

All interested parties,
stakeholders in GB and beyond,
and other regulatory bodies

Email: Leonardo.Costa@ofgem.gov.uk

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Dear colleagues,

Decision to grant the Electricity System Operator a derogation from the use of the European platform for the exchange of balancing energy from the replacement reserve process

On 18 June 2019, we¹ received a request from the Electricity System Operator (ESO) for a derogation of 12 months from the implementation of the provisions of Article 19(5) of Commission Regulation (EU) 2017/2195² establishing a guideline on electricity balancing (the EBGL Regulation). Specifically, the ESO is requesting a derogation from the deadline by which a Transmission System Operator (TSO) must use the European platform for the exchange of balancing energy from replacement reserves (the TERRE platform³).

The ESO's request is similar to the one submitted by the French TSO, Réseau de Transport d'Électricité (RTE), to the French regulatory authority, Commission de Régulation de l'Énergie (CRE), asking for a similar derogation from the use of the TERRE platform. On 2 October 2019, CRE published its decision to grant RTE a derogation.⁴

This letter sets out our decision to approve a derogation request in accordance with Article 5(4)(h) of the EBGL Regulation and also outlines the necessary next steps that must be taken.

¹ The terms "we", "us", "our", "Ofgem" and "the "Authority"" are used interchangeably in this document and refer to the Gas and Electricity Markets Authority. Ofgem is the office of the Authority.

² Commission Regulation (EU) 2017/2195 of 23 November 2017 establishing a guideline on electricity balancing. The EBGL came into force on 18 December 2017.

³ At the time of this decision, the TSOs using the RR process in Europe are the TSOs of Great Britain, France, Switzerland, Spain, Portugal, Italy, Czech Republic.

⁴ CRE's decision can be found here: <https://www.cre.fr/Documents/Deliberations/Approbation/Deliberation-de-la-CRE-du-26-septembre-2019-portant-approbation-d'une-demande-de-derogation-relative-au-delai-pour-l-utilisation-de-la-plateforme-e>

Background

Article 19(1) of EBGL requires all TSOs performing the reserve replacement⁵ (RR) process to develop a proposal for the implementation framework for a European platform for the exchange of balancing energy from RR. The Trans-European Replacement Reserves Exchange (TERRE) is the implementation project of the European platform for the exchange of balancing energy from RR. The goal of the TERRE project is to develop a platform that allows the TSOs performing the RR process to exchange balancing energy from this type of reserve. Through the TERRE platform, Balancing Service Providers⁶ (BSPs) in Great Britain (GB) will be able to provide balancing energy to other TSOs in addition to providing services to the GB's ESO. The ESO will also be able to procure balancing energy from BSPs in other markets.

In accordance with Article 19(5) of the EBGL Regulation, all TSOs who are performing the RR process and who have at least one interconnected neighbour, shall implement, make operational, and use the European platform for the exchange of balancing energy from RR by one year after the approval of the implementation framework for the European platform. On 15 January 2019, the last regulatory authority made its decision to approve the implementation framework for RR. Therefore, the deadline for compliance with Article 19(5) is set to 15 January 2020.

Article 62(2)(a) of the EBGL Regulation allows a TSO to request a derogation from the deadline by which a TSO shall use the European platform pursuant to Articles 19(5). In accordance with Article 62(4) of the EBGL Regulation, the TSO requesting a derogation must file a written request at the latest six months prior to the day of application of the provisions from which the derogation is requested.

In accordance with Article 62(5) of the EBGL Regulation, the derogation request must contain the following information:

- (a) *"the provisions from which derogation is requested;*
- (b) *the requested derogation period;*
- (c) *a detailed plan and timeline specifying how to address and ensure the implementation of the concerned provisions of this Regulation after expiration of the derogation period;*

⁵ 'Replacement Reserves' or 'RR' means the active power reserves available to restore or support the required level of FRR to be prepared for additional system imbalances, including generation reserves.

