Possible Impact on Suppliers of the Draft Network Code on Electricity Balancing

Meeting Name	Supplier Volume Allocation Group
Meeting Date	30 July 2013
Purpose of paper	For Information
Summary	ENTSO-E is currently consulting on a draft of the Electricity Balancing Network Code (EBNC). This paper informs the SVG of the changes which the EBNC proposes to the imbalance treatment of balancing services. These may impact Suppliers whose customers provide such services to National Grid.

1. Background

1.1 The Third Package of EU energy legislation[1] requires the European Network for Transmission System Operators (ENTSO-E) to develop legally-binding Network Codes to address "cross-border network issues and market integration issues". The scope of these Network Codes is defined in Framework Guidelines created by the Agency for Cooperation of Energy Regulators (ACER).

1.2 In September 2012 ACER published the Framework Guidelines on Electricity Balancing. In December 2012 the Commission requested ENTSO-E to draft a Network Code (consistent with that Framework Guideline) by 1 January 2014. On 17 June 2013 ENTSO-E issued a public consultation on a draft of this Network Code, which closes on 16 August 2013.

2. Impact of the Electricity Balancing Network Code on the BSC

2.1 Compared to other Network Codes (such as that on Capacity Allocation and Congestion Management) the EBNC is not very clear on the nature of the changes that will be required. In many areas it describes a process that Transmission System Operators (TSOs) will follow in order to move towards harmonisation of balancing and imbalance markets, rather than describing the shape that those harmonised markets will ultimately take. This makes it difficult to assess the ultimate impact of the Network Code on GB balancing and imbalance arrangements.

2.2 ELEXON is currently working to understand the potential impact of the EBNC on the BSC and GB balancing arrangements, although the lack of detail on the target model does make this difficult. We will share our initial thoughts on the GB impact of the Code with the Imbalance Settlement Group on 23 July and at the Joint European Standing Group (JESG) workshop on 6-7 August.

[1] The requirement for Network Codes is in Articles 6 to 8 of the Electricity Regulation 714/2009.

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2.3 In the meantime, the purpose of this paper is to inform the SVG of one specific area where the provisions of the Network Code seem clear, and which may have a direct impact on Suppliers. This is the requirement (in Article 16(2)(d) and Article 39) for TSOs to require Balancing Service Providers to appoint a Balance Responsible Party (i.e. a Trading Party, in BSC terms) whose imbalance position can be adjusted to reflect the instructed volume of balancing energy.

2.4 The BSC does already include provisions for adjusting imbalance positions to reflect balancing service volumes. However, the BSC only requires such adjustments to be made for Bid Offer Acceptances. For all other balancing services adjustments are made only to the extent specified in National Grid's Applicable Balancing Services Volume Data (ABSVD) Methodology Statement, and only if the Trading Party in question does not object. The requirement for adjustments to be made in all cases is therefore new, and may impact Suppliers whose customers provide demand side response to National Grid.

3. Implications of Mandatory Imbalance Adjustments for Demand Side Response

3.1 Under current GB arrangements, no adjustment would normally be made[2] to the imbalance position of a Supplier whose customer has provided demand side response to the Transmission Company (or to a Distribution System Operator). As a result the Supplier would have to pay (or be paid) an Imbalance Charge on the volume of the demand side response.

3.2 In the case of a customer reducing their demand, this Imbalance Charge has the effect of partially compensating the Supplier for the loss of income arising from the demand side response. For example, suppose a customer with a Short Term Operating Reserve (STOR) contract reduces their demand by 10MWh at the instruction of the Transmission Company. Assuming their demand forecast was accurate, the Supplier will already have purchased 10MWh with the intention of selling it to the customer, who now no longer wants it. The imbalance settlement mechanism ensures that the Supplier does receive payment for this energy (albeit at System Sell Price, which may not be enough to fully compensate them).

3.3 Article 16(2)(d) of the EBNC will require National Grid to ensure that a Trading Party accepts an imbalance adjustment in relation to instructed balancing services. This means that a demand side response contract can no longer be regarded as a private matter between TSO and customer: there will always be a requirement for a Trading Party to be involved. The Network Code does not require that Trading Party to be the customer's own Supplier, although it may be that they are the obvious choice due to their pre-existing relationship with the customer.[3] If it is the Supplier who accepts the imbalance adjustment they will no longer receive SSP for the energy their customer was instructed not to use. This

[2] The ABSVD Methodology does include provisions for calculation of ABSVD in relation to non-BM STOR. However, we understand that such adjustments would only be submitted into Settlement at the request of the Supplier, and that in fact no such adjustments are made.

[3] If a different Trading Party took on this role both they and the customer's own Supplier would be liable to imbalance charges arising from demand side response. The Supplier would receive SSP on delivered reductions in demand (as currently), while the Trading Party would have an exposure to System Buy Price on the instructed volume (which they would presumably seek to trade out, to the extent that the instruction was known or predictable ahead of Gate Closure).

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will increase the impact of the demand side response on their own financial position (unless they arrange an alternative compensation mechanism through their contract with the customer). This is an issue that Suppliers may need to take into account when considering their future relationship with demand side response and the customers who provide it.

3.4 The earliest timeline for approving the Network Code appears to be Q1 2015, and there would then be a two-year transition period before Article 39 came into effect.

4. Recommendations

4.1 ELEXON invites the SVG to:

a) **NOTE** that ENTSO-E is consulting on an initial draft of the EBNC;

b) **NOTE** that the JESG workshop on 6-7 August provides an opportunity for Parties to understand the impact of the proposed EBNC; and

c) **NOTE** that the proposed requirement for imbalance adjustments to be made in respect of all balancing services may have implications for Suppliers whose customers providing balancing services to the Transmission Company.

List of Appendices:
None

List of Attachments:
None

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