Response to the ACER Consultation on the proposal made by all Transmission System Operators for further specifying and harmonising 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 trough market integration is key in this perspective.

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Answers to the consultation questions

Topic 1: calculation of the imbalance price

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?

Energie-Nederland does see benefit from harmonizing the main components of the imbalance price calculation. It is an important step in the stepwise integration of the balancing market on a European level and creates an incentive for further harmonisation.

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.

Energie-Nederland prefers the imbalance settlement price set on the highest (or lowest in case of downward regulation) activated bid (hereafter: Maximum Pricing). This will give strong incentives in the balancing market (for both BRPs and BSPs) and therefore the right incentives in the preceding (intra-day, day ahead, forward) market where the balancing risk is hedged. Given the ACER decision on Balancing Energy pricing (appealed by Energie-Nederland) incentives become more ambiguous than in the ideal situation. Nevertheless, Energie-Nederland still strongly prefers the Maximum Pricing approach.

To elaborate this Energie-Nederland will discuss this preference based on the conditions mentioned in EBGL Article 44.

44-1-a establish adequate economic signals which reflect the imbalance situation

To reveal the status of the system imbalance only a price based on the overall highest (or lowest in case of downward regulation) balancing energy price gives the right pricing: low prices with low system imbalance and high prices with high imbalance. Weighted Average Pricing has a dampening effect and will be always smaller or equal to the Maximum Pricing approach.

44-1-b ensure imbalances are settled at a price that reflects the real time value of energy
The real time value of energy is set by the most expensive (in case of upward regulation) asset supplying in an ISP. This can only be achieved by Maximum Pricing. An weighted average price leads to a dampening effect of the real time value and thus will not give the required strong incentives in the market.

44-1-c provide incentives to BRPs to be in balance or help the system to restore its balance
The strong incentive of Maximum pricing mentioned in the previous section will give incentives to be in balance, more than weighted Average Pricing. This is also the case for incentives to restore the system balance. For the latter it would be ideal that the Energy Balancing price would also be based on the cross product marginal price, which is the same as the Maximum Price as it gives more opportunities for market parties to deal with their balancing risks around real time.

44-1-d facilitate harmonization of imbalance settlement mechanisms
Energie-Nederland doesn't see much differences between the two options.

44-1-e provide incentives to TSOs on reserve dimensioning as set out in the SOGL
Maximum Pricing gives stronger incentives to market parties to be in balance and help the system (see input for 44-1-c). This leads to less reserves required in the system.

44-1-f avoid distorting incentives to BRPs, BSPs and TSOs
To avoid adverse incentives to BRPs and BSPs the Imbalance Settlement price should be equal (ideal) or higher than the Balancing Energy price. Otherwise BSPs have incentives not to deliver. Maximum Pricing will safeguard this. If the Balancing Energy price is lower than the Imbalance settlement price it causes a surplus for the TSO potentially giving adverse incentives to TSOs when this surplus can be used by the TSO outside the balancing market. Besides it also leads to a disincentive to bid in the Energy Balancing Market as more value can be obtained through the imbalance price (Balancing Energy price is lower than the Imbalance Price), although this effect is dampened as bidding in the balancing energy market has advantages compared to relying on options in the BRP portfolio. Unfortunately ACER decided on per product and for aFRR de facto average pricing (appealed by Energie-Nederland), so there will be a large surplus with Maximum Pricing and a distorting effect. The surplus could be mitigated by reallocating the surplus to the parties that bear the risk (BRPs) with some key, preferably on a frequent basis (in order to decrease risk for BRPs. It should not be part of the TSO tariff structure, as this will give incentives to the TSO to increase the surplus. The negative effect on the bidding incentive is harder to mitigate.

44-1-g support competition among market parties
As mentioned before Maximum pricing will give the strongest incentives in the market. It will increase the value of flexible resources and therefore foster competition in all market time frames.

44-1-h provide incentives to BSPs to offer and deliver balancing services to the connecting TSO
Also here Energie-Nederland sees Maximum Pricing being superior as it ensures that the Imbalance Settlement Price is always equal or higher than the Balancing Energy price. This with the considerations mentioned under 44-1-f. Given the fact that the ACER decision on Balancing Energy did not decide on cross product marginal pricing, Average Pricing will lead to adverse incentives for at least mFRR to deliver balancing energy as there is a possibility that the price of mFRR (set at marginal price) is higher than the imbalance price. On the other hand, the example gives a positive incentive to bid in the mFRR market. These incentives cannot be observed with only aFRR activation as aFRR price setting is de facto average pricing, which would be the same price in the case of Average Pricing for imbalance settlement.

44-1-i ensure the financial neutrality of all TSOs
To meet this requirement ideal would be that the Imbalance Settlement Price would be equal to the Balancing Energy Price. As mentioned under 44-1-f and given the ACER decision on Energy Balancing pricing (appealed by Energie-Nederland) this will not be the case. Given all the previous advantages for Maximum Prices we suggest to find a redistribution key for the TSO surplus to feed it back to the BRPs (not to other parties of in tariffs). This will be needed also in the ideal case (as there will always be some minor inaccuracies and approximations in the system) but the amount at stake will be relatively way smaller.

Question 1.3
Please share your views concerning potential indicators for assessing the effectiveness of the imbalance price calculation methodology.

Indicators for effectiveness should reflect the requirements under Article 44-1. Possible proposals are:

- Analyses of imbalance prices versus actual imbalances
- Analyses of imbalance price versus energy balancing price(s)
- Analyses of imbalance price versus last intra-day price and day-ahead price
- Analyses of imbalance price versus average position of BRPs
- Depth of the aFRR, mFRR and RR merit order versus Balancing Energy price and imbalance price
- Market response to imbalances: ACE open loop analyses (see ENTSO-E OPERATIONAL RESERVE AD HOC TEAM REPORT section 4.2.3, 23 May 2012)

Good examples of indicators can also be found in the Annual Market Updates of TenneT.

Topic 2: value of avoided activation

Question 2.1
In which cases would you deem necessary the use of the VoAA?

Energie-Nederland agrees 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.
- 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 the definition should have a more precise description of what underlying values the VoAA should be based on and how these underlying values should be combined to eventual calculate the VoAA.

In the Dutch market the VoAA is calculated based on a calculation of bids on the merit order. There are no big concerns with that, although any calculation is somewhat arbitrary.

Topic 3: transparency and monitoring

Question 3
Please share your view concerning the issue of further harmonisation.

Energie-Nederland believes that harmonization of imbalance settlement process is crucial in creating a level playing field. A fast settlement process reduces risks in the market and therefore reduces entry barriers. Different speeds in the settlement processes therefore lead to an unlevel playing field in an integrated balancing market.

The experience (for 20 years) in the Netherlands is that it is possible to have provisional settlement within one day and final settlement within 10 working days.

Topic 4: Other comments

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.

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.

Market parties need clear rules and simple, transparent processes (resulting in low entry barriers and thus more competition) in order to market flexible capacity in an efficient way. Correct price formation (real time value of energy) 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 *energy market* where TSOs keep the system in balance through re-actively activating bids and settling BRPs with the cross product marginal price of each ISP.

The reactive approach is set in Title 3, Load-Frequency Control Structure in the SOGL: The purpose of FRR is to progressively replace *activated* FCR (143-1-b) and the purpose of RR is to progressively restore *activated* FRR and support FRR activation (144-1-a,b). This is a sequential approach with the FRCE as input and will use predominantly aFRR and only occasionally an mFRR product (Article 145-5). 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 energy at the lowest possible price enhancing the overall system. The same price should also be used for BRP settlement to allow for consistent incentives.