



Consultation Response

By email to consultation2012E09@acer.europa.eu

Response from:

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Agency for the Cooperation of Energy Regulators
Trg Republike 3
1000 Ljubljana
Slovenia

Dear Sir/Madam,

ELEXON Ltd's response to ACER's consultation on the Draft Framework Guidelines on Electricity Balancing

We welcome the opportunity to respond to this consultation.

What is ELEXON Ltd's role?

ELEXON Ltd delivers the centrally-mandated electricity settlement services that are critical to the successful operation of Great Britain's electricity trading arrangements under the national GB Balancing and Settlement Code (BSC). We manage processes and systems from electricity meter to bank, handling over £1.7 billion of transactions (in 2011) and interacting with over 250 companies in the British electricity industry. As part of this we administer the settlement of the GB Balancing Mechanism and GB imbalance settlement for generators and suppliers in respect of each half hour of each day. We are independent of any specific interests within the electricity sector.

Our response

The views expressed in this response are those of ELEXON Limited alone, and do not seek to represent those of the Parties to the GB Balancing and Settlement Code (BSC). And our response does not seek to favour any particular policy but rather to comment on the practical implementation.

The structure of this response is as follows:

- General comments
- Answer to specific consultation Question 6
- Other specific comments (on definitions)

General Comments

What is the aim of future developments: Harmonisation or Integration?

It is becoming clearer what the Single European Energy market means. However, we detect that, at least until recently, there has been a range of views as to the longer term objective: from changes sufficient to harmonise interconnector trading so that there are no barriers to efficient cross-border exchanges of electricity (and gas) between Member States on the one hand, right through to a single integrated European market, which at its most



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extreme could imply one TSO, one merit order and one set of trading rules for the entire European Union. We would welcome clarity on this so that we can better understand the implications for the GB balancing and settlement arrangements. For this reason we welcome the recent publication by ACER of the draft Initial Impact Assessment that accompanied the draft Framework Guidelines for Electricity Balancing, which opens up this question explicitly and suggests a long-term vision with a medium-term objective.

And we believe that there should be clarity in the Framework Guidelines with, as far as possible, a “once for all” approach to change. This does not necessarily imply a “big bang” as opposed to an incremental approach to change, rather that the ultimate destination should be as clear as possible. This will help reduce uncertainty for the electricity sector, and should help avoid the situation where earlier changes have to be undone due to a lack of clarity on that ultimate destination. It will support the design and implementation of more effective and efficient systems.

One area which appears to us to lack a sufficient level of detail for this purpose currently is Section 5.3 of the draft Framework Guidelines (on imbalance settlement). This is one area where a clear target model would be helpful, but without being overly prescriptive on the detail (see point below about level of detail in Network Codes). Specifically the penultimate paragraph of Section 5.3 does not make clear what is envisaged by the phrase “the main features of the imbalance settlement are harmonised”. And the timeframe within which harmonisation is to be accomplished makes reference to the common merit order list, which is particularly hard to translate into a clear target date. We give further thought to this in our response to your Question 6 below.

Level of detail in the Network Codes

Clarity on the ultimate destination does not necessarily imply that there should be a high level of detail in the Network Codes. In fact, we understand that Network Codes are more akin to legislation than traditional national Codes (certainly in respect of GB) and therefore may not be easy or quick to amend once implemented. Our very long experience with the implementation of revolutionary change such as that for the GB Electricity Pool or NETA suggests that urgent changes can be required, particularly in the early days of new trading arrangements, when unforeseen events and consequences can occur.

This suggests that the less flexible the Network Code change process, the more high level (less detailed) the Network Codes should be and the more should be left to national Codes with their more flexible change processes. With a more flexible Network Code change process, the Network Codes can go to a lower level of detail.

Therefore, dependent on the change process foreseen for Network Codes, we would suggest that there should be clear drafting guidelines to ENTSO-E on the level of detail that Network Codes should have. We believe that high-level principles should suffice with operational detail left to the national codes.

