

**REQUEST FOR AMENDMENT (RfA) BY
ALL REGULATORY AUTHORITIES**

ON

**ALL TSOs' PROPOSAL FOR 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 PURSUANT TO ARTICLE 50(1) OF
COMMISSION REGULATION (EU) 2017/2195
ESTABLISHING A GUIDELINE ON ELECTRICITY
BALANCING**

23 July 2019

I. Introduction and legal context

Article 50 (1) of the Commission Regulation (EU) 2017/2195 (hereafter: EBGL)¹ requires that by one year after the entry into force of the EBGL, all TSOs shall develop a proposal for 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.

The all TSOs' proposal for 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 in accordance with Article 50(1) of the EBGL (hereafter: the Proposal) was received by the last RA on 11 February 2019. Article 5(6) of the EBGL requires relevant Regulatory Authorities (RAs) to consult and closely cooperate and coordinate with each other in order to reach an agreement, and make decisions within six months following receipt of submissions of the last relevant RA concerned. A decision is therefore required by all RAs by 11 August 2019.

This agreement of all RAs shall provide evidence that a decision on the Proposal does not need to be adopted by ACER pursuant to Article 5(7) of the EBGL. However, at the same time the Proposal is not approvable by all RAs. Therefore, this agreement is intended to constitute the basis on which all RAs will each subsequently request an amendment to the Proposal.

The all RAs' joint RfA was coordinated through the Electricity Balancing TF (hereafter: EB TF) of ACER and agreed upon through the European Regulatory Forum on 23 July 2019. Amending the Proposal according to the RfA should make it approvable for all RAs.

The legal provisions that lie at the basis of the Proposal and this all RAs' agreement on the RfA can be found in Articles 3 and 50 of the EBGL:

Article 3 Objectives and regulatory aspects

1. This Regulation aims at:

(a) fostering effective competition, non-discrimination and transparency in balancing markets;

¹ Commission regulation (EU) 2017/2195 of 23 November 2017 establishing a guideline on electricity balancing, referred to as the "EBGL"

(b) enhancing efficiency of balancing as well as efficiency of European and national balancing markets;

(c) integrating balancing markets and promoting the possibilities for exchanges of balancing services while contributing to operational security;

(d) contributing to the efficient long-term operation and development of the electricity transmission system and electricity sector in the Union while facilitating the efficient and consistent functioning of day-ahead, intraday and balancing markets;

(e) ensuring that the procurement of balancing services is fair, objective, transparent and market-based, avoids undue barriers to entry for new entrants, fosters the liquidity of balancing markets while preventing undue distortions within the internal market in electricity;

(f) facilitating the participation of demand response including aggregation facilities and energy storage while ensuring they compete with other balancing services at a level playing field and, where necessary, act independently when serving a single demand facility;

(g) facilitating the participation of renewable energy sources and support the achievement of the European Union target for the penetration of renewable generation.

2. When applying this Regulation, Member States, relevant regulatory authorities, and system operators shall:

(a) apply the principles of proportionality and non-discrimination;

(b) ensure transparency;

(c) apply the principle of optimisation between the highest overall efficiency and lowest total costs for all parties involved;

(d) ensure that TSOs make use of market-based mechanisms, as far as possible, in order to ensure network security and stability;

(e) ensure that the development of the forward, day-ahead and intraday markets is not compromised;

(f) respect the responsibility assigned to the relevant TSO in order to ensure system security, including as required by national legislation;

(g) consult with relevant DSOs and take account of potential impacts on their system;

(h) take into consideration agreed European standards and technical specifications.

Article 50 Intended exchanges of energy

1. By one year after the entry into force of this Regulation, all TSOs shall develop a proposal for common settlement rules applicable to all intended exchanges of energy as a result of one or more of the following processes pursuant to Articles 146, 147 and 148 of Regulation (EU) 2017/1485, for each of the following:

(a) the reserve replacement process;

(b) the frequency restoration process with manual activation;

(c) the frequency restoration process with automatic activation;

(d) the imbalance netting process.

[...]

5. The common settlement rules in accordance with paragraph 1 shall at least contain the provisions that the intended exchange of energy is calculated on the basis of the following criteria:

(a) over periods agreed among relevant TSOs;

(b) per direction;

(c) as the integral of the calculated power interchange over the periods pursuant to paragraph 5 (a).

6. The common settlement rules of intended exchanges of energy in accordance with paragraphs 1(a), 1(b) and 1(c) shall take into account:

(a) all balancing energy prices established pursuant Article 30(1);

(b) the methodology for pricing of cross-zonal capacity used for the exchange of balancing energy pursuant Article 30(3).

7. The common settlement rules of intended exchanges of energy in accordance with paragraph 1(d) shall take into account the methodology for pricing of cross-zonal capacity used for operating the imbalance netting process pursuant Article 30(3).

