

ACER consultation on the TSOs proposal of a methodology to further specify and harmonise imbalance settlement



EFET response – 29 March 2020

The European Federation of Energy Traders (EFET) welcomes the opportunity to provide comments to the ACER consultation on the TSOs' proposal of a methodology for the harmonisation of imbalance settlement, in accordance with article 52.2 of the Commission Regulation (EU) 2017/2195 (EB GL Regulation).

The methodology document submitted by the TSOs to the regulators is broadly similar to the version that was issued in the summer of 2018 for consultation among market participants. Hence, many of the concerns that we raised in September 2018 in our response to the TSOs consultation¹, as well to some individual regulators², remain valid: lack of ambition in the implementation of the Electricity Balancing Guideline, absence of true harmonisation of imbalance settlement, pollution of the imbalance settlement price with additional elements, danger of discrimination between market participants in the various balancing cooperation mechanisms, and lack of mandatory transparency requirements on real-time system state and price.

You will find below our responses to ACER's specific questions, as well as detailed comments on individual articles.

¹ EFET response to the TSOs consultation on a methodology for the harmonisation of imbalance settlement, dated 28 September 2018 and available at:

https://efet.org/Files/Documents/Downloads/EFET_ISH%20consultation_27092018.pdf.

² See, for instance, our response to the ACM consultation on the TSOs proposal for the harmonisation of imbalance settlement, dated 4 March 2019 and available at:

https://efet.org/Files/Documents/Downloads/EFET_ACM_ISH%20consultation_27022019.pdf.

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?*

One of our general feelings is the lack of ambition of the current proposal of the TSOs with regard to imbalance settlement harmonisation (see more details in our answer to question 3 and 4, in particular our comments on article 5).

Concerning the timeline of implementation, we do not doubt that implementing this methodology before the go-live of the European balancing exchange platforms would be feasible. Indeed, while different imbalance settlement principles would compromise the level-playing field of market participants active on a common balancing energy market, the application of the same imbalance settlement principles to market participants active on disconnected balancing energy markets would not.

However, we should also be mindful of the implementation schedule of the various methodologies and time when TSOs will start connecting to the balancing energy exchange platforms. Considering that ACER would take a decision on the current methodology on imbalance settlement harmonisation towards the middle of Q2 2020, an 18-month deadline for the implementation of this methodology would bring us towards the end of 2021. This would come rather close to the planned go-live of the aFRR and mFRR exchange platforms (end of 2022). The question is therefore whether an intermediate step of gradual harmonisation makes sense, as every change in national imbalance schemes causes disruptions and implementation costs.

Given the vast leeway currently awarded to TSOs and NRAs in the methodology proposal (see our comments to article 5 in our response to question 4), and the fact that they can still choose among the main components, how they combine them, and if they want to add “secondary” components, we believe that implementing this methodology as it stands would in any case result in very few changes to existing imbalance settlement frameworks.

Rather than focusing on the timeline to implement the current proposal of article 5, we suggest that ACER strengthens the content of article 5 to ensure true harmonisation of imbalance settlement price components. If that becomes reality, with clear requirements how to combine the main components, and an exclusion of arbitrary secondary components, then we could appreciate that drastic changes are indeed to be expected. In this case, a postponement of the implementation timeline until each TSO connects to the balancing energy exchange platforms would be advisable.

On a final note, we remind ACER that according to articles 62.2(a) and 62.9, NRAs can grant a derogation for their TSO(s) to connect to the balancing energy platforms until two years after the go-live of these platforms. Combined with the current wording of article 5.1 of the methodology, this could result in a full implementation of the ISH methodology by the end of 2024. Harmonising the main components of the imbalance price should in no case wait until such a late date, and article 5.1 should include appropriate wording to avoid such a situation.

