

Energie-Nederland response to the ENTSO-E consultation on the further specification and harmonisation of imbalance settlement

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Energie-Nederland

Energie-Nederland is the association representing the commercial participants in the energy market in the Netherlands. This includes generation, trade, supply, aggregation and services companies. Energie-Nederland believes that the transition to a carbon free energy system should be done by using the efficiency and innovation power of the energy market. Creating an international level playing field through market integration is key in this perspective.

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Answers to the consultation questions

The sections below give the consultation questions with our answers. In this paper we have excluded the administrative questions in the beginning and start with question 8.

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

No comments.

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

Article 3-4

The explanatory document states:

“It should be noted that in the future it would be beneficial to have a harmonised maximum period and different possibilities for it should be analysed.”

It is indeed important to have a clear harmonized deadline for publication of the imbalance adjustment. Unharmonized publication dates will lead to different risk profiles for BRPs in different countries. The market needs a precise and harmonized deadline to be included in this code. For that we suggest to look at best practices among TSOs regarding the calculation and publication of relevant data. When setting harmonized deadlines, such best practices should be the target across Europe.

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

Article 4-1

It is not clear whether only 4-1 applies to a TSO applying self-dispatching or 4-1 through 4-5.

Article 4-1-b

It seems that this paragraph that the implementation of the calculation of one position per BRP will be combined with the 15 minute ISP implementation (at the latest 2025). With this link this becomes a general derogation from the EBGL, which foresees the implementation of the single position at the time of the implementation of this ISH proposal (18 months after its approval by NRAs). A derogation should only be possible at the request of an individual TSO with a valid justification.

Article 4-2

The calculation of a single BRP position should definitely be at the level of the bidding zone and not per imbalance area, especially if dual pricing could be applied.

Article 4-3

This Article is too vague regarding reporting of the imbalance to the concerned BRP. The proposal should give a clear, harmonised dead line for that. Not doing so will give considerable different risk profiles for BRPs in different bidding zones.

The deadline should be based on best practice among the TSOs. We see no reason why TSOs cannot comply with the fastest reporting existing. But even then the faster the reporting the better. Faster reporting reduces the risk profile of market parties and reduces market entry barriers.

Article 4-4, -5 and -6

It is not clearly defined what the difference exactly is between 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.

Article 4-5

This Article is too vague regarding the reporting of the allocated volume to the concerned BRP. The proposal should give a clear, harmonised dead line for that. Not doing so will give considerable different risk profiles for BRPs in different bidding zones.

The deadline should be based on best practice among the TSOs. We see no reason why TSOs cannot comply with the fastest reporting existing. But even then the faster the reporting the better. Faster reporting reduces the risk profile of market parties and reduces market entry barriers.

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

Article 5

EBGL Article 52-2-c states that all TSOs shall develop a proposal to further specify and harmonize at least the main components used for the calculation of the imbalance price. EBGL Article 55 further indicates that a coupling between the imbalance settlement price and the price for FRR and RR needs to be made.

This proposal merely repeats these boundary conditions, but without taking the following , necessary step: defining the harmonised methodology. Only this can lead towards a true European electricity market. The imbalance price is the basis for price formation in all market time frames. A lack of harmonisation of the imbalance price methodology would thus distort cross-border trade in all time frames. In the explanatory document this is actually mentioned specifically. On page 11: “*The minimum boundary conditions for the imbalance price are set by the EBGL Article 55, which requires that the imbalance price for negative/positive imbalance shall not be less/greater than respectively weighted average price for positive/negative FRR or RR activations*”. By highlighting that making a general coupling is the minimum, this indicates the TSO proposal is only reflecting the ‘as-is’ situation.

Another sentence in the explanatory document explicitly states that the framework should be more harmonized. On page 14: “*as the balancing is done in larger market area than the local imbalance area, the balancing price reflects the activations needed for whole area where activations can be done instead the local imbalance area. This brings an inconsistency, if imbalance price is wanted to reflect the local imbalances, as the balancing price is a main component of imbalance price.*”

The inconsistency that is rightly identified reveals the structural shortfall of this proposal. When a TSO wants the imbalance price to reflect the local imbalance, this is in sharp contrast with the general objective, which is mentioned in the same context, paraphrasing recital 17 of the EBGL, of an efficient non-discriminatory market where the price reflects the real-time value of energy. After all, as European markets are 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 methodology is the missing piece of the puzzle.

Hence, we regret to see that the all TSO proposal does not provide even a next step than stated in the EBGL. The words “at least” in EBGL Article 52-2-c give room to come up with a more ambitious proposal. In particular we would like to have a proposal with harmonized imbalance price methodologies across Europe.

