

EBR Article 52 ISH Amendment Report

Report by Jamie Webb – 22nd September 2021

Executive Summary

This report and recommendation to amend the Electricity Balancing Regulation (EBR) Article 52 Imbalance Settlement Harmonisation (ISH) has been produced following an Industry consultation.

EBR Article 6 allows TSO's to propose changes to retained European methodologies providing the changes are agreed with the regulatory authority and they follow a consultation with their industry parties detailed in EBR Article 10.

The understanding is that the EBR articles and their subsequent methodologies are now retained in UK law, therefore the ESO can make a recommendation to the authority to for the amendment of the ISH methodology under EBR Article 52.

Context

EBR Article 52 - Imbalance Settlement Harmonisation (ISH) is a retained European requirement for all European Balancing Guidelines (EBGL) effected countries to harmonise the way they calculate imbalance settlement, EBGL has now been retained in UK law under EBR.

In November 2017 European Network of Transmission System Operators for Electricity (ENTSO-E) agreed the Imbalance Settlement Harmonisation (ISH). The ISH provides further specification on the components and process all TSOs must use in order to perform imbalance settlement, including imbalance pricing calculations. National Grid ESO and Elexon were part of a working group with other European TSOs to draft the ISH and used their understanding to map the UKs current imbalance settlement process to the ISH.

Through this process we were able to establish with Ofgem that the only gap in compliance to Article 52 and the ISH was the price applicable during settlement periods where no balancing energy actions had taken place. In the ISH this price is referred to as "Value of Avoided Activation" (VOAA). The VOAA calculation requires TSOs to only use the value of real energy bids available during the affected settlement period. In GB we currently use the Market Index Price (MIP) to represent a price during these "avoided activation" settlement periods, however as the MIP is derived from the wholesale energy markets and not real energy bids available during the settlement period, this renders it non-compliant with the ISH.

To achieve compliance NGENSO raised [Balancing Settlement Code \(BSC\) modification P410](#), where the P410 workgroup, Elexon and NGENSO attempted to find the least impactful way of implementing "VOAA" into the UK. However, feedback from industry members at those workgroups is that any new "VOAA" calculation will have a negative impact on the market when compared to the MIP, the modification has now been placed on pause pending the outcome of this consultation, as if the amendments are approved there is no need for the modification.

Cost Benefit Analysis

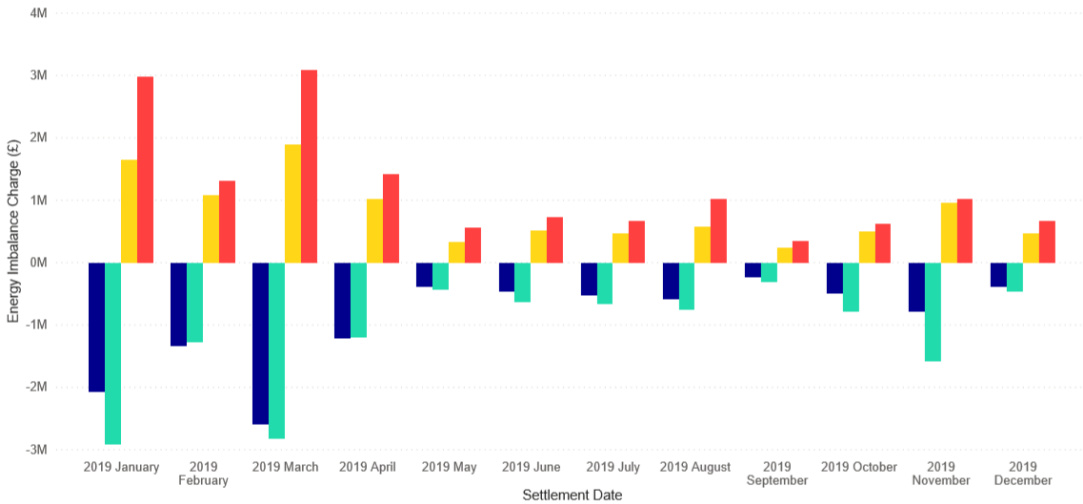
To understand the impact to the UK Market, Elexon completed some analysis based on the new “VOAA” calculation that looks at all Settlement Periods where the MIP set the System Price in 2019. During 2019 there were 399 (around 2%) Settlement Periods where the System Price was set by the MIP. The proposed VOAA would have increased cashflow related to both short and long Energy Imbalance in these Settlement Periods. Short Energy Imbalance cashflow will increase by 49% (£4.7M) whilst long cashflow by 25% (£2.8M) during these Settlement Periods.

