

ACER Consultation on Imbalance Settlement Harmonization

A Eurelectric response paper

March 2020

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.

Dépôt légal: D/2020/12.105/18

Pursuant to Article 5(5) of the EB Regulation “[t]he implementation timescale shall not be longer than 12 months after the approval by the relevant regulatory authorities, except where all relevant regulatory authorities agree to extend the implementation timescale or where different timescales are stipulated in this Regulation.”

Pursuant to Article 52(4) of the EB Regulation “[t]he proposal pursuant to paragraph 2 shall provide an implementation date no later than eighteen months after approval by all relevant regulatory authorities in accordance with Article 5(2).”

Based on these provisions, the implementation of the imbalance settlement harmonisation should not be later than 18 months after the ACER decision. Although this is explicitly mentioned in Article 9 of the amended Proposal, when it comes to the harmonisation of the components for the imbalance price calculation, the timeline is linked to the implementation of the European platforms for the exchange of balancing energy, which is later than the 18 months after the ACER Decision, as required by the EB Regulation. The Agency understands that the incentives provided to the balance responsible parties through the imbalance settlement are linked to the ones provided to the balancing service providers through the balancing energy price. The fact that, until the implementation of the European platforms, the national balancing energy markets are significantly different, provides little room for harmonisation in the imbalance settlement price calculation. However, the Agency seeks also the view of stakeholders on this specific issue.

Article 5 of the amended Proposal describes all the components (being the balancing energy prices and, where relevant, also the balancing energy volumes) that may be used for the calculation of the imbalance price. However, there are two main approaches for calculating the imbalance price, in case different volumes of balancing energy (from different products such as replacement reserves, and frequency restoration reserves with manual or automatic activation) with different prices are used in a given imbalance settlement period (‘ISP’). Note that in both cases, all the prices used for calculating the imbalance price are the cross border marginal prices of balancing energy products used in a specific ISP (when the European platforms are implemented):

- 1. Maximum of all balancing energy prices established in an ISP: the highest (for positive balancing energy, and lowest for negative, respectively) price of all balancing energy volumes (regardless of the product) during the specific imbalance settlement period in the given imbalance area.*
- 2. Volume weighted average price of all balancing energy volumes: the volume weighted average of the marginal prices of each process during the specific imbalance settlement period in the given imbalance area. According to the TSOs’ proposal the volumes to be used for weighing, are the volumes for the satisfied balancing energy demand of the connecting TSO of his imbalance price area for a specific ISP, calculated for each process.*

The Agency understands that for now both approaches are necessary for the TSOs, since they are used for providing different incentives depending on the way each TSO balances its system. However, based on TSOs amended Proposal, the calculation of a single final position for each balance responsible party (‘BRP’) will be mandatory, once this methodology is implemented. Therefore, a change in the response of BRPs should be anticipated for the areas that have to adapt to the single position. Moreover, when all TSOs join the European platforms for the exchange of balancing energy, the way for balancing the system will be further changed. In the context of the move to the single position and to the integrated balancing markets, the Agency sees room for further harmonisation, although it acknowledges the increased level of uncertainty with respect to the future balancing needs of the system. In order to assess the need for further harmonisation once these foreseen changes occur, the Agency suggests the establishment of indicators for the effectiveness of the imbalance price calculation method.

The Agency seeks the opinion of stakeholders with respect to these topics.

Question 1.1

Considering the different national balancing energy markets, do you see a benefit in harmonising the main components of the imbalance price calculation before the implementation of the European platforms for the exchange of balancing energy, given that the move to single position is already a big change with an impact on how TSOs balance the system?

The way the imbalance is settled has repercussions on the previous market timeframes (risk of being imbalance results in taking actions on LT/DA/ID markets). Those market being fully coupled, **a harmonisation as soon as possible is justified** (also given the fact that the majority of TSOs already applies a single position) and does not need to be linked to the operability of the balancing platforms themselves. This concerned the timeline of harmonisation.

However, concerning the content of harmonization and as already expressed in previous consultation, there is no real harmonisation foreseen but rather a list of elements TSOs can pick from to settle the imbalance. If the ISH proposal was implemented tomorrow, only few things would change. **Therefore, the question of real “harmonisation” is more important for Eurelectric (cfr. our paragraph under Q4) than whether the current amended proposal should be applied before or together with the go-live of the balancing platforms.** Only with an ambitious proposal for Imbalance Settlement Harmonisation would the benefits of the eventual harmonisation be reaped.

Moreover, Eurelectric is in favour of an early implementation of the single position in those countries (e.g. Portugal) applying self-dispatch model which does not have yet, as stated in article 4(1) of the ISHP.

This can be made possible by the article 52(4) of the EBGL that states that the ISHP “shall provide an implementation date no later than eighteen months”. Therefore, the ISHP could set an intermediate deadline regarding the single position, for example 6 months after the decision with a possibility to postpone the deadline at national level up to 12 months after the decision subject to operational justification and NRA approval. This would allow to spread out the effort (e.g. the use of single/dual/multiple prices systems, the concrete use of component for the imbalance price calculation at local level) and tackle a step-wise harmonization that is not linked to a very far target in time, as the go-live of the aFRR platform implementation in all countries (July 2024 at the latest).

