ACER
European Union Agency for the Cooperation of Energy Regulators

Evaluation report

Public consultation on the amendment of the aFRR implementation framework

PC_2024_E_02

26 March - 23 April 2024

Introduction

On 7 February 2024, all TSOs submitted to ACER their proposal for the second amendment of the implementation framework for the European platform for the exchange of balancing energy from frequency restoration reserves with automatic activation in accordance with Article 21 of Commission Regulation (EU) 2017/2195 of 23 November 2017 establishing a guideline on electricity balancing ('Proposal').

On 26 March 2024, ACER launched a public consultation on the Proposal, inviting all market participants to submit their comments by 23 April 2024. In particular, ACER asked stakeholders to provide their views on the possibility for TSOs to use an elastic aFRR demand.

In addition, ACER held a public workshop to present the Proposal and discuss the consultation document on 8 April 2024.[1]

ACER received 22 responses.

List of respondents

Organisation	Country
Quadra Energy GmbH	Germany
Eurelectric	France
Bundesverband der Energie- und Wasserwirtschaft (BDEW)	Germany
Europex	Belgium
Energy Traders Europe	Netherlands

[1] https://www.acer.europa.eu/documents/public-consultations/pc2024e02. ACER's consultation also covered the related amendments to the pricing methodology.

Nord Pool	Austria, Belgium, Denmark, Estonia, Finland, France, Germany, Ireland, Latvia, Lithuania, Netherlands, Poland, Sweden, Norway, United Kingdom
Edison SpA	Italy
ČEZ	Czechia
EDF	France
Next Kraftwerke GmbH	Austria, Belgium, France, Germany, Netherlands, Poland
Bnewable NV	Belgium
EnBW Energie Baden-Württemberg AG	Germany
IFIEC Europe	Belgium
Enel Group	Italy, Spain
Illwerke vkw AG	Austria, Germany
Voestalpine Rohstoffbeschaffungs GmbH	Austria
ENTSO-E	Other
Westnetz GmbH Germany / on behalf of German DSOs of E.ON SE	Germany
RWE Supply & Trading GmbH	Germany
Südvolt GmbH	Germany
Sympower	Netherlands
Eneco Energy Trade B.V.	Netherlands

Responses

This section summarises all the respondents' comments and how these were considered by ACER. The table below is organised according to the consultation questions and provides the respective views from the respondents, as well as a response from ACER clarifying how their comments were considered in the present Decision.

Respondents' views	ACER's views
1. Do you agree with the possibility for TSOs to use an elastic aFRR demand with the proposed limitations	
8 respondents agree. **7 respondents disagree.** **7 respondents partially agree.**	
Quadra Energy GmbH considers that elastic aFRR demand could reduce price spikes and is a good trade-off between extra cost and better frequency quality.	ACER agrees that having the possibility for TSOs to use an elastic demand would improve balancing efficiency because it would allow the TSOs to better reflect the trade-off between extra cost and better frequency quality. Therefore, giving this possibility to the TSOs promotes the efficiency objective set out in Article 3(1)(b) of Commission Regulation (EU) 2017/2195 ('EB Regulation').
Edison supports the voluntary introduction of elastic demand as defined in the proposal. In fact, the amount of aFRR determined following the provisions of Regulation 1485/2017 (SO GL) on aFRR dimensioning should guarantee an acceptable level of frequency quality. **In their view, the implementation of elastic demand could lead to a lower overall societal cost, without compromising system security, when the TSO could rely on the activation of other cheaper resources, instead of maximizing the activation of potentially expensive aFRR. In any case, the measure must be voluntary, and its implementation should be transparent and carefully regulated. Therefore, the detailed approach which will be adopted by TSOs in the implementation of such measure should be subject to public consultation, publication, and close monitoring by the competent NRA.** **Moreover, the measure should be accompanied by a clear and enforceable**	The TSOs need balancing capacity in real-time, to balance the system. The needed amount of the balancing capacity is computed according to the FRR dimensioning rules pursuant to Article 157 of Commission Regulation (EU) 2017/1485 ('SO Regulation'). The computed amount is meant to guarantee sufficient frequency quality even though a TSO does not access the merit orders of other TSOs. ACER agrees that having the possibility for TSOs to use an elastic demand would improve balancing efficiency because it would allow the TSOs to better reflect the trade-off between extra cost and better frequency quality. Therefore, giving this possibility to the TSOs promotes the efficiency objective set out in Article 3(1)(b) of the EB Regulation. ACER has added additional transparency requirements (see section 6.2.2.2 of this Decision). Those additional transparency requirements allow the NRAs to make sure that

