

EBGL Article 52 ISH Amendment Consultation

Executive Summary

This consultation is being run with industry to allow National Grid ESO (NGESO) to amend the Imbalance Settlement Harmonisation (ISH) article 10(4)¹ related to Article 52, both of which sit underneath the Electricity Balancing Guidelines (EBGL). These are now retained in UK law through the Statutory Instruments (SIs) following the Trade and Cooperation Agreement (TCA). This consultation will focus on an amendment to the methodology to allow the UK to continue to use the Market Index Price (MIP) in its settlement calculation.

EBGL Article 6 allows TSO's to propose changes to European methodologies providing the changes are agreed with the regulatory authority and they follow a consultation with their industry parties detailed in EBGL Article 10(1).

This provides the basis on which Ofgem can approve the change. The understanding since the Trade and Cooperation Agreement is that the EBGL articles are as amended "UK EBGL" articles, this also includes all subsequent methodologies.

Context

EBGL Article 52 - Imbalance Settlement Harmonisation (ISH) is a European requirement for all EBGL effected countries to harmonise the way they calculate imbalance settlement.

In November 2017² 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 NGESO raised [Balancing Settlement Code \(BSC\) modification P410](#), where the P410 workgroup, Elexon and NGESO 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.

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https://www.acer.europa.eu/Official_documents/Acts_of_the_Agency/Annexes%20to%20the%20DECISION%20OF%20THE%20AGENCY%20FOR%20THE%20C15/ACER%20Decision%2018-2020%20on%20balancing%20ISHP%20-%20Annex%20I.pdf

² https://eepublicdownloads.entsoe.eu/clean-documents/nc-tasks/EBGL/EBGL_A52.2_181218_ALL%20TSOs%20proposal_ISH_explanatory_document_for%20submission.pdf?Web=0

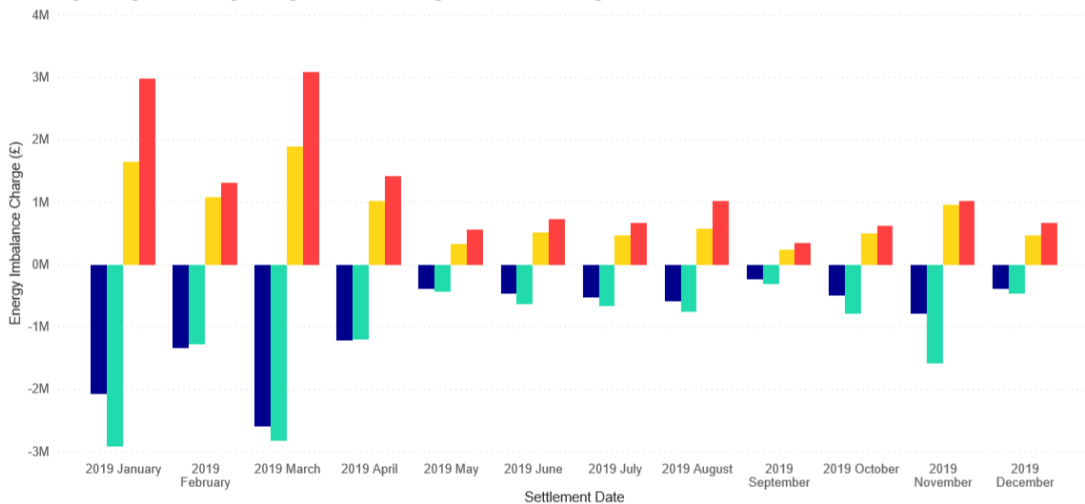
To understand the impact to the UK Market, Elexon completed some analysis based on the new “VOAA” calculation that looks at all Settlement Periods where the MIP set the System Price in 2019. During 2019 there were 399 (around 2%) Settlement Periods where the System Price was set by the MIP. The proposed 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)

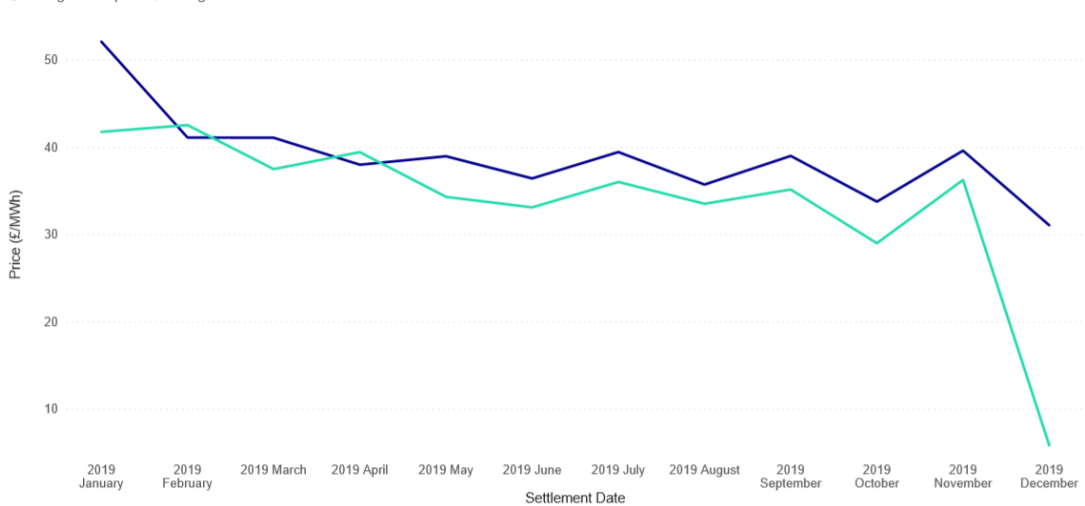
● MIP Long EI Charge ● VOAA Long EI Charge ● MIP Short EI Charge ● VOAA Short EI Charge



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 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 EBGL 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 Proposals

For the MIP to be considered compliant with the ISH under Article 52, NGENSO is proposing the following change to Article 10(4) of the ISH document;

“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 has also taken consideration for changes in Article 2(2d) of the ISH around the definition of VOAA, below is the current wording, NGENSO feel the current wording is 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 are proposing 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

3

https://www.acer.europa.eu/Official_documents/Acts_of_the_Agency/Annexes%20to%20the%20DECISION%20OF%20THE%20AGENCY%20FOR%20THE%20C15/ACER%20Decision%2018-2020%20on%20balancing%20ISHP%20-%20Annex%20I.pdf

The consultation

EBGL Article 10(1) “Public Consultation” states that any consultation should run for at least “one month”, therefore this consultation will run from May 20th 2021 to June 21st 2021

Please find below the questions for this consultation;

1. Do you agree with NGESO’s proposed text changes to the ISH for EBGL 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?