Price	Average Price (£/MWh)	Total Short EI Charge (£)	Total Long EI Charge (£)
MIP	35.92	9,726,790.25	- 11,096,328.76
VOAA	40.57	14,448,214.77	- 13,858,964.70

ELEXON Energy Imbalance Charges by Party: MIP vs VOAA

Party Imbalance Charges during MIP Settlement Periods (MIP vs VOAA)

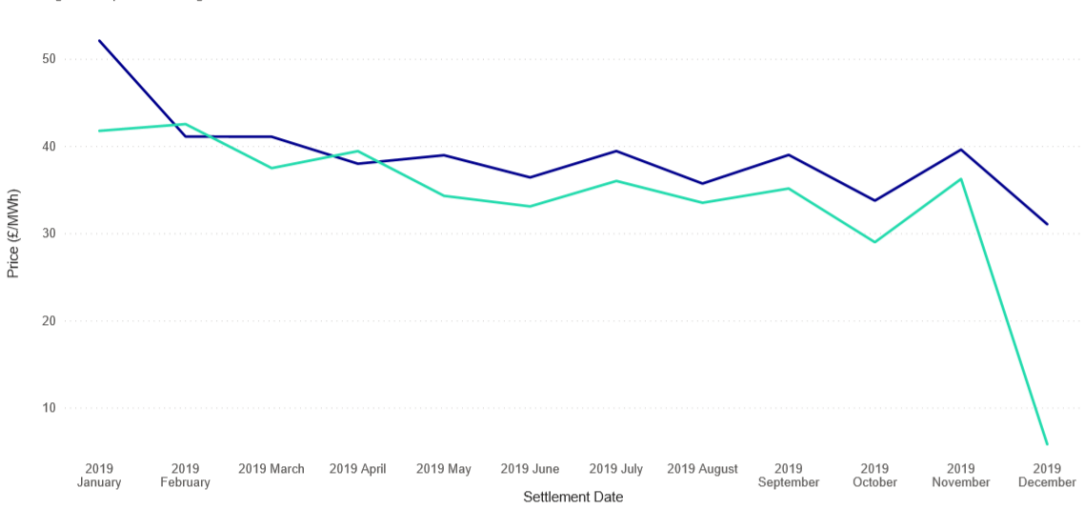
● MIP Long EI Charge ● VOAA Long EI Charge ● MIP Short EI Charge ● VOAA Short EI Charge



ELEXON Average MIP vs Average VOAA Price in 2019

Average MIP Price compared to Average VOAA Price in MIP Settlement Periods

● Average of Midpoint ● Average of MIP



This analysis coupled with the views from the workgroup have allowed NGENSO to have a constructive debate with the Department for Business, Energy and Industrial Strategy (BEIS) and Ofgem post the Trade and Cooperation Agreement (TCA) which have allowed the ESO, in the interest of UK consumers, to explore amending the EBR Article 52 derived ISH to include subsequent legal text that would permit the use of the MIP in the VOAA calculation.

Article 52 ISH Amendment Consultation

For the MIP to be considered compliant with the ISH under Article 52, NGENSO has proposed the following change to Article 10(4) of the ISH document through consultation with industry;

“For calculating the value or values of avoided activation in accordance with paragraph 2 or 3, each connecting TSO may only, if relevant, use the following prices:

- (a) the bid price or bid prices, per direction, for balancing energy for frequency restoration process available to this TSO for this ISP;
- (b) the bid price or bid prices, per direction, for balancing energy for replacement reserve process available to this TSO for this ISP;
- (c) the wholesale energy price traded by market participants for this balancing area for this ISP;
- (d) another price agreed by the TSO and the NRA and defined in the Terms and Conditions for settlement rules for Balance Responsible Parties.”

