

ENTSO-E's consultation on the imbalance settlement harmonisation

A Eurelectric response paper

September 2018

Eurelectric represents the interests of the electricity industry in Europe. Our work covers all major issues affecting our sector. Our members represent the electricity industry in over 30 European countries.

We cover the entire industry from electricity generation and markets to distribution networks and customer issues. We also have affiliates active on several other continents and business associates from a wide variety of sectors with a direct interest in the electricity industry.

We stand for

The vision of the European power sector is to enable and sustain:

- A vibrant competitive European economy, reliably powered by clean, carbon-neutral energy
- A smart, energy efficient and truly sustainable society for all citizens of Europe

We are committed to lead a cost-effective energy transition by:

investing in clean power generation and transition-enabling solutions, to reduce emissions and actively pursue efforts to become carbon-neutral well before mid-century, taking into account different starting points and commercial availability of key transition technologies;

transforming the energy system to make it more responsive, resilient and efficient. This includes increased use of renewable energy, digitalisation, demand side response and reinforcement of grids so they can function as platforms and enablers for customers, cities and communities;

accelerating the energy transition in other economic sectors by offering competitive electricity as a transformation tool for transport, heating and industry;

embedding sustainability in all parts of our value chain and take measures to support the transformation of existing assets towards a zero carbon society;

innovating to discover the cutting-edge business models and develop the breakthrough technologies that are indispensable to allow our industry to lead this transition.

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WG Market Integration & Network Codes

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1. What is your name?

2. What is your email address?

3. What is the name of your organisation?

Eurelectric

4. What type(s) of organization do you represent?

Association

5. If 'Others', please clarify

6. In which country is your organisation based?

NA

7. Which is (are) your connecting TSO(s)?

NA

8. Please add here your feedback on Articles 1 and 2 'Subject Matter and Scope' and 'Definitions and interpretation'

Article 1.2: it has to be noted that the imbalance price has an impact on suppliers' commercial offers. Changes of terms & conditions have therefore to be known with sufficient prior notice (at least 1 year).

9. Please add here your feedback on Article 3 'The calculation of imbalance adjustment'

The "Imbalance Adjustment" is a key feature in order to execute the transfer of energy between BSP/BRP and TSO. We also believe that the correct calculation of imbalance adjustment, together with the correct calculation of allocated volumes, is also essential to ensure BRP's neutrality, especially in case of a third-party independent aggregator operates demand response actions.

Irrespective of which option (requested/metered) is retained at local level for the determination of balancing energy volumes, it has to be consistent with the solution retained for the TSO-BSP settlement of balancing energy and with the settlement of deviations between requested and metered balancing energy.

Art.3(4): The reporting of the imbalance adjustment to the concerned BRP should be subject to a clear, harmonized deadline. The current wording of 'without delay' is too vague and the reference to the national terms and conditions means that BRPs in different countries may be informed at widely diverging moments. This has in turn implications for the calculation of their imbalances – and reporting thereof – and thus the risks to which they are exposed. The reporting of the imbalance adjustment should be subject to a precise, ambitious and harmonized deadline, but would of course also not prevent any TSO to report the imbalance adjustments earlier than the deadline requires.

10. Please add here your feedback on Article 4 'The calculation of a position, an imbalance and an allocated volume'

In direct comparison with the proposal under this consultation, the text should read for specific sub-articles as follows:

Art.4(2): The imbalance for each BRP over each ISP shall be calculated for each imbalance area by the connecting TSO, by application of the definition of imbalance pursuant the Article 2(8) of the EBGL, and by using the data delivered by the BRP to the connecting TSO in accordance with Article 18(6)(d) of the EBGL and the data delivered by the relevant DSOs in accordance with Article 15 (2) of the EBGL.

