

RESPONSE TO SYSTEM OPERATION DRAFT FRAMEWORK GUIDELINES

Dear Alberto,

The European Federation of Energy Traders (EFET) promotes and facilitates European energy trading in open, transparent and liquid wholesale markets, unhindered by national borders or other undue obstacles. EFET currently represents more than 90 energy trading companies, active in over 27 European countries.

We are grateful for the opportunity to comment on the draft guidelines.

The consultation draft forms a good basis for the Framework Guidelines and identifies some of the main issues. The main area that needs to be improved is the need for more detailed guidance on the interaction between procurement and use of reserve, and the operation of wholesale markets. Different practices across Member States currently distort prices in day-ahead and intraday markets and therefore have an important impact on cross border trade.

In general we do not feel that the paper is yet ready to be used as the basis for network codes. For example, it would be better for the guidelines to be in the same style as the CACM guidelines rather than the tabular format. There is also a considerable amount of repetition (e.g. on implementation issues, criteria etc. scope and objectives etc.) that could be removed or placed in introductory sections.

Overall we would recommend that ACER, in due course, re-issues the document for a second consultation taking into account initial comments received, before proceeding with adoption and issue of guidelines to ENTSO-E.

Our responses to the specific questions in the consultation are in the attached Annex.

Specific Questions

1. The Initial Impact Assessment (IIA) identifies the following challenges (i) growing amount of distributed generation and variable generation (ii) increasing interdependence of control areas. Are there additional key cross-border challenges that the Framework Guidelines (FGs) and Network Code(s) on System Operation should address?
2. The Framework Guidelines identify a number of actions and requirements to be included in the Network Code(s) as a solution to these challenges. Are the actions and requirements identified in the Framework Guidelines appropriate to solve these challenges?

EFET believes that facilitation of the market should be explicitly mentioned as a central objective for System Operation. TSOs have the task to facilitate a single European power market and the guidelines should better reflect the objectives of the legislation under which they will be adopted: i.e. the Third Package. This means that a well functioning market should be the main driver for system operation network codes.

In this respect, the second objective in the IIA “to apply same principles for different systems” needs to be revised. We believe Objective 2 should be as follows:

“To deliver benefits to customers by supporting the functioning of the competitive market for electricity, especially in relation to the development of liquid and competitive day-ahead, intraday and balancing markets.”

This underlines the need for a further degree of harmonisation in terms of similar market design principles being used across the EU, including the functioning of system operation and its interaction with balancing and traded markets. Across the board, the objective of liquid wholesale markets and retail competition should be underlined.

A key concern for EFET is to ensure that there is an effective relationship between the procurement and dispatch of reserves and ancillary services, balancing mechanisms and traded energy markets. Suitable incentives on market participants must be maintained and in many cases improved. The use of system operator procured reserves should not distort, for example, prices in day-ahead or intraday markets. A higher degree of harmonisation of market design in this respect is desirable and this needs to be given more emphasis in the Framework Guidelines. As system operation will affect market functioning, transparency in system operation is also essential.

The challenges provided by the growing amounts of variable (not correlated with demand) generation should, as far as possible, be left for market participants to resolve. They cannot only be handled through System Operation procedures. Market participants will, in the future, need to link generation and demand in a much more intelligent way. Trying to solve the intermittent generation integration entirely through system operation procedures will be expensive and counter-productive.

It is essential that rules are developed which are future proof in terms of being compatible with the contribution that smart grids will offer to market participants in terms of integrating/facilitating intermittent generation and connecting demand and supply in an intelligent, smart way.

3. Are the proposed levels of harmonisation sufficient to solve these challenges?
4. Should the Framework Guidelines be more specific with regard to areas that need to be harmonised, both across and within synchronous areas?
5. Should the Framework Guidelines require the development of common rules for System Operation between synchronous areas?

EFET considers that there should be a higher degree of harmonisation since there is an unavoidable interaction between national and cross border systems. Generally speaking, we agree with ACERs assessment that all aspects of system operation have cross border aspects due to laws of physics, especially for synchronised areas. In addition, system operation also has a cross border impact through the effect on wholesale markets. Therefore there will be significant benefits from having harmonised rules for System Operation between synchronous areas to the extent that system operation may affect wholesale markets.

In this context, transparency is possibly more important than harmonisation in terms of supporting well functioning markets. This includes transparency around TSO actions like trading or redispatch volumes, related costs and details of grid related market restrictions etc.

We generally support the idea of harmonising definitions of different reserve and ancillary service products in terms of definitions, contractual arrangements, dispatch procedures and procurement processes.

6. Considering the current arrangements of the system operation rules and procedures throughout the EU, what would be an appropriate level of detail for the Network Code(s) on System Operation?

The network codes should be relatively detailed. More harmonised definitions of reserve products, how they are used, and how and when reserve must be procured and dispatched would be beneficial. A common set of rules would also make it more likely that disruptions can be restricted to particular areas. In this context, the statement that “national measures can be stricter but should not be inconsistent” is not particularly helpful. In some areas, stricter guidelines will inevitably mean inconsistent approaches (e.g. in terms of definition of network states).

7. What key benefits and types of cost would you expect for compliance with these requirements? Please quantify from your point of view.