8. All TSOs shall establish a coordinated mechanism for adjustments to settlements between all TSOs.

II. All TSOs' Proposal

The proposal was not consulted by all TSOs, as it is not strictly required by Article 10 of the EBGL. Along with the draft proposal, all TSOs published an explanatory document.

All RAs closely observed, analysed and continuously provided feedback and guidance to all TSOs during various meetings.

The final version of the all TSOs' proposal (Proposal), dated 18 December 2018, was received by the last Regulatory Authority on 11 February 2019, together with an updated explanatory document giving background information and rationale for the all TSOs' proposal.

The Proposal defines the settlement amount of each TSO as the sum of the following components:

- i) the amount due to the exchange of balancing energy from RR, mFRR with scheduled activation, mFRR with direct activation and aFRR. For each balancing energy products, the amount is defined as the product of the volume exchanged in each Balancing Energy Pricing Period (BEPP) and the corresponding cross border marginal price for that BEPP, defined according to the pricing methodology, pursuant to article 30 EBGL;
- ii) the amount resulting from the activation of RR and mFRR balancing energy for system constraint purposes. The settlement amount includes the product of the volume of standard balancing energy bids selected for system constraint (according to the methodology submitted pursuant to art. 29(3) EBGL) in each BEPP and the corresponding price difference between the price with which the bid will be remunerated as defined by the pricing methodology, in accordance with art. 30(1)(b) EBGL, and the cross border marginal price of the bidding zone of the bids activated for system constraints, together with costs resulting from the non-intuitive flows due to selection of bids for system constraints purpose. The total amount is divided among TSOs that have requested the activation of system constraints and the additional costs shall not increase the settlement amount of all TSOs not requiring the activation of system constraints;
- iii) the amount resulting from the balancing congestion income. The congestion income is calculated for each platform and for each BEPP as the exchange of balancing times the difference between the cross border marginal prices. The balancing congestion income is divided among TSOs following the same rules adopted for the day ahead market (with a default rule of 50%-50%).
- iv) the amount resulting from different prices in one uncongested area. In some cases, due to optimization reasons, different cross border marginal prices can occur. The total rent is equally distributed among TSOs;
- v) the amount due to the exchange of balancing energy from the imbalance netting. The volumes are calculated every 15 minutes by adding up all the import and export corrections sent by imbalance netting platform. The prices are based on the value of the avoided upward and downward aFRR activations.

III. All RAs Assessment

All RAs request all TSOs to amend the Proposal and to take into account the following all RAs' assessment. The assessment contains a part with general remarks and a part going into detail, assessing every article of the Proposal individually.

III. 1. General Remarks

RAs consider the TSO-TSO settlement methodology as the process to be followed for defining the settlement amounts of each TSO, resulting from the exchange of balancing energy. The definition of elements as the length of pricing period and the marginal price of standard products is out of scope of this methodology, as well as the description of how the AOF of platforms enforces system constraints and activates bids for purposes other than balancing, or the features of the algorithm may lead to different prices in the same uncongested area.

The methodology shall make clear all the components that constitute the settlement amount of TSOs, including all the financial volumes involved in the exchange of balancing energy. All RAs understand that the settlement components are defined or result from process described in other methodologies; the Proposal shall set up a clear settlement process, independent of the possible change in parameters of other methodologies.

RAs note also that the methodology defined in art. 6 of the Proposal for the settlement of the system constraint activations, could be dependent on the specific pricing scheme for the system constraints, that is currently under discussion. Therefore, RAs ask TSOs to make the Proposal as general as possible, in order to accommodate the settlement of the system constraint activations, irrespective of the specific pricing rules that will be adopted.

Moreover, RAs understand that art. 6 provides allocation rules for sharing costs due to system constraints among TSOs. RAs ask TSOs to make sure that the methodology calculates the total settlement amount due to system constraints and to refer to the appropriate methodologies for the cost allocation, where applicable.

III. 2. Requests for changes to the Proposal

Whereas

- Recital 5(c) - non-discrimination among TSOs: it should be addressed and demonstrated how it is ensured;
- Recital 5(f) - The use of specific settlement rules for different processes does not ensure nondiscrimination by itself, thus the TSOs needs to comment the setup/details of the processes.

Article 1: Subject matter and scope

Paragraph 2 makes reference to TSOs obliged to implement and to use the European platform. RAs ask TSOs to clarify for which TSOs the TSO-TSO settlement methodology applies all TSOs using the platforms, or the ones obliged to use the platforms