⁶ In accordance with Article 2(6) of the EBGL Regulation, "Balancing Service Provider" (BSP) means a market participant with reserve-providing units or reserve-providing groups able to provide balancing services to TSOs.

- (d) *an assessment of the consequences of requested derogation on adjacent markets; and*
- (e) *an assessment of the possible risks for the integration of balancing markets across Europe caused by the requested derogation”.*

The ESO's request was submitted in accordance with Art 62(4) and (5) along with supporting information that included an assessment of the consequences on adjacent markets and on the integration of balancing markets across Europe. The supporting information also included a plan outlining how the ESO will ensure that the concerned provisions are implemented after expiration of the derogation period.

The ESO also explained that it submitted the derogation request to the Authority on the basis that:

- 1) if RTE is not using the TERRE platform, RR would not be able to be traded across borders without access to RTE's network;
- 2) the primary economic benefits of the TERRE platform cannot be realised until the platform is used by other TSOs performing the RR process; and
- 3) given the above, the ESO took the decision to deprioritise local implementation of the TERRE platform and to focus instead on expanding access to the BM.

The ESO has therefore requested the same derogation period as RTE (12 months) but stated an aim to connect to and use the platform in June 2020 if RTE is ready.⁷ In its decision granting RTE a derogation until 14 January 2021, CRE requested that RTE:

- i) connects to the TERRE platform to offer its available cross-border capacity after the intraday deadline as soon as possible and by June 2020 at the latest. This would allow the neighbouring TSOs to carry out exchanges passing through France without waiting for RTE to be operationally ready to participate in these exchanges itself.
- ii) gives market players the best possible visibility on the TERRE platform's commissioning schedule and to test, as soon as possible with the balancing actors, the new balancing bids management tools

⁷ RTE has been granted a 12 month derogation by CRE, but it has estimated that it should be ready to use the TERRE platform from June 2020.

Decision

We have reviewed the proposal submitted to us in line with the requirements of the EBGL Regulation, the wider objectives of the Regulation (EC) No 714/2009⁸ and our statutory duties and obligations. We have also engaged with the ESO to clarify our understanding of the rationale for the request for derogation. In addition, we sought the views of stakeholders who attend the Joint European Stakeholder Group⁹ on the impacts of granting such a derogation.

As required by Article 62(8) of the EBGL Regulation, we considered the following aspects when assessing the ESO's request for derogation:

- (a) the difficulties related to the implementation of the concerned provision or provisions;*

In light of RTE's derogation request, we understand that the ESO made a decision to decouple the delivery of the IT implementation solutions for the TERRE platform and the solutions for widening access to the BM. The ESO then focused on the design, development and testing of system changes that would facilitate wider access to the BM as a priority over implementing TERRE IT solutions. As a result, the ESO will be unable to use the TERRE platform by 15 January 2020.

- (b) the risks and the implications of the concerned provision or provisions, in terms of operational security;*

We believe that there could be a risk to operation security if the TERRE platform is not implemented correctly at a local level. The ESO explained that it is unable to implement the local IT solutions needed to use the platform, to fully integrate it and properly test it by the 15 January 2020. We therefore believe that rejecting the derogation request could create a risk to operational security.

⁸ Regulation (EC) No714/2009 of the European Parliament and of the Council of 13 July 2009 on the conditions for access to the network for cross-border exchanges in electricity, available here: <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2009:211:0015:0035:EN:PDF>

⁹ See the Joint European Stakeholder Group meeting held on 10 September 2019, whose relevant information can be found at: <https://www.nationalgrideso.com/codes/european-network-codes/meetings/jesg-meeting-10-september-2019>

More information about this group can be found at: <https://www.nationalgrideso.com/codes/standing-groups>

(c) the actions taken to facilitate the implementation of the concerned provision or provisions;

The ESO has provided us with a timeline for its implementation plan. While the ESO proposed plan is achievable, we do not believe that it warrants a derogation period of 12 months for the ESO to use the TERRE platform.

We note that, in its decision, CRE requests RTE to offer its available cross-border capacity after the intraday deadline as soon as possible and by June 2020 at the latest. We therefore understand that RR could be traded across borders by 30 June 2020 at the latest and that a derogation would not be required beyond that point.

