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# RTE consultation on the evolution of the imbalance settlement price – k coefficient (RE-MA version 9.1)

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## EFET response – 17 June 2019

The European Federation of Energy Traders (EFET)[1] thanks RTE for consulting market participants on the evolution of the imbalance settlement price in France, in particular the future of the k coefficient.

As a general note, we welcome the recent changes made to the structure of the imbalance settlement price and the k coefficient, notably the removal of the explicit reference to the day-ahead price back in 2017 (and its removal on the BSP side for the remuneration of balancing energy in the latest version of the RE-MA rules). We also welcome intention of RTE to move to a single imbalance settlement price in the current proposal, as mandated by the Electricity Balancing Guideline (EBGL).

However, we regret the lack of a clear decision on the suppression of the k coefficient despite the clear orientations provided by CRE in its reaction to the 2017 Green Book on electricity balancing, and the feedback of market participants. You will find more details on this subject in our responses to the consultation questions below.

### *1. Which of the three options do you find most relevant and why?*

We support a suppression of the k coefficient at the earliest possible occasion, i.e. **option 1** presented by RTE.

The imbalance price is the basis for price formation in all market segments (intraday, day-ahead and forward markets). Prices in these market segments reflect an expectation of the imbalance price. Hence, it is of vital importance

[1] The European Federation of Energy Traders (EFET) promotes and facilitates European energy trading in open, transparent, sustainable and liquid wholesale markets, unhindered by national borders or other undue obstacles. We improve the operation of European wholesale energy markets and enhance the performance of traders and their support functions in those markets. We reinforce the markets'

that the imbalance settlement price reflects the true value of energy in real time (art. 44.1.b EBGL). This has two consequences:

- the imbalance settlement price should be as "clean" as possible, without added component that blurs the true value of energy in real time
- the imbalance settlement price should be known by BRPs as rapidly as possible

Suppressing the k coefficient allows reaching both these objectives.

On the contrary, option 3 (maintaining the k coefficient, added when the system is short and deducted when the system is long), which has the favour of RTE, maintains an extra component in the imbalance settlement price that "pollutes" the price signal.

In addition, since the value of the k coefficient is linked to the surplus/loss of RTE's balancing account, its is only known at a very late stage by BRPs – currently up to two years after real time. Hence, we argue that, all things being equal, the assessment of RTE of the pros and cons of the different options should present a strong minus in option 3 for the incentive on BRPs to be balanced at an individual level. The comparison table of RTE therefore forgets the important criteria of the transparency of the imbalance price and its capacity to serve as a strong price signal for other timeframes.

Once this error is corrected, the choice between option 1 and option 3 is fundamentally a philosophical choice between the incentive for BRPs to be balanced at an individual level, and the incentive for BRPs to contribute to the overall system balance. We acknowledge that the two objectives are placed at the same level of priority in art. 44.1.c EBGL. We would argue that in the context of the EBGL and its intention to harmonise imbalance settlement at European level – and despite the disappointing proposal of the TSOs in that regard[2] – the simplest solution that reduces the level of local component in the imbalance price is the most prone to be compatible with that of other European Member States.

The RTE analysis also overlooks the risk premium market participants may add when providing balancing services – or in general that they need to add to their contracts related to balancing costs – linked to the ex-post impact of the k factor. Getting rid of this element of risk would also contribute to reducing the deficit of the general balancing account.

In short, we consider that moving to a single price, pay-as-cleared of BSP offers and marginal imbalance settlement pricing would give sufficient incentive for BRPs to be balanced at an individual level and for the overall balance of the RTE balancing account.

Option 2 is for us a clear no-go, as it bears the same disadvantages of option 3, but even adds a bias in the incentive to BRPs.

[2] For more details, see our response to the TSOs consultation on their proposal for an imbalance settlement harmonisation methodology, dated 28 September 2018 and available at: https://efet.org/Files/Documents/Downloads/EFET_ISH%20consultation_27092018.pdf.

2. ***Do you have other suggestions that would fit in the European regulatory framework?***

As far as the k coefficient goes, we refer to our response to question 1.
Further suggestions on other elements pertaining to the imbalance settlement price can be found in our response to question 4.

3. ***In case of a suppression of the k coefficient, which type of mechanism guaranteeing the financial neutrality of the TSO would you recommend?***
   - ***transfer of the imbalance account surplus/loss to the TURPE***
   - ***application of a non-tariff mechanism ("c coefficient" type)***
   - ***other***

It is indeed important that the TSO remains financially neutral in the conduct of its balancing activities (art. 44.1.i EBGL). This entails two things:
- nothing else than balancing actions should be financed through the imbalance settlement price
- balancing actions should not be socialised via network tariffs

As frequently argued in our calls for a rationalisation of the French balancing mechanism, we care very much for full transparency and a strict separation of which action by the TSOs is financed from which budget. Hence, the suggestion to cover the surplus/loss of RTE's general balancing account through tariffs (TURPE) is a clear no-go for EFET.

The suggestion to implement a non-tariff mechanism ("c coefficient" type) may be more amenable to us, depending on the proposed modalities.

But before trying to find a fix (tariff or non-tariff mechanism) to a problem (the surplus/loss of RTE's general balancing account), we would advise RTE to properly analyse how the problem could be reduced or solved on its own. Notably:
- The current design of the MA blurs the difference between balancing and congestion management actions of the TSO, and we suspect that some congestion management actions (including skipping balancing bids in the merit order for congestion management purposes) leads to certain congestion management actions being borne by RTE's general balancing account, or by individual BRPs. Further transparency by RTE on congestion management actions and the allocation of costs between balancing and congestion management accounts could reduce the surplus/losses of RTE's general balancing account.
- Contrary to the assessment performed by RTE – an "all things being equal" assessment – taking account of the change of behaviour by market participants brought about by the change in the imbalance settlement price would be necessary. In particular, if the k coefficient were to be abandoned and the imbalance price rapidly published after real time, it is to be expected that BRP imbalances would reduce, and hence the surplus/losses of RTE's general balancing account.

- Moving to pay-as-cleared remuneration of BSP offers and marginal pricing for the settlement of imbalances will change market participant behaviour – see our response to question 1. Despite repeated requests from EFET and other market participant representatives, RTE has been unwilling to study the possible effects of such a change, or even draw from the experience of other European Member States who have operated such a move.
- Finally, we reiterate our call to improve the transparency of the balancing mechanism in order to allow better price formation in this timeframe and a clearer price signal in other segments of the market. In particular, we reiterate our request for Concretely, EFET would welcome the following (non-exhaustive list):
    - A publication with hourly granularity of the expected needed margins in D-1
    - A publication with hourly granularity of the foreseen available margins in D-1
    - A systematic publication of the actions undertaken by RTE in order to reconstitute margins, as well as the activation purpose (balancing, congestion, margin), at the moment of activation
    - A publication of the merit order (volume, price – anonymously) for the margins offered, including for filtered bids
    - An indicator of the system state (overall position of the system) in real time

***4. Do you have any other comments?***

We remind RTE of the importance to move to a merit-order based approach for aFRR, allowing to fully get rid of the day-ahead price component in the imbalance settlement price. We regret the decision to not pre-implement this principle as a “no regret” step towards the go-live of the PICASSO platform in 2022. We invite RTE to reconsider whether a pre-implementation of this approach would not be feasible at an earlier time horizon.