Art.4(4): The total allocated volume to each BRP shall be calculated by the TSO for each ISP over all injections and withdrawals for which the BRP is financially responsible in accordance with Article 17(2) of the EBGL, as the netted volume of:

(a) volumes metered per ISP and volumes aggregated per BRP by, and where relevant delivered by the relevant DSOs for that BRPs connections to a DSO grid;

(b) volumes assigned per ISP to that BRP over injections and withdrawals that are not metered with a granularity of ISP and volumes aggregated per BRP by, and delivered by the relevant DSOs for that BRPs connections to a DSO grid.

And where applicable, according to national terms and conditions:

(c) all corrections to (a) and (b) related to volumes assigned per ISP to third parties.

In addition, the following should be taken into account in the formulation of the final proposal. In particular for each sub-article:

Art.4(1)(b): This paragraph implies that the deadline for TSOs to calculate one position per BRP is the implementation of the 15-minute Imbalance Settlement Period (ISP), at the latest in 2025. No such link between the single position per BRP and the 15-minute ISP is mentioned in the EBGL. Therefore, such an explicit link and therefore general derogation of the requirement to go to the calculation of a single position per BRP to 2025 should not be proposed by this ISH proposal. The implementation of the single position should be at the time of the implementation of this ISH proposal – i.e. 18 months after its approval by NRAs. If TSOs see valid reasons that such implementation is not feasible, an individual derogation can still be requested. We agree with the principle of a single position for a BRP, since the self-dispatch model relies on BRPs' role to balance the overall injections and withdrawals of their portfolio.

Art.4(2): The calculation of a single BRP position is proposed per imbalance area. For BRPs the relevant area is however the bidding zone, as this is the price zone delineation it takes into account in the previous market timeframes. The ISH should aim for an imbalance price that gives correct and relevant price signals to previous market timeframes. The single position per BRP should therefore be per bidding zone and not per imbalance area.

Art.4(3): The reporting of the imbalance to the concerned BRP should be subject to a clear, harmonized deadline. The current wording of 'without delay' is too vague and the reference to the national terms and conditions means that BRPs in different countries may be informed at widely diverging moments. This has implications for the ability of BRPs to reassess their imbalances and thus the risks to which they are exposed. The reporting of the imbalance should be subject to a defined, ambitious and harmonized deadline, which of course does not prevent any TSO from reporting the imbalances earlier than the deadline requires. The deadline and the reliability/completeness of the initial publications of imbalance adjustment, allocated volume and imbalance by TSOs (as well as DSOs who are also involved in the process, although they are not mentioned) are a major issue for BRPs in order to manage their portfolio and calibrate/readjust their forecasts (it is not only a matter of BRP's cash-flow as highlighted in the explanatory document). Fine tuning of incentives is useless if BRPs do not have a precise and close to real-time view of their actual imbalances. It should therefore be part of the final methodology.

Art. 4(4): the "sub-paragraph c" is fundamental in order to ensure the correct calculation of the Imbalance Adjustment and BRP's neutrality in case of independent aggregator operating demand side response actions (see article 3) or to give the possibility to a consumer to receive blocks of energy from several suppliers to be exchanged on market platforms.

Art.4(4/5/6): It is not clearly defined what the difference exactly is between the imbalance, the allocated volumes and the net allocated volumes mentioned in the article. Clear definitions should be provided, preferable accompanied by a numerical example in the Explanatory Document.

Art.4(5): The reporting of the allocated volume to the concerned BRP should be subject to a clear, harmonized deadline. The current wording of 'without delay' is too vague and the reference to the national terms and conditions means that BRPs in different countries may be informed at widely diverging moments. This has implications on the ability of BRPs to reassess their imbalances and thus the risks to which they are exposed. The reporting of the allocated volumes should be subject to a defined, ambitious and harmonized deadline, which of course does not prevent any TSO to report the allocated volumes earlier than the deadline requires.

