

Grid Code

Business

Terms:	B.3
Version:	3.0
Date:	1 May 2009

## **B.3 Terms for the procurement of regulating power and settlement of balancing energy<sup>1</sup>**

### **0. Amendments from previous version**

- 0.1 Article 5.6 has been amended. It previously read as follows: "Bids in the regulating power market must be submitted before 2:00 PM on Friday for the seven days (seven 24-hour periods) about to begin, i.e. Saturday through Friday. Bids may be corrected until 2:00 PM on the day before potential use of the regulating power; however, as of 1 January 2007 this will change to the effect that it will be permissible to correct bids until two hours before potential use of the regulating power. Should verifiable technical difficulties occur while submitting, bids may be submitted beyond the above deadline."
- 0.2 New Articles 6.7 and 6.8 have been added.
- 0.3 Article 7.3 has been amended. It previously read as follows: "Balancing energy schedules must be submitted before 2:00 PM on Friday for the week about to begin, i.e. Saturday through Friday. One plan is to be submitted for each day. Values in balancing energy schedules may be corrected until 2:00 PM on the day before the time to which they apply; however, as of 1 January 2007 this will change to the effect that it will be permissible to correct values in balancing energy schedules until two hours before the time to which they apply. Should verifiable technical difficulties occur while submitting, a balancing energy schedule may be submitted beyond the above deadline, upon obtaining the consent of Landsnet."
- 0.4 A new Article 7.7 has been added.
- 0.5 A new Article 8.4 has been added.

### **1. Introduction**

- 1.1 These Terms are set on the basis of the Electricity Act, No. 65/2003, as subsequently amended; of Regulation No. 1040/2005 on the implementation of the Electricity Act; of Regulation No. 513/2003 on system management; of Regulation No. 1050/2004 on electricity trading and metering, as subsequently amended; and Regulation No. 1048/2004 on the quality and secure delivery of electricity.
- 1.2 These Terms have been confirmed by the Minister pursuant to Article 9, Paragraph 6, of the Electricity Act.

### **2. Definitions**

The following definitions apply in these Terms:

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<sup>1</sup> This is a translation from the Icelandic version of the grid code. In case of discrepancy the Icelandic version shall apply.

- 2.1 The *estimated trade* of a balance responsible party is the provider's scheduled purchase from other balance responsible parties minus its scheduled sale to other balance responsible parties, according to a balancing schedule.
- 2.2 A *balance responsible party* is a party that guarantees through a written agreement with Landsnet that there will be a balance between electricity procurement, i.e. the generation of electricity and purchase of electricity, on the one hand, and electricity disposal, i.e. sale and use, on the other hand.
- 2.3 The *share of balance responsibility* is the percentage which a particular balance responsible party has in the sales to a certain final customer who is buying from more than one balance responsible party.
- 2.4 The *balancing schedule* of each balance responsible party shall include numerical data indicating how that provider intends to achieve a balance in its planned electricity trading. A balancing energy schedule is made for a single day at a time, for each of the hours.
- 2.5 *Balancing energy* is the difference between exported/imported energy and the obligations each balance responsible party has to buy/sell.
- 2.6 The *balancing energy price* is the market price of balancing energy. Any deviation from a schedule is to be settled according to the balancing energy price. The balancing energy price is fixed for each hour.
- 2.7 *Down regulation* refers to a demand for negative regulation power, i.e. the power that needs to be taken out of the system whenever actual use becomes less than scheduled use within the electrical network as a whole.
- 2.8 A *down-regulation bid* is either an offer by a producer to reduce production, or an offer by a supplier to increase use. The company involved pays Landsnet for the offer if it is utilised.
- 2.9 A *final customer* is any party buying electricity for its own use.
- 2.10 The *actual trade of a balance responsible party* is its metered use minus its metered production. This applies to the use and production which the balance responsible party bears responsibility for balancing. Values derived from usage profiles come in lieu of metered use in instances where no measurements are available.
- 2.11 *Regulating power* is the power Landsnet procures to balance differences between forecast energy use and actual energy use in the electrical network as a whole.
- 2.12 The *regulating power market* is Landsnet's procurement market for regulating power.
- 2.13 A *regulating power option* is an agreement Landsnet concludes with a producer in the regulating power market whereby the producer offers a certain minimum of regulating power for definite periods and within given power and price limits. Regulating power options guarantee a minimum supply in the regulating power market.
- 2.14 *Joint balance responsibility* is an instance of more than one balance responsible party sharing the responsibility for balancing the consumption of a particular customer.
- 2.15 A *supplier* is a company selling electricity or conducting other electricity trade, whether wholesale or retail.
- 2.16 *Up regulation* refers to a demand for positive regulation power, i.e. power that needs to be fed into the system whenever actual consumption is higher than the use that was forecast for the electrical network as a whole.
- 2.17 An *up regulation bid* is either an offer by a producer to increase production, or an offer by a supplier to decrease use. Landsnet pays the company involved for the offer if it is utilised.
- 2.18 *Non-spinning reserves* signifies the power capacity of particular production units which are available for operation and are not configured with the electrical network but can be started up, configured and fully utilised within a certain time frame after a request has been sent.
- 2.19 A production unit is *out of operation* if it is malfunctioning or undergoing maintenance; otherwise, it is *available for operation*, i.e. ready to run.
- 2.20 A *producer* is a company that generates electric power or has obtained an energy development licence.

