

# ELEXON'S RESPONSE TO ACER'S CONSULTATION ON IMBALANCE SETTLEMENT HARMONISATION

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This document contains ELEXON's response to ACER's consultation [PC 2020 E 07- Public consultation on harmonising the imbalance settlement](#). The response was submitted by web form and has been copied below for publication. For any questions, please contact Peter Frampton ([peter.frampton@elexon.co.uk](mailto:peter.frampton@elexon.co.uk)).

## TOPIC 1: CALCULATION OF THE IMBALANCE PRICE

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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.

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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?**

It is not clear to us how a further harmonisation of imbalance price calculations would provide benefits to consumers. The existing proposals specify which components can be used in the calculation of an imbalance price, and as you note TSOs will be moving towards using common platforms for balancing products.

The benefits in additional harmonisation need to be considered against the costs of doing so, and any steps towards harmonisation should be implemented at the optimal time. It is not clear that there is additional value in harmonisation a methodology beyond that highlighted in the proposal, given the current variation in energy systems across the EU.

## Question 1.2

**Please share your views concerning the principles for calculating the imbalance price**

**- only on the basis of balancing energy prices,**

**or**

**- using the related volumes as well, to weigh between multiple prices occurring within an ISP.**

This is not a straightforward question to answer, because all prices are linked to a volume and therefore it is impossible to determine a 'volume free' balancing energy price. The extent to which a volume contributes towards an imbalance price can vary significantly, and the point at which a price becomes marginal rather than volume weighted becomes unclear.

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For example, a volume weighted average price taken across all balancing energy activations is clearly volume weighted. A price taken from the average of 50MW of most expensive actions is still volume weighted, but also marginal, and a price taken from the 1MW of most expensive actions could be considered marginal but may also be volume weighted. There will continue to be actions with varying prices within a settlement period, and methodologies should be robust to calculate the most reflective energy balancing price.

## Question 1.3

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

It is important to consider the effectiveness of new initiatives, but not always easy to develop a comprehensive and meaningful set of indicators to do so. In respect of harmonising imbalance settlement processes, the most immediately useful indicator is the cost of balancing the systems. However, this is a very difficult indicator to use because there is no steady baseline against which to compare. System conditions are continuing to change, and it will be impossible to separate the effects of the harmonisation proposal from these changes.

Another useful indicator would be qualitative feedback from market participants on 'customer service' from TSOs and the ease of operating in multiple balancing markets. Again, this would be against a background of multiple changes, however market participants could be asked specifically for their views in respect of harmonisation.

## TOPIC 2: VALUE OF AVOIDED ACTIVATION

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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.

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## Question 2.1

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

No response.

## Question 2.2

**Please share your views concerning the definition of the VoAA.**

No response.

## TOPIC 3: TRANSPARENCY AND MONITORING

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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.**

We do not believe there is any basis for further harmonisation under the Imbalance Settlement Harmonisation requirements. Any further harmonisation should stem from an identified defect, and be subject to the appropriate processes during the development of a solution.

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TSOs should retain a level of flexibility to address scenarios unique to their energy systems while continuing to work towards an efficient system for all consumers.

## TOPIC 4: OTHER COMMENTS

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### 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.**

No response