

All interested parties, stakeholders in GB and beyond, and other regulatory bodies

Email: Leonardo.Costa@ofgem.gov.uk

9 August 2019

Dear colleagues,

Request for amendments to the imbalance settlement harmonisation, TSO-TSO settlement and activation purposes proposals

Request for the Agency to adopt a decision on the implementation framework for both frequency restoration reserves with manual and automatic activation, as well as the pricing proposal

On 17 December 2018, we¹ received the following proposals from the relevant Transmission System Operators (TSOs) in accordance with Articles 20(1), 21(1), 29(3), 30(1), 50(1) and 52(2) of the guideline on Electricity Balancing² (the EBGL Regulation):

- the implementation framework (IF) for a European platform for the exchange of balancing energy from frequency restoration reserves with manual activation (the mFRR IF);
- the IF for the exchange of balancing energy from frequency restoration reserves with automatic activation (the aFRR IF);
- the classification methodology for the activation purposes (AP) of balancing energy bids (the AP proposal);
- the methodology to determine prices for the balancing energy and cross-zonal capacity used for exchange of balancing energy or for operating the imbalance netting process (the Pricing proposal or PP);
- the common settlement rules applicable to all intended exchanges of energy as a result of the reserve replacement process, frequency restoration process with manual and automatic activation and the imbalance netting process (the TSO-TSO Settlement proposal); and
- the proposal to further specify and harmonise imbalance settlement (the ISH proposal).

The proposals were submitted to us by the relevant TSOs in line with our assignment of obligations.³ This letter sets out our decision to request amendments to the AP proposal, the TSO-TSO Settlement proposal and the ISH proposal in accordance with Article 6(1) EBGL Regulation. This letter also sets out our decision to request the Agency for the Cooperation of Energy Regulators (the Agency) to adopt decisions on the mFRR IF, the aFRR IF and the PP in accordance with Article 5(7) EBGL Regulation. We then outline the necessary next steps that must be taken.

¹ The Gas and Electricity Markets Authority. Ofgem is the Office of the Authority. The terms "Ofgem" and "the Authority," "we" and "us" are used interchangeably in this letter.

² Commission Regulation (EU) 2017/2195 of 23 November 2017 establishing a guideline on Electricity Balancing. The EBGL Regulation came into force on 18 December 2017. It aims at enhancing the efficiency of European and national balancing markets, as well as contributing to the efficient long-term operation and development of the electricity transmission system and electricity sector in the European Union.

³ See multiple TSO (mTSO) decision letter here: <https://www.ofgem.gov.uk/publications-and-updates/decision-assignment-transmission-system-operator-obligations-under-guideline-electricity-balancing-regulation-within-gb>

Background

The EBGL Regulation aims at enhancing the efficiency of European and national balancing⁴ markets, as well as contributing to the efficient long-term operation and development of the electricity transmission system and electricity sector in the European Union. The guideline establishes the technical, operational, and commercial rules relating to the acquisition of balancing capacity, activation of balancing energy and their financial settlement. To achieve these aims and to ensure compliance with the Regulation, TSOs must submit a number of methodologies covering certain aspects of the EU balancing market, including the above mentioned proposals.

All the proposals except the TSO-TSO settlement proposal have been publicly consulted upon by all TSOs through ENTSO-E between Q2 – Q4 in 2018,⁵ in line with Article 10 of the EBGL Regulation. The TSO-TSO settlement proposal was not consulted by all TSOs, as this is not required under Article 10 of the EBGL Regulation.

Article 5(6) EBGL Regulation requires the competent Regulatory Authorities to consult and closely cooperate and coordinate with each other in order to reach an agreement and take decisions within six months following receipt of the proposal by the last regulatory authority concerned. The Agency confirmed that the last Regulatory Authority received the proposals on 11 February 2019. A decision on each proposal is therefore required by 11 August 2019.

mFRR IF

TSOs must develop an IF, which sets out the design, functional requirements, governance and cost sharing of the mFRR-Platform, and shall be able to perform the activation optimisation function as described in Article 20 of the EBGL Regulation.

The Manually Activated Reserves Initiative (MARI)⁶ is the implementation project of the European platform for the exchange of balancing energy from mFRR.

aFRR IF

TSOs must develop an IF, which sets out the design, functional requirements, governance and cost sharing of the aFRR-Platform, and shall be able to perform the activation optimisation function as described in Article 21 of the EBGL Regulation.

The Platform for the International Coordination of Automated Frequency Restoration and Stable System Operation (PICASSO)⁷ is the implementation project of the European platform for the exchange of balancing energy from aFRR.

AP Proposal

This proposal defines the methodology for classifying the activation purposes of standard balancing energy product bids for frequency restoration reserves with automatic activation (aFRR), frequency restoration reserves with manual activation (mFRR) and replacement reserves (RR). The methodology must describe all possible purposes for the activation of balancing energy bids and define classification criteria for each possible activation purpose.

Pricing Proposal

This proposal sets a methodology to determine prices for the balancing energy and cross-zonal capacity used for exchange of balancing energy or for operating the imbalance netting process in accordance

⁴ In accordance with Article 2(1) EBGL Regulation, “balancing’ means all actions and processes, on all timelines, through which TSOs ensure, in a continuous way, the maintenance of system frequency within a predefined stability range as set out in Article 127 of Regulation (EU) 2017/1485, and compliance with the amount of reserves needed with respect to the required quality, as set out in Part IV Title V, Title VI and Title VII of Regulation (EU) 2017/1485”.