governance to ensure that its implementation and use are kept within the allowed framework.	the TSOs are compliant with this decision, as per Article 59(1)(b) of Directive (EU) 2019/944.
Enel Group considers that the measure could be very effective to mitigate price spikes, in particular in the case of Italy (as emerged by ARERA investigation). The possibility for the TSO to submit elastic demand for the portion exceeding the volumes of aFRR shared on PICASSO would allow to take into account the opportunity cost of providing for the restoration of the frequency within the deadlines established with other types of reserves. This would strongly help resolving the inconsistencies in the management of the various reserves and could mitigate many situations of price spikes occurring. However, the correct sizing of the inelastic demand is paramount, before the activation of the elastic one. Then, specific criteria for the definition of the elastic part of the demand curve, defined by the National Regulator (ARERA) and consulted with the BSPs, should be implemented.	ACER considers that having the possibility for TSOs to use an elastic demand would improve balancing efficiency because it would allow the TSOs to better reflect the trade-off between extra cost and better frequency quality. Therefore, giving this possibility to the TSOs promotes the efficiency objective set out in Article 3(1)(b) of the EB Regulation.
Voestalpine Rohstoffbeschaffungs GmbH considers that the reasoning given by TSOs and ACER seems comprehensive. In addition, it should be carefully monitored during operation, if this leads to major effects on frequency quality. ACER should reserve itself the right for action if such effects should occur. Especially to push individual TSOs to procure sufficient reserves.	The balancing capacity requirement (computed according to the FRR dimensioning rules pursuant to Article 157 of the SO Regulation) is meant to guarantee sufficient frequency quality even though a TSO does not access the merit orders of other TSOs.
All TSOs support their original proposal and support the reasoning that was put forward.	ACER agrees with the possibility for TSOs to use an aFRR elastic demand (see paras (51) and (52) of this Decision).
Eneco Energy Trade B.V. considers that such a design could result in less price incidents.	ACER considers that the expected reduction of the amount of price incidents is not the aim of the measure but rather a consequence of the improved balancing efficiency (see paras (51) and (52) of this Decision).
Eurelectric is concerned about the impact that the introduction of elastic demand will	ACER does not see the necessity for the TSOs to define new specific products because of using

have on the creation of new specific products by TSOs and more intensive use of the existing ones. Specific products should not be used as a complementary tool for ensuring reserves are available if aFRR elastic demand cannot be satisfied. Eurelectric therefore considers that if elastic aFRR energy needs are to be integrated in the aFRR IF and used by TSOs, it should be accompanied by a clear and enforceable governance to ensure that its implementation and use are kept within the allowed framework. This framework should have limitations regarding the ability of elastic aFRR energy needs to act as price caps, the necessary up-front transparency on its definition and use, and the avoidance that its use would lead to additional specific products or additional use of specific products. Eurelectric also requests that the use of elastic aFRR energy needs for the aFRR process is reassessed on a regular basis. This reassessment should cover both the compliance of the use with the stated objective, and the continued use of the elastic imbalance need.	an elastic aFRR demand. This is because the TSOs have the option of using the mFRR platform or the option of not covering this additional demand. ACER has added additional transparency requirements (see section 6.2.2.2 of this Decision). Those additional transparency requirements allow the NRAs to make sure that the TSOs are compliant with this decision, as per Article 59(1)(b) of Directive (EU) 2019/944. There is an explicit requirement in the aFRR IF to ensure that “the elastic aFRR demand shall not be used in such a way that it imposes a cap on balancing energy prices for all LFC areas or bidding zones.” The use of elastic demand depends on the balancing approach of each TSO. It is therefore up to each TSO to reassess the use of elastic demand at the national level.
Europex acknowledges that the elastic demand price for the part of TSOs’ demand which exceeds the aFRR capacity requirement may be an effective mitigation measure to avoid price peaks within balancing platforms. Furthermore, we welcome the fact that this mechanism should not be used to impose a cap on balancing energy prices. However, due to the fact that the price – defined as the opportunity cost to procure reserves through other platforms - would be formed by the TSO side, we believe that this should be a temporary measure that needs to be confirmed periodically through the monitoring of the competitiveness level and of consequent price peak incidents within the balancing markets. To conclude, it would be necessary to implement a parallel monitoring process that demonstrates if this kind of measure is justified also in the long-term.	The use of elastic demand depends on the balancing approach of each TSO. It is therefore up to each TSO to reassess the use of elastic demand at the national level.