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.*

EFET has been and remains a strong supporter of marginal pricing, both for balancing energy and imbalance settlement. From a theoretical viewpoint, this would translate into a support for imbalance settlement marginal pricing based solely on balancing energy prices, i.e. applying “the marginal price of marginal prices of each balancing energy process”. This solution would also be the one that sends the strongest price signal to incentivise BRPs to strive to be balanced or support the system balance.

However, from a practical perspective, we understand the careful approach of some TSOs and NRAs to see the weight of each balancing energy process reflected in the imbalance price. Hence, we support an imbalance price based both on volumes and balancing energy prices, i.e. applying “the weighted average of marginal prices from each balancing energy process”, as long as acceptability of all parties requires it.

Only those cross-border marginal prices of products that were actually requested by a TSO and activated, i.e. with a non-zero volume, should be included in the imbalance price calculation. The same holds for balancing direction: if a TSO does not request positive aFRR during an ISP (volume is zero) but only negative aFRR, only the cross-border marginal price for negative aFRR should be taken into account. Hence, already for these basis distinctions balancing energy volumes need to be considered.

If activations in positive and negative directions were requested during an ISP, which is a common situation, calculation of a single imbalance price should be straightforward. In such a situation, the price for the predominant (i.e. with the larger volume) balancing direction should apply. Also for determining an appropriate VoAA, the requested and subsequently avoided balancing energy volumes are required (see our answer to question 2.2).

Another element to consider is the financial neutrality of the TSOs in the balancing process (balancing energy activation vs. imbalance settlement). If TSOs remunerate BSPs on a per-product and per-BEPP basis, they should not be allowed to set the imbalance price on a cross-product and maximum per ISP basis. A central argument for establishing an optimisation cycle BEPP for aFRR (which we do not support³) was to avoid arbitrary price spikes in imbalance settlement. Once this decision for balancing energy pricing has been taken, the prerequisites for imbalance settlement must not be reversed. Such a change would result in substantially unjustified revenues for TSOs and contradict the principle of their financial neutrality in this process.

On a final note, the use of the “weighted average of the marginal prices of balancing energy processes” method to calculate the imbalance price should not result in a suppression of the latter’s ability to price scarcity, without additional component. Appropriate monitoring of this aspect should be performed by the TSOs and NRAs on a regular basis.

³ See EFET response to the ACER consultation on the aFRR implementation framework, dated 18 November 2019 and available at: https://efet.org/Files/Documents/Downloads/EFET_ACER_aFRRIFconsultation_18112019.pdf.

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

The central motivation for harmonising imbalance settlement is to provide a solid support for markets in other timeframes. This entails the financial incentives that are generated towards market participants via the imbalance price. These prices need to be consistent with the overall situation in each imbalance price area.

A simple and significant indicator for the success of harmonising imbalance settlement within an internal energy market is the mutual relation of imbalance prices. An imbalance area with a positive imbalance (short) should in general be facing higher imbalance charges than another imbalance area with a negative total imbalance (long) in the same ISP. If this relation is not in place, there is a systematic distortion for cross-border trading and BRP incentives are contradicting current imbalance area states.

To ensure the effectiveness of this methodology, any particular constraint at national level impacting prices formation in the balancing and other timeframes should be removed. In particular, article 17.3 EB GL states that BRPs in self-dispatch systems have the right to change the schedules required to calculate their position without any condition prior to the intraday cross-zonal gate closure time. This means that, if deemed necessary by the BRP, netting of internal schedules should be allowed within the BRP portfolio, and between BRPs in parallel with the participation to the intraday market.

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

Applying imbalance netting is actually avoiding the activation (or actually the request) of balancing energy bids. The corresponding value is then always relevant for the calculation of the imbalance price, in order to correctly reflect the real-time value of energy; not just in situations without additional activation of balancing energy.

The value of avoided activation (VoAA) is essentially determining a placeholder value for situations where there was a demand for balancing energy that was satisfied without activation of a standard balancing energy bid. When setting the imbalance price for BRPs within an imbalance price area by way of the VoAA, this should be transparent. The respective imbalance settlement price should be the same, regardless of the balancing demand being met by activation of balancing energy or netting of imbalances from other imbalance areas.