In the uncongested case, whether the marginal bid for determining the balancing energy price is set by a local or a foreign BSP shouldn't matter (as the overall welfare is increased), the imbalance price should be based on this cross zonal price. The only exception would be the activation of Replacement Reserve (RR) which should not affect the imbalance price in those countries that don't use RR themselves. Moreover, Energie-Nederland believes that the use of RR should be phased out as this product undermines the principle of Balancing Responsibility and distorts signals for market parties to help to restore the frequency.

In our view the basic principle for the imbalance pricing per ISP should be the marginal price of energy in that ISP. This means that the price is set by the highest priced bid of any product that is activated in that specific ISP. Only this approach will reveal the real time value of energy.

In some special cases settlement price calculation is less straightforward. Our suggested approach for these cases are:

1. The TSO doesn't activate in a given ISP

The price is set by the average of the lowest bid for upward and the highest bid for downward regulation.

2. The TSO activates in two directions within an ISP

The price is set by the highest bid activated in the netted dominant direction based on activation time. This means that the activated stack for the non dominant direction is subtracted from the top of activated stack in the dominant direction. Both stacks included all activated bids from all products sorted by price. The resulting price is set by the highest remaining bid of the topped off merit order of the dominant direction. This will give a price that is easy to determine and that reflects the change in direction of the system.

3. The price in case of curtailments due to lack of supply (not congestion, e.g in the case of brown-outs)

The price is set at least by the Value of Lost Load. This means that the imbalance price will be set at the highest of the VoLL and the imbalance price based on the marginal bid price. This is to avoid that the VoLL could act as a de facto price cap, which would become distortive if the VoLL is set too low, or even if some market participants have a willingness to pay above the VoLL.

An additional benefit of applying a harmonized cross product marginal imbalance price is that it takes away the complexity related to the volume determination (whether this should be based on requested or activated TSO volumes), as the volume that is used for the price calculation is equal to the activated volume in the entire region that is considered. Also, the occurrences of ISPs without activations are strongly reduced when considering a bigger region for setting the imbalance price. This enhances price formation as prices reflect actual activations in real-time.

When this is achieved, individual TSO needs that are deemed necessary to ensure operational security, are still possible, by making use of EBGL Article 26 or a regulated markup in case of scarcity as specified in the all TSO proposal art 8-2.

Article 5-1

The paragraph makes no reference to the Article 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. These conditions are important to safeguard adequate price levels and should be included. However, when applying marginal pricing this assure these condition are met.

As mentioned in the first comment, the ISH proposal only provides a list of major components that can be used but lacks an actual methodology on how they are combined to derive an imbalance price. In order to provide an incentive to move towards harmonized imbalance prices, at least the ISH proposal should be detailing how the different major, and minor, components are combined to derive the imbalance price, how scarcity components and balancing capacity are to be integrated or excluded, etc. As previously stated, the objective should be to achieve similar price dynamics for similar imbalances.

This proposal gives market parties little clarity and transparency about the price determination. For example, 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.

Article 5-1-b and -c

The FRR component is based on requested volumes, while the RR component is based on activated volumes. This difference is neither explained nor clear. As the volumes used for the calculation, mentioned in paragraph 3, are all based on requested volumes, this deviation for RR should be either clearly explained or brought in line: based on requested volume.

Article 5-2

Such additional components would lead to different imbalance price behaviour with similar imbalance volumes in the different countries, which would require boundary conditions similar to those of the use of specific products as detailed in EBGL Article 26. Their use should be harmonized through the definition of an imbalance price methodology, instead of listing the major components as currently proposed.

Article 5-3

In a marginal price approach we don't see the need for calculating volumes in determining the price.

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'

Article 6-3

Defining avoided activation is arbitrary. However, as mentioned in the answer to question 11 a price is needed in cases when a TSO does not activate in a certain ISP. In that case we propose to use the price that is set by the average of the lowest bid for upward and the highest bid for downward regulation as Value of Avoided Activation.

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

Article 7-1

Again a link between the single imbalance price and the harmonization of the 15 minute ISP is not made in the EBGL. As with the Article 4 this leads to a general derogation, where the EBGL only allows for individual derogations.

Article 7-2

The same is valid for the application of dual pricing. If a TSO wants to apply for dual pricing, this should be implemented at the same time as single pricing. As Energie-Nederland we believe, however, that dual pricing should be avoided (see comments on Article 5).

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

This is another Article linking a subject (dual pricing) to the harmonisation of the 15 minute ISP. This link is not made in the EBGL and leads to a general derogation. Derogations should be requested on an individual basis.