11. Please add here your feedback on Article 5 'Main components used for the calculation of the imbalance price for all imbalances'

Art. 5. We are concerned about the low level of ambition of the proposal in terms of harmonization. We acknowledge that the proposal sticks to the letters of article 52 and 55 in terms of what has to be harmonized, but we have doubts that with such a level of harmonization (i.e.: the main components only and no methodology on how to combine them), the proposal complies with the general principles of settlement stated in article 44, in particular point d. Under the current proposal, market parties competing on the same MOL suffer from important distortions whereas a level playing field should be granted.

Elements which are part of the national T&Cs, should not prevent the EU methodology to propose key principles and guidance, necessary to ensure a level playing field. The words "at least" in EBGL article 52(2)(c) should be seen as encouragement to come up with a more ambitious proposal, i.e. a harmonized imbalance price methodology across Europe.

A TSO that wants the imbalance price to reflect the local imbalance, seems to act in contrast with recital 17 of the EB GL and article 44, of an efficient non-discriminatory market where the price reflects the real-time value of energy. After all, as European markets become fully coupled on day-ahead and intraday, platforms that provide hedging opportunities for having imbalances, and European platforms harmonizing the market for FRR and RR, a harmonized imbalance price determination is the missing piece of the puzzle.

The objective of the EBGL, as formulated in article 3, states integrated balancing markets, so the ISH should have similar imbalance price dynamics for similar imbalances, as this is the only way that BRPs in different countries can compete in the different markets on a fair basis, i.e. with similar risks and opportunities. However, to achieve this, the ISH should contain an actual imbalance price methodology instead of a simple, non-exhaustive list of major components. As Eurelectric already expressed during the comitology process that we support a move towards an imbalance price that reflects the prices of the activated balancing energy products. In the current approach of per-product marginal pricing, this would be reflected by a weighted average price of the different balancing energy products. We believe that the weighted average of individual marginal prices is the best method to ensure financial neutrality of the TSOs. Since financial neutrality is a key requirement (but the sole one), should there be a choice to combine main components differently, this methodology should at least detail how to ensure financial neutrality.

Art 5.1.

The paragraph makes no reference to the art.55(4/5) of the EBGL, which states that the imbalance price should not be more/less than the weighted average of the activated volumes. This should be the touch-stone when checking whether an imbalance price calculation methodology – as mentioned in our previous comment – complies with the EBGL.

The ISH proposal does not contain an explicit threshold on what constitutes a major or minor component. This leaves the door wide open to individual TSOs interpreting how heavy ‘minor’ components can weigh into the imbalance price calculation. Lacking an explicit methodology – as mentioned in the previous comments – at least an explicit delineation should be made. Eurelectric considers that in target only the realised energy prices of activated Standard Products – once implemented – should be considered as major components. As Specific Products should be exceptional and transitory, they should only be considered as minor components of the imbalance settlement price.

Articles 5.1.b and 5.1.c: We notice that TSOs refer to volumes of balancing energy requested by TSOs for FRR process while they mention the volumes activated by TSOs for RR process. According to the position detailed in the explanatory document, it is necessary to harmonise the formulations “requested”/“activated” between these subsections and “requested” is in our view the correct wording since “activated” may introduce confusion with the notion of “connecting TSO” and seems to make reference to all the RR bids activated within an imbalance area irrespective of the requesting TSOs (this approach is ruled out in the explanatory document). In paragraph 5.1(c). "activated energy for reserve replacement process" should be changed to "requested energy for reserve replacement process", in line with paragraph 1(b).

Article 5.1.d “price for intended exchange of energy as a result of the imbalance netting process”. We note that this settlement price will be discussed in the upcoming consultation on Article 50 of the EBGL and regret the lack of visibility about this issue.

Art.5(2): Eurelectric is opposed to the use of such additional component, as already expressed in our answer to the EC consultation on the EBGL: “it is key to ensure that the imbalance settlement price correctly reflects the real-time value of the energy by removing price caps, avoiding artificial

components such as administrative scarcity pricing (Operating Reserve Demand Curve), or/and administrative interventions.”

