

APCS Public Consultation 9 GTC-BGC on the general terms and conditions (point 1.4, terminating the contractual relationship) of APCS

1. Introduction

Danske Commodities A/S (in the following referred to as “**DC**”) welcomes the opportunity to respond to the consultation on the amendment of the general terms and conditions of APCS in regards to non-compliant use of imbalance energy by balance responsible parties (“BRP”).

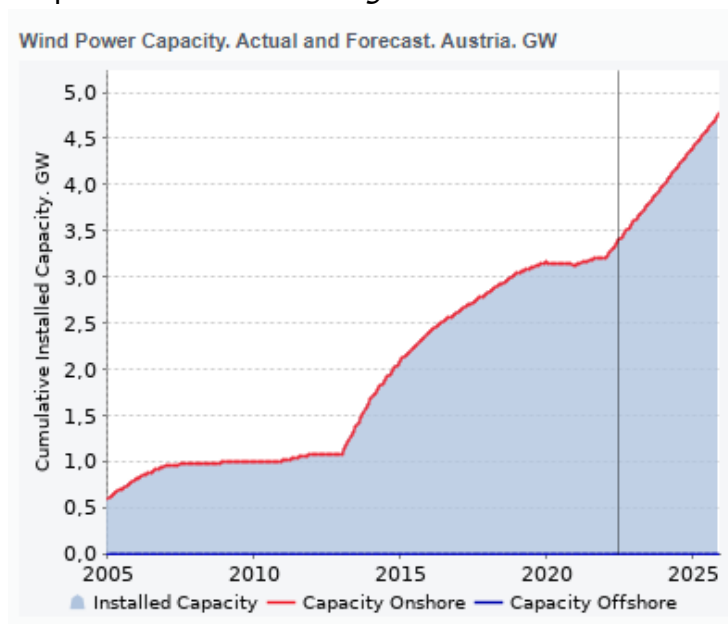
While we do not have any specific objections to the possibility as such of terminating the contractual relationship, we believe, that the underlying rationale for changing the general terms and conditions is incorrect and flawed. In addition, we believe that it is unclear when and how the APCS may actually terminate the contractual relationship and that any such uncertainty is detrimental to the markets and should be clarified. Lastly, we believe that there are better ways for the APCS to handle system imbalances.

DC will comment on each of these points in the following. However, DC will first provide some relevant background information on the Austrian energy market.

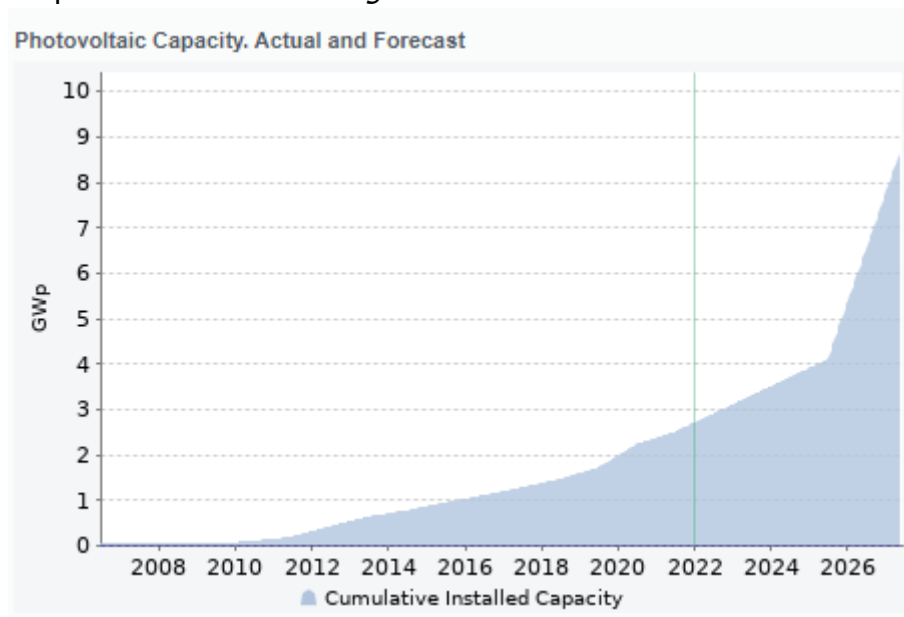
2. Increasing the participation of renewables in the provision of balancing services

