



Department  
of Energy &  
Climate Change

# European Electricity Network Code Implementation

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- Third Package creates a new legal framework to promote cross-border trade.
- Sets out the mandate and procedures for establishing legally binding network codes and guidelines to promote:
  - the creation of liquid markets,
  - the efficient use of cross-border transmission capacity and
  - the integration of national markets.
- Third Package prescribes a transparent and consultative procedure to develop network codes.
- The European Commission initiates an iterative process involving ACER and ENTSO-E to design, develop and review the network code that concludes with an ACER recommendation.
- Comitology is the ‘committee procedure’ to agree European law - involves Member States voting, the Council of the European Union and the European Parliament ratifying the process.
- Once agreed, the network code is published in the Official Journal of the European Union

Network codes and guidelines become European law in the form of a Regulation. This gives them certain characteristics that shape their implementation at Member State level.

- European Regulations are directly applicable, i.e. they apply automatically, meaning there is no requirement to, and an obligation not to, transpose them into the GB legal framework.
- Supplementary action may be necessary, e.g. to make the Regulation workable and enforceable
- Have to remove any inconsistencies in the GB legal framework and any existing domestic legislation that wrongly duplicates the Regulation.

# Electricity network codes and guidelines



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Transparency Regulation: requires each TSO to submit generation, load, transmission and balancing information to ENTSO-E to publish on a central information transparency platform	
Markets	<b>Forward Capacity Allocation:</b> will set the rules for calculating and buying capacity in forward markets (before day ahead). It also sets rules for hedging price risk between bidding zones in these markets.
	<b>Capacity Allocation and Congestion Management:</b> will lay down the rules for operating pan-European day ahead and intraday markets, and will set out the processes for determining how capacity is calculated and for reviewing bidding zones.
	<b>Electricity Balancing:</b> will define the roles and responsibilities of TSOs and market participants in cross-border balancing and provide the rules for procurement and exchange of balancing energy, reservation of capacity for balancing and greater harmonisation of settlement arrangements.
Connection	<b>Requirements for Generators:</b> will set, or lay down a process for setting, the requirements that new generators must meet to connect to the network. It also sets some requirements for existing generators in very limited cases.
	<b>Demand Connection Code:</b> will define requirements for new demand users and distribution network connections to the network.
	<b>High Voltage Direct Current Connections:</b> will provide requirements for HVDC connections and offshore DC connected generation.
System operation	<b>Operational Security:</b> will be to retain (or return to) a normal grid state. It will set common rules for ensuring the operational security of the pan-European power system.
	<b>Operational Planning and Scheduling:</b> will focus on the planning phase ahead of real time. It will set requirements for assessing the adequacy and operational security of the interconnected power system and for planning outages required by TSO's and grid users when they have cross borders impacts on power flows.
	<b>Load Frequency Control and Reserves:</b> will force on frequency quality criteria. It will provides for the coordination and technical specification of load frequency control processes and specifies the levels of reserves (backup) which TSOs need to hold and specifies where they need to be held.
	<b>Emergency Restoration:</b> will deal with the procedures and remedial actions to be applied in the Emergency, Blackout and Restoration states.

# Tasks and roles

To implement in GB changes to legislation, licences, GB industry codes, access rules, tariff agreements and potentially other industry documentation is likely to be necessary.

- DECC, Ofgem, the system operators and market participants all have a role to play in implementing network codes and guidelines.
- DECC is ultimately responsible for their implementation in the UK. The UK may face the risk of infraction proceedings from the Commission if it is in breach of its Treaty obligations.
- Ofgem, as the GB National Regulatory Authority (NRA), is responsible for monitoring compliance and enforcing that compliance. In order to fulfil this role DECC may need to grant Ofgem new enforcement powers.