- 2.21 A *power generating area* is a set of power plants that are under the charge of a single balance responsible party and are positioned near each other in the network and have been licensed by Landsnet to bid as a single body in the regulating power market.

### **3. Obligations of balance responsible parties**

- 3.1 Each balance responsible party guarantees to Landsnet that there will be a balance between electricity procurement, i.e. the generation and purchase of electricity, on the one hand, and disposal, i.e. sale and use, on the other hand.
- 3.2 One balance responsible party can assume the balance responsibility of another balance responsible party, upon obtaining the written approval of Landsnet. Landsnet must be asked for approval at least 10 days in advance.
- 3.3 Balance responsible parties, other than distribution system operators and Landsnet, must have a ministerial licence to engage in electricity trading. A balance responsible party must conclude an agreement with Landsnet regarding balance responsibility.
- 3.4 If no agreement between Landsnet and an entity engaged in trading electricity or operating a distribution system has been signed by the entity, or this entity has not reassigned its balance responsibility according to Article 3.2, Landsnet shall nonetheless define it as a balance responsible party, and it must abide by these Terms in respect to all its electricity trading.
- 3.5 In instances of two or more balance responsible parties selling to the same final customer, they shall either reach an agreement saying which one of the entities has balance responsibility in that transaction, or bear joint balance responsibility in regard to this final customer.
- 3.6 Landsnet is authorised to demand a guarantee of payment from a balance responsible party in order to secure balancing energy transactions.

### **4. Technical requirements on those selling regulating power**

- 4.1 Landsnet shall have remote control over generators in the power plants producing regulating power. The generator units producing regulating power shall be able to start production no later than 10 minutes after a Landsnet request. However, Landsnet may allow exceptions to these requirements.
- 4.2 Suppliers must ensure that final customers prepared to participate in the regulating power market have use that can be remotely controlled by Landsnet. The final customers concerned must be ready for up or down regulation 10 minutes after Landsnet requests it. However, Landsnet may allow exceptions to these requirements.

### **5. Submitting bids in the regulating power market**

- 5.1 The bidders must be balance responsible parties. A bid must apply to the production and/or use for which the bidder has balance responsibility. It is impermissible for more than one balance responsible party to unite around one bid.
- 5.2 A bid in the regulating power market shall include the amount of power for one or more hours at a definite price.
- 5.3 A bid may pertain to either up or down regulation. The bid shall apply to a particular power plant, power generating area or final customer.
- 5.4 A bidder may request Landsnet to allow offering the production of more than one of the bidder's power plants as a single unit in the regulating power market. If Landsnet consents, this set of power plants shall be designated as a power generating area.
- 5.5 Bids shall be submitted electronically via the bidders' home page on the Landsnet website, unless Landsnet indicates otherwise.
- 5.6 Bids in the regulating power market must be submitted before 2:00pm on Friday for the seven days (seven 24-hour periods) about to begin, i.e. Saturday through Friday. Bids may be corrected until two hours before potential use of the regulating power. Should verifiable technical difficulties occur while submitting, bids may be submitted beyond the above deadline.
- 5.7 The amount of power stated in a bid is fixed for each whole hour. However, the amount of power can vary from one hour to the next, despite the price remaining unchanged. The

minimum amount of power in each bid shall be 1 MW. Should the need arise, Landsnet may make an exception, informing participants in the regulating power market of this. Landsnet shall also inform these same parties when such an exception becomes invalid.

- 5.8 A bid is valid for a minimum of one hour.
- 5.9 In order to ensure adequate supply in the regulating power market, Landsnet is authorised to make agreements with producers on regulating power options.