The Austrian market is characterized by a significant increase of renewable capacity over the past decade, as also seen from the graphs below:

Graph 1. *Source: Volue Insight Power*



Graph 2. *Source: Volue Insight Power*

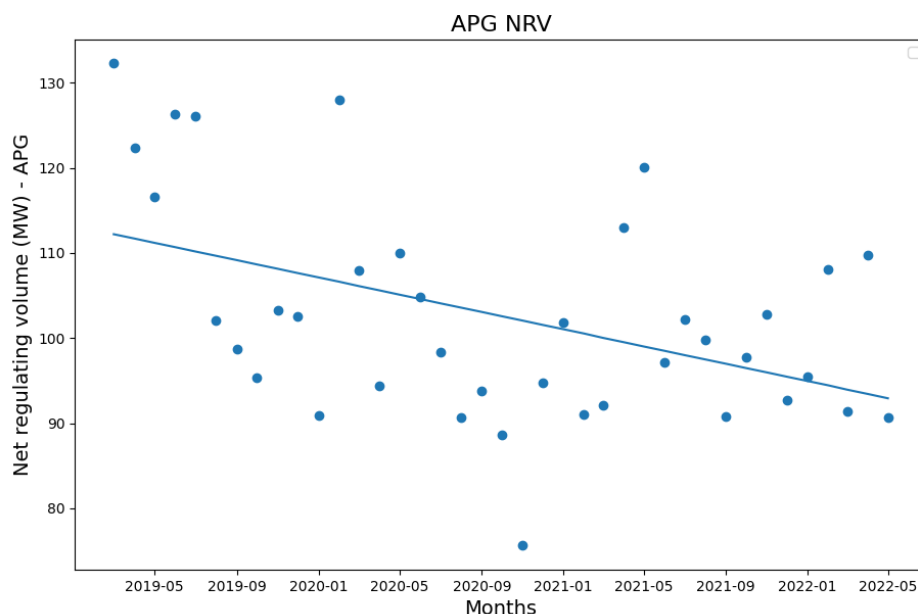


Graph 1 and 2 clearly illustrates that both the wind and solar power capacity have increased significantly during the past decade and is expected to increase substantially towards 2030.

Although it could be expected that the increase in renewables would result in an increase in imbalance volumes (higher absolute net regulation volume, NRV) due to higher forecasting errors on renewables generation, the opposite is in fact true. Historical imbalance data shows that NRV has decreased when the renewable capacity has increased.

This is also illustrated in graph 3 below, which shows of the average absolute monthly NRV:

Graph 3. *Source: APCS, x-axis shows months starting from March 2019 – May 2022.*



The reduction of the NRV (clearly expressed by decreasing trendline), as illustrated in Graph 3, can be credited to proactive BRPs competing to balance the grid by trading in the intraday market under a positive economic incentive to do so.

BGR's with trading purpose are exposed to extreme market risk, which inevitably means that BGR's are exposed to sudden unexpected market events, such as unplanned outages, extreme weather conditions and other unpredictable market events. But as illustrated above in graph 3 still manages to help reducing system imbalance in APG. On that basis, it is our belief that a BGR with a trading purpose contribute positively to the NRV and thus clearly serve to reduce system imbalances in APG. The same development has also been identified in many other market areas across Europe and especially when volatile renewables are introduced in the market.

In UK Elexon manage the area of discussion and has performed in depth analysis *Insights: "What is Driving Increases in Electricity Imbalance Volumes?"* - Elexon BSC. It clearly states that:

"We analysed the volumes of balancing energy procured in each year, and found that the increases in BSC Parties Imbalance Volumes do not appear to have affected the volume of energy National Grid needs to balance the system."

This is true despite the extreme development in renewables seen in UK and provide prove that a system with competition and trading under an economic positive incentive as stated in the European Balancing Guidelines ("EBGL") is effectively handling imbalances.

Introducing new rules against these facts will introduce grid balancing issues as renewables grow and effectively be a major obstacle of the energy transition.

DC has extensive experience in trading and managing large renewable portfolios in markets with much higher renewable penetration compared to Austria. Our experience from other markets fully supports the conclusions in the Elexon analysis and it is our belief that the suggested changes by APCS will increase the balancing costs of the grid and put further costs on the society during the current energy crisis.

