross-border Intraday trade,
  - developing an approach to implement flow-based Intraday capacity calculation.

#### SG 2 – Security of supply

2. The methodology for the regional GAA further needs to be improved. The next GAA has to take into account of demand side response and flow based capacity calculation. It will better integrate information about decommissioning and mothballing of power plants, capacity markets or reserves in place or planned and the political choice of the national energy mix (e.g. phase-out of nuclear power or coal, carbon tax etc.) and reliability standards.
  - Issue a **new and improved GAA** for the years 2018/2019 and 2023/2024 with clear messages and suggestions by end of 2017.
3. A study has been launched by the Penta TSOs on cross-border participation in ‘system adequacy mechanisms’ (XB SAM, including reserves and capacity markets) which describes different types of capacity mechanisms and possible cross-border participation models. Furthermore, the study assesses the impact of various forms of cross-border participation on the electricity system. The first key messages so far are that the governance of participation of foreign entities in SAM is highly complex and that more cooperation between TSOs and countries, especially in terms of product definition, certification and control of foreign entities or penalties will still be required.
  - Assess the possibilities for **foreign interconnector and/or generation capacity and/or demand side response to participate in national SAMs** and analyse whether XB SAM can still function in case of simultaneous scarcity situations by September 2016 with a proposal for next steps to be decided upon by Summer 2017.
4. Discussions have been started to develop a common understanding of **reliability standards** across the countries. Reliability standards set the acceptable number or extent of exceptional power disruptions. They are not necessarily identical with reliability indicators applied today in the Penta countries to monitor the reliability of their systems. However, the question is whether different standards may pose risks to security of supply in the region or may lead to unfair load shedding from one country to the other.
  - Assess whether a **common reliability standard** for the Penta region is necessary and useful especially when simultaneous scarcity situations are concerned and explore whether reliability ranges could be an adequate alternative to one common stringent standard by end of 2016.

5. Discussions have also been started to develop ‘**Common rules for emergency situations**’. To this end, a discussion paper has been drafted to identify measures the Penta countries may take to safeguard their security of electricity supply and ensure the proper functioning of the internal market in case of common emergencies. The non-paper raises the questions where the market stops and where TSOs take over to secure the systems. Common rules (TO-DOs, ‘white list’) and actions which should be avoided (Not-TO-DOs, ‘black list’) in case of a crisis are defined.
  - Finalize the **non-paper about common rules for emergency situations by July 2016** and notify to the European Commission in view of the elaboration of the risk preparedness legislative text to be presented by the end of 2016 and regularly assess through common discussions its progress.

### SG 3 – Flexibility

6. Intense discussions with stakeholders (NRAs, TSOs, DSOs, market parties, power exchanges, large consumers, renewable producers, Smart Energy Demand Coalition, and “electricity neighbours”) have taken place on Balancing, Intraday and the role of demand side response (DSR) as three major fields for regional cooperation to improve the flexibility of our electricity markets. Technical background papers on each of the three issues have been prepared by stakeholders as input for the discussion. Penta Coordinators draw the following conclusions:
  7. All parties acknowledged that balancing responsibilities need to be strengthened and streamlining **balancing arrangements** in the Penta region is an important condition for enhancing market access for flexibility providers. SG 3 participants have called for a harmonisation of the most essential dimensions of balancing markets in the Penta region in the coming years.
    - Agree on the target of further integration of balancing markets and therefore a more harmonised regulatory framework. Establish a **roadmap** for a further integration of **Penta balancing markets** including harmonisation of balancing products and – where applicable and technically feasible - **gate closure times** for balancing energy in a way that does not affect liquidity in intraday markets, introduction of similar pricing mechanisms for balancing energy and implementation of imbalance netting procedure within the Penta region. Politically approve and support the implementation of the roadmap by end of 2016.
    - Explore the option of cross-border exchange of balancing capacity and energy products in the Penta region.
    - Strive for Penta coordination of positions during the comitology process for the Electricity Balancing Guideline.
  8. The SG 3 participants discussed the different approaches in **Intraday markets** regarding lead times and product durations in the Penta region. A growing consensus could be reached on the need for harmonising (and shortening) lead times and product durations

in the medium term as an important condition for the alignment of cross-border intraday market arrangements.

- Seek commitment to work within the Penta region on harmonisation of national as well as cross-border lead times. Develop a **roadmap** until summer 2017 for the harmonisation of lead times for intraday in coherence with gate closure times for balancing, possibly on the basis of a feasibility study to be performed by TSOs and power exchanges.
  - Seek commitment to **align products** in national and cross-border intraday markets in consistency with the imbalance settlement period (ISP) and to introduce implicit allocation on the DE-NL border as a final step towards a Penta wide implicit allocation.
  - Explore the possibility of a **cross-border “intraday auction”** and the introduction of 15’ products for cross-border intraday as a local pilot between those countries who are interested to test it.
9. The SG 3 DSR paper points out the main existing barriers to the development of DSR. It also highlights the importance of scarcity price signals, the need for fair access for all players to the different markets and the ability of consumers to valorise their flexibility.
- Seek commitment for the Penta region to **remove the identified barriers** to the development of DSR and work on a **clear definition of roles and responsibilities** of different actors within the Penta region (including new players).