

## 3<sup>rd</sup> Meeting of ENTSO-E Stakeholder Group for CA&CM Network Code

### Meeting Minutes

8<sup>th</sup> December 2011, Brussels

#### Participants:

Name	Organization	Name	Organization
Antonio Lopez-Nicolas	ENTSO-E Secretariat	Chris Wood	CEFIC
Mark Copley	ENTSO-E Secretariat	Matti Supponen	EC
Carolina Tengqvist	ENTSO-E Secretariat	Paul Giesbertz	EFET
Samuel Scolari	RTE/ ENTSO-E	Sonia Saly (per telephone)	EFET
Oliver John	Amprion/ENTSO-E	David Assaad	Europex
Ritva Hirvonen	Fingrid/ENTSO-E	Yves Langer	Europex
Christian Dobelke	TenneT/ENTSO-E	Rickard Nilsson	Europex
Alexander Mondovic	ENTSO-E Secretariat	Marco Foresti	Eurelectric
Martin Povh	ACER	Ruud Otter	Eurelectric
Alain Marien	ACER		

#### 1. Welcome and minutes of the last workshop

Antonio welcomes the participants on behalf of Christian.

The minutes of the last meeting of ENTSO-E stakeholder group for CA&CM Network Code on the 26<sup>th</sup> September 2011 are approved with comments from Europex.

#### 2. Presentation of the DA part of the CA&CM Network Code

ENTSO-E states that the distributed material is work in progress. Articles 1 and 2 are interrelated with the governance guideline which doesn't exist yet. Therefore, these articles are based on assumptions. In this context, intense coordination between the two legal frameworks seems necessary. The code is subdivided in 3 sections. ENTSO-E describes some of the articles of the sections.

#### 3. Stakeholders' main comments on the DA part

IFIEC could not make it but sent a presentation.

- IFIEC considers important that all available generation must be offered at marginal cost on the DA market. Otherwise, this must be announced beforehand and analyzed by regulators. Answer: The participants unanimously conclude that this concept would fundamentally deviate from the present market design and should therefore not

considered for the code. Europex also reminds that the current market design of blind auctions cleared at marginal prices is a natural incentive for a marginal costs bidding by market participants.

- Increasing “price zone” sizes in order to promote competition and to make progress towards further EU-wide market integration. Answer: ENTSO-E says that this part of the code is not yet finalised for comments.
- The implementation of a common algorithm (PCR) in Europe. Answer: This is tackled in article 3.1

Eurelectric comments:

Eurelectric asks whether the title of the code is appropriate, because the code is about congestion management. The time schedule should be more precise. Europex asks whether Eurelectric means that exact points in time should be specified in the code. Eurelectric answers that the code should be as specific as possible, and then checked to its practicality. EFET says that fallback procedures should be first communicated to market parties (article 13). EFET adds that the code cannot prescribe what NRAs have to do. Matti clarifies that the code may specify things NRAs have to do if these tasks are within the scope of their mandate according to the 3<sup>rd</sup> package. Eurelectric and EFET would like to be included in the algorithm definition process. EFET says that communication to the market should be addressed in the code.

EFET comments:

EFET says that the role of market participants is missing. Communication ways should be clarified. Governance is another concern. Such things should be written in the code in a way we understand them, because the governance guideline may not be clear. For example: non discrimination requirement. Traders should be entitled to participate in all Power Exchanges. Power Exchanges should not be entitled to require from traders to have their seat/certification in a specific country (like in Romania). Europex answers that this is not the case today and depends on national legislation. The code is not a tool for solving this kind of problem. EFET will send a more detailed proposal. EFET continues with the statement that algorithm and process description need some more elaboration (detail). For example: how prices are determined and harmonized, how the settlement is done in the DA phase, etc. EFET will send a full list. CEFIC also would like a more prescriptive code. ENTSO-E says that more detail might block future progress. Europex sees only the need to define compatibility requirements and hence advocates for a less detailed representation of product specification, but rather the market outcome properties they should fulfil. This should not be understood as a position against harmonization. EFET mentions terminology as a further point of concern and ENTSO-E answers that it is something we are working on.

CEFIC comments:

CEFIC repeats that it would like a more prescriptive code, particularly as to the fallback procedure (communication to Power Exchanges, trigger, etc.). EFET adds that a complicated fallback may be dangerous. Europex agrees and stresses the need to keep the balance between effectiveness and complexity. There are not a lot of traders who are prepared for ID trading. Europex highlights the disastrous consequences of Decoupling. Therefore, the way

must be found to solve the problem before entering into fallback. Matti mentions the sequence of fallback. The first possibility is to accept the last successful results (from day before day D, for example). EFET says that after the fallback every Power Exchange should be able to create a price. Europex says that ENTSO-E should provide only the technical principles. ENTSO-E asks whether regional decoupling can be a solution. EFET answers that this is not the case, because it may be unsuccessful. Europex says that regional decoupling (or partial decoupling) should be allowed, but in the sense of enabling regions to determine regionally-coupled price, as an alternative to full decoupling. Matti stresses that we have to create a system that creates trust in member states.