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

As stated earlier, Energie-Nederland wants a truly harmonized imbalance price methodology in Europe. This should be based on a level playing field which means that real-time information should be the same in all bidding zones. This is rightly stated on page 18 of the explanatory note *“The general objective of imbalance settlement (EBGL) is to ensure that balance responsible parties support the system's balance in an efficient way and to incentivise market participants in keeping and/or helping to restore the system balance. EBGL defines rules on imbalance settlement, ensuring that it is made in a nondiscriminatory, fair, objective and transparent basis.”*,

We therefore argue that the real-time information should have the shortest delay possible. Best practice is currently a 2 minute delay in Europe and this should be the benchmark for this proposal.

Consequently, when real-time information is harmonized, there is no reason to let dual pricing be up to an individual TSO anymore, but this should rather be assessed on a European basis.

For Energie-Nederland applying single pricing is preferred for all areas with an ISP of 15 minutes, because if you help the system you should be rewarded for this. The imbalance price should reflect the value of electricity and only if this price is used to settle both negative and positive imbalances it can function as a signal for efficient behaviour by the market participants. Dual pricing is introducing arbitrary penalties and thus will trigger inefficient behaviour. It should be noted that situations where a single price can turn into a dual price, based in a TSO activation in the last minute of an ISP, poses a serious financial risk to a BRP, an argument which is not mentioned in this context.

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 be limited to only be allowed if the use of a single imbalance price leads to demonstrable issues.

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

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. For that see our proposal in the comments for Article 5.

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

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 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. The choice for single imbalance pricing in the EBGL should be respected, as it is considered more transparent and giving

correct and clear pricing signals towards BRPs. Such open-ended ability for TSOs to deviate from the requirement should therefore not be allowed in the ISH proposal. It should furthermore be clear that derogations from the single imbalance price can only be requested after experience with single imbalance price has resulted in proven shortcomings for specific reasons.

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

The ability for TSOs to deviate from single imbalance pricing for 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.

19. Please add here all general comments on the proposal

There is no comment section foreseen for comments on Recital, Article 8-2, 9 and 10. However, we do have some comments:

Article 8-2

The calculation methodology for both directions should be the same. It is therefore not clear why there are different explanations for the calculation methodology for the dominant direction and for the other direction. Both should adhere to the general requirements of the imbalance price calculation.

Article 9-2

Reference is made to Article 52-4 of the EBGL, requiring the implementation of the ISH proposal 18 months after approval by NRAs. However, key elements such as the single imbalance position and single imbalance price calculations are pushed back to the harmonization of the ISP towards 15 minutes. The EBGL makes no such link, and it could even be considered against the spirit of the EBGL. If derogations for the implementation of certain elements of the ISH are required for well-founded reasons, this should be possible. However, the ISH should not allow for blanket exemptions but rather take the ISH implementation deadline as the default implementation requirement for all elements it contains.

Recital 9

Recital 9 states: "The imbalance settlement harmonisation proposal takes **note** of the following provisions from the EBGL:....." The IHS proposal should **comply** to the provisions not only take note of them.

Publication of imbalance price

There is no mentioning on the publication time of the imbalance price. Energie-Nederland believes that the price for every ISP should be published near to real time. This will give market parties the opportunity to act efficiently in the balancing market and in the other market time frames. The imbalance risk will be translated in hedges in intra-day, day ahead and even in the forward market.

General

In general Energie-Nederland supports the objective of creating a European balancing market in line with the markets in the other timeframes (forward, day-ahead and intra-day) as this will enable a successful energy transition. That said we notice this proposal only slightly improves the current situation and therefore does not comply with the general objective of the EBGL. The proposal hardly harmonises imbalance settlement thus will not result in a level playing for the market nor to TSOs efficiently operating the system as one.

Market parties need clear rules and simple processes in order to market the flexible capacity in an efficient way. Correct price formation should ensure that the most economic capacity is activated to solve the imbalance. This will not happen as long as local imbalance considerations are leading for individual TSOs.

Energie-Nederland believes that the balancing market should be seen as the residual market where TSOs keep the system in balance through re-actively activating bids and settling BRPs with the marginal cost of each ISP. This approach will use predominantly aFRR and only occasionally an mFRR product. Imbalance settlement should be based on the marginal price of these activations where an entire (with consideration of congestions) region is being considered, in line with the day-ahead and intraday market. Simple and harmonized rules allow BSPs to offer their capacity at the lowest possible price enhancing the overall system. We regret that at this moment we conclude that the proposal for imbalance pricing, together with the previous implementation proposals for the balancing platforms do not provide the clarity that is needed to proceed with the integration of the European Electricity Market.