# The GB framework

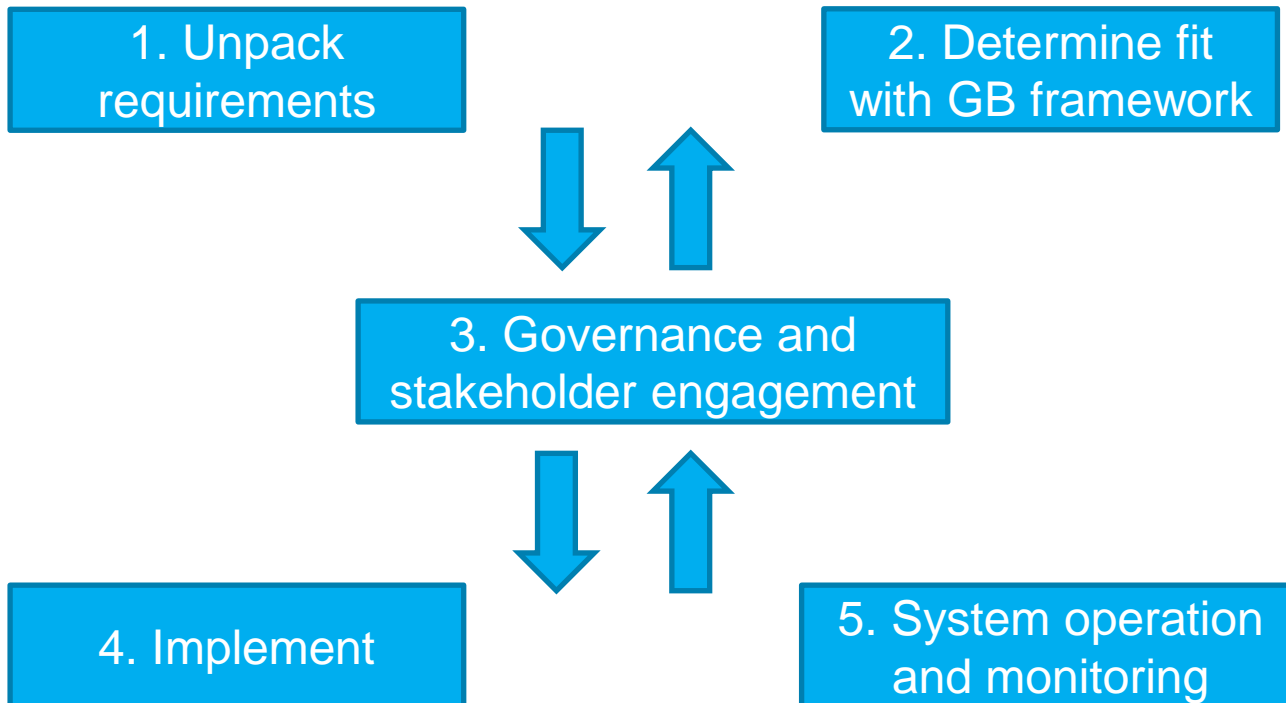
Will therefore necessitate changes to the GB framework falling into three categories:

- Supplementary action to make the Regulation workable.
- Due to the hierarchy of laws there is a need to remove any conflict to a network code or guideline that exists in the GB framework
- Changes that support a network code or guideline requirement. These are consequential changes to make sure the network code or guideline can be enforced.
  - Examples, may include DECC giving Ofgem enforcement powers or modifying licences to formalise new requirements.

Our intention is for the UK to comply with the code requirements while incurring the least cost in implementation and delivery.

# Implementation approach

Approach developed for CACM can act as a starting point – though as each code differs the precise activities will as well:



# 1. Unpack requirements

- Clear understanding of what each network code and guideline requires.
- May require the development and proposal of terms, conditions or methodologies, proposing a value from a range or approving a proposal.
- May confer new roles and responsibilities on existing entities or establish new entities.
- Need to identify the market participant(s) that each article and task applies to as well as identify which participants' may be affected by the proposal to ensure we engage with them.
- Some tasks fall directly to NRAs and Member States. E.g. identifying which TSO or group TSOs cannot comply with a TSO requirement.
- Understand the geographic level for proposals, consultations and approvals - Pan-European level, regional level, to synchronous area level or at Member State level
- Vast majority of network code or guideline tasks prescribe the deadlines.



