

By email to: [market@entsoe.eu](mailto:market@entsoe.eu)

Response from:

<b>Name</b>	Steve Wilkin
<b>Company</b>	ELEXON Ltd
<b>Address</b>	4th Floor 350 Euston Road London NW1 3AW UK
<b>Contact email</b>	steve.wilkin@elexon.co.uk
<b>Phone</b>	+44 20 73 80 42 53
<b>Country</b>	United Kingdom

ENTSO-E  
Avenue de Cortenbergh 100  
1000 Brussels  
Belgium

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## **ELEXON Ltd's response to the ENTSO-E consultation on the Methodology for Cost Benefit Analysis and the Scoping Paper for Imbalance Settlement Period harmonisation**

Dear Sir/Madam,

We welcome the opportunity to respond to this consultation and scoping paper. Our response below is structured as follows:

- Description of ELEXON's role and its interests in the Cost Benefit Analyses (CBAs) for Electricity Balancing, in particular that for harmonising Imbalance Settlement Periods (ISPs)
- Part 1 – our comments on your scoping paper on ISP harmonisation
- Part 2 – our comments on your general methodology for CBAs

We have also attached some high-level initial work that we have already done for our National Regulatory Authority (NRA) and Great Britain's (GB) electricity industry, on the impacts of changing the ISP in GB. This attachment is for your information. It highlights both the potential impacts of changing ISP duration, and that choices will need to be made as to how far the consequential changes to systems and processes extend. These choices (for example between those termed "minimum change" and "maximum change" approaches in the attached document) will also need to be made when assessing the costs and benefits of a change of ISP as part of the CBA. This work can also be found on our [website](#), and we are happy to discuss this further with you should this be of interest when designing the CBA for ISP duration change.

### **What is ELEXON Ltd's role?**

ELEXON Ltd delivers the centrally-mandated electricity settlement services that are critical to the successful operation of GB'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 £1.5 billion (equivalent to €2 billion) of transactions and interacting with over 250 companies in the GB 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.

### **What is our interest in the Methodology and Scoping Paper?**

As ELEXON administers the imbalance settlement and balancing mechanism settlement in GB, any change to the ISP duration (for GB, this is currently 30 minutes) will have an impact on our systems and processes and those of our Balance Responsible Parties (BRPs). So our prime interest is in the

scoping paper on ISP harmonisation, although we have provided responses to some of the questions in the general methodology consultation too.

## Our comments on your consultation

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 BSC.

## PART 1: COMMENTS ON THE SCOPING PAPER ON ISP HARMONISATION

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We have the following comments on the scoping paper.

There are certain principles that the CBA should follow:

- **The CBA needs to be robust to a changing draft of the Network Code on Electricity Balancing (NC EB)** so should not be dependent on the current drafting.
- **The CBA should avoid, as far as possible, the potential for any future challenge.**  
This means that:
  - **ACER and, if necessary, the European Commission should approve the methodology before it is used; and**
  - **All data and sources of such data to be used in the CBA should be publicly and precisely defined, consulted upon, and approved by ACER as part of the methodology**, so that room for later dispute about missing or the relevancy of data that was used in the CBA is minimised. For example in GB, there are Government schemes that rely on the same metered data as imbalance calculations do, and so, if the ISP duration is changed and results in a different period for metered data e.g. 30 minutes to 15 minutes, the costs of implementing any changes to these schemes should also be part of the CBA.
- **The CBA should be completed in a robust but timely fashion so that the results are available and can inform the decision on ISP duration which will be set out in the NC EB.** We are aware that there have been recent suggestions that the draft NC EB text may include an explicit requirement for a specific ISP duration, 15 minutes for example. This specific ISP duration may be changed only in the final NC EB text if the CBA, which will now be required before the text is finalised, indicates that this is desirable.
  - If this approach is adopted, this would represent a change from the current approach<sup>1</sup>. And to us, this seems a very risky approach and potentially allows a non-optimal solution to find its way into law if the CBA results are not ready in time to influence the final NC EB text;
  - That this risk is very real is reinforced by the information presented on page 33 of the general methodology. Figure 5 shows an illustrative time schedule for the ISP

