



**Balancing Market Principles Statement
Terms of Reference**

I-SEM Energy Trading Arrangements

Consultation

SEM-16-028

27 May 2016

INTRODUCTION

This document sets out the Regulatory Authorities' (RAs) proposal on the 'Terms of Reference' for the Balancing Market Principles Statement (the BMPS). This document proposes a possible structure for the BMPS and invites comments on the RAs' proposal.

More broadly, the paper sets out the background to the RAs' decision as set out in SEM-15-065 that the TSOs shall prepare a BMPS as part of the development of the I-SEM. The paper also sets out the process up to the approval of the final document, and a summary of feedback received during an initial scoping exercise.

The RAs' proposal seeks to provide the TSOs with a clear structure in which to develop their document in order to provide clarity to all parties, and to make the scheduling and dispatch of the system transparent and comprehensible.

BACKGROUND

During the consultation process leading up to the ETA Markets Detailed Design Consultation Paper, a stated concern for market participants was to ensure the comprehensibility, consistency and transparency of TSO decision-making in I-SEM. To address these concerns, the SEM Committee (SEMC) proposed that the TSOs would, as part of the development of I-SEM, draft a balancing principles statement similar to the National Grid document which has been in place for a number of years¹.

In response to the Detailed Design Consultation, the majority of respondents noted the importance of the transparency of TSO actions and supported the concept of a document outlining the principles by which the TSOs would operate the system, and how these principles are put into practice. Participants also suggested that full disclosure of early actions taken by the TSOs on a regular basis should be facilitated through publicly available reports.

In its decision (SEM-15-065), the SEMC agreed that the framework surrounding TSO actions should be addressed via a document referred to as a Balancing Market Principles Statement.

¹ The National Grid Balancing Statement came into operation in 2002. The latest draft (updated November 2015) is available at <http://www2.nationalgrid.com/WorkArea/DownloadAsset.aspx?id=24522>

The purpose of the BMPS document will be to provide clarity and transparency to all players in the market on how the TSOs operate the system. The decision stated that the BMPS shall be prepared by the TSOs and shall be based on a Terms of Reference established via an industry Working Group. The decision further stated that the Terms of Reference will take the form of a detailed scoping of the document, including the structure and contents of the paper, and that the BMPS will be approved by the SEMC after consultation with market participants.

PROCESS

To give effect to the SEM Committee decision, for the first version of the BMPS prepared by the TSOs, the SEM Committee decision envisaged the creation of a dedicated industry group to develop the ToR. Following feedback from industry, concerns over the significant number of ongoing industry commitments to attend various industry groups necessitated a somewhat different process whereby the ToR would instead be developed via an iterative consultation process. This process would involve an initial scoping exercise with members of the ETA Rules Working Group, followed by a public consultation, including an industry workshop.

The full process for the development of the BMPS Terms of Reference is as follows –

- The RAs run a high-level scoping exercise with the members of the Market Rules Working Group (Complete);
- Based on feedback from the scoping exercise, the RAs issue an updated proposal for public consultation;
- During the consultation, the RAs will hold a dedicated workshop on the BMPS consultation document, the date of which is to be confirmed;
- Once this consultation has closed, the RAs will finalise the document which will form the Terms of Reference for the BMPS. This will be a SEMC decision.

Once the Terms of Reference for the BMPS has been provided to the TSOs, the TSOs will develop the content of the document over a number of months. Once prepared, the TSOs will consult on the draft BMPS. The TSOs will consider carefully any responses received to their consultation and update the BMPS as appropriate. The revised BMPS, with an accompanying consultation response document, will then be submitted to the SEMC for approval.

When considering its approval, the SEMC will take into account both the alignment of the BMPS with the Terms of Reference, and the extent to which the consultation responses have been addressed.

WHY IS THERE A DEMAND FOR A BALANCING MARKET PRINCIPLES STATEMENT?

Based on responses to the ETA consultations and issues raised in the wider stakeholder interaction prior to the ETA Detailed Decision, the RAs' view is that the desire for a document like the BMPS primarily stems from a perceived lack of transparency regarding how the TSOs decide on which dispatch actions to take, and the timing of these decisions. The RAs note that there is no suggestion that there is anything incorrect in how the TSOs dispatch the system, but rather that the need for transparency and clarity in dispatch decisions is greater in light of the I-SEM design.