NGESO also considered changes to Article 2(2d) of the ISH around the definition of VOAA, below is the current wording, NGENSO felt the current wording was still fit for purpose;

“‘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 for that imbalance price area for that ISP or no balancing energy activation for that imbalance price area for that ISP.³”

As this is now a UK methodology, the ISH has been amended and references to EU related terminology has been removed. NGENSO has proposed the removal of the following from the methodology:

- European
- Member States
- Commission
- EUR replaced it with £
- ENTSO-E replaced it with NGENSO
- ACER/ Agency replaced it with Regulatory Authority

The consultation

NGESO ran a one month consultation ending on the 21st June 2021, based on EBR Article 10(1) which states there must be at least a one month consultation held to progress any amendments.

NGESO engaged with the Joint European Stakeholder Group (JESG), the BSC workgroup and BSC parties through Elexon to ensure the consultation was communicated out effectively.

In the consultation NGENSO asked the following 3 questions in relation to the changes proposed and the ISH itself;

1. Do you agree with NGENSO’s proposed text changes to the ISH for EBR Article 52? Please provide as much additional information as possible.
2. Do you think we need to make any more changes that we have not considered?
3. Do you have any further comments to make regarding this consultation?

NGESO received 2 consultation responses detailed below one from Elexon and one from Sembcorp, please now find detail of their responses coupled with our view/response to their consultation.

Elexon Response

Question	Response
<p>Do you agree with NGESO’s proposed text changes to the ISH for EBGL Article 52? Please provide as much additional information as possible.</p>	<p>Yes. We agree with the proposed amendments to the Imbalance Settlement Harmonisation (ISH) statement in respect of the inclusion of prices derived from wholesale market products for the calculation of a Value of Avoided Activation (VOAA).</p> <p>When considering changes to the BSC the primary criteria for assessment are the BSC Applicable Objectives. These objectives include compliance with the Electricity Regulation and any relevant legally binding decision of the European Commission and/or the Agency (Objective (e)) and the efficient, economic and co-ordinated operation of the national electricity transmission system (Objective (b)). While the Objectives are ostensibly equal, compliance with relevant legislation is a primary concern when considering the content of the BSC.</p> <p>To that extent, with the ISH forming a legislative requirement and the Market Index Price (MIP) becoming a non-compliant element of the system price Modification P410 was required to find a solution to replace the MIP that was in compliance with the ISH.</p> <p>As you have noted in your consultation, the workgroup and our analysis found that while a change to the MIP was necessary to meet our legal obligations (and to improve the BSC in the context of BSC Objective (e)) it would be detrimental to the efficient operation of the national electricity transmission system (and therefore detrimental in the context of BSC Objective (b)). The MIP is used in scenarios where no balancing energy bids have been activated, and therefore an imbalance price cannot be calculated from activated bid-offer stacks as it normally would be.</p> <p>The MIP is a price derived from close to real time wholesale market activity, that is to say the most recently traded price for energy for delivery in GB for the settlement period in question. As the MIP is the most recent traded price for volume delivered in a settlement period, and the lack of balancing energy actions in that settlement period can be argued to indicate that there has been no change in prevailing system conditions since the wholesale trading occurred. As the system conditions are likely to have been maintained, it is reasonable to maintain the traded price as the system price.</p>