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<sup>1</sup> The draft NC EB (version 3.0 dated 6 August 2014, Article 22) instead referenced a future CBA result that had to be available by 2 years after the NC EB had come into force, to support a proposal from all TSOs of what value a harmonised ISP duration should be.

harmonisation CBA process. The time given for the CBA process to run is almost a year before the NRAs receive the results. We note that this year-long process does not include the decision making by the NRAs, ACER, the European Commission and Member States as part of comitology. And even this timeline is described in the general methodology as “relatively ambitious” and “rather ambitious” for at least three different reasons (scenario definitions, availability of modelling tools and the likely internal ENTSO-E processes). From this it would appear that, even if ENTSO-E were to start the CBA for ISP harmonisation tomorrow, the CBA results would not be available in time to feed into a decision on the final text of the NC EB. Would the Commission/Member States be willing to adopt a legally-binding ISP duration without any CBA evidence, or would they be willing to delay the decision on the final text, i.e. delay the NC EB, until the CBA was available?

- If this drafting approach is adopted and there is no possibility of delay to the NC EB, then we believe that the CBA must be completed to allow its results to influence the final text before the NC EB is approved. However, we also believe that this should also not be at the expense of the quality of the CBA. So for example, the consultation with stakeholders on scenarios (Question 16 in your consultation) is difficult to answer because stakeholders may not wish to delay the CBA, but they may also have strong views on the scenarios needed for a robust CBA.
- However, the evidence in the general methodology consultation (see above) suggests that it will not be possible to complete a robust CBA before the NC EB text needs to be finalised. For that reason, we believe that **a value for ISP duration should not be pre-set in the NC EB text but instead, the NC EB text should explicitly allow that the CBA completes before any decisions on ISP duration are made and that such decisions are made with due regard to the results of the CBA.**
- Also as the Framework Guidelines on Electricity Balancing, which set the scope of the NC EB states: “The imbalance settlement period shall not exceed 30 minutes. However, in case a TSO provides a detailed cost-benefit analysis to its NRA, the NRA may decide to have a longer imbalance settlement period”, then:
  - **If the European level CBA is required to be carried out prior to the NC EB text being finalised, then any TSO who wishes must also be permitted to carry out a parallel CBA for a longer imbalance settlement period in its area, so that any decision by its NRA can feed into the final NC EB text;** and
  - Whether or not the Europe-wide CBA is carried out before or after the NC EB text is finalised, **it may be more efficient if the Europe-wide CBA were also to include and report on the costs and benefits in a transparent manner on a TSO by TSO area basis. This would also allow for consistency between the Europe-wide CBA and individual TSO CBAs and for decisions resulting from those CBAs to be taken at the same time in the light of the same information.**
- **The cost of changes in Member States which currently have an Imbalance Settlement Period longer than 30 minutes should not be disregarded in the CBA.** We therefore agree with the statement on page 7 of the ISP harmonisation scoping paper that “the current status of ISP duration be used as the counterfactual”.

- The NC EB is currently in draft. It states that the ISP shall not exceed 30 minutes, but the drafting may still be changed, e.g. to say that the ISP duration should not exceed 15 minutes. If the costs of change for any Member State with a longer Imbalance Settlement Period than the cap were to be disregarded, then the costs of change for an NC EB with a 30 minute cap towards a 15 minute ISP harmonisation would be limited to those Member States who incurred costs in changing from a 30 minute ISP to 15 minutes. And in the case of an NC EB with a 15 minute cap and with a proposed harmonisation at 15 minutes, the costs of achieving this would be assessed as zero throughout Europe i.e. there would be little value in undertaking a CBA as there are only benefits to consider. From this it can be seen that a CBA that ignores some of the costs because the draft Network Code has a cap on ISP duration, is hiding the true costs of change and may not lead to the optimal European solution.
- The **cost drivers** are not necessarily all at Member State level. While the cost of changes to central systems will (probably) be at Member State level, other costs will potentially arise from the number of meters that need to be changed, so the factual scenarios should be designed on the basis of number of meters affected as well. For example, changing fewer meters in many Member States, may have a more positive CBA than changing more meters but which are all located in only one Member State; and
- Similarly the **planning cases (factuals)** chosen should be based on those likely to give the highest benefit, which may in turn depend on the (now and planned) interconnected capacity and likely price differences/volume of trade between bidding zones for example, not how many Member States have common borders.