## 2. Determine fit with GB framework

- Aim is to identify what changes are necessary to the GB framework and to make these in the least onerous way.
- Government policy is that the lowest possible level of implementation will be used.
- Only where those things are not sufficient or practical will we use legislation

**The Network Code** is clear and requires no supplementary action to make it workable and/or enforceable. Where this is not the case, proceed down the chart

**Access rules and tariff agreements** modifications are industry led consultative processes that require an Ofgem approval and take a minimum of 6 months

**GB industry code modifications** are usually industry led. Before taking effect any modification requires Ofgem's approval

**Transmission, Generators or Supplier Licences** are Ofgem led and take a minimum of 6 months

**Primary or secondary legislation** modifications are a DECC led process that take a minimum of 9-12 months

This analysis forms the foundation of a project plan.

# 3. Governance and stakeholder engagement

- DECC and Ofgem have co-ordinating arrangements in place across all codes and will establish implementation groups to oversee each code and sub-groups to consider particular issues where appropriate.
- For each code we will decide the appropriate arrangements for the implementation group - who will do what, how and when to implement a network code or guideline.
- We will then test this with industry.
- The intention is for the parties responsible for those instruments to propose and consult on implementing these changes using the existing procedures in relevant to each instrument of the GB framework.
- We will use ECCAF, its code mapping sub group, JESG or the DECC Ofgem stakeholder group to test this with stakeholders as the first step in an open-ended dialogue.
- Communication with stakeholders is paramount.
- After the comitology vote for that network code or guideline we will make clear to stakeholders what needs to happen and when, who is responsible for these tasks and how we will demonstrate GB is compliant.

## 4. Implement

- The parties responsible for each GB instrument implement the necessary changes, consulting on individual or packages of modifications and consequential amendments using the relevant processes.
- Ofgem will allow the standard process to run their course but will monitor any industry led process to make modifications to GB industry codes.
- Ofgem may decide to direct timetables for changes to GB industry codes to reduce infraction risk.

# 5. System operation and monitoring

- On-going operational state that begins after implementing a network code or guideline.
- In stage 5, responsible parties fulfil their network code or guideline obligations.
- Ofgem along with ACER, NGET through ENTSO-E will undertake their respective monitoring duties.
- Ofgem is responsible for monitoring responsible parties compliance with their network code and guideline obligations.
- Ofgem is also responsible for enforcing any non-compliance network code or guideline obligations.
- Ofgem needs to act in accordance with the network code and guideline requirements.
- Ofgem enforcement guidance is a relevant reference.



# Questions and thoughts?



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# Capacity Allocation and Congestion Management (CACM) Update

DECC-Ofgem Electricity Stakeholder Meeting – 15<sup>th</sup> October 2015



## Progress

- July 2014 - proposal issued by the Commission.
- 10th September - informal meeting of the Electricity Cross-border Committee (ECBC)
- 9<sup>th</sup> October - first formal comitology meeting
- Next Steps:
  - Re-worked draft (based on discussions and MS comments) – expect by end of October.
  - Next comitology meeting initially scheduled for 7th November.
  - Commission aim to agree by end of the year.



## CACM – Key issues from 9<sup>th</sup> October

- **Collective decision making – Article 9(2)**

*“TSOs and NEMOs deciding on proposals... shall decide based on... if no consensus could be reached among them.”*

- **Nominated Electricity Market Operators (NEMOs) – Articles 4-6**

*Reciprocity and ‘automatic designation’.*

- **Capacity Calculation – Article 19**

*Flow-based approach versus NTC.*





## CACM – Key issues from 9<sup>th</sup> October (Continued)

- **Bidding Zone Review – Articles 31-33**

*Open-ended process; review period.*

- **Committees**

*Latest draft removed Committee structures. Commission proposes general provisions for TSO/NEMO and Stakeholder Committees: e.g.*

*“TSOs and NEMOs shall jointly organise the day-to-day management of the single day-ahead and intraday coupling... organise regular meetings...preparing necessary contracts...”*

*“ACER/ENTSOe shall organise stakeholder involvement... shall include regular meetings...”*