Europex comments:

Europex shows slides. It comments that the title of the Draft Day-Ahead Network Codes is misleading. Level of detail for market rules is too prescriptive (goes beyond FG). Roles and responsibilities should be dealt with in the governance guideline. Network Codes are expected to define “what” has to be done, whereas the governance guideline should deliver the “who”. Price coupling algorithm requires clarification. What Network Codes do not solve should not be specified. The market coupling process should be improved as to fall back procedures, timing, firmness, and approval process for market coupling. EFET proposes to write down in the code things which ENTSO-E and Stakeholders want irrespectively of what will be stated in the governance guideline later on. Additionally, we can describe the change management. According to EFET and Eurelectric the source code should be published (everybody pays for it). Europex says that replication of results is not possible because of lack of data. Europex doesn't think that publication of source code will bring added value. It is better to foresee an auditing process (to check compliance). Europex mentions the product specification. If the products are not identical, this is because they need to be adapted to market and network rules constraints. New products have to be in line with possible market outcomes. EFET says that we have efficient market coupling only if price formation is efficient. It should be possible to introduce more complex bids. Europex asks why and how adding additional specifications would ease the introduction of new products. Eurelectric says that more specification may contribute to end unnecessary discussions. Europex stresses that compliance of market products with market needs is the most important thing. Power Exchanges can't, for example, fulfil the requirements of article 7. Matti says that there are two kinds of issues at publishing. As the target model is not precise enough we have a choice how to publish market information. We have an excellent opportunity to define publishing of market information in the code. The Commission needs a version which can be easily understood. EFET adds that this is also good for new entrants. EFET questions article 8.2. Europex says that the code should allow for non harmonized price boundaries. Otherwise the harmonization will be done to the level of the most restrictive national legislation. Matti remarks that, however, national laws will have to be changed – the code prevails. Europex sees the need to prevent conflicts between the Network Codes requirements and current Tax Law, Commercial Law, or Grid rules, which today impose different constraints on national market rules.

#### **4. Common discussion DA part**

See topic 3 above.

#### **5. Presentation of the CC part of the CA&CM Network Code**

ENTSO-E reminds the AHAG Capacity Calculation Project in 2010 and 2011, and the two stakeholder technical workshop in 2011. He explains the capacity calculation process. It is not fully reflected in the draft code which was distributed. The definitions are still too long. The part of the code on physical and financial risk is very important. ENTSO-E mentions further parts: reliability margin, remedial actions, Common Grid Model (CGM), and capacity calculation method. As capacity calculation will be done at regional level, the definition of “region” is given. The last part of the code is about transparency.

#### **6. Stakeholders’ main comments to the CC part**

IFIET comments (sent by mail):

IFIET requires maximizing price zones, and strong coordination among TSOs. As to remedial actions, economic information should be public after 3 months. The quality of data for CGM has to be ensured. Comments from agents should be included in the yearly reports.

Eurelectric comments:

There are too many statements about national rules. That should be harmonized. The influence of re-dispatch: what are the conditions to act? Risk for TSOs should be described in the sense of market risk. Providing economic data is a separate issue (being at present discussed with ENTSO-E and internally at Eurelectric). What is the relationship with congestion management guidelines (e.g. the stipulation that internal congestion cannot be moved to the border)? Matti suggest continuing the process and to check the final version. It is not a good idea to overtake everything from the congestion management guidelines. On the other hand, only absolutely necessary things will be changed in these guidelines. ENTSO-E says that congestion management guidelines still apply. Therefore, it is not necessary to repeat those stipulations in the code.

EFET comments:

Positive is that capacity calculation definitions are available. The definition of costly and non-costly remedial actions should be changed (in the sense of switching methods, commercial actions). A lot of things are missing e.g. the definition of social welfare. It is good that ATC and FB will be described. On the other hand, it is not clear how the code will look when it is finished. The involvement of market participants should be clarified: how will the communication between market participants and Power Exchanges be, in case something has to be changed? What if the FB methodology will not work? The description of capacity calculation process has to be completed. How can be ensured that FB will guarantee the security of grid and enable more capacity at the same time? Usage of internal lines as critical branches needs justification. Many terms are not in the definitions (national security supply standards, security policy of managing risk, operational security code). Harmonized methodology for reliability margin is needed. What is understood under physical costs?