Therefore, we are of the opinion that the VoAA should actually be applied for all situations where activation of balancing energy was required but was substituted by imbalance netting. The settlement of intended exchange should consequently be based on the same value. In the end it is BRP energy that is used in the imbalance netting process that needs to be remunerated/charged accordingly. Also for the sake of TSOs' financial neutrality, a consistent methodology to calculate and apply the value of avoided activation (positive and negative) is required (see example in response to question 3).

The VoAA has to be applied, where

- (a) a TSO's request for balancing energy is fulfilled by netting of imbalances instead of activating balancing energy
- (b) a TSO's request for balancing energy is partially fulfilled by netting of imbalances prior to activation of balancing energy
- (c) all BRP imbalances of an imbalance area cancel each other out at any time within an ISP

Situations (a) and (b) will occur frequently if not permanently, while (c) is a rather hypothetical situation.

Question 2.2: *Please share your views concerning the definition of the VoAA.*

We agree with ACER that the methodology misses a common definition and calculation method for the VoAA. The inclusion of the new article 2.2(d) and the new introductory paragraph to article 6 provide neither.

The VoAA should be defined in line with pricing of balancing energy. Therefore, the VoAA is the consequent continuation of balancing energy pricing from the common merit order and should thus be a result of the AOF.

The VoAA is defined per TSO, per balancing product (positive and negative) and per BEPP – according to “regular” AOF requests for balancing energy. Only the AOF can keep track of the simultaneous requests, activations and avoidances of balancing energy, respecting the instantly available cross-zonal capacity. Just like the AOF is defining the price for activation of balancing energy following a TSO's request, the AOF should set the price for avoided activation where the original demand was substituted by imbalance netting.

When going through the common merit order beyond the level of actual activations in order to determine the VoAA, some ambiguities may occur with concurrently avoided activations for several TSOs. For consistent VoAAs, each bid should only be counted once per BEPP towards avoiding activation. To resolve those issues, simple rules for selecting the avoided bids should be put into place, potentially giving priority access to the connecting TSO.

Transparency and data availability on VoAAs is essential to ensure that BRPs do not incur undue risks when forecasting imbalance prices.

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

Raising the ambition in the implementation of Electricity Balancing Guideline

Generally, EFET remains concerned about the level of ambition of the proposal, which we deem far too low in terms of true harmonisation. The presentation made by the TSOs at the Electricity Balancing Stakeholder Group (EBSG) meeting of 3 September 2018 showed that individual TSOs have fundamentally diverging intentions when it comes to the implementation of this methodology, and their proposal as submitted to the NRAs remains a document that will lead to a patchwork of rules in Europe with

many derogations, exceptions and discretionary choices possible. Because the elements and volumes to be considered by each TSO to set the imbalance price are not restricted in this methodology, and because it does not detail how the various element should be combined by individual TSOs, we do not expect a true harmonisation of imbalance settlement either at a regional or pan-European level once the methodology is applied.

Given this situation ACER should require NRAs and TSOs to introduce transparent and open stakeholder involvement including providing clear roadmaps, milestones, data, testing capabilities etc. to inform a long period of changes in balancing regimes albeit with limited harmonisation beyond the creation of European platforms. The lack of clear and definitive roadmaps creates an undue commercial risk to BRPs that should be avoided.

Ensuring the consistency and relevance of the imbalance settlement price

The TSOs' proposal mentions a number of "main components" TSOs can choose from to set the imbalance price in their control area. This list neither explains how the various components could be combined, nor excludes the possibility to include "secondary components" in the imbalance price, or for which proportion. This will result in different constructions of the imbalance price for each control area.