We also believe that this in line with the EBGL. The EBGL is based on a market design that incentives each BGR to help the system in real time while at the same time disincentivising each BGR from benefiting from a situation where they worsen the state of the energy system.

This also follows from the preamble of the EBGL, p. 17, which reads as follows:

"The general objective of imbalance settlement is to ensure that balance responsible parties support the system's balance in an efficient way and to incentivise market participants in keeping and/or helping to restore the system balance. This Regulation defines rules on imbalance settlement, ensuring that it is made in a non-discriminatory, fair, objective and transparent basis. To make balancing markets and the overall energy system fit for the integration of increasing shares of variable renewables, imbalance prices should reflect the real-time value of energy."

This principle has been translated into the role and responsibilities of a BRP as regulated in Article 17 of the EBGL, which reads as follows:

- 1. In real time, each balance responsible party shall strive to be balanced or help the power system to be balanced. The detailed requirements concerning this obligation shall be defined in the proposal for terms and conditions related to balancing set up pursuant to Article 18.*
- 2. Each balance responsible party shall be financially responsible for the imbalances to be settled with the connecting TSO'.*

When each BRP, including BRP with a trading purpose, is incentivized to help balance the power system, this ultimately results in more efficient energy markets and ultimately decreasing the total welfare costs. On that basis we do not consider the underlying rationale for the suggested regulatory changes to CTC-BGC 1.4 to accurately reflect an efficient market design or to be in line with the EBGL.

The importance of BGR's with intraday trading flexibility cannot be understated due to the forecasted increase in renewable generation installations in APG. These BGR will be a crucial factor to mitigate forecast deviations that inevitably will increase exponentially if 2030 renewables installations are to be fulfilled, thus leading to larger system imbalances (NRV) in APG. The extreme geopolitical situation that has developed in Europe over the last few months of 2022 has certainly underlined that it is out of necessity that renewables generation must increase significantly in the coming years to ensure future grid stability. This means that BGR's who mitigates forecast errors will be an even more important collaboration partner to APG in the years to come.

3. Ensuring transparency for when termination may happen

It follows from the suggested changes to the APCS p. 1.4 - Termination of the contractual relationship that the balance group coordinator shall be entitled to terminate the contract with immediate effect or to increase the collateral requirement if a contracting party breaches essential provisions of the contract despite written reminder and setting of an adequate extension period and fruitless expiry of such period.

Breach is defined as follows:

"If the market participant systematically

- covers the supply of its consumers by imbalance energy, or*
- if he causes imbalance energy in its balance groups due to trading transactions that do not serve to support the electricity supply system,*
- or otherwise fails to comply with the obligation of REGULATION (EU) 2017/2195 Article 17 as amended to endeavour in real time to balance its own balance group or to support the electricity supply system. The yardstick for assessing compliance with the obligation of the Regulation is the frequency, duration and extent of imbalance energy use that contradicts the system serviceability".*

It is DC's belief that any changes to the APCS must be transparent and predictable for market participants and that these criteria are not fulfilled with the proposed p. 1.4 since the rule does not define any operating space or boundaries in which the BGR can handle market risk but leaves a rather large room for discretion to the APCS which is ultimately to the detriment of the market. The proposed regulatory changes to CTC-BGC 1.4 thus allows APCS to ultimately terminate contracts in an opaque and undisclosed manner.

3. A more efficient way of reducing system imbalances

It is DC's belief that there are better and more efficient ways of reducing system imbalances than introducing new changes to national regulation.

Each BGR can reduce system imbalance more efficiently with access to real-time data. We have seen similar cases in United Kingdom and Netherlands where real-time imbalance systems and live activity feeds has helped to reduce the system imbalance considerably even though renewables installation has increased significantly.

We acknowledge that APCS has come to the same conclusion and has started to publish system imbalance (NRV) on a 5 min granularity instead of the previous 15 min granularity as of July 2021. BGR can thus more proactively work to counter ongoing system imbalances and mitigate renewable generation deviations in real-time. For BGR's to have even better operating conditions that could allow them to help more efficiently with keeping system imbalance in balance, APG could provide even more real-time data such as wind, solar and consumption generation. As of now APG publish actual generation on a 15 min granularity but with an hour delay.

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