Remedial actions: “each TSO shall have the possibility to re-dispatch every unit”. Does this mean that ENTSO-E requests NRAs to give such right to TSOs?

CEFIC comments:

Zones should be large enough to introduce enough internal competition/liquidity.

Europex comments:

The definitions are not precise enough. The code addresses only the DA capacity calculation. It is not clear how the long term calculation will look like. In the model, the physical properties of the system have to be considered (i.e. where redispatching possibilities are located). There are two measures to reduce redispatching costs: to reduce the capacity at border, and to insert more bidding zones. There is too much focus in the draft code on predicting what market will do. It would be better to focus on finding actions to re-dispatch across Europe.

Commission’s comments:

Matti asks some questions. What is the ambition level in view of long term optimum? Florence Forum concluded that Central West and Central East Europe have to have the same grid model and capacity calculation method, they should not be dealt with separately. It should be the FB method. Is it possible to settle this in the code? There should be a rational process when looking at zones. Loop flows, congestion rents: we won’t be successful in comitology if there is no underlying sound system to what is written in the code about these issues.

## **7. Common discussion CC part**

EFET says that the calculation method should be the same everywhere except TSOs consider that this is not feasible. Europex says that the application of the FB method is not relevant between synchronous areas which are linked through HVDC cables. ENTSO-E says that here the main issue is the implementation of coordinated ATC method. As to Nordic area, dynamic phenomena have to be considered in calculation. EFET says that the CGM has to be common for whole Europe. However, DC connections need a special description in the code. ENTSO-E answers that the target is to merge all flow based regions. EFET doesn’t see how this target model will work. ENTSO-E reminds that TSOs have the responsibility for local security of supply, which may be in contradiction with the cross-border harmonization. Eurelectric says that the code will be European law which will overrule national laws.

EFET mentions the reliability margin: EFET expects a European solution. ENTSO-E points out that there will be two parts of the reliability margin. One part will be in the code on operational security. Only the capacity calculation part will be in the CA&CM code. ENTSO-E says that the methodology for determining the reliability margin has to be approved by NRAs. At present, it is not possible to put more in the code. Eurelectric sees the need to specify the parameters which TSOs will use to tune the reliability margin when applying the FB method. EFET says that the approval by NRAs is an easy escape from harmonization. That is not a good way. There must be a stipulation in the code as to how to assess the effectiveness of the reliability margin. The financial risk of TSOs cannot be used as the only parameter.

Europex asks for a long notification period for market participants when introducing a new capacity calculation methodology. ENTSO-E and ENTSO-E point to the corresponding article in the draft. Europex asks whether the code proposes a method to measure e.g. competitiveness. Europex reminds that economic indicators exist in order to measure these factors (HHI, share of 3-5 bigger market players...). ENTSO-E says that the part of the code as to collecting data from market participants and how to use it and by whom has to be solved yet.

The “zones” issue is being discussed. ENTSO-E stresses the fact that in many documents it is required to define zones in accordance with physical constraints. This doesn't leave to much room at drafting the code. Matti asks whether TSOs consider themselves as technical experts at proposing zones, and leave all the rest to the regulators. ENTSO-E answers that this has to be solved yet (including the participation of market participants). ENTSO-E adds that TSOs will not decide. TSOs will only propose. The NRAs will have to decide. ACER says that it expects a proposal with at least a minimum of technical issues, and with a learning process. Upon this, ACER will work with its own consultants.

Matti mentions the congestion rent distribution key. He says that we will never bring the code through Comitology without being explicit about this issue. The question is in which code to put it. ENTSO-E doesn't believe that we will have a precise and detailed congestion rent distribution formula in the CACM code, given the complicated negotiations in the past on these issues, this would simply be far too time-consuming. Matti asks what ENTSO-E proposes (because this issue can't be neglected – it will re-arise in comitology). ENTSO-E answers that the tricky issue is FB. Matti says that there are two options for dealing with congestion rent: (i) inside the code (three possibilities: TSOs propose, or regulators propose, or a combination of both with “ingredients” of EC), (ii) outside the code. ENTSO-E says that the process should simply be in accordance with present congestion management guidelines annexed to Regulation 714/2009, and the code should be very short on that issue.

## **8. Next steps and next meeting**

Next meeting will take place on the 2nd February 2012 from 10:30 on at ENTSO-E premises.

ENTSO-E asks whether we should publish the information distributed, the slides and comments received. EFET and Europex see no problem to put it on Internet (with remark that this is early consultation). This view is accepted.

A template will be circulated by the ENTSO-E secretariat in which stakeholders can insert their comments. These comments should be provided if possible before the next meeting of the drafting teams (Day Ahead Call – Dec 14<sup>th</sup>, Cap Calc meeting Dec 16<sup>th</sup>).

## **9. Any other business**

There are no items under this topic.