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Subject: EFET[1] response to the consulted regulation implementing the 2nd phase of the balancing market reform

EFET welcomes the opportunity to comment on the envisaged reform of the electricity balancing market reform. The draft regulation proposes a lot of improvements to the Polish market design, bringing it closer to the setup functioning in other EU Member States. We particularly appreciate direct reference to EU regulations when introducing definitions used, which helps avoiding unnecessary misunderstandings and increases the general transparency. Below, we provide detailed comments on the solutions proposed.

We begin by noting that the proposal to separate the procurement procedures for reserve capacities and balancing energy (originally announced in the concept document in November 2019) has been abandoned. Instead, the procurement procedure introduced in January 2021 has been retained, making it difficult to prognose the volumes and prices of different products that will eventually be selected under the Integrated Scheduling Process (ISP). Effectively, active balancing responsible parties have very limited impact on the way they actually perform on that market. Without a separate auctioning process, the mechanism leaves less room for price-based competition as well. The regulation in question does introduce separation of the procurement process for upward and downward capacity products, yet it is still being done under the integrated procedure. Such approach is very different to the one functioning in other Member States and limits the flexibility of the market participants active on the balancing market. At the same time, it dilutes the quality of the price signals from the Polish market and as a consequence it affects the efficiency of the joint balancing platforms being established on the EU internal market.

We further note that the draft regulation introduces restrictions to the free formation of prices on the balancing market, referencing the imbalance price and the balancing energy prices against the single day-ahead market price. In practice, we understand that while by default the balancing energy is to be settled marginally (art. 24.5), that price is referenced against the single day-ahead market price for activated capacity products (as per art. 24.4). We further read that the cost of balancing energy (art. 27.6) for conventional power plants that have been ordered to synchronise with the grid on a given day will be capped at the level of their "forced generation" (CWD) or "forced offtake" (CWO) cost parameter. Ultimately, the same product offered to the system operator will end up being settled at three different prices following the

[1] The European Federation of Energy Traders (EFET) promotes competition, transparency and open access in the European energy sector. We build trust in power and gas markets across Europe, so that they may underpin a sustainable and secure energy supply and enable the transition to a carbon neutral economy. We currently represent more than 100 energy trading companies, active in over 27 European countries. For more information: www.efet.org.

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conditions that are beyond the control of the market participants. We also understand that the same product will not be subject to that cap if it is activated on one of the EU platforms, making it extremely difficult to forecast the results of participating on the balancing market and adjust the bidding behaviours accordingly. As highlighted in our recent response to ENTSO-E's consultation on balancing price limits[2], the need for precise price signals continues to grow along with the intermittency of the European energy mix and hence they should not be compromised by any administrative interventions. The legality of such solution may be questioned under European legislation as well (see the Legal critique section of the abovementioned consultation response). We also believe that the risk of arbitrage between short-term and balancing markets will not exist if competition on the Polish electricity market is left to develop freely.

Finally, we note that a scarcity pricing mechanism is being introduced as part of the reform. It is our long-standing view that the best way to adequately price scarcity is through liquid and flexible markets. The proposed scarcity mechanism, in our view, is set up primarily to make up for the constraints and restrictions to the freedom of commercial activity on the Polish electricity market that, to a large extent, are being introduced or retained by the same reform. The mechanism in itself affects the incentive for the market participants to proactively seek ways to optimize their portfolios and invest in generation capacities based on market-based price signals. As a purely national solution, it also distorts competition and may affect the bidding behaviour of the balancing responsible parties, potentially affecting the performance of the joint balancing platforms of the EU.

We conclude by emphasising that while the two phases of the Polish balancing market reform have collectively introduced improvements to the way system is being managed, the resultant setup is still far away from the target model envisaged for the EU's internal market. We believe that the proposed regulation should be reviewed from at least a regional perspective to recognize the growing integration between the markets of the Member States and the impact the reform may have on efficient system balancing. We remain ready and eager to offer such international perspective to the ongoing discussions in order to ensure that the future Polish electricity market is liquid and ensures cost-efficient energy supply to the entire economy.

Kind Regards,
On behalf of EFET WG Poland

Pawel Lont
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[2] Our detailed response may be found here