This is a fundamental flaw in the methodology: if BSPs are to compete on a level-playing field across borders in the provision of balancing services to the TSOs, BRPs should also face the same risks with regard to imbalance settlement. Moreover, the imbalance price is the basis for price formation in all market segments (including the day-ahead and forward markets). Market prices on these market segments reflect an expectation of the imbalance price. Harmonisation of the method for determination of the imbalance price is truly the corner stone of the EB GL, without which not only competition between BSPs on the common balancing platforms will be skewed, but also cross-border trade in other timeframes will be distorted. Without proper harmonisation of imbalance settlement across control areas, a true single EU power market will not become reality. See also our comments to article 5 in the answer to question 4.

Making sure the imbalance settlement price is set according to the right purpose

The imbalance price needs to correctly reflect the value of energy in real time and the cost of balancing the system to incentivise BRPs to be in balance or help the system restore its balance. However, we strongly object to the possibility of arbitrary incentivising components (including scarcity components) being used in imbalance pricing, especially if they differ from one Member State to the other. Such arbitrary components act as penalties and are likely to create counter-incentives and thus trigger inefficient behaviour by BRPs. For example, BRPs might be incentivised to hold back reserve, or to control their portfolio steering towards a small over-supply.

Such incentive/scarcity components should also not result in a revenue stream for TSOs, their financial neutrality in balancing activities being one of the core principles of imbalance settlement according to the EB GL.

Beyond the Guideline, avoiding market fragmentation

Also, though these elements are part of the terms and methodologies to be developed and approved at national level, the proposal under consultation fails to an actual, harmonised methodology for the imbalance settlement, including the treatment of additional elements related to BRPs' balancing responsibility, such as penalties for imbalances (beyond the imbalance settlement price).

Unfortunately, the current proposal actually goes in the direction of more divergence instead of convergence. Technically, it even allows for different processes to be applied in price zones with multiple control areas/TSOs such as Germany. We are very worried that the TSOs' proposal includes the legal possibility for further fragmentation of markets where it should work towards further harmonisation. Harmonisation should also apply to central dispatching models to the greatest extent possible.

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.*

You will find below additional detailed comments on individual articles of the methodology.

Article 1:

Article 1.2: The ISHP shall apply to all imbalance areas and to all imbalance settlement periods and all system states defined in Article 18 of Commission Regulation (EU) 2017/1485 of 2 August 2017 establishing a guideline on electricity transmission system operation (hereafter referred to as "SOGL"), except for those imbalance areas and imbalance settlement periods:

- (a) for which market activities have been suspended, pursuant to Article 35 of the Commission Regulation (EU) 2017/2196 of 24 November 2017 establishing a network code on electricity emergency and restoration (hereafter referred to as "NC ER"); and
- (b) for which the concerned TSO has received approval from the relevant regulatory authority to apply rules for imbalance settlement and settlement of balancing energy and balancing capacity that deviate from the rules it applies for normal operations, pursuant to Article 39(1) of the NC ER.

The proposal does not cover periods for which market activities have been suspended. However, also in times of emergency (like a period of brown-out) it is crucial that imbalance settlement can take place and a proper imbalance price is determined. Therefore it is important to ensure that the proper rules for such periods are developed and implemented. We don't see a fundamental reason why the principles of imbalance settlement should not be harmonised, also in case of market suspension.

Article 2:

Article 2.2(f): Definition of ‘aggravating imbalance’

The definition of aggravating imbalance implies that NRAs may approve that the net volume of unintended exchange is taken into account to conclude whether a certain imbalance is aggravating or not. By consequence, there may be different approaches in different Member States. If our reading is correct, we oppose this definition of aggravating imbalance, as there should be one single approach to the question of how to assess these unintended exchanges. Also, applying different approaches for the same unintended exchanges on two sides of a border seems distortive and discriminatory.

Article 3:

Article 3.1(b): The imbalance adjustment [will include] all volumes activated by each connecting TSO for that ISP for purposes other than balancing, that are assigned to the concerned BRP.

The article still needs clarification: the current formulation of the article, stating that the imbalance adjustment will include also volumes activated for other purposes than balancing introduces a confusion whether these volumes will be corrected by the TSO or put under the responsibility of the BRP.

