

ELEXON'S RESPONSE TO ENTSO-E'S CONSULTATION ON THE PROPOSAL TO FURTHER SPECIFY AND HARMONISE IMBALANCE SETTLEMENT

1. Introduction

- 1.1 This is a copy of ELEXON's response to the ENTSO-E 'proposal to further specify and harmonise imbalance settlement' consultation, which ran between 16 July 2018 and 28 September 2018.
- 1.2 The formatting of this response is unusual as it was an internet-based survey and this is a copy of the returned pdf response, but with the Questions asking for personal information and Questions we did not answer removed from this copy.

Peter Frampton, 17 September 2018

2. Our response to the ENTSO-E consultation on the proposal to further specify and harmonise imbalance settlement

Q8 Please add here your feedback on Articles 1 and 2 'Subject Matter and Scope' and 'Definitions and interpretation'

No response

Q9 Please add here your feedback on Article 3 'The calculation of imbalance adjustment'

We have no comments on Article 3 itself. But we do have some observations on statements made in the accompanying explanatory document.

(1) We agree with the proposal that the imbalance adjustments should be based on the volumes of energy determined to be settled between the TSO (or a third party if delegated or assigned) and the concerned BSP as the EB GL allows the energy volume to be the requested or metered volume.

(2) We do not agree that the harmonisation of the finalisation time of imbalance settlement is as clear-cut as the explanatory document portrays. For example, the finalisation of imbalance settlement depends on the availability of meter readings, which itself depends on the level and frequency of meter reads (end domestic customer premises or larger BRP area; frequently read smart metering or infrequently read traditional metering). It would not be appropriate to bind TSOs to a harmonised final settlement time when reaching an accurate result is dependent on conditions beyond TSO control (i.e. the amount of smart metering). Indeed, this and other complexities were recognised by the attendees at the open imbalance harmonisation workshop held at ENTSO-e premises on 23 March 2018 where the consensus seemed to be that 'There should be no harmonisation during the next three years, but a path towards shorter settlement over a longer period could be introduced, dependent on smart meter reads.'

Q10 Please add here your feedback on Article 4 'The calculation of a position, an imbalance and an allocated volume'

We note that Article 4 requires that TSOs applying the calculation of two positions per BRP shall change to apply the calculation of single position per BRP. The national arrangements in GB use two positions per BRP (a 'production' and a 'consumption' account). As there is a single imbalance price the effect is the same as using a single position and this is also noted in the explanatory document on page 8. We therefore anticipate that the GB arrangements are compliant with this requirement.

We repeat our comment (2) made above in relation to Article 3, as the explanatory document repeats the point on the finalisation time of imbalance settlement when commenting on Article 4. That is, we do not agree that this is as clear cut as the explanatory document portrays and due account should be taken of the apparent consensus at the open harmonisation imbalance workshop (23 March 2018) that 'There should be no harmonisation during the next

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three years, but a path towards shorter settlement over a longer period could be introduced, dependent on smart meter reads.'

Q11 Please add here your feedback on Article 5 'Main components used for the calculation of the imbalance price for all imbalances'

We note that Article 5 requires that, in the need for stronger incentives, the TSO may propose to its regulatory authority to apply a scarcity component. The national arrangements in Great Britain (GB) currently use a scarcity component to reprice contracts where the utilisation price was agreed in advance and therefore do not take into account the scarcity conditions at the time of utilisations. We anticipate the arrangements in GB to use this function for the foreseeable future and therefore the necessity to propose to the National Regulatory Authority (NRA).

The explanatory document states that TSOs shall not use any other main components not mentioned in the proposal, but that NRAs may consider the use of other components – the mechanism for this is not specified but we assume it would be pursuant to the process for establishing and amending the EB GL Article 18 terms and conditions. We also note that this consideration is only for the price (5(1)), leading to an inconsistency with the provisions for volume (5(3)).

To us, the proposal itself is unclear on whether locally activated volumes for export to fulfil neighbouring TSOs' needs are to be included in the imbalance price or not. The explanatory document appears to say that they are not included through the phrase 'requested by a TSO for imbalance price area' (pages 11 and 14 of the explanatory document). However, the legal proposal uses the phrase 'requested by this TSO', which can be read to include requests to local BSPs to meet other TSOs' needs. Can you clarify the formal legal proposal as to what is intended?

We note that the explanatory document (page 12) makes clear that 'prices and volumes for the intended exchange of energy as a result of the imbalance netting process shall only be taken into account if they do not harm the boundary condition of Article 55'. However, this condition is not made clear in the legal proposal itself and so we ask whether it should be included in the legal proposal?

We do not agree with the argument on balancing capacity costs set out on page 13 of the explanatory document to exclude capacity costs. The real-time value of energy will include actual energy activated from capacity procured beforehand. If the combined capacity and energy costs to the TSO are not considered when such energy is activated, then the energy price alone from such capacity will undervalue the real-time value of such energy. However, as capacity prices can be added as a minor component to imbalance prices under national terms and conditions, then we are not suggesting a change to the legal proposal itself. (It is also worth noting that the imbalance price is not used to recover the TSO's costs in every imbalance price area.)

Q12 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 note that Article 6 requires that in the event of no activation of balancing energy the replacement price must only use price or prices available to the TSO from frequency restoration, replacement reserve or intended exchange of energy. The National Arrangements in GB currently use a Market Index Price calculated from data from intraday markets, subject to specific criteria. This would need to be updated at some cost to GB consumers, and a new methodology agreed. We review the Market Index Definition Statement (MIDS) on a regular basis and the latest review was published on 14 August 2018.

Q19 Please add here all general comments on the proposal

In some circumstances we agree with the legal proposal but do not agree with the explanatory document's reasoning. The circumstances are listed in our answers to the other Questions. This is important for us to record in case the legal proposals are changed based on statements made in the explanatory document.