## **6. Handling bids in the regulating power market**

- 6.1 When up regulation is required, Landsnet shall first select the lowest up-regulation bid, then the second-lowest and so on until requirements are met. When down regulation is required, Landsnet shall first select the highest down-regulation bid, then the second highest and so on until requirements are met.
- 6.2 Landsnet is permitted to reject a bid due to grid circumstances, and shall in such instances incur no liability for compensation.
- 6.3 Landsnet may utilise a portion of the amount of power that a bid offers. Payment to the bidder shall correspond to the amount of power used by Landsnet.
- 6.4 If a bidder has sent a bid to Landsnet for up or down regulation but subsequently does not meet this obligation when the time comes, the bidder shall be liable to Landsnet for any resulting costs.
- 6.5 Under special circumstances, for instance when a shortage of regulating power is foreseen in the system on short notice, Landsnet is permitted to contact producers or suppliers and ask them to bid a certain amount of power for up or down regulation. These bids will be treated the same way as other bids in the regulating power market.
- 6.6 Regulating power is not to be settled by itself; instead, the difference between bidder estimates and meter measurements is to be settled as balancing energy.
- 6.7 Landsnet may use up- or down-regulation bids if necessary to ensure the security of the transmission system, including because of transmission congestion.
- 6.8 Landsnet may reduce or require the reduction of generation by power stations if necessary to ensure the security of the transmission system, including because of transmission congestion. No payment is made for the contribution of power stations to down-regulation for this purpose.

## **7. Balance responsible party obligations in the settlement of balancing energy**

- 7.1 A balance responsible party is to submit a balancing energy schedule to Landsnet in the format determined by Landsnet. In its balancing energy schedule, the balance responsible party shall demonstrate a balance in its intended electricity trading, such that in every hour the procurement of electricity, i.e. generation as well as purchase from other balance responsible parties, will equal electricity disposal, i.e. use as well as sale to other balance responsible parties.
- 7.2 Balancing plans shall be submitted electronically via the balance responsible parties' home page on the Landsnet website, unless Landsnet decides differently.
- 7.3 Balancing energy schedules must be submitted before 2:00pm on Friday for the week about to begin, i.e. Saturday through Friday. One plan is to be submitted for each day. Values in balancing energy schedules may be corrected until 2:00pm on the day before the time to which they apply; however, as of 1 January 2007 this will change to the effect that it will be permissible to correct values in balancing energy schedules until two hours before the time to which they apply. Should verifiable technical difficulties occur while submitting, a balancing energy schedule may be submitted beyond the above deadline, upon obtaining the consent of Landsnet.
- 7.4 As its reference for balancing energy accounts, Landsnet uses the data on wholesale trading that appear in balancing schedules. This applies even though a balancing schedule is not balanced.

- 7.5 If the wholesale trade of two entities does not match according to their balancing schedules, the balancing schedule of the purchasing entity shall be adjusted to that of the seller.
- 7.6 A balance provider's not submitting a balancing schedule for a certain day (24-hour period) or certain hours shall be equivalent to submitting a balancing schedule for 0 MWh/h of generation, use and wholesale trading during the hours involved.
- 7.7 If Landsnet has given notice of permanent transmission congestion, cf. the C6 Terms for Congestion Management, balance responsible parties must specify in their balancing schedules the trade positions on each side of the permanent transmission congestion. The notification to such effect shall be made in the form decided by Landsnet.

## 8. Pricing balancing energy

- 8.1 The balancing energy price shall equal the highest up-regulation bid that was used in the case of regulating up, or else the lowest down-regulation bid that was used in the case of regulating down. If both up and down regulation have occurred within the same hour, the balancing energy price shall be set to equal the highest up-regulation price for that hour. In general, the regulating power in a given bid must be used for at least 10 minutes before becoming a basis for determining the balancing energy price. If none of the bids is used for over 10 minutes within that particular hour, the balancing energy price shall be set based on the bid which was used closest to 10 minutes. If no regulating power was used, the balancing energy price shall be set as the lowest price obtained for up-regulation power during the respective hour.
- 8.2 Information on the balancing energy price for any given hour shall be accessible for balance responsible parties at Landsnet at the latest by 11:00 AM (GMT with no daylight savings time) on the following day. Landsnet is permitted to make exceptions to this if technical difficulties arise affecting this. Landsnet reserves the right to correct errors in balancing energy prices within the calendar year.
- 8.3 In certain situations, such as cases of instability, major data system problems, *force majeure* or other similar circumstances that prevent customary dealing with regulating power and balancing energy, Landsnet shall set the balancing energy price. Landsnet is to announce this as soon as possible once a normal situation has been established again.
- 8.4 Bids that are used within the meaning of Article 6.7 are paid for by Landsnet, and their use should not have any effect on the balancing energy price. Landsnet pays for up-regulation bids used in this manner at the agreed bid price.