We believe that TSO actions affecting the balancing position of BRPs should not result in additional imbalances for which BRPs should be responsible through the imbalance price. For example, if a remedial action is requested, the resulting imbalance for a BRP that performs this action should be neutralised by the TSO; in practice this means that the imbalance is ‘taken over’ by the TSO, who then has to correct it by a counter-balancing action.

Article 3.4: The applied imbalance adjustment shall be reported by the connecting TSO to the concerned BRP in case of self-dispatching model, or to each scheduling unit of concerned BRP in case of central dispatching model, without undue delay and shall be finalised not later than set by each TSO’s terms and conditions for BRPs in accordance with Article 18(6)(h) of the EBGL.

The reporting of the imbalance adjustment to the concerned BRP should be subject to a clear and harmonised deadline and not be left for determination by national terms and conditions. This deadline should be based on existing best (i.e. fastest) practice among the TSOs for imbalance adjustment reporting, at the very least as a target with a precise timeline for TSOs to align on the harmonised deadline. Continuing to apply varying timeframes across different market areas requires market participants to maintain different operational processes and hinders new market entries.

Furthermore, TSOs should jointly tackle the harmonisation of the final imbalance calculations. Receiving such updates a quarter or a half-year following the concerning ISP is a financial liability and operational burden placed on the BRPs.

Article 4:

Article 4.1: Each TSO applying a self-dispatching model shall calculate in each imbalance area for each ISP one single final position for each BRP as equal to the sum of its external and internal commercial trade schedules pursuant Article 54(3)(a) of the EBGL.

Article 4.2: Each TSO applying a central dispatching model shall calculate, in each imbalance area for each ISP, one single final position for each scheduling unit of each BRP as equal to the sum of scheduling unit's external and internal commercial trade schedules pursuant to Article 54(3)(c) of the EBGL.

Throughout article 4, the methodology uses the "imbalance area" as the geographical level at which the imbalance calculation happens. The relevant area for BRPs is the bidding zone, since this is the area considered by BRPs in the previous market timeframes. While in many cases, imbalance area and bidding zone coincide, this is not always true. Imbalance price areas comprising several imbalance areas, however, should always resemble a bidding zone.

Article 4.5: The total allocated volume to each BRP in case of self-dispatching model, or to each scheduling unit of concerned BRP in case of central dispatching model, shall be reported to the concerned BRP by the TSO without undue delay and shall be finalised not later than set by each TSO's terms and conditions for BRPs in accordance with Article 18(6)(h) of the EBGL.

Article 4.7: The calculated imbalance to each BRP in case of self-dispatching model, or to each scheduling unit of concerned BRP in case of central dispatching model, over each ISP for each imbalance area, shall be reported by the TSO to the concerned BRP without undue delay and shall be finalised not later than set by each TSO's terms and conditions for BRPs in accordance with Article 18(6)(h) of the EBGL, taking into account the rules for claiming the recalculation of the imbalance by a BRP in accordance with Article 54(4)(e) of the EBGL.

Once again, the proposal contradicts the harmonisation purpose of this methodology by using national terms and conditions to set the timeframes by when each BRP is informed about the total allocated volume (article 4.5) and the calculated imbalance (article 4.7). These timelines should be harmonised by the TSOs.

Article 5:

General comment on Article 5:

Article 5 should be the cornerstone of the ISH methodology proposal. If BSPs are to compete on a level-playing field across borders in the provision of balancing services to TSOs, BRPs should also face the same risks with regard to imbalance settlement. Moreover the imbalance price is the basis for price formation in all market segments (including the day-ahead and forward markets). The market prices on these market

segments reflect an expectation of the imbalance price. Therefore BRPs must also be able to forecast the potential imbalance price they potentially face.