The role of ELEXON and other independent settlement administrators should be recognised in the Framework Guidelines for Electricity Balancing and the Electricity Balancing Network Code

Firstly we would like to make sure that, in the drafting of the eventual Balancing Network Code, the function of balancing market settlement and imbalance settlement can be undertaken by parties who are not TSOs. ELEXON currently undertakes this function in GB and we are a distinct entity from our national GB TSO (National Grid) and although nominally owned by National Grid, are otherwise independent of National Grid. ELEXON is not a member



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of ENTSO-E (or any other pan-European trade body) but we are formally charged with administering GB imbalance settlement under the GB Balancing and Settlement Code and so have a keen interest in the development of European balancing and imbalance settlement as it directly impacts our core business.

Therefore the eventual Network Code should allow for bodies other than a TSO to operate imbalance settlement and associated payments, e.g. we also administer the payments due under the GB Balancing Mechanism arrangements. We have also raised the need for this distinct role to be recognised in the context of the European financial regulations such as MiFID II¹ (where we have requested that exemptions given to TSOs are extended to any operator or administrator of an energy balancing mechanism, when carrying out the same tasks as TSOs and for which TSOs are exempt). We trust that this distinct role will be recognised in MiFID II, and equally in the European Electricity Balancing legislation and documentation.

Answer to specific consultation Question 6

Question 6 (Do you consider it important to harmonise imbalance settlement? Do you think these Framework Guidelines on Electricity Balancing should be more specific on how to do it?)

We have no strong views on harmonising imbalance settlement across Europe from a policy perspective, but we have processes in place to assess the impact and costs of any proposal to change the GB imbalance settlement arrangements. These processes enable ELEXON to seek information to assess the impact on BSC Parties as well as our own central BSC systems and processes. As proposals become sufficiently clear (see below) we intend to assess potential impacts as far as we are able and to provide information to our national regulator, Ofgem, as we identify impacts and at its or industry's (via the BSC Panel) request on likely impacts, costs and time to implement changes.

On the second part of Question 6 (Do you think these Framework Guidelines on Electricity Balancing should be more specific on how to do it?) we strongly believe that the Framework Guidelines are currently too vague and leave too much scope to ENTSO-E to decide what European imbalance settlement should be when drafting the Electricity Balancing Network Code. If it is agreed that harmonisation of imbalance settlement is necessary or appropriate to require, then we believe that the Framework Guidelines should set out the explicit principles by which imbalance settlement is to be harmonised and not leave this to ENTSO-E. We also believe that ENTSO-E should not draft too much detail into the Balancing Network Code when following these principles (see our point about level of detail and ease of change above).

The design, development and implementation of any new or changed systems and processes to enable the implementation of Electricity Balancing Network Code requirements will take time and money, both for central systems and for the systems of Balancing Responsible Parties and other market participants who need to interface with the central systems. This is another reason why we believe that the principles underpinning the harmonisation of imbalance settlement (if required) should be defined at an early stage, i.e. in the Framework Guidelines. Until there is a clear description of these principles it is not possible to begin to assess potential impacts, costs and time to implement and therefore the cost/benefits.

¹ The European Markets in Financial Instruments Directive (MiFID) is currently being reviewed and updated with the intent of producing MiFID II.



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Other specific comments (on definitions)

In section 1.3 of the draft Framework Guidelines, the definition of “demand response” should be widened to include other parties that may be able to ask the consumer for demand management and should not limit the scope of smart grids for example, where multiple actors may be able to request demand management.

Also, the definition of “imbalance settlement” should be widened to include the general principle set out in section 5.1, i.e. imbalance settlement does not only recover the costs of balancing, it also helps “ensure that BRPs support the system’s balance in an efficient way and incentivises market participants in keeping and/or helping to restore the system balance”.

In conclusion

As administrator and operator of electricity balancing and imbalance settlement in GB, we believe we can add much value to the European discussions on the Electricity Balancing Network Code through our long practical, and successful, experience with designing, implementing and operating the systems and processes necessary to support these functions.

Because of this, we intend to ask ENTSO-E for formal recognition as a key stakeholder in the development of this particular (Electricity Balancing) Network Code so that we are included directly in the stakeholder discussions, particularly as we are not a member of ENTSO-E nor a member of any European trade association but have a key, mandated, role in supporting the current GB electricity market.

If you would like to discuss our response, or if you believe we can help you develop particular aspects of the Electricity Balancing Framework Guidelines, please do not hesitate to contact me on +44 20 73 80 42 53, or by email at steve.wilkin@elexon.co.uk .

Yours sincerely

Steve Wilkin
Senior Market Advisor