- **Amendments**

*Amendment process for CACM as a “guideline” – details in recital.*

- **Others areas, including ACER opinions and cost-sharing.**



# Your views?

# European network development under the Energy Infrastructure Package

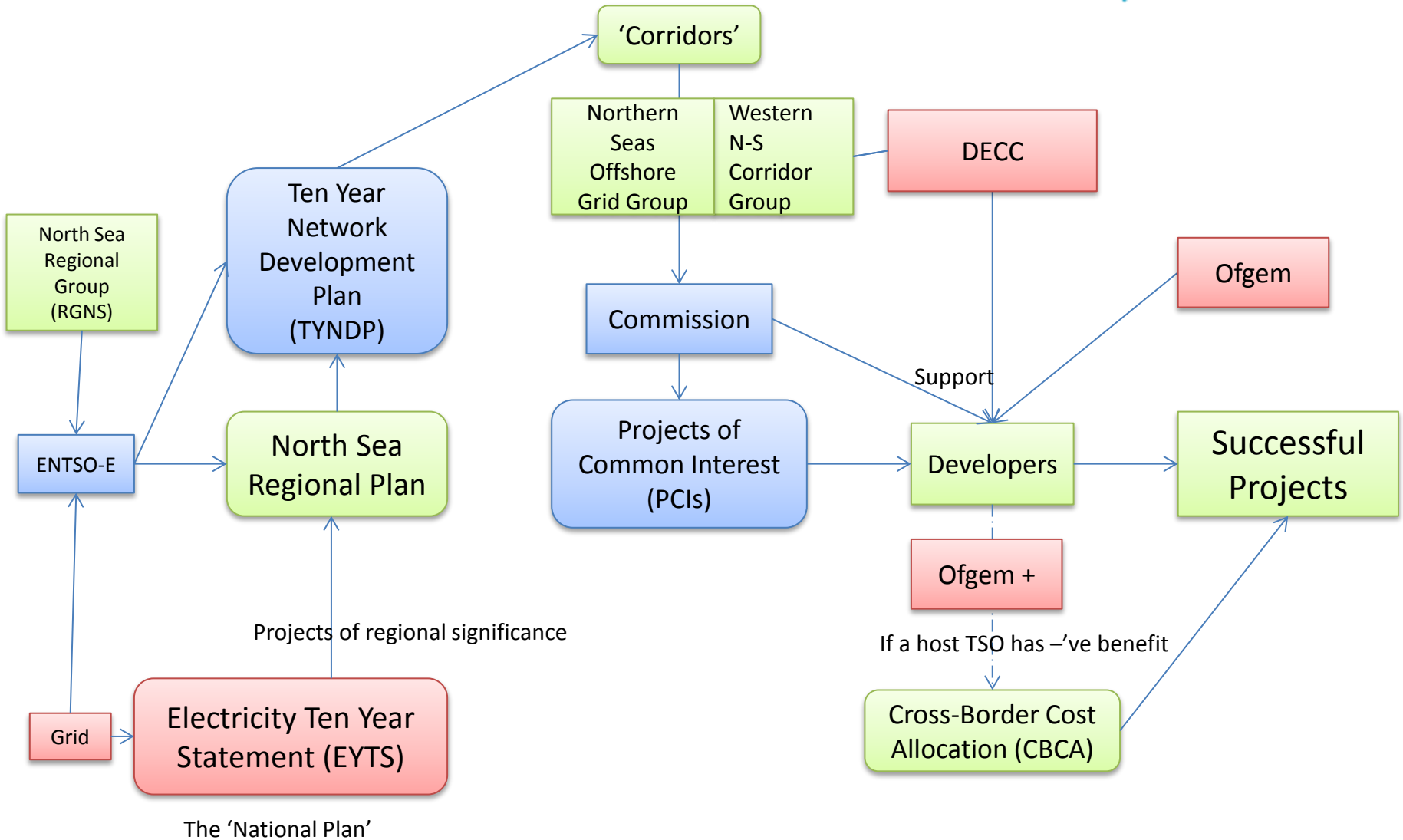
Overview of processes and links between EU infrastructure policies