Nord Pool lacks sufficient detail about the concept at this stage to be able to elaborate on an explanation for that. Nord Pool requires more clarity on the concept and what it could achieve.	The concept is explained by TSOs in their explanatory note available on ACER's consultation page.[2] The concept was also presented by ACER at the public webinar of 8 April 2024.
EDF is favorable to the introduction of a voluntary elastic aFRR demand in compliance with article 29 (13) of the EB Regulation, provided the quality of frequency is not degraded. It seems necessary to determine the cases allowing the use of elastic aFRR demand. **In any case, EDF considers that these measures cannot be a precondition for TSOs to comply with the legal deadline to join the PICASSO platform. This would set a harmful precedent, detrimental to the stability of the regulatory framework and therefore to the market participant's ability to anticipate future incomes as BSPs or costs as BRPs.**	The balancing capacity requirement (computed according to the FRR dimensioning rules pursuant to Article 157 of the SO Regulation) is meant to guarantee sufficient frequency quality even though a TSO does not access the merit orders of other TSOs (see paras (51) and (52) of this Decision). ACER notes that the present amendments to the aFRR IF do not affect the legal deadline to connect to the balancing platforms.
Next Kraftwerke GmbH considers that the idea of elastic demand is understanbale and it can be helpfull to keep the local imbalance prices lower. Nevertheless, we are afraid that system imbalance would spill over to ther TSO-areas and impacting them negatively. Here it would be great if the TSOs, who want to introduce the elastic demand, publish a statement / an analysis about how they want to balance their grids in extreme situations (if not with aFRR) without affecting the other countries too much. Additionally, the complexity increases automatically (rules, data, ...) And finally, it should not be disregarded that the elastic demand could lead to an implicit price cap if more than one TSO introduces it	The balancing capacity requirement (computed according to the FRR dimensioning rules pursuant to Article 157 of the SO Regulation) is meant to guarantee sufficient frequency quality even though a TSO does not access the merit orders of other TSOs (see paras (51) and (52) of this Decision). TSOs are allowed to deviate from the power threshold computed for their elastic aFRR demand during the imbalance settlement period for operational security reasons related to the change in the system state as defined in point (36) of Article 3(2) of the SO Regulation (see paras (53)-(58) of this Decision). There is an explicit requirement in the aFRR IF to ensure that "the elastic aFRR demand shall not be used in such a way that it imposes a cap on balancing energy prices for all LFC areas or bidding zones."

[2] https://www.acer.europa.eu/documents/public-consultations/pc2024e02

Sympower argues that considering the concrete possibility of inefficient pricing in electricity balancing platforms due to various reasons — from general low liquidity to country- specific scarcity situations — allowing TSOs to use elastic aFRR demand can be an efficient tool to limit price incidents. While improving system efficiency, this possibility shall absolutely not restrict the volume exchanged in the platforms or the price signals coming from the cross-border merit order clearing. Therefore, ACER and NRAs should continuously monitor the use of elastic demand by TSOs.	ACER agrees that having the possibility for TSOs to use an elastic demand would improve balancing efficiency because it would allow the TSOs to better reflect the trade-off between extra cost and better frequency quality. Therefore, giving this possibility to the TSOs promotes the efficiency objective set out in Article 3(1)(b) of the EB Regulation. The aFRR IF foresees reporting obligations for TSOs when they use an elastic demand.
BDEW, Energy Traders Europe, EnBW Energie Baden-Württemberg AG and Bnewable are concerned by the potential impact of introducing elastic demand on the development of new specific products by TSOs and the heightened utilisation of existing ones is concerning.	ACER does not see the necessity for the TSOs to define new specific products because of using an elastic aFRR demand. This is because the TSOs have the option of using the mFRR platform or the option of not covering this additional demand.
BDEW, CEZ call for regular reassessment of the use of elastic aFRR energy needs in the aFRR process. This should cover both the alignment of usage with stated objectives and the continued use of the elastic imbalance need.	The use of elastic demand depends on the balancing approach of each TSO. It is therefore up to each TSO to reassess the use of elastic demand at the national level.
BDEW considers that if elastic aFRR energy needs are to be incorporated into the aFRR IF and utilized by TSOs, clear and enforceable governance must accompany their implementation and use, ensuring adherence to permitted frameworks. This governance framework should delineate limitations regarding the capacity of elastic aFRR energy needs to function as price caps, necessitate upfront transparency regarding their definition and utilization,	ACER has added additional transparency requirements (see section 6.2.2.2 of this Decision). Those additional transparency requirements allow the NRAs to make sure that the TSOs are compliant with this decision, as per Article 59(1)(b) of Directive (EU) 2019/944.
BDEW does not agree with the potential introduction of elastic demand as TSOs should refrain from influencing market outcomes.	The balancing capacity requirement (computed according to the FRR dimensioning rules pursuant to Article 157 of the SO Regulation) is meant to guarantee sufficient frequency quality