### Other points on ISP harmonisation

- We have done some high-level work on the impact of adopting a 15 minute ISP in GB – see the attached report on “Initial Analysis of adopting a 15-minute Settlement Period”. While this is centred on the impact on our local (GB) arrangements, it is a snapshot of our thinking, and has not been not independently verified or reviewed by the GB electricity industry, it does reveal some considerations that an EU-wide CBA will also need to consider:
  - **There are choices to be made on where the impacts of the ISP duration change stops** (for example, those termed “maximum change” and “minimum change” approaches in our report) and this type of choice will also need to be made for the EU-wide CBA so as to precisely define what costs should be included in the CBA. This should then be applied uniformly across Europe in any CBA and when asking EU participants to specify their costs, the costs to be included and excluded should be made precise and clear to those providing the data; and
  - **There are assumptions to be verified**, e.g. that ISP duration changes also change require changes to the trading period of balancing products, which would in turn require changes to systems.
- On page 4 of the ISP harmonisation scoping paper, **there is a statement that “The TSO financially settles imbalances...” It is important to note that this is not always the case.** In GB, ELEXON, which is not a TSO, has been given responsibility for imbalance settlement and balancing mechanism settlement. Therefore in listing the affected scheduling and settlement systems on pages 15 and 17, any central system, whether owned or operated by TSO, DSO, PX or non-TSO third party (as ELEXON is) should be included in the cost calculations. As part of this we agree that we will need to consider the impact on the consumption profiles that we use.

- Possible benefits of harmonisation (pages 18 to 20):
  - **It is important not to confuse the benefits of a shorter (nearer real time) Gate Closure with a shorter duration ISP, as they are not the same.** For example, shorter duration ISPs may not allow less controllable generation to participate in the balancing market more easily if the forecast generation is unclear because Gate Closure is long.
  - **However, it is also important to consider the benefits of a changed ISP duration against a given market design.** We note the statement that there could be large changes in system balance between hours (page 18) and so there could be improved system frequency with shorter ISPs. This could very much depend on the market design that is assumed for the purpose of the CBA. For example, in GB currently, Balancing Service Providers (BSPs) are required to follow minute by minute schedules under our Grid Code and although financial incentives are measured on a 30 minute basis, BSPs are not permitted to adjust their positions away from their schedules near the end of each ISP to balance their aggregate imbalance over the half hour. Therefore the assumed future market design, as background for a CBA, could be important in assessing the likely benefits.

## PART 2: COMMENTS ON THE GENERAL METHODOLOGY

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Firstly, we have some general comments on the methodology, before responding to some of your specific questions in that methodology.

- On page 13 of the general methodology it is stated that “European regions or countries may be affected differently by the options that are analysed” and that the CBAs under the NC EB will report on regional and country effects for information purposes. We agree.
  - We recognise that social welfare will be determined at the European level, but it is not yet clear whether the costs will also be socialised at the European level – the draft NC EB is currently silent on this. While it remains silent, it is appropriate to report on costs and benefits to the lowest geographical level of funding, e.g. if funded at Member State level by its industry, consumers or taxpayers, then costs and benefits should also be reported at this level, even if the decisions are not taken at that level. And for efficiency reasons, it would be helpful to report on this for any geographical area for which the NC EB allows for a CBA at that level, e.g. as expected for ISPs (see the point from the Framework Guidelines above) as otherwise a separate CBA will need to be undertaken for that geographical area if the TSO desires to apply for a different ISP.
- On page 24 of the general methodology, it is stated that: if it has been “decided that smart-meters must be rolled out anyway, these costs are not relevant” [for the CBA]. In our view, sometimes these costs will be relevant for the CBA. For example, if a change of ISP means that a planned roll-out of smart meters needs to be changed or stopped and restarted to account for the new ISP.
- On page 25, we note that not all stakeholders’ costs are listed. For example, ELEXON is not a TSO or de-centralised party, but our costs of changing our GB BSC systems and processes are relevant to the CBA on ISP harmonisation for example. We are also aware of Government schemes that are dependent on metered data, and where the central administration costs should also be considered for inclusion in the CBA on ISP harmonisation.