We believe that it is important for the ESO to be ready to use the platform as soon as possible if RTE is able to use the platform or provide access to its cross-zonal capacity earlier than June 2020.

In order to provide stakeholders with visibility on the progress of the project and to ensure certainty as to when TERRE will be implemented, we also believe that it would be beneficial for the ESO to publish monthly updates on both their own and RTE's project plan.

(d) the impacts of non-implementation of the concerned provision or provisions, in terms of non-discrimination and competition with other European market participants, in particular as regards demand response and renewable energy sources;

We believe that the requested derogation would not have any impact in terms of non-discrimination and competition with other European market participants.

Irrespective of our decision, we note that, by virtue of the derogation granted by CRE to RTE, market participants in GB would not have access to balancing markets in continental Europe until RTE begins to use the platform or until it makes its cross-zonal capacity available in line with CRE's decision.

(e) the impacts on overall economic efficiency and smart grid infrastructure;

We believe that there will be no impact on overall economic efficiency as a result of granting a derogation. As noted above, the derogation granted by CRE to RTE means that market participants in GB will not have access to balancing markets in continental Europe, and that without RTE using the platform, there will not be any impact on economic efficiency.

(f) the impacts on other scheduling areas and overall consequences on the European market integration process.

We believe that there will be no wider impact of granting a derogation. Until RTE uses the TERRE platform or makes its cross-zonal capacity available to the platform, granting the ESO a derogation will not have any impact on other scheduling areas or on the European market integration.

To ensure that the European market integration process can be completed as soon as possible, we believe that the ESO should ensure that it is ready to use the TERRE platform as soon as RTE is or as soon as RTE's cross-zonal capacity is made available to the platform.

In light of the above, the Authority therefore grants the ESO a derogation from the provisions of Article 19(5) until the earliest of the following dates:

- i) 30 June 2020;
- ii) the date when RTE begins using the platform; or
- iii) the date when RTE makes its cross-zonal capacity available in line with the decision of CRE.

We believe that allowing the ESO to begin using the TERRE platform from one of these three dates will ensure that consumers can get the benefits that result from the cross-border exchange of RR as soon as possible.

Decision not to undertake an Impact Assessment

We have not undertaken an Impact Assessment for this derogation request. This is because we consider that granting this derogation will not constitute a significant change to existing GB requirements and arrangements. Our dependence on RTE's connection to the platform means that there will not be a significant impact on persons engaged in the generation,

transmission, distribution or supply of electricity, or on GB consumers as a result of granting this derogation.

Next Steps

In accordance with this decision, the ESO must start using the TERRE platform by 30 June 2020, or by the time RTE starts using the TERRE platform, or until it makes its cross-zonal capacity available for exchange, whichever of these dates comes first.

We also request that the ESO:

- i) publishes monthly updates on the progress of GB implementation and on the progress of RTE's implementation to help BSPs to be ready to participate in the platform once the ESO is ready to use it;
- ii) ensures that wider access to the BM is implemented in December 2019 to deliver maximum benefits to GB consumers;
- iii) continues the parallel run phase¹⁰ of the implementation of the TERRE platform up until the ESO begins to use the platform for balancing; and
- iv) as a result of the feedback we received from stakeholders attending the JESG, engages with GB-France interconnectors to address any outstanding implementation details,¹¹ and ensure that these are developed in time to allow for sufficient testing so that GB can participate in the TERRE platform.

If you have any questions about the contents of this letter, please contact Alastair Owen (Alastair.Owen@ofgem.gov.uk).

Yours sincerely,

Leonardo Costa

Senior Manager, SO/DSO

¹⁰ The parallel run phase is part of the testing arrangements for TERRE that will allow BSPs to test the TERRE platform without any activation of their bids occurring.

¹¹ This includes: the settlement processes for congestion income, fall-back communication/notification processes, the contractual and operational documentation, and GB-France interconnector testing plans.