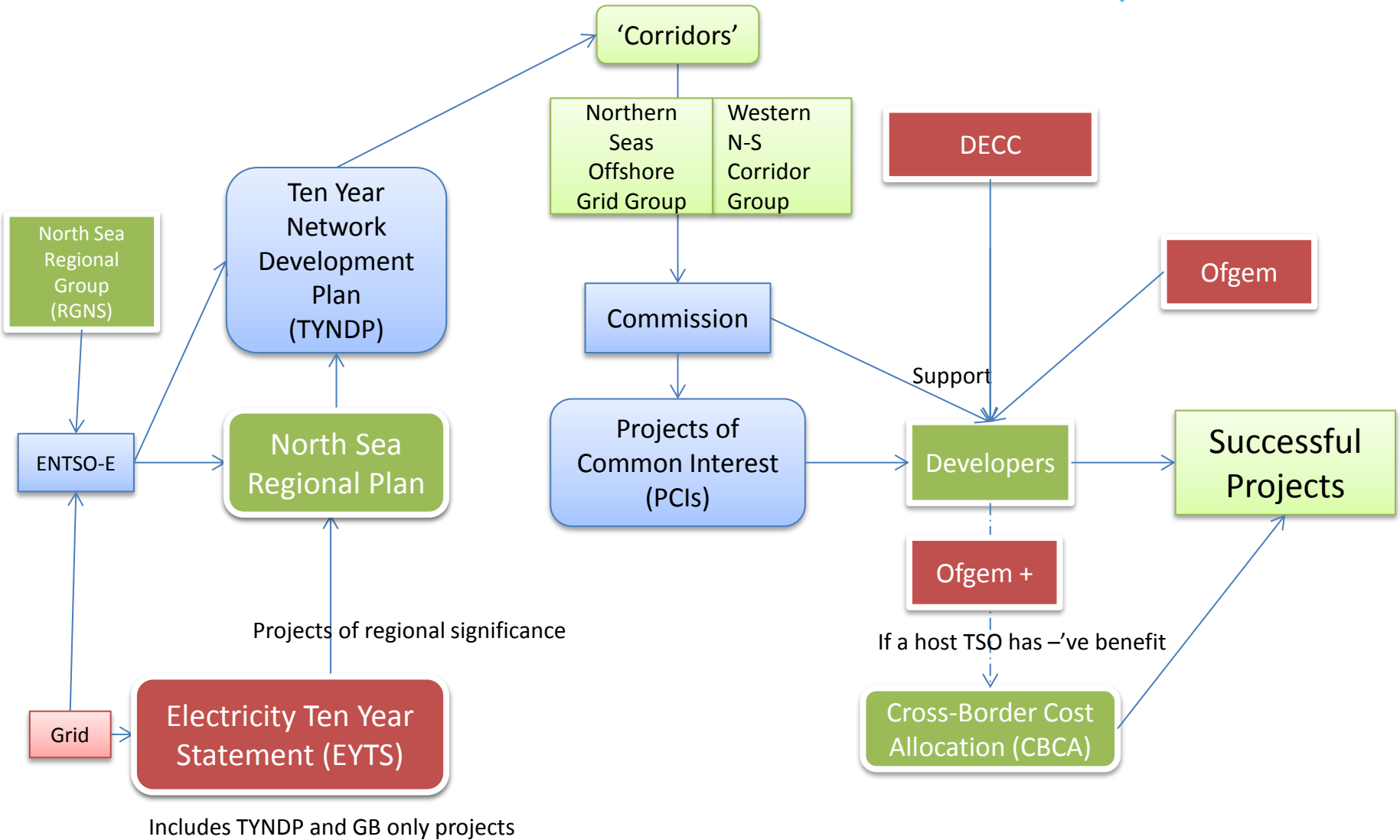
## Energy Infrastructure Package (EIP)