The harmonisation at European level of the principles and method for determination of the imbalance price is truly at the core of the EB GL objectives. Indeed:

- Recital (5) EBGL: This Regulation establishes **an EU-wide** set of technical, operational and market rules to govern the functioning of electricity balancing markets. It sets out rules for the procurement of balancing capacity, the activation of balancing energy and the financial settlement of balance responsible parties.
- Article 1.1 EBGL: This Regulation lays down a detailed guideline on electricity balancing including the establishment of **common principles for the procurement and the settlement** of frequency containment reserves, frequency restoration reserves and replacement reserves [...].
- Article 44.1(d) and (g) EBGL: The settlement processes shall [...] **facilitate harmonisation of imbalance settlement mechanisms [and] support competition among market participants.**

Without the harmonisation of these principles and method for imbalance settlement, competition between BSPs on the common balancing platform will be skewed, but also cross-border trade in general will be distorted. Without proper harmonisation of imbalance settlement process across control areas, a truly single EU power market cannot be obtained.

Article 52(2) EBGL gives room to come up with a far more ambitious proposal than what the TSOs present us today. Indeed, the TSOs are expected to “further specify and harmonise **at least**” a number of elements listed in the article. Instead, the current proposal consists in a list of elements, not much further specified than in the EB GL, and clearly no methodology.

The TSOs should harmonise the imbalance price methodology 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.

Article 5.1: After the TSO becomes participating TSO all of the European balancing platforms to which they are mandated to become participating TSOs pursuant to Articles 19, 20 and 21 of the EBGL, imbalance prices shall be calculated using only components mentioned in Articles 5(2), 5(4) and 5(5) of this ISHP. Before the TSO becomes participating TSO of the respective balancing platform, TSO may use as a main component of the imbalance price the prices and volumes resulting from balancing actions.

See our response to question 1.1 on the implementation timeline.

Article 5.2: The main components for calculating the imbalance price for a given imbalance price area and ISP are: [...]

While the formulation of the article appears at first to restrict the elements which the TSOs can use for the calculation of the imbalance price (with the formulation “may use only”), article 5.2 refers to the “main components”, which effectively leaves ample room to TSOs to include other components in the calculation. The list of components of article 5.2 should not be considered exhaustive, as highlighted by the possibility to use additional component according to article 5.5.

Without regard for “secondary elements” (see our comments on article 5.5 on this), the methodology should specify how the elements under article 5.2 would be combined. We propose to combine them based on the MWh volumes considered in each of the processes (avoided activation, balancing energy activation and intended exchanges).

Article 5.2(g): where applicable, the prices of further remedial actions of the TSO, which contribute to the system balance and are not covered by standard or specific products.

We do agree that all actions that are used for system *balancing* should be reflected in the imbalance settlement. The use of balancing energy bids for remedial actions, however, should be sharply restricted and strictly monitored.

Article 5.4: Each TSO may only use the following volumes for calculating the imbalance price [...]

The methodology does not provide details on how to combine the different elements listed in Art. 5.4, which could lead TSOs to apply vastly different approaches in terms of the volumes considered to set the imbalance price at national level.

Once again, this important leeway given to TSOs is a fundamental flaw in the methodology: if BSPs are to compete on a level-playing field across borders in the provision of balancing services to TSOs, BRPs should also face the same risks with regard to imbalance settlement. This is truly the corner stone of the EB GL, without which competition between BSPs on the common balancing platform will be discriminatory.

Article 5.4(h): where applicable, the volumes of further remedial actions of the TSO, which contribute to the system balance and are not covered by standard or specific products.

We do agree that all actions that are used for system balancing should be reflected in the imbalance settlement. Concerning the use of further remedial actions, this should, however, be sharply restricted and monitored. TSOs should use balancing products for system balancing.