Such additional components would lead to different imbalance price behaviour with similar imbalance volumes in the different countries. Their use should be harmonized through the definition of an imbalance price methodology, instead of listing the major components as currently proposed.

Moreover, the situation of intended exchange of energy as a result of netting performed within RR/mFRR/aFRR platforms should be specified, in both subsections 5.1.b/5.1.c/5.1.d (see answer to Question 12 on Article 6)

*Disclaimer: Please note the specific answer for this sub-article, in particular Art.5(2), does not fully reflect the view of the Polish national association.

Art.5(3): It is not clear from the proposal or explanatory document, what the imbalance price should be if no balancing energy was activated or netted, and no congestion is present. Eurelectric recognizes that such a situation may be rare but would appreciate clarification on this point.

12. Please add here your feedback on Article 6 'Definition of the value of avoided activation of balancing energy from frequency restoration reserves or replacement reserves'

We agree with the proposed general principles for the calculation of the value of avoided activations, relying on the price of the available offers.

It is necessary that a distinction should be made between two different situations: the one where no balancing need are expressed by the TSO and the one where TSO's need is fulfilled by an intended exchange of energy resulting from netting within RR/mFRR/aFRR platforms. As commented in our response to art.5(3), it is unclear what price is used in case TSOs have not expressed a balancing need.

Art.6(3): it is not clear why a connecting TSO needs the value of avoided activation for the calculation of the imbalance price. The imbalance price should be based on the requested volumes of balancing energy, and thus only relevant for the requesting TSO.

13. Please add here your feedback on Article 7 'The use of single pricing'

Art.7(1): The link between the single imbalance price and the harmonization of the 15-minute ISP is not made in the EBGL. Therefore, such an explicit link and therefore general derogation of the requirement to implement the single imbalance price should not be proposed by this ISH proposal. The implementation of the single imbalance price should be at the time of the implementation of this ISH proposal – i.e. 18 months after its approval by NRAs. If TSOs see valid reasons that such implementation is not feasible, an individual derogation can still be requested.

14. Please add here your feedback on Article 8.1.a 'Definition of conditions and methodology for applying dual pricing'

Eurelectric notes that the proposal includes numerous exemption possibilities from the single imbalance price requirement. Eurelectric agrees that during the transition period, the imbalance

price might have to reflect local specificities period and therefore may require exemptions for well-founded, specific reasons. The proposed list of possible reasons for exemptions seems however too wide and open-ended. The conditions for which dual pricing should be sufficiently specific, transitory and be monitored and reviewed periodically.

15. Please add here your feedback on Article 8.1.b 'Definition of conditions and methodology for applying dual pricing'

Art.8(1)(b): It is unclear whether in this case the dual pricing is only allowed during ISPs with up- and downward activations, or in general. In the latter case, it would allow a general application of dual pricing by all TSOs as every TSO at some point is confronted with activations in both directions during one ISP. The application of dual pricing in case of activations in both directions during one ISP should therefore not be an automatic trigger for the use of dual pricing: it should be more circumscribed and only allowed if the use of a single imbalance price leads to demonstrable issues. It should also be noted that situations where a single price can turn into a dual price, based on an activation in the last minute of an ISP poses a serious financial risk to a BRP, an argument which is not mentioned nor discussed in the context of dual pricing during ISPs with up- and downward activations.

We take note of the concerns of TSOs on overshoots. If exception is provided for this reason, adequate monitoring of the effect of dual pricing to such over-reactions shall be in place. Similarly, a monitoring of potential over-reactions in case of single pricing shall be implemented.

Eurelectric welcomes more elaboration on what qualifies as an over-reaction, according to TSOs. Criteria on which this is based on, should be harmonised amongst TSOs.

TSOs proposal to restrict market access to real-time information (§2.7.4) is surprising, since it seems contradictory with the objective to confine BRP self-regulation in a short period (§2.7.3) which is possible only if close to real time information on system balance is available.