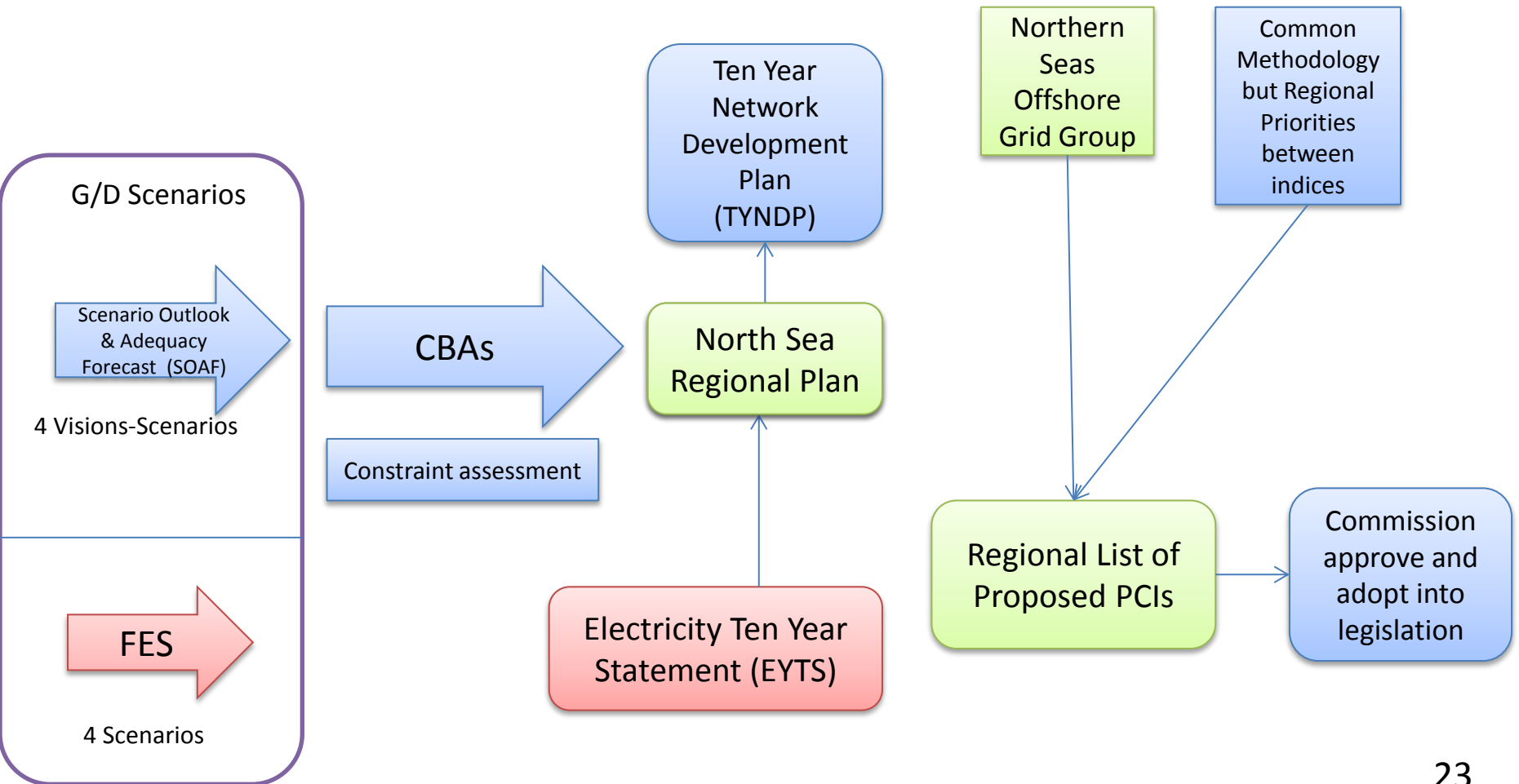
- EIP Regulation (TEN-E Regulation) sets out rules for encouraging development of trans-European energy networks in order to meet EU energy policy objectives
- **EIP introduces a process for the development of a Union-wide list of Projects of Common Interest (PCIs).** EIP aims to encourage significant investment in PCIs through:
  - **Accelerated permit granting** (3.5 years time limit and one-stop-shop)
  - **Improved regulatory treatment** (appropriate incentives, cross-border cost allocation)
  - **Financial aid** under the Connecting Europe Facility (CEF) incl grants and financial instruments