Article 5.5: The connecting TSO or connecting TSOs of an imbalance price area may propose in the relevant terms and conditions for BRPs the conditions and a methodology to apply one or more of the following additional components, to be included in the imbalance price calculation:

- (a) a scarcity component to be used in nationally defined scarcity situations;**
- (b) an incentivising component to be used to fulfill nationally defined boundary conditions;**
- (c) a component with regard to the financial neutrality of the connecting TSO.**

EFET strongly objects to the inclusion of Article 5.5. We do not believe that, beyond the elements listed as “main components” in Article 5.2, the “secondary components” listed in article 5.5 reflect “the real time value of energy”, as requested in the principles for imbalance settlement of Art. 44.1(b) EB GL. Most notably in reference to point (a), the real time value of energy naturally takes account of the risk of scarcity. Therefore, if properly set according to the EB GL principles, the imbalance settlement price mechanism should de facto provide an adequate price in situations of scarcity.

Without a justification that they fit with the principles of Article 44 EB GL, we see no reason for the methodology to leave an open door to the inclusion of further elements in the imbalance price. For instance adjusting factors or volume fees should not be possible under a harmonised framework. If implemented in a non-coordinated way, such additional components would lead to different imbalance price behaviour with similar imbalance volumes in the different control areas. Their use should be harmonised through the definition of an imbalance price methodology, instead of listing the major components as currently proposed.

Only in case of a scarcity caused brown-out (load shedding), the value of that intervention must be reflected in the imbalance price. For that reason, it must be checked whether for these periods the imbalance price would remain below (an assessment of) the VoLL and in such case the imbalance price must be increased to the VoLL.

Further, article 5.5 does not provide details on how to combine the elements listed in article 5.2, and those listed in 5.5, which will lead TSOs to apply vastly different approaches to set the imbalance price at national level. The objective should be to achieve similar price dynamics for similar imbalances all over Europe.

Should the ISH proposal maintain the possibility to include other elements than those listed in Article 5.2, then a solution to what constitutes a main or a minor component would need to be found, as there is currently no explicit threshold on what constitutes a main or minor component. This leaves the door wide open to individual TSOs interpreting how much “secondary components” can weigh in the imbalance price calculation. Lacking an explicit methodology – as mentioned in the previous comments – at least an explicit delineation should be made. This could be, e.g., set at 10% of the overall imbalance costs on a monthly basis.

Article 5.8: An imbalance price area, as delineated in each TSO's terms and conditions for BRPs, shall be equal to one or more imbalance areas as delineated by a single TSO, or a combination of imbalance areas delineated by different TSO within a bidding zone.

The definition of “imbalance area” does not correspond to anything tangible for BRPs. The relevant geographical area for BRPs is the bidding zone, since this is the area considered by BRPs in the previous market timeframes. While in many cases, imbalance area and bidding zone coincide, this is not always true. Imbalance price areas comprising several imbalance areas, however, should always resemble a bidding zone. See also our comment to article 4

Article 6:

Article 6.2: Each TSO shall calculate the value of avoided activation from frequency restoration reserves or replacement reserves for at least each ISP during which there has been no activation of balancing energy in either direction for the imbalance price area, in accordance with Articles 55(4)(b) and 55(5)(b) of the EBGL.

The article stipulates that TSOs shall calculate the value of avoided activation, but it does not lay down in sufficient detail how it should be calculated. The addition of a new paragraph 1 to article 6 does not provide such details.

Furthermore, the application of the value of avoided activation and the delineation from the price for the intended exchange for imbalance netting remains unclear. Applying imbalance netting is actually just doing this – avoiding the activation (or actually the request) of balancing energy bids. The corresponding value is then always relevant for the calculation of the imbalance price, in order to correctly reflect the real-time value of energy; not just in situations without additional activation of balancing energy.

When calculating the value of avoided activation according to merit order information it is important to consider the activated balancing energy bids. The value of avoided activation is then determined from the subsequent bids that were not activated. In the same way, the value of avoided activation will also become relevant for balancing energy pricing. The activated balancing energy bids should be remunerated according to the marginal price of the last required bid, regardless of the bid having been activated or avoided.