## Responses to Specific Questions in the General Methodology

We have responded only to those questions where we have views on the CBA general methodology. Our detailed response to those questions is set out below.

### **Question 1 – Do you agree with the first principle to monetise as much as possible the benefits and costs in the general CBA approach so as to maximise the objectivity of the analysis?**

Yes. And ELEXON can help with the CBA on ISP harmonisation by providing information on the potential costs of change (and any ongoing costs) for the central GB imbalance and balancing settlement systems and arrangements which we administer. We have already done some high level work on this for a possible change to a 15 minute ISP – see attached report for information.

### **Question 3 - Do you agree with the classification of objectives according to Table 1?**

Table 1 sets out the benefits and costs derived from the draft EB NC (presumably the latest public draft produced by ENTSO-E – Version 3.0, dated 6 August 2014). Although it seems unlikely that the drafting of EB NC Articles 10(1) and 69(2), from which the objectives in Table 1 have been taken, would change significantly in any subsequent drafts, it would be wise not to ignore this possibility as the Code is still draft and will not be in final form, we understand, until next year.

The methodology has rightly identified the possibility of double counting, in particular the less quantifiable benefits, and continuing care needs to be taken throughout the process of establishing the CBAs on this point.

The term “market participant” has been used in some objectives in Table 1. We noted it in the objective relating to the impact on market parties or market participants’ technical or IT needs for example. But Market Participant is also a specific term defined in the Regulation on Energy Market Integrity and Transparency (REMIT) and this legal definition is too narrow for the CBAs as it would exclude BRPs who do not trade (we are aware of some) and central service providers such as ELEXON and so would exclude the GB BSC central settlement systems and processes from the CBA costs. This would clearly be wrong and so to avoid this possibility and confusion, we suggest using the term “stakeholders” throughout the methodology.

Does this same objective (impact on technical and IT requirements) extend to any ongoing costs? It should, and as written it is unclear whether it does, or is limited to the one-off implementation costs. This should be clarified.

We agree with the two-layer structure of pass/fail criteria followed by the CBA itself.

### **Question 7 – Do you agree with the definition of the factual and counterfactual, including the two exceptions described?**

Yes for the most part. Except that in the case of ISP harmonisation, we think that the counterfactual must be the status quo now, i.e. prior to the NC EB coming into force and before any changes to ISP are made. See our points above on the pitfalls of excluding ISP changes required in some Member States by a general cap on ISP duration in the NC EB. For example, for any Member State with an ISP of over 30 minutes duration currently, their costs of change of ISP to 30 minutes or less must be included in the overall costs element of the CBA.

We agree that in the case of the ISP CBA, the planning cases should be allowed to vary by Member State.

## In conclusion

We hope that our comments are helpful to the development of the CBA methodology for the Imbalance Settlement Period duration in particular, but also the general methodology.

As noted above, ELEXON undertakes balancing and imbalance settlement for the electricity industry in GB. So when it comes to the time when you wish to assess the costs of a change to ISP duration as part of that CBA, or indeed the costs for any other CBAs that might impact our GB settlement arrangements, we are ready to help with the provision of the data or other information that you will need where we are able to do so.

If you would like to discuss our response, please do not hesitate to contact me on +44 20 73 80 42 53, or by email at [steve.wilkin@elxon.co.uk](mailto:steve.wilkin@elxon.co.uk).

Yours faithfully

A handwritten signature in black ink that reads "S. Wilkin".

Steve Wilkin, European Coordination Manager for ELEXON

### **Attachment**

Initial Analysis of adopting a 15-minute Settlement Period (in GB)