The need for transparency of TSO actions, given a series of inputs in the balancing timeframe, is considered vital in the new market due to the reliance to be placed on well-functioning *ex ante* markets, in particular the Intraday Market, to allow participants to trade into balanced positions. The need for transparency in TSO processes with regards to scheduling and dispatch is also considered important in order to facilitate participants' understanding of imbalance prices. The RAs' view therefore is that the purpose of the BMPS is first and foremost to be a transparency document which can provide clarity and certainty to the market on the timing and nature of TSO actions.

The TSOs currently publish considerable volumes of data on dispatch and system operation via their web sites, and operate the system based on the parameters set out in the Grid Code and Trading and Settlement Code (TSC). However, the disparate nature of the information published and the complex set of rules by which the system is operated, does not provide a clear picture of the operation of the system for market participants. The BMPS will bring this information together in one place and in comprehensible terms to facilitate market confidence. It is important to be clear that the BMPS will be a restatement of obligations which stem from the TSOs' existing obligations, and will not create obligations which supersede or have primacy over existing obligations, but it will explain how these obligations are met.

Before setting out the RAs' views on what the TSOs' BMPS might contain, it is worthwhile considering the contents and structure of the National Grid Balancing Principles Statement (BPS) for guidance.

NATIONAL GRID BALANCING PRINCIPLES STATEMENT

The National Grid BPS states that the document is to indicate ‘the broad framework against which we [National Grid] will make balancing action decisions’.

The document states that its purpose is to outline ‘general principles’ in relation to the development and application of the document, the use of balancing measures, and the management of transmission constraints and reserves. The National Grid BPS also outlines the day-to-day processes that National Grid undertakes at the day-ahead and within-day timeframes in order to maintain a balanced system. The document also sets out National Grid’s operational security standards (including the management of constraints) with reference to the provisions of the Grid Code and other statutory and licence conditions.

The National Grid document comprises both statements of general principles, and a description of the forecasting and dispatch approach. In addition to this, the BPS recognises that from time to time, exceptions to the normal operation are required to maintain system security. In light of this, the BPS also explains circumstances where exceptions to normal practice arise and sets out how such ‘exceptions’ are reported.

In summary, the BPS is a combination of statements of principles as to how the TSOs will operate the balancing market, and a collation of practical information on how the TSOs apply these principles through the scheduling and dispatch process.

INITIAL VIEWS

Based on a summary review of the National Grid BPS, the RAs have formulated an initial view on the scope of the proposed BMPS.

The BMPS should constitute a complete ‘standalone’ guide to the operation of the system. This may necessitate some repetition of requirements set out in the Grid Code or TSC. The RAs’ view is that the benefit of having a single explanatory guide for the operation of the BM outweighs the potential inconvenience of having to reiterate pre-existing obligations. In addition to capturing existing obligations, the BMPS should set out how information on the processes for operating the system in accordance with the TSOs statutory duties and scheduling and dispatch principles.

The document should also, to the greatest extent possible, describe the dispatch approach as clearly as possible. While a description in ‘lay-man’s terms’ may not be entirely possible, a reasonably informed person should be in a position to understand how the TSOs perform their role by reading the BMPS. When ultimately approving the final document, the RAs will consider whether the document is providing a comprehensive description of the dispatch approach in a clear and understandable manner.

LOCATION OF THE BMPS IN THE I-SEM GOVERNANCE STRUCTURE

Within the I-SEM governance framework, the RAs’ view is that the BMPS will be a joint EirGrid\SONI document. The emerging thinking is that the requirement to develop a BMPS will be placed as an obligation in each of the TSO’s licences. The document will aim to provide clarity around the TSOs’ obligations as set out in legislation, the Grid Code, the TSC etc. It is important to be clear on this matter as there can be no uncertainty as to whether changes to the Grid Code or TSC would be trumped by conflicting obligations in the BMPS.

This approach is consistent with that taken in GB in terms of the National Grid BPS. The BPS is clear (p.7) that where the Balancing Settlement Code or Grid Code have been amended such that the BPS should be amended, they will seek such an amendment. However, in the event where a statutory obligation or the provisions of the Grid Code are considered inconsistent with any part of the BPS, then the relevant statutory obligation and/or Grid Code provisions will take precedence. A similar approach is proposed in the case of the BMPS.