Article 8:

Article 8(1)(a): For specific ISPs in which the TSO subsequently requests activation of both positive and negative balancing energy from frequency restoration reserves, if dual imbalance pricing is justified as a mitigation measure to avoid negative effects on FRCE target parameters in accordance with Article 128 of SOGL, frequency stability in accordance with article 3(34) of SOGL and/or the ability to maintain power flows within the power flow limits in accordance with Article 32(1) and (2) of SOGL as a result of BRPs acting on price incentives.

To calculate the imbalance price for an ISP with TSO requests for positive and negative balancing energy, Article 55.6 EB GL foresees that “in the event that both positive and negative balancing energy from frequency reserves or replacement reserves have been activated during the same imbalance settlement period, the imbalance settlement price shall be determined for positive imbalance and negative imbalance based on at least one of the principles pursuant to paragraphs 4 and 5”, i.e. the imbalance price for either the positive or the negative imbalance. We believe that the methodology should clearly state that the price of the predominant balancing direction should be used to set the imbalance price.

The condition of counter-activated positive and negative balancing energy during one ISP in Article 8.1(a) is the common situation in some countries (e.g. Germany, Austria) for most of the time. Hence, dual pricing would permanently be applied, which is not acceptable. We therefore suggest removing Article 8.1(a).

Article 8.1(b): For specific ISPs in which imbalance price calculated according to Article 55(3) of the EBGL taking into account the main components according the ISHP Article 5, the price calculated by activation optimization function does not provide a locally adequate incentive in individual ISPs as the imbalance area is near balanced. In such ISPs, dual pricing is justified as a mitigation measure to avoid negative effects on FRCE target parameters. TSOs applying the dual pricing based on this condition shall detail in terms and conditions the threshold subject to approval of the relevant regulatory authority within which the imbalance area is considered near balanced.

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. We therefore suggest removing article 8.1(b).

Article 8.1(c): For specific ISPs in which the component in accordance with Article 5(5)(a) of the ISHP is larger than EUR 0/MWh.

All references to the inclusion of a scarcity component should be removed from the methodology. The real time value of energy naturally takes account of the risk of scarcity. Therefore, if properly set according to the EB GL principles, the imbalance settlement price mechanism should de facto provide an adequate price in situations of scarcity. See our comments to article 5.5.

Article 8.1(d): For central dispatching model for specific ISPs where the application of single imbalance pricing does not provide correct incentives to scheduling units to respect unit commitment and dispatch instructions issued by a TSO within the integrated scheduling process in order to ensure a secure system operation.

Article 52.2(d)(i) EB GL requires that all TSOs specify and harmonise the conditions to deviate from the single pricing rule and apply dual pricing. The reference to providing “correct” incentive is widely insufficient in that regard. Even if such derogations should be approved and monitored by NRAs, the ISH proposal should contain clear and precise conditions.

Article 8.1(e): For all ISPs where the imbalance settlement period is 60 minutes due to an exemption from the requirement pursuant to Article 53 of the EBGL or based on derogation in accordance with Article 62(2)(d) of the EBGL.

The link between the single imbalance price and the harmonisation of the 15-minute ISP is not made in the EBGL. Therefore, such an explicit link and possible derogation to the requirement to implement the single imbalance price on this basis should not be proposed by this ISH proposal. The implementation of the single imbalance price should be at the latest by the time of the implementation of this ISH proposal – i.e. 18 months after its approval by ACER.

Article 8.2: In case of application of dual imbalance pricing pursuant to Article 8(1) of this ISHP, the TSO shall calculate an imbalance price [...]

While we opposed any continued application of dual pricing, we note that article 52.2(d) EB GL foresees that **all TSOs** shall establish “the definition of conditions and **methodology** for applying dual imbalance pricing” (as an exception to single pricing). Article 8 of the ISH proposal instead establishes the conditions under which TSOs may apply dual pricing, and leaves the responsibility of establishing the methodology to apply dual pricing to each of these individual TSOs, under NRA approval. This is not in line with either the letter or spirit of Art. 52 EB GL.