Article 5 of the ISHP describes all the main components (being the balancing energy prices and, where relevant, also the balancing energy volumes) that should and may be used for the calculation of the imbalance price. TSOs use two main approaches for calculating the imbalance price, in case different volumes of balancing energy (from different products such as RR, mFRR and aFRR) with different prices are used in a given ISP:

- *Highest/lowest of all positive/negative balancing energy prices established in an ISP*
- *Volume weighted average price of all balancing energy volumes in an ISP*

Q1.2: Please share your views concerning the principles for calculating the imbalance price

- **only on the basis of balancing energy prices, or**
- **using the relevant volumes as well.**

There are three important aspects to take into consideration when answering this question:

1. The financial neutrality of the TSOs must be ensured
2. The way the balancing energy is priced
3. The way the imbalance settlement price reflects the real time value of energy

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. However, should the decision on balancing energy pricing made by ACER on January 24, 2020 be revised, then Eurelectric would call for a subsequent revision of the imbalance price methodology.

The fact that ACER has decided to set a price for aFRR every 4 seconds, despite opposition from market participants, reinforces the weighted average price alternative in order to respect the TSO financial neutrality.

We believe that the weighted average of individual marginal prices is the best method to ensure financial neutrality of the TSOs in this context. Since financial neutrality is a key requirement (but not the sole one), should there be a choice to combine main components differently, this methodology should at least detail how to ensure financial neutrality.

Also, if applied (cfr. our specific comment on Art 5(5) under the Q4), the use of additional component as listed under Art 5(5) should be completely transparent. BRPs are forecasting the imbalance prices for their operations and this forecast back propagates to the earlier market timeframes, influencing them all. Therefore, a full understanding of how the imbalance price is formed (via the main components or the additional ones) is required.

Art 5(6) requests the TSOs using additional component to disclose their value when applied to a specific ISP. In terms of transparency, this is not enough, as we also want to understand under which conditions such component will be applied. This transparency requirement should be added.

Question 1.3

Please share your views concerning potential indicators for assessing the effectiveness of the imbalance price calculation methodology.

The effectiveness of the imbalance price calculation can **be assessed by looking to what extent the imbalance price gives relevant and efficient incentives to BRPs to do what they should do.** We know that there are currently two different approaches concerning the particular role of the BRP in real-time (related to article 17.1 of EBGL):

1. BRP should strive to be balanced and the TSO will take care of all the remaining imbalances
2. BRP should help the power system to be balanced, potentially reducing the actions that the TSO has to take to take care of the remaining imbalances.

The supporters of the two approaches remain very divided and Eurelectric does not see a harmonisation to come in the short term.

However, irrespective of which approach is applied, Eurelectric emphasizes that it must be possible for BRPs to react on the system's state and be given adequate real-time information on the balancing price formation as well as the depth of balancing offer curves. The ability to react from the BRPs' side on the system's state in both approaches must not be unduly constrained. Any particular constraint at national level could be detrimental for the whole system balance and could impact the European harmonization of system prices' formation.

In any case, in order to set up relevant potential indicators for assessing the effectiveness of the imbalance price calculation methodology, one could think of having two sets of indicators for the two approaches that are in use.

A possible indicator for the success of harmonising imbalance settlement within an internal energy market is the mutual relation of imbalance prices in interconnected areas when cross-zonal exchange capacities are not saturated. In this situation, an imbalance area with a short position (having to activate upward reserves) should in general be facing higher imbalance charges compared to another imbalance area with a long position (have to activate downward reserves) for the same ISP. If this relation is not given, it indicates a potential distortion for cross-border trading and BRP incentives are contradicting current imbalance area states.

Pursuant to Articles 55(4)(b) and 55(5)(b) of the EB Regulation, the value of avoided activation ('VoAA') is used as lower and upper, respectively, imbalance settlement price limit "in the event no activation of balancing energy in either direction has occurred during the imbalance settlement period". The TSOs list in the explanatory document various cases that can qualify as "in the event of no activation", hence they are all considered relevant for the use of the VoAA.

Pursuant to Articles 55(4) and 55(5) of the EB Regulation, the VoAA should be used primarily as an alternative to the imbalance settlement price limit of the weighted average price for positive and negative, respectively, activated balancing energy.

Pursuant to Article 52(2)(b) of the EB Regulation, the amended Proposal should further specify and harmonise "where appropriate, the definition of the value of avoided activation of balancing energy from frequency restoration reserves or replacement reserves". In the amended Proposal, there is no clear definition of the VoAA, but principles for its calculation are included. The Agency understands that the VoAA will be used in limited cases, hence the impact of its harmonisation is not expected to be significant. However, it considers that the requirement of the EB Regulation of harmonising how to define the VoAA is not fulfilled in the amended Proposal.