	even though a TSO does not access the merit orders of other TSOs. Connecting to the aFRR platform (i.e. PICASSO) allows the TSOs to improve their frequency quality by having access to other merit orders, and therefore to more bids. However, the TSOs are not required to improve their frequency quality at any cost. Instead, they apply the principle of optimisation between the highest overall efficiency and lowest total costs for all parties involved. For this reason, ACER considers that, in principle, the TSOs should have the possibility to have as elastic the part of their demand exceeding the aFRR capacity requirement. Having such a possibility would improve balancing efficiency because it would allow the TSOs to better reflect the trade-off between extra cost and better frequency quality. Therefore, giving this possibility to the TSOs promotes the efficiency objective set out in Article 3(1)(b) of the EB Regulation.
BDEW and EnBW Energie Baden-Württemberg AG consider that to avoid unused capacity to be blocked at the TSOs, all of the bids exceeding the contracted capacity with a price above (below) the positive (negative) elastic aFRR demand should be returned to the BSP. Otherwise, these volumes will remain unused, discouraging free bid participation even further	The energy offered at the balancing energy market can always be activated by TSOs if it is necessary for system security (See paras (53)-(58) of this Decision). Moreover, a BSP can still be activated to satisfy the demand of other TSOs.
Energy Traders Europe and EnBW Energie Baden-Württemberg AG consider that with the necessary limitations and conditions, it may make sense for TSOs to not exceed the quality target at any price. **Limitations/conditions would include the ex-ante definition and publication of price level, clear explanation on how to avoid it becomes a price cap, limitation to volumes exceeding pre-contracted volumes, avoiding reliance on specific products, avoiding reduction of pre-contracted volumes and relying on free bids.**	ACER considers that having the possibility for TSOs to use an elastic demand would improve balancing efficiency because it would allow the TSOs to better reflect the trade-off between extra cost and better frequency quality. Therefore, giving this possibility to the TSOs promotes the efficiency objective set out in Article 3(1)(b) of the EB Regulation.
They further consider that if an introduction is foreseen nonetheless: an additional item in Article 3(4) should be added: e) use	In ACER view, it is for TSOs to activate the reserve they have available under their national regulatory framework.

specific products to compensate unsatisfied elastic demand.	
If the requirements in Article 3(4) are not fulfilled, the option for using elastic demand for aFRR should be revoked.	ACER has added additional transparency requirements (see section 6.2.2.2 of this Decision). Those additional transparency requirements allow the NRAs to make sure that the TSOs are compliant with this decision, as per Article 59(1)(b) of Directive (EU) 2019/944.
The design should ensure that TSOs are prohibited from deducting available non-contracted balancing energy bids ("free bids") from their aFRR needs in their national dimensioning methodologies, without subsequently activating those non-contracted bids.	Dimensioning methodologies are beyond the scope of this Decision.
TSOs using elastic demand shall publish the elastic demand curves in advance, rather than after their application, as suggested in the explanatory document. This proactive transparency is essential to provide market participants with adequate visibility on the merit order and associated activation probabilities. **Energy Traders Europe adds that in this context, the determination of volumes, pricing and the decision to trigger elastic demand, should be governed by transparent, fair and predictable (ex-ante) formulas, while fully minimizing discretion to the fullest extent possible.**	ACER agrees that ex-ante transparency is needed and has included additional ex-ante transparency requirements in the methodology (see section 6.2.2.2 of this Decision).
ČEZ has concerns on the ability of TSOs to use elastic aFRR energy needs. Those concerns are driven by the impact they may have on the market and TSOs ability to enforce a de-facto price cap. Therefore, they suggest to dismantling this option from the proposal. If TSOs are to use elastic aFRR energy needs in the PICASSO platform, this must be accompanied by strict limitations and conditions,	ACER observes that there is an explicit requirement in the aFRR IF to ensure that “the elastic aFRR demand shall not be used in such a way that it imposes a cap on balancing energy prices for all LFC areas or bidding zones.”
Bnewable is not in favour of the implementation of elastic demand for aFRR energy through PICASSO as it will create	ACER is of the opinion that having the possibility for TSOs to use an elastic demand would improve balancing efficiency because it would