# System Planning in the Energy Infrastructure Package

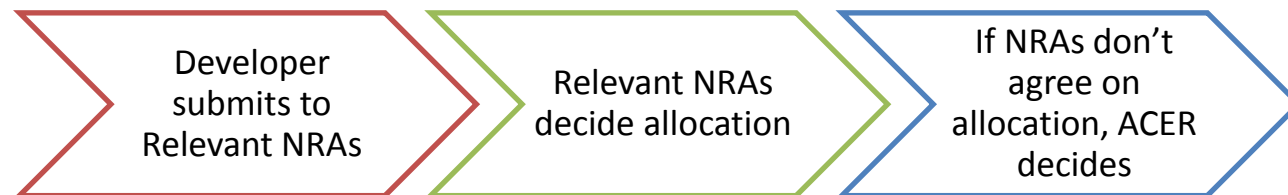






- **Default:** Where an asset of a project is built, it is paid for through the tariffs of that Member State (or another commercial agreement reached by the parties)
- But if one of these Member States has a **NET –'ve benefit** under this allocation and:
  - The project is sufficiently mature for an accurate CBA (advanced planning)
  - Clear positive externalities that align to the PCI objectives

Developers can the submit a CBCA application



Connecting Europe Facility  
(CEF) project funding only  
available after CBCA



# Questions?

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RGNS

- **North Sea Regional Group**
- TYNDP development, and NSCOGI involvement
- *Participants:* relevant TSOs and ENTSO-E

NSOG

- **Northern Seas Offshore Grid Corridor group**
- PCI selection group
- *Participants:* relevant governments, Commission and advisory NRAs (inc. DECC and Ofgem)

NSI WE

- **North-South Electricity Interconnections in Western Europe Corridor group**
- PCI selection group
- *Participants:* relevant governments, Commission and advisory NRAs (inc. DECC and Ofgem)

NSCOGI

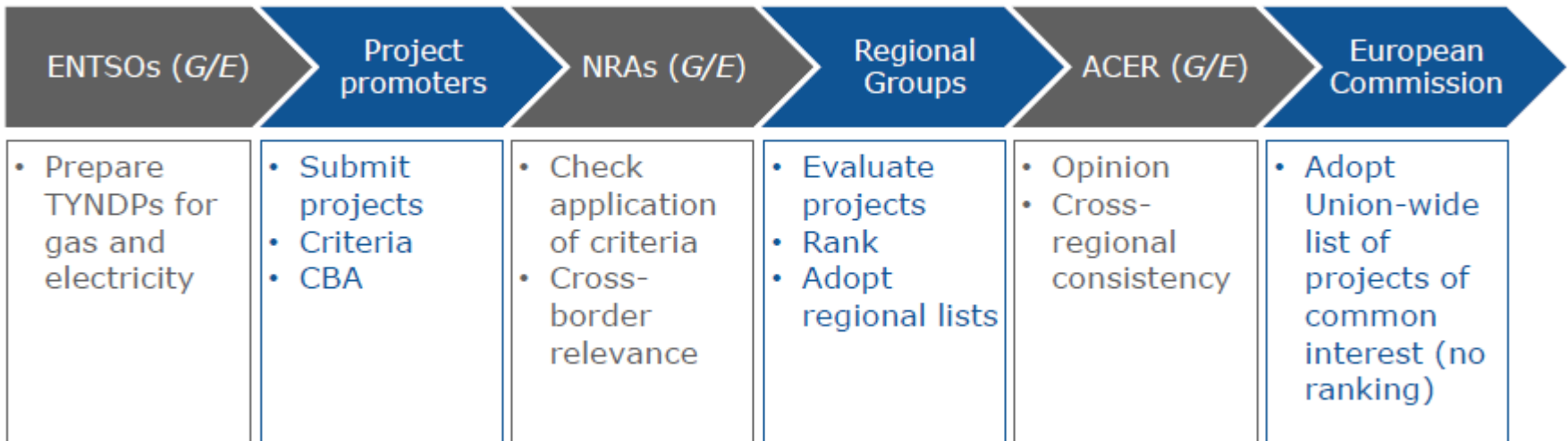
- **North Seas Countries' Offshore Grid Initiative**
- To encourage the development of Multi-Purpose Projects in the North Sea
- *Participants:* relevant governments, TSOs, Developers, NRAs, Commission