Article 2: Definitions and Interpretation

- 2(1): Reference to CACM in Article 2 is missing, as some of the used terms in the Proposal are defined there;
- 2(1)(d): the definition of balancing congestion income should be aligned with what defined in CACM and thus TSOs shall mention "revenues received" instead of "income generated";
- 2(1)(e): in line with the principle of keeping the settlement process independent as much as possible of other methodologies, RAs ask TSOs to avoid the use of parameters defined in other methodologies such as the Balancing Energy Pricing Period, and to define a general concept of financial settlement period, that applies only to the calculation of the settlement between TSOs. The financial settlement period shall be coherent with the parameters defined in other methodologies (IFs and pricing), in order to reflect the correct settlement amounts;
- 2(1)(o): the definition of mFRR balancing border is very complex. RAs ask TSOs to reformulate the definition, in order to make it more comprehensible and to check the consistency with all the other proposals;
- 2(1)(q): for sake of consistency and clarity, RAs ask TSOs to use the whole definition already adopted in the EU platforms;
- 2(1)(r): the definition of price indeterminacy uses the concept of consumer and supply curves that are not defined in the Proposal. RAs ask TSOs to provide a specific definition for that curves;
- The non-intuitive balancing flows cited in 6(1)(b) is not defined in article 2, there is only a description in the explanatory document. RAs ask TSOs to include a clear definition of it.

Article 4: Volumes of intended exchanges of balancing energy

- In order to be compliant with article 50(5)(b) of EBGL, TSOs should clarify that the volume determination is done per each direction.
- In order to align with definition 3(137) SOGL, in 4(1) it should be "replacement power interchange", deleting the word "reserve".

Article 5: Settlement price of the intended exchange of balancing energy

- In headline: TSOs are requested to remove the word "and".

Article 6: Settlement of the intended balancing energy activated for system constraints purposes

- RAs ask TSOs to generalize the proposal for the settlement of system constraints in order to make it compatible with the options for pricing system constraints activations, currently under discussion in the pricing proposal (two-runs approach vs. one run approach). The methodology should be flexible to settle the amount for system constraints depending on the approach taken in the pricing proposal.
- RAs also note that the usage of system constraints requests which are not a result of a coordinated security analysis, according to SOGL, is still under assessment within the mFRR IF.
- Therefore, the proposal shall define the total settlement amount due to each system constraint request, while the allocation of such amount shall be tackled in the relevant methodologies to be developed for this purpose (according to art. 74 of CACM and, where applicable, art. 76 of SOGL). The Proposal shall include the reference to those methodologies, whenever applicable. When not applicable, in order to have all the activations from the platforms settled, RAs ask TSOs to clarify, in the relevant framework, if there are other reasons for using system constraints that don't fall under the provisions of art. 35 and 74 of CACM and art. 76 of SOGL. If so, TSOs should provide evidence of the principle regarding which TSOs will bear the costs and the optimal allocation of costs between TSOs, for RAs' evaluation.
- In amending the Proposal, RAs ask TSOs to remove the provisions of paragraphs 3 and 4, and to define a definition/provision for pricing demand selected for system constraint purposes that is in line with the one for pricing balancing energy bids selected for system constraint purposes (as defined in article 8 of the PP). In this way the content of paragraph 1 can refer to this pricing methodology and not to the bid price of TSO's demand. As such, the price at which elastic demand accepted for system constraint purposes will be priced is uniquely defined and a level playing field is ensured with the pricing of balancing energy bids selected for system constraint purposes.

Article 7: Process and calculation of balancing congestion income

- In 7(1) it is not clear what is meant with "entities appointed by TSO". RAs ask TSOs to clarify this point and, in case, to provide a definition for these entities.

Article 8: sharing keys for balancing congestion income distribution on the border

- All RAs consider the provision of this article not aligned with recent developments in FCA and CACM congestion income methodology topic, where RAs requested to remove the annex from the proposal and to only publish it on the ENTSO-E website. TSOs are requested to align this proposal to the other methodologies, removing the annex and to refer to the same annex published on the ENTSO-E website with the specific sharing keys.

Article 9: settlement related to price differences in an uncongested area

- All RAs understand that the AOF may generate different prices in an uncongested area, because of the presence of complex bids and optimization priorities. The specific reasons for the price divergence should be described in the pertinent methodologies (IFs and/or pricing), while the settlement methodology should present all the components that contribute to the financial amount due to price divergence. RAs ask TSOs to explicitly describe the components involved in this article.

Article 10: Settlement of the intended energy exchanges as the result of the INP

- In article 10(3) it is unclear what is meant with "settlement period". RAs ask TSOs to align the definitions in 10(3) and 10(2).
- All RAs ask TSOs to clarify in article 10(5)(b) over which period the weighted average of all values is determined.
- For the sake of clarity, in Article 10(10) the sentence should be integrated by "between the participating TSOs of this optimisation region".

IV. Conclusion

All RAs have assessed, consulted and closely cooperated and coordinated to reach the agreement that the Proposal according to Article 50(1) of the EBGL cannot be approved by all RAs.

According to Article 6(1) of the EBGL, all RAs hereby request an amendment to the Proposal. The amended proposal shall take into account the all RAs' assessment stated above and shall be submitted by all TSOs no later than two months after receiving the last RA's RfA in accordance with Article 6(1) of the EBGL.

All RAs must make their decision to request an amendment to the proposal on the basis of this agreement by 11 August 2019.