	<p>The system price is designed to incentivise Parties to maintain a position of balance, and avoid the need for ESO balancing actions. In the event that there have been no ESO balancing actions we may deem that Parties are adequately incentivised by the pricing they are exposed to, which would have been the MIP for parties trading in the short term wholesale market and would be known to be the MIP for Parties who were not trading but are operating assets during the Imbalance Settlement Period.</p> <p>It is our view that replacing the MIP with a price derived from submitted balancing energy bids for the Imbalance Settlement Period would result in a weaker incentive to balance for Parties, and would introduce additional pricing risk to Parties operating in the GB electricity market. You have highlighted in your consultation our analysis demonstrating the anticipated cashflow distortion of up to £7.5m per year, we should note that this analysis is based on historic data and does not account for anticipated changes in behaviour. This analysis was based on the next-best compliant option for the VOAA identified via the P410 workgroup process and our internal analysis.</p> <p>Given the hypothesised cashflow distortion and anticipated additional costs from pricing risk (which may manifest as higher wholesale pricing) we believe that changing the ISH to include the MIP as a valid component of system price calculations is beneficial to BSC Parties and to consumers of electricity, and we agree with the changes you have proposed.</p>
<p>Do you think NGESO needs to make any more changes that we have not considered?</p>	<p>No. We have reviewed the ISH for potential impacts on the BSC and don't believe any other elements of the BSC are non-compliant. We note that the mechanism for making these changes is available as a result of the current GB-EU trade framework. It may be beneficial to maintain close alignment with EU market arrangements in the event a future GB-EU trade agreement results in closer alignment between the two jurisdictions.</p>
<p>Do you have any further comments to make regarding this consultation?</p>	<p>We note that the redlining in paragraph (1) of the 'Whereas' removes reference to 'Commission Regulation (EU) 2017/2195' but keeps reference to the EB Regulation, and that the EB Regulation reference appears throughout the amended ISH.</p> <p>Without the reference to Commission Regulation (EU) 2017/2195 in paragraph (1) of the Whereas 'EB Regulation' loses its meaning in the rest of the text.</p> <p>We believe the text should either continue to refer to Commission Regulation (EU) 2017/2195 or to the appropriate GB Implementing Statutory Instrument relating to that same Commission Regulation</p>

NGESO view from Elexons consultation response:

Question 1: NGESO would like to thank Elexon for their detailed response, we are pleased to note that Elexon agree with the ESO proposed amendments to the ISH methodology text, we also agree with Elexon’s points around the methodology in its current form would have a negative impact against the BSC objectives mentioned.

Question 2: We are pleased to see no further changes are required, however agree that as our new relationship with the EU begins to develop there may be a need to review and amend subsequent methodologies in the future.

Question 3: We agree with Elexon’s view and will add the reference to EU regulation 2017/2195 back into the document.

Sembcorp Response

Question	Response
Do you agree with NGESO’s proposed text changes to the ISH for EBGL Article 52? Please provide as much additional information as possible.	Yes. We agree with the feedback presented to the P410 Workgroup that a new VOAA calculation would have a negative effect compared to the current process using the MIP. MIP is a well understood mechanism that does not, in itself, present a defect and does not need to be altered.
Do you think NGESO needs to make any more changes that we have not considered?	N/A
Do you have any further comments to make regarding this consultation?	We are concerned that the proposed wording for Art 10 4 d) is very broad and could, potentially, be interpreted to refer to a number of different prices. It is our expectation that, should another price beyond those described in a), b) or c) be used, NG ESO/Ofgem would consult with industry and perform suitable analysis to ensure any negative effects on industry and markets are justified.

NGESO view from Sembcorp consultation response:

Question 1: NGESO would like to thank Sembcorp for providing a response and are pleased to see they agree with the amendments proposed

Question 2: No response received

Question 3: NGESO agrees with Sembcorp, option “d” would allow us to use a different mechanism if we felt it was needed to allow us to be agile, but having the wording represented as an agreement with the National Regulatory Authority would allow regulatory scrutiny and agreement before option D could be used, NGESO do not feel like any further amendments are required to facilitate this, but are open to feedback from the Regulatory Authority to direct an amendment if required.

The recommendation

NGESO is now in a position to submit a recommendation to the Authority to allow us to amend the EBR article 52 ISH methodology, NGESO has also submitted a red lined version of the ISH methodology detailing the amendments requested.

If the Authority is in a position to approve the changes to the methodology NGESO will look to make the amendments official on their website and will also look to cite any approval in its withdrawal of BSC modification P410.

Where the authority disagrees or would like further information NGESO would ask for the authority to reach out to us directly so we can discuss and find the best way forward.