⁵ Relevant consultations can be found at: https://consultations.entsoe.eu/markets/ebgl-art29-app/consult_view/
https://consultations.entsoe.eu/markets/imbalance_settlement_harmonisation_proposal/consult_view/
https://consultations.entsoe.eu/markets/ebgl-art30-pp/consult_view/
https://consultations.entsoe.eu/markets/afrr_implementation_framework/consult_view/
https://consultations.entsoe.eu/markets/mfrr_implementation_framework/consult_view/

⁶ Further information can be found at https://www.entsoe.eu/network_codes/eb/mari/

⁷ Further information can be found at https://www.entsoe.eu/network_codes/eb/picasso/

with Article 29(3), Article 30 and Article 50(1) of the EBGL Regulation. In essence, it sets the rules for pricing of all cross-border balancing services and also provides an option for pricing local or national balancing services.

TSO-TSO Settlement Proposal

This proposal presents a methodology for the TSO-TSO settlement of the intended exchanges of energy as the result of the reserve replacement process, frequency restoration process with manual and automatic activation and imbalance netting process.

ISH Proposal

This proposal presents a methodology to further specify and harmonise the imbalance settlement parameters. This includes the calculation of an imbalance adjustment, the main components used for the calculation of the imbalance price for all imbalances, the use of single pricing for imbalances and the definition of conditions and methodology for applying dual imbalance pricing for all imbalances. The objective is to ensure that balance responsible parties support the system balance in an efficient way and to incentivise market participants in keeping and/or helping to restore the system balance.

Our Decision

We have reviewed the proposals submitted to us in line with the requirements of the EBGL Regulation, the wider objectives of the Regulation (EC) 714/2009⁸ and our statutory duties and obligations. In making our decisions we have considered the justification provided, simultaneously with the submission of the proposals, to ensure the views resulting from the stakeholders' consultations are included.

As required by Article 5(6) of the EBGL Regulation, we have consulted, and closely cooperated and coordinated with other Regulatory Authorities in order to reach agreement on these proposals. The All Regulatory Authority agreements for the proposals were reached on 17 July 2019, whilst the ISH agreement was reached on 14 June 2019. The agreements are attached as annexes to this decision letter and constitute the reasons for our decisions.

In line with the All Regulatory Authority agreements, we hereby adopt the following decisions:

- Request the Agency to adopt a decision on the mFRR IF, taking into consideration the positions set out in the all Regulatory Authority agreement annexed to this letter;
- Request the Agency to adopt a decision on the aFRR IF, taking into consideration the positions set out in the all Regulatory Authority agreement annexed to this letter;
- Request the Electricity System Operator to amend the proposed AP proposal in line with the request set out in the all Regulatory Authority agreement annexed to this letter;
- Request the Agency to adopt a decision on the PP, taking into consideration the positions set out in the all Regulatory Authority agreement annexed to this letter;
- Request the relevant TSOs to amend the proposed TSO-TSO settlement proposal in line with the request set out in the all Regulatory Authority agreement annexed to this letter; and
- Request the Electricity System Operator to amend the proposed ISH in line with the request set out in the all Regulatory Authority agreement annexed to this letter.

Decision not to undertake an Impact Assessment

We have not undertaken an Impact Assessment for these proposals. This is because we consider that the proposals will not constitute a significant change to existing GB requirements and arrangements. The creation of these balancing platforms as well as key features of the proposals are EBGL requirement and have already been subject to an impact assessment.⁹ The remaining features proposed by the TSOs do not in our view constitute a significant impact on generation of electricity or on consumers. The proposals should allow GB generators to participate in those markets building on existing processes and should not have an impact on consumers. Accordingly, we consider that an impact assessment is unnecessary in this situation.

⁸ Regulation (EC) No 714/2009 of the European Parliament and of the Council of 13 July 2009 on the conditions for access to the network for cross-border exchanges in electricity and repealing Regulation (EC) No 1228/2003. This Regulation aims at setting fair rules for cross-border exchanges in electricity. Additionally, it aims at facilitating the emergence of a well-functioning and transparent wholesale market with a high level of security of supply in electricity. It provides for mechanisms to harmonise the rules for cross-border exchanges in electricity.

⁹ <https://ec.europa.eu/transparency/reqdoc/rep/10102/2017/EN/SWD-2017-383-F1-EN-MAIN-PART-1.PDF>

Next Steps

In accordance with Article 6(1) EBGL Regulation, the relevant TSOs must make the necessary amendments to the specified proposals to address the points set out in this decision and its annexes and re-submit the amended ISH, AP and TSO-TSO Settlement proposals to us within two months of this decision.

In accordance with Article 5(7) EBGL Regulation, we request that the Agency adopts a decision on the mFRR, aFRR and PP within six months of this decision.

If you have any queries regarding the information contained within this letter or the all Regulatory Authority agreements in the annexes, please contact Alastair Owen at Alastair.owen@ofgem.gov.uk.

Yours faithfully

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