FEEDBACK TO INITIAL SCOPING EXERCISE

As part of the development of this consultation paper, the RAs issued a scoping document to members of the Energy Trading Arrangements (ETA) Market Rules Working Group in order to gather preliminary views on the potential structure of the BMPS ToR from industry.

The feedback to the consultation was broadly supportive of the RAs’ proposed structure with a number of recurring themes, including -

- the need to ensure that the TSOs operate the system as close as possible to the physical notifications submitted by participants with a minimum of intervention;

- the need for a wider range of information to be published on system operation than is currently published – preferably in a user-friendly and accessible format;
- the need to put in place clear reporting rules for instances when the TSOs deviate from the standard processes and procedures, referred to as exceptions; and
- the need to clarify how the TSO implements its statutory duties in the dispatch process.

In addition to this, there was recognition from respondents that the BMPS will not contain any new or distinct obligations in and of itself, but will instead bring together and describe in straightforward terms relevant obligations which exist in, for example, legislation, licence, the Trading and Settlement Code or Grid Code.

In addition to these general themes, a number of specific proposals were made which have been reflected in the RAs' proposal. These include providing information on the operational guidelines which system operators must follow and describing the level of discretion they have in deviating from the TSOs' dispatch scheduling tools. Having considered this feedback, the SEMC are of the view that it is not so much the 'level of discretion' that the TSOs have (the TSOs have statutory requirements to fulfill in their operation of the power system) but understanding the circumstances in which there might be exceptions to the normal operation of the system and the process for reporting of such events that should be captured in the BMPS.

In addition to this, a number of responses suggested regular and detailed reporting on exceptions. Another submission proposed the need to clarify how constraints groups are calculated and managed by the TSOs.

On the basis that the feedback to the scoping exercise was generally supportive of the approach taken by the RAs, the proposal set out in this consultation is broadly the same as previously set out, with some minor updates to reflect suggestions made by participants.

CONTENT OF THE BMPS

Having considered the contents of the National Grid BPS, and in light of the feedback received from industry in the scoping process, the RAs propose a six-part structure to the document, as follows –

1. Statement of the objective of the BMPS;
2. Statement of TSO statutory duties and how these are implemented;
3. Description of the data processes in the dispatch process;
4. Step-by-step description of the scheduling and dispatch process;
5. Exceptions; and
6. Publication of information.

The RAs are of the view that these six areas will provide industry with the desired level of transparency into TSO dispatch and scheduling processes.

1. Statement of the objective of the BMPS

The RAs' view is that this section of the document should set out the licence requirement to publish the BMPS, and the principles that underlie the TSOs' operation of the system. It should set out the TSOs' dispatch objectives and the information that is provided to the market.

In particular this might include issues such as avoiding actions which unduly impact on *ex ante* markets, ensuring that all TSO activities are done in a transparent way, and providing sufficient data to market participants on the operation of the system to ensure an appropriate level of consistency in system operation. The principle stated in the ETA Decision (SEM-15-065) of minimising the cost of deviation from the physical notifications of participants should also be included here.

The RAs invite comment from market participants on what objectives could be included in this opening section.

2. Statement of TSO statutory duties and how these are implemented

Over the I-SEM development process over the past number of years, TSO presentations on the dispatch approach often begin with detailed slides setting out the various national and EU legislation that inputs to the dispatch approach. The interaction between these statutory obligations is not easily understood and therefore the RAs consider this a useful area of clarification.

The RAs' proposal is that the TSOs would, in this section, set out these obligations and the practical application of these obligations in the dispatch process, including areas such as the implementation of the rules associated with priority dispatch. Where possible, the apparent countervailing nature of some of these obligations should be explained in such a way as to allow market participants to clearly understand the implication of these obligations on dispatch.

3. Description of the data processes in the dispatch process

This section will describe what data inputs are used in dispatching the system, where the data comes from and how the data is used in determining system dispatch.

Based on the I-SEM consultation process to date, the RAs consider the issue of constraints and their impact on dispatch to be a key area of concern for market participants. As with the National Grid BPS, the RAs are of the view that a description of the impact of constraints on dispatch would significantly increase the transparency of dispatch decisions.