The Agency seeks the opinion of stakeholders to take an informed decision on this specific issue.

Question 2.1

In which cases would you deem necessary the use of the VoAA?

We agree that all the possible cases shall be clearly described in the methodology.

In general, when there is no activation of aFRR/mFRR/RR during an ISP (that prevents TSO to calculate an imbalance price the normal way) and there are BRPs with imbalances (that cancel each other or via the imbalance netting), then the VoAA should be used for the settlement of BRP's imbalances. However, with functioning cross-border balancing markets these cases are rather theoretical.

In any situation, when all BRPs are balanced, then the VoAA is not needed.

Question 2.2

Please share your views concerning the definition of the VoAA.

The current definition in the amended proposal is not precise enough to ensure its harmonisation as different way to interpret the definition can lead to different values for the VoAA (and this, even if the VoAA is only used in limited cases):

‘Value of avoided activation’ means a reference price that can be calculated by the TSO or TSOs of a given imbalance price area after the balancing energy gate closure time for a given ISP, at least when there is no balancing energy demand or balancing energy activation in the direction of the balancing energy demand for that imbalance price area for that ISP.

This definition has no reference to what underlying values the VoAA should be based. As such – and in line with the other main critique of Eurelectric to this proposal – the definition should have a more precise description of (a) on what underlying values the VoAA should be based and (b) how these underlying values should be combined to eventually calculate the VoAA.

We also have concerns on the use the balancing energy merit order lists to calculate the VoAA: these bids are not real activated bids and the Merit order list contains many kinds of bid formats. Therefore, how is this going to be considered?

Also, no clear indication is given on which prices would be considered (e.g. average prices of minimum offered prices, weighted average prices, etc..).

Pursuant to Article 59(3)(i) of the EB Regulation, the detailed European report on the integration of the balancing markets should “assess the progress of harmonisation of the main features of imbalance settlement as well as the consequences and possible distortions due to non-harmonisation”.

In the amended Proposal, some calculations (imbalance adjustment, allocated volume, imbalance) need to be finalised “not later than set by each TSO’s terms and conditions...”, which is not harmonised, although the Regulation (EU) 543/2013 sets some requirements for the publication of figures resulting from the imbalance settlement.

The Agency understands that there is no clear requirement in Article 52(2) of the EB Regulation for the harmonisation of these additional aspects. However, in light of the abovementioned requirement of monitoring the consequences and possible distortions due to non-harmonisation, an iterative process could be foreseen, where the assessment of the harmonisation progress of the main features of imbalance settlement may lead to the need for further harmonisation.

The Agency seeks the opinion of stakeholders with respect to what they consider as the main features of imbalance settlement and which indicators they consider relevant for assessing distortions due to non-harmonisation.

Question 3

Please share your view concerning the issue of further harmonisation.

EURELECTRIC supports the idea of an iterative process where the assessment of the harmonisation progress of the main features of imbalance settlement may lead to the identification of the need for further harmonisation.

In order to implement such a process, it is important to list the main features of imbalance settlement as well as indicators related to them that would be able to discover any distortions due to non-harmonization.

Main features

1. Calculation of imbalance adjustment, allocated volumes, final position
2. Calculation of the imbalance price (formula and inputs)
3. Calculation of the imbalance volume (formula and input)
4. Timings associated to communication of imbalance settlement between TSO and BSP
5. Rules to ensure TSO financial neutrality, in relation to network tariffs (that are not harmonised)

Concerning the third feature and the article 3(4) of the amended proposal, 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. The experience in some EU countries shows that it is possible to have provisional settlement within one day and final settlement within 10 working days.

Indicators

Indicators for assessing distortions due to non-harmonised features will depend of the feature considered. A simple approach to start with would be to analyse the differences in the main features listed hereabove. Any difference leads to a distortion, per definition, but with various degrees of severity. The iterative assessment has to quantify the distortion's severity and take the necessary actions to correct them and ensure a level playing field for BRPs.

Question 4

If you would like to comment on other topics please indicate clearly the related Article, paragraph of the proposal and add a sufficient explanation.

We welcome the opportunity to answer to this public consultation. 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.

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.

Art.4: 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 in this document.

Art.4(1): 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. Therefore, imbalance price areas comprising several imbalance areas should always resemble a bidding zone.

Art.4(5) & Art.4(7) : 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. 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. 4 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.

Art.5(2)(g) & Art.5(4)(h): for us it is not clear what is meant by “further remedial actions of the TSO, which contribute to the system balance”. Under no circumstances should elements that are used

to solve network constraints or for other network related reasons have an impact on the imbalance settlement price.

Art.5(5): 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.

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



Union of the Electricity Industry - Eurelectric aisbl
Boulevard de l'Impératrice, 66 – bte 2 - 1000 Brussels, Belgium
Tel: + 32 2 515 10 00 - VAT: BE 0462 679 112 • www.eurelectric.org
EU Transparency Register number: [4271427696-87](https://ec.europa.eu/transparency/regexpert/?s=details&id=4271427696-87)