16. Please add here your feedback on Article 8.1.c 'Definition of conditions and methodology for applying dual pricing'

Art.8(1)(c): The lack of a clear imbalance direction should not be a reason to apply dual pricing. BRPs should not be punished by artificially strong imbalance prices because the netted imbalance volume is small. If there is no clear imbalance direction, there is no high imbalance need for the TSO and no associated high imbalance energy procurement cost for the TSO. The imbalance price should simply reflect this for all BRPs.

17. Please add here your feedback on Article 8.1.d 'Definition of conditions and methodology for applying dual pricing'

Art.8(1)(d): Eurelectric would like to remind that the choice for single imbalance pricing has been made in the EBGL, and hence should be respected, as it is considered more transparent and giving correct and clear pricing signals towards BRPs. This paragraph seems to contain a list of 'miscellaneous' reasons, giving an open-ended ability to TSOs to apply dual pricing if they so wish to do. The size of the market, the number of BRPs, frequency of double-direction activation are – twice, once in the general paragraph and once in a non-exhaustive list – provided as reasons to revert back to dual pricing, implicitly arguing that dual pricing would be a superior pricing

methodology to deal with such market circumstances. Such open-ended ability for TSOs to deviate from the requirement should therefore not be allowed in the ISH proposal itself, but should be part of any potential derogation from the single imbalance price.

Regarding the risk of market abuse, we support the fact that any potential competition issues must be solved, and the current European and national regulatory framework allows to address this issue.

18. Please add here your feedback on Article 8.1.e 'Definition of conditions and methodology for applying dual pricing'

Art.8(1)(e): We believe that the principle of financial neutrality of the TSO is fundamental. However, the ability for TSOs to deviate from single imbalance pricing for perceived reasons of financial neutrality should not be allowed. It implies that the requirement from European legislation – the EBGL – can be overruled by national rules regarding cost allocation. This would be an open door to undermine all requirements from the EBGL. Furthermore, the single imbalance price can result in both deficits and excess revenues, which should be closely monitored. Should there be effectively observed issues related to financial neutrality in the context of the use of single price, a study showing how the use of dual price is improving financial neutrality over a sufficiently long horizon should be conducted and published.

19. Please add here all general comments on the proposal

We welcome the opportunity to answer to this public consultation on TSOs proposal for the design of the imbalance settlement and thank TSOs for providing visibility throughout public workshops (in particular the workshop held on the 23rd march). The involvement and the continuous information of stakeholders, both at European and local level, during the implementation of the Electricity Balancing guideline is vital to ensure that the proposed mechanisms can represent an efficient solution. We also appreciate the longer time-frame allocated to this particular consultation, due to the summer-period.

In order to reap full benefits from harmonised imbalance settlement and the principles of a single imbalance price and imbalance volume, there should be transparency on the balancing situation. For the moment, the publication of the imbalance position and/or imbalance prices by most TSOs remain too late to be of any real use. Eurelectric therefore considers that they should be provided in (near-) real-time in order to allow BRPs to ensure a balanced position or support the TSO in balancing the system and reducing balancing costs (as BRPs are price-takers instead of price-makers).

Last but not least, we remain concerned about the low level of ambition of the proposal in terms of harmonization, an element which we also observe cascading at national level. We have concerns that with such a level of harmonization (i.e.: the main components only), market parties competing on the same MOL might suffer from important distortions and will not be sure that a level playing field will be granted. These elements are part of the national T&Cs, but this should not prevent the EU methodology to propose key principles and guidance, necessary to ensure a level playing field materialises.

Eurelectric pursues in all its activities the application of the following sustainable development values:

Economic Development

- Growth, added-value, efficiency

Environmental Leadership

- Commitment, innovation, pro-activeness

Social Responsibility

- Transparency, ethics, accountability



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