# Projects of Common Interest

The Second List – update from cross-regional group meeting

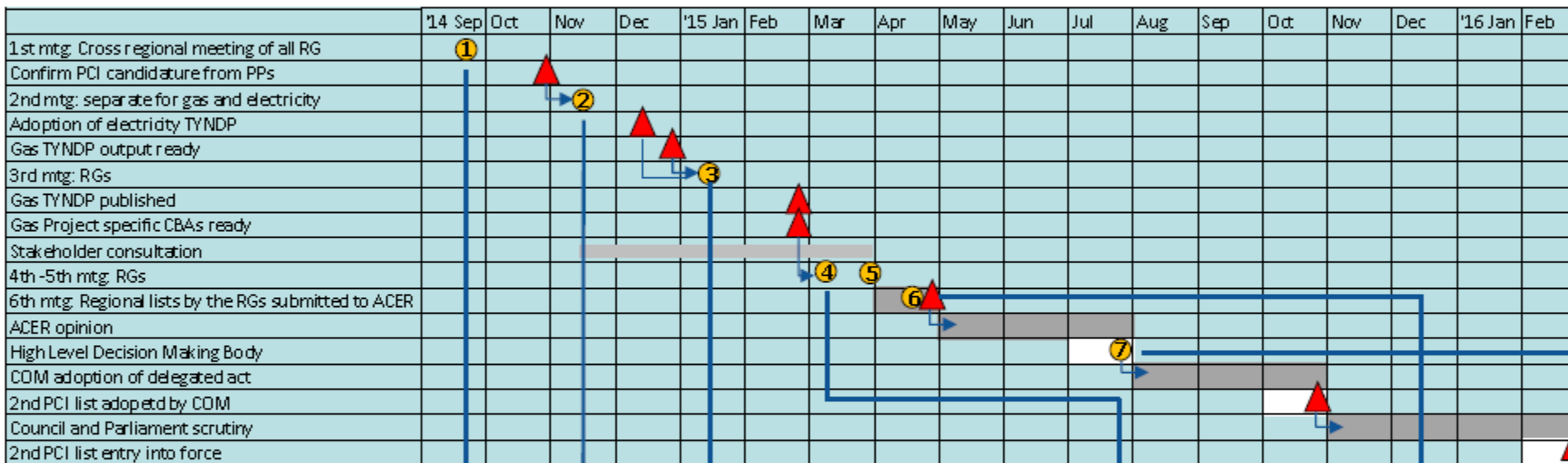
## PCIs are:

- Create benefits in at least 2 EU MS.
- Projects considered to be of particular importance in bridging the perceived gap in EU infrastructure development. Potential benefits outweigh the cost.
- Significant cross-border impact e.g. variation of border grid transfer capacity at least 500 MW (E) / 10% (G)
- Are judged by regional groups and the Commission to be particular priorities for their 'corridors'



- The ultimate decision on which projects are awarded PCI status rests with the EC and National Competent Authorities (DECC). NRAs required to provide a written, informal, non-binding opinion on the proposed PCIs.

## 2nd round of PCI evaluation: PCI list 2016



### 1st mtg:

**Objective:** Launch the 2nd PCI process

### 2nd mtg:

**Objective:** PCI candidates and methodology

### 3rd mtg:

**Objective:** System wide assessment

### 4th & 5th mtg:

**Objective:** Assessment

### 6th mtg:

**Objective:** Agree regional lists

### 7th mtg:

**Objective:** High Level DMB to approve PCI list

- Joint Research Centre (JRC) methodology
  - Define and apply PCI evaluation approach – consistent methodology across regional groups (although different regional priorities in assessments)
  - Stakeholders and NRAs consulted on methodology
- Consultation
  - Several stakeholder meetings through the development of the lists – more stakeholder engagement than last time
  - List of projects will be submitted to public consultation before final approval

### Next Steps for Regional Groups:

- Confirm list of candidates by November 2014
- Agree on evaluation methodology by January 2015

# Questions?

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