## 9. Calculating balancing energy

- 9.1 The balancing energy of any specified balance responsible party is calculated for each hour to equal the average actual trade during the hour, minus the estimated trade. In instances of joint balance responsibility, the balancing energy for a particular final customer is to be divided equally among the balance responsible parties according to their shares of balance responsibility.
- 9.2 The share that a specified balance responsible party has in the balance responsibility for a particular final customer equals the balance responsible party's scheduled sale to the final customer divided by the sum of the scheduled sales of all the balance responsible parties to the respective final customer. The estimated sale is to be based on balancing energy schedules, and the share of balance responsibility is to be calculated for each hour.
- 9.3 In certain situations, such as when faults, major data system problems, *force majeure* or other similar circumstances arise that prevent customary dealing with regulating power and balancing energy, Landsnet shall, to the best of its ability, determine the balancing energy of each balance responsible party. Landsnet is to announce this as soon as possible once a normal situation has been established again.
- 9.4 Landsnet is authorised to use non-spinning reserves in cases of instability. Since the provision of non-spinning reserves is not indicated in balancing energy schedules, it shall be classified as a deviation from them. Should Landsnet decide to provide non-spinning reserves, their provision shall be considered production by Landsnet, with Landsnet bearing the balance responsibility.

## 10. Settling balancing energy

- 10.1 Balancing energy shall be settled monthly. Landsnet shall normally send entities an invoice with information on payment due or credit 10 days after the end of a payment period. The invoice issue date and final due date shall comply with Article 6.7 in Landsnet's general terms on electricity transmission and system management.
- 10.2 The fee to Landsnet for settling balancing energy shall be set out in the Landsnet tariff.
- 10.3 Each January following the signing of an agreement on balance responsibility, Landsnet shall let the balance responsible party have an annual statement for the past calendar year, showing the year's adjustments to balancing energy payments.
- 10.4 Provisions of the general terms on electricity transmission and system services shall apply in cases of payment default.

## 11. Liability

- 11.1 Landsnet and its customers are obligated to build and operate transmission facilities and other structures for transmitting electricity, to maintain these in conformity with the procedures of painstaking, quality operators and to repair without delay any flaws or faults that cause or might cause damage.
- 11.2 If Landsnet or one of its customers violates provisions of terms or of agreements based on the terms in such manner as causes loss to the other party, the party suffering damage is entitled to a discount and/or compensation from the party causing the loss, as further stipulated in this Article. In cases of serious non-compliance, it is permissible to cancel the agreement concerned.
- 11.3 Landsnet and its customers may be held responsible only for damage that they cause intentionally or through gross negligence. It is the responsibility of the party suffering damage to take appropriate measures to limit or prevent the damage. Any failure to take such measures may limit the compensation to which the party suffering the loss might have a right.
- 11.4 Neither Landsnet nor its customers shall have a right to compensation for indirect or induced loss, e.g. lost profit, lost use or hindrances in meeting obligations to a third party, other than to the extent that such damage results from intentionally breaching the contractual obligations of the party or a subcontractor of that party (at whatever stage).
- 11.5 A party's liability to pay compensation on the basis of these Terms or agreements based on them is limited to an amount that is four times the price of transmitting the electricity that cannot be transferred due to the action or lack of action, though in no case higher than ISK 50,000,000 for each individual incident. However, no compensation shall be paid unless the specific loss amounts to at least ISK 1,000,000. In evaluating what is considered a specific loss, the damage that one and the same event causes within the same 24-hour period shall be considered one specific loss.
- 11.6 Landsnet and its customers are permitted to negotiate modifications to the liability provisions of the present Article 11.

## 12. Breach of terms

- 12.1 If a balance responsible party neglects its duties according to these Terms or to an agreement on balancing energy, Landsnet has the authority to cancel the agreement on balance responsibility or to request that the National Energy Authority of Iceland act on the basis of Chapters VII and VIII of the Electricity Act.

## 13. Regulation and remedies

- 13.1 The National Energy Authority shall regulate the operation of companies pursuant to the Electricity Act and their compliance with the conditions applying to these operations according to laws, regulations and these Terms.
- 13.2 In case of disagreement on the implementation or interpretation of provisions in the Landsnet Terms, the parties shall strive to resolve this dispute.
- 13.3 In case of disagreement on the implementation or interpretation of provisions in the Landsnet Terms, the National Energy Authority shall be asked for a resolution in instances where it has

the power to make a ruling on the basis of Chapters VII and VIII of the Electricity Act, and the Appeals Committee on Electricity asked when applicable. Rulings of the Appeals Committee may be appealed to the courts, as provided for in Article 30, Chapter VII, of the Electricity Act.

- 13.4 If the resolution of a dispute does not fall under the National Energy Authority, the case may be referred to the District Court of Reykjavik for a decision.

## 14. References

- 14.1 Agreement on balance responsibility
- 14.2 A.1 General terms on electricity transmission and system management

Unofficial translation from the Icelandic