The benefits from a harmonised approach to system operation would come from:

- minimising potential market distortions from real time system operator actions,
- better structured remedial actions which avoid ad hoc interventions in the market,
- more efficient procurement of reserves and ancillary services and,
- in general more secure grid operation.

The costs of implementing a more harmonised system operation network code could be significant for generators. It is important that some cost-benefit analysis is applied and alternative solutions are evaluated (e.g. network based solutions). In addition generators must have the scope to recover their costs as part of a market-based contractual relationship for the provision of such services.

8. Should the Framework Guidelines be more precise on organisational aspects of operational security, in particular with regard to security assessment?

System operators should have standard methodologies with respect to security assessment. This would prevent, for example, different approaches to reliability margin which have the potential to lead to distortions of market prices.

Thus system operators should, on a common basis, give evidence that they have an appropriate security of system margin (e.g. stochastic distribution of hours per year where this balancing zone is at risk with a certain degree).

This would help decide the question of what is the optimal size of a regional balancing zone.

More consistent assessment of system security should result in better estimates of the amount of cross border capacity that can be made available. In addition common rules in this respect would ensure that system operators consider a range of different remedial action for dealing with problem situations rather than, for example, simply curtailing cross border capacity.

9. Are the implications for *significant grid users* clear and relevant?

10. Are the roles and responsibilities sufficiently addressed?

The requirements are not that clear and are interspersed through the document. It would be better to have a specific section of the framework guideline dealing respectively with; TSOs, DSO, significant grid users, other grid users.

Grid Users are defined in such way that traders are not a Grid User. Following our response to question 1, we believe that traders will be affected by System Operation and therefore TSOs must have responsibilities towards traders. The FG should reflect the relation between TSOs and the market.

11. Are the individual provisions under Scope & Objectives, Criteria, Methodology & Tools, Roles & Responsibilities, Information Exchange and Implementation Issues, associated to the particular topic, adequate? Should there be any additional elements?

General system operation

System Operators must justify the extent of information that they request from grid users particularly if the information is of a commercially nature. Information should be provided for planning purposes only and there should be no sanction if generators depart from these generic values on the basis of commercial decisions in the operational time frame. Information should only be provided to TSOs and should not be made public.

It is not clear why another network code under the FG System Operation needs to be drafted to deal with building a common grid model and the related data exchange. This is already being dealt with as part of the network code for Capacity Calculation under the FG CACM.

Topic 1: Operational security

The reference to “bulk transmission networks” is inappropriate. The guidelines should remain consistent with existing terminology.

The *scope and objectives* section refers to co-ordination “in each control area”, whereas later in *methodology and tools* the degree of coherence is expected to be at synchronous area or EU wide. In general, as a minimum, the guidelines should be aiming at co-ordination between control areas and within synchronous areas for operational security issues.

The Framework Guidelines should consider a common methodology for calculating Minimum Security Criteria. This should not be left entirely to the network codes (see answer to question 8).

As discussed above, system operators must justify where they are requesting information from grid users, especially when this is of a commercial nature. The suggestion that significant grid users should provide (potentially unlimited) real time information is excessive and unnecessary.

Topic 2: Operational Planning and Scheduling

The Framework Guidelines should provide more detail and define what is meant by “reliability margin”. The concept of reliability margin should not just relate to cross border capacity. Reducing cross border capacity should not be the primary response to a change in operating state.

The framework guidelines and network codes should set out how system operators should co-ordinate planned outages. This is an important part of the guidelines.

The system operation guidelines should not cover the use of cross border capacity for active power reserves. We disagree with the concept of reserving transmission capacity for this purpose. As well as hindering market integration, the provision of some reserve products across borders would potentially damage operational security, especially since zones should be defined to reflect where structural congestions exist.

Topic 3 Load Frequency Control

This section is the main area that needs strengthening in order to reflect the interactions between load-frequency control and wholesale markets. There should ideally be EU wide harmonisation of some key principles so that TSOs facilitate the development of liquid and efficient day-ahead and intraday markets. System operators should work with market based tools to ensure load frequency control. They should make the maximum use of currently traded products that exist in the market before developing specific procurement requirements.

There must be a discussion in this section of when and how reserve is used and its interaction with intraday and balancing markets. The same applies to procedures for demand control, voltage reduction and load shedding. In addition, this section should encompass the use of so-called “*strategic reserve*” as used/proposed in several Member States. The use of such reserves should avoid distorting market prices, particularly in day-ahead and intraday markets. Generally speaking they should only be used as a last resort and pricing should be close to “value of lost load” to reflect this.

This section also underlines the need to distinguish more clearly (in the definitions) between “balancing” and “reserves” in the definitions.

Topic 5 Emergency and Restoration

The Framework Guidelines should be more comprehensive with respect to remedial actions and not just discuss examples. There should be common definitions of security standards and operating states across EU.

The Framework guidelines should avoid language such as “enforcing orders” or “giving instructions”. This is not desirable apart from, possibly, in critical states. In general, system operators will be dispatching reserve on the basis of agreed, commercially negotiated contracts with generators.

[12. Could you foresee any other relevant New Applications which should be mentioned in these Framework Guidelines?](#)

DC power lines must be available to all network users on a TPA basis and not ring fenced for particular generation assets.

As already discussed, the interaction with balancing markets etc. (bullet 4) should be a key part of the existing guidelines and not for ‘new applications’.