This section could, for example, set out the TSOs' approach to identifying and managing constraints on the system and explain how the transmission constraint groups are derived and the approach to reviewing them.

In addition to this, the RAs propose that the TSOs will include a description of the implementation of the Long-Notice Adjustment Factor (LNAF) and System Imbalance Index Factor (SIIF). These are measures to discourage the use of longer-notice plant in order to systemise the principle that the TSOs will avoid early actions where possible and will deviate from PNs only where necessary.

4. A Step-by-step process of the scheduling and dispatch process

Based on the information set out in the previous sections, this section would provide a step-by-step overview of the dispatch process from medium-term forecasting up to dispatch in the balancing timeframe.

5. Exceptions

The National Grid BPS includes a section on exceptions to the balancing principles statement. This section of the National Grid document sets out a number of scenarios where the BPS does not apply. National Grid is obliged to report such cases in their annual statement of performance against the Balancing Principles. The RAs note that some of the instances where the BPS does not apply are broad enough to capture a wide range of actions which the market may still seek further detailed information on.

While cognisant of the importance to respect any commercial sensitivities, the RAs are of the initial view that a robust reporting mechanism for instances where the TSOs have to act in exception to processes set out in Section 4 of the BMPS should be put in place.

Further, the concerns that industry raised throughout the I-SEM development process to date are more concerned about the 'exceptions' rather than the majority of the time when the TSOs are doing that which is expected. On this basis, the RAs consider the reporting of exceptions to be an opportunity to significantly increase the transparency of system operation without unduly impacting on the TSOs' operation of the system. Such a measure will over time improve industry's understanding of the dispatch approach.

In the course of dispatching the system the TSOs will often not be able to follow exactly the outturn of the scheduling and dispatch tools, due to, for example, changing conditions in real time. It would not appear proportionate to class every such deviation as an exception. On this basis, the RAs are interested in participants' views on how exceptions should be defined, and what should be included therein.

Based on feedback to the scoping exercise, the RAs propose that exceptions are reported upon more promptly and regularly than an annual reporting framework (as per the National Grid BPS). A number of respondents to the scoping exercise suggested this report could be weekly. While there is clearly merit in regular reporting, the RAs also considered that the detail available in a weekly report might not be sufficient to allow participants to get an in-depth understanding of the issues which arose. In that regard, the RAs are interested to get feedback on the extent to which there would a preference for either weekly (regularised) reporting or perhaps monthly (narrative) reporting.

6. Publication of information

Along with a clear description of how the system is dispatched, another key pillar of transparency is information publication.

There will be publication requirements on the TSOs across a number of areas. The TSC for example, will have a section detailing publication of information and, in some cases, statutory requirements and regulatory decisions may require information publication. It therefore may be the case that the BMPS will not require any standalone information publication requirements (separate to exception reporting which is unlikely to be a 'system' report) but the document could be a useful place to bring together a list of the information that is published by the TSOs in a number of areas. As part of the feedback to the scoping exercise, a list of areas for data publication were suggested which were covered in a recent Data Publication Workshop as part of the Market Rules Working Group. The specific information to be published by the TSOs will be in the first instance progressed through that forum. However, the RAs will also consider any suggestions on data publication provided in response to this consultation.

In addition to data publication, the TSOs may produce performance information which could be compared over time.

In order to aid the objective of transparency of the TSOs' system operation the RAs are of the view that the information provided by the TSOs should be provided in a user-friendly way, for example in a dedicated area of the TSOs' website. The TSOs should also consider how this information can be best incorporated within the REMIT reporting framework in order to minimise duplication of information and costs of information provision. The RAs invite feedback on this issue from industry; based on feedback the RAs may progress this issue via the I-SEM implementation Technical Liaison Group.

NEXT STEPS

The RAs welcome comment on any area of this discussion document – in particular the proposed six-part Table of Contents.

As noted above, the RAs will hold a public workshop during this consultation to present its thoughts and seek feedback. A notification will be circulated in due course on the SEM Committee website. Once the consultation closes, the RAs will finalise the Terms of Reference for the BMPS and present these to the TSOs.

Responses to this discussion document should be sent to –

Barry Hussey - bhussey@cer.ie

&

Kenny Dane - kenny.dane@uregni.gov.uk

Comments are requested by close of business on Friday, 8 July 2016.