discrepancies in balancing rules between Member States, deteriorate the frequency quality and hamper investments in new flexibility. Elastic demand is a means for setting national aFRR activation price thresholds that can be used to derogate from the harmonized maximum and minimum balancing prices at EU level (as currently planned in Belgium with activation price limits at +/-1000€/MWh). **Therefore we believe that introducing a elastic demand will destroy the level playing field that Picasso is supposed to bring between Member States on aFRR energy markets. Elastic demand opens the door for an abundance of specific national rules, hampering the development of an efficient European aFRR energy market and increasing complexity for market participants and in particular BSPs.** **In Bnewable opinion, the claim that aFRR elastic demand will not degrade FRCE does not hold. Taking the Belgian example, the TSO regularly activates more aFRR volume than its foreseen inelastic demand when entering Picasso (117 MW). Today the volume above the 117 MW threshold is fulfilled, with elastic demand it potentially would not be, depending on the bid prices available. This is likely to cause a deterioration of the FRCE.** **Elastic demand allows TSOs to set aFRR price activations thresholds that are potentially way below the European harmonized maximum and minimum balancing prices. Artificially low maximum and minimum national activation prices could push certain BSPs out of the aFRR market and hamper the investment into new flexiblity.**	allow the TSOs to better reflect the trade-off between extra cost and better frequency quality. Therefore, giving this possibility to the TSOs promotes the efficiency objective set out in Article 3(1)(b) of the EB Regulation. ACER observes that there is an explicit requirement in the aFRR IF to ensure that "the elastic aFRR demand shall not be used in such a way that it imposes a cap on balancing energy prices for all LFC areas or bidding zones." Moreover, Article 3(4) of the aFRR IF defines the high-level principle as to how TSOs can use elastic aFRR demand. The TSOs need balancing capacity in real-time, to balance the system. The needed amount of the balancing capacity is computed according to the FRR dimensioning rules pursuant to Article 157 of the SO Regulation. The computed amount is meant to guarantee sufficient frequency quality even though a TSO does not access the merit orders of other TSOs (see paras (51) and (52) of this Decision). ACER notes that the part of the aFRR demand corresponding to the aFRR balancing capacity requirement remains inelastic.
Illwerke vkw AG considers that the energy offered at the balancing energy market should be able to be activated if necessary, otherwise the system stability would be at risk due to unnecessary financial considerations. Some market participants	TSOs are allowed to deviate from the power threshold computed for their elastic aFRR demand during the imbalance settlement period for operational security reasons related to the change in the system state as defined in point

need minimum energy prices to make profitable offers. If the price cap of the elastic part of the MOL lies under these minimum energy prices and the activation probability decreases, they will withdraw their energy from the market. This endangers the system stability in shortage situations. **Price-elastic demands reduce the planning security for market participants and lead to reduced investment incentives. Especially regarding the future demand for flexibility. A price cap in the elastic part of the MOL which is under the Intraday trading limits would be an incentive to neglect balancing group loyalty.**	(36) of Article 3(2) of the SO Regulation (see paras (53)-(58) of this Decision). ACER is of the opinion that the optimal operation of the system and the optimal amount of investment would be reached if the TSOs properly reflect the trade-off between extra cost and better frequency quality. Therefore, the possibility for TSOs to use an elastic demand promotes the efficiency objective set out in Article 3(1)(b) of the EB Regulation.
RWE Supply & Trading GmbH considers that TSOs should refrain from influencing market outcomes. System security should not be subject to commercial optimisation. With appropriate dimensioning in place, there should be no need for additional elastic demand.	The balancing capacity requirement (computed according to the FRR dimensioning rules pursuant to Article 157 of the SO Regulation) is meant to guarantee sufficient frequency quality even though a TSO does not access the merit orders of other TSOs. Connecting to the aFRR platform (i.e. PICASSO) allows the TSOs to improve their frequency quality by having access to other merit orders, and therefore to more bids. The TSOs are however not required to improve their frequency quality at any cost. Instead, they apply the principle of optimisation between the highest overall efficiency and lowest total costs for all parties involved. For this reason, ACER considers that, in principle, the TSOs should have the possibility to have as elastic the part of their demand exceeding the aFRR capacity requirement. Having such a possibility would improve balancing efficiency because it would allow the TSOs to better reflect the trade-off between extra cost and better frequency quality. Therefore, giving this possibility to the TSOs promotes the efficiency objective set out in Article 3(1)(b) of the EB Regulation.
Comments on other topics have been summarised and considered in ACER Decision 09/2024.	