

EC Consultation on the establishment of the annual priority lists for the development of network codes and guidelines for 2016 and beyond

A EURELECTRIC response paper

August 2015

EURELECTRIC is the voice of the electricity industry in Europe.

We speak for more than 3,500 companies in power generation, distribution, and supply.

We Stand For:

Carbon-neutral electricity by 2050

We have committed to making Europe's electricity cleaner. To deliver, we need to make use of **all low-carbon technologies**: more renewables, but also clean coal and gas, and nuclear. Efficient electric technologies in **transport and buildings**, combined with the development of smart grids and a major push in **energy efficiency** play a key role in reducing fossil fuel consumption and making our electricity more sustainable.

Competitive electricity for our customers

We support well-functioning, distortion-free **energy and carbon markets** as the best way to produce electricity and reduce emissions cost-efficiently. Integrated EU-wide electricity and gas markets are also crucial to offer our customers the **full benefits of liberalisation**: they ensure the best use of generation resources, improve **security of supply**, allow full EU-wide competition, and increase **customer choice**.

Continent-wide electricity through a coherent European approach

Europe's energy and climate challenges can only be solved by **European – or even global – policies**, not incoherent national measures. Such policies should complement, not contradict each other: coherent and integrated approaches reduce costs. This will encourage **effective investment** to ensure a sustainable and reliable electricity supply for Europe's businesses and consumers.

EURELECTRIC. Electricity for Europe.

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KEY MESSAGES

- Efforts should be made to adopt codes and guidelines as soon as practically feasible. However, quality should not be compromised in the comitology process just for the sake of speed: monitoring the consequences of their implementation and finding ways to mitigate potential adverse effects should be duly taken into consideration by the Commission. Adoption and implementation processes of the network codes/guidelines should take place with the full involvement of stakeholders and in particular, but not only, when it appears that profound and recent changes have been made (operational codes being a clear example).
- More generally, a thorough assessment of the economic and societal impact stemming from the codes' adoption should be developed in a much more transparent manner than previously the case, published and widely consulted upon in parallel with the development of FGs and NCs.
- Consistency between codes needs to be ensured. For instance, once the main technical NCs are adopted, operational codes will have to follow to make sure that implementation across Member States is seamless. However, it appears that operational codes still raise many concerns in terms of their consistency with connection codes.
- EURELECTRIC believes that no additional network codes/guidelines are needed for the moment. Efforts should now focus on their adoption and their implementation at national level. Should further codes or rules be elaborated or should the existing ones be modified in the future, EURELECTRIC believes that the process for the development or modification of network codes and guidelines should be improved based on the lessons learned so far and also looking at good practice in the development of gas network codes.
- The completion of the Internal Energy Market is a clear no-regret option, and more work is needed to complete the process also on other fronts than the network codes themselves. The swift implementation of the 3rd Energy Package and the integration of wholesale markets across all timeframes thus remain absolutely crucial objectives.

WG Market Integration and Network Codes
Chair: Ruud Otter
In cooperation with WG Thermal and Nuclear, WG Gas to
Power and DSO Committee

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Finalisation of the network codes/guidelines under development

The European Commission, ENTSO-E, ENTSO-G, ACER and European stakeholder organisations have devoted considerable time over the past few years to the development of European network codes and framework guidelines for electricity and gas. **Efforts should be made to adopt codes and guidelines as soon as practically feasible. However, quality should not be compromised in the comitology process for the sake of speed:** monitoring the consequences of NC implementation and finding ways to mitigate potential adverse effects should be duly taken into consideration by the Commission. Furthermore, the **adoption and implementation of network codes/guidelines should take place with the full involvement of stakeholders** and in particular, but not only, when it appears that profound and recent changes have been made (operational codes being an example).

The comitology processes cannot ignore the cost-benefit dimension related to the adoption of the codes themselves. In general, we would like to see some further consideration of the economic impact stemming from the codes' adoption. We provide more detailed views on this point in the next part dealing with the process followed to prepare the network codes and guidelines.

The network codes/guidelines cover the major relevant areas, but EURELECTRIC believes that more needs to be done to ensure consistency between them. In particular, when it comes to electricity, there should be a balance between the requirements put on system users in the Connection Codes and those placed on TSOs in the Operational Codes. Requirements placed on TSOs are also fundamental for system security. On concrete example could be the following: the Regulation 714/2009 does not impose a building code for TSOs similar to the building codes RfG, HVDC and DCC. This will lead to requirements for grid users without requiring similar capabilities for the internal installations of TSOs. For instance, the Operational Security (OS) code does not impose voltage ranges similar to the ranges in the connection codes. According to OS the maximum voltage for a TSO is 1.05 pu but grid users have to construct their installations for 1.10 pu.

However, we also wish to highlight that **monitoring the implementation of network codes and guidelines will probably represent an even greater challenge than their elaboration.** In particular, the codes/guidelines define a lot of requirements – some of them are non-exhaustive, meaning that choices will have to be made in order to define what has to be developed, such as regional agreements, common methodologies etc. At the same time, the right balance between the NCs' implementation and actions that are left to the discretion of national TSOs should be ensured. The challenge now is to ensure that the proper level of harmonisation and real obligations are created to bind markets and TSOs on pan-European basis¹ and thus ensure smoother market integration.

For connection codes, we should make sure that standards for mass markets are available in order to assess the compliance of small distributed generators (types A and B) and Demand Units with DSR as required by the RfG and DCC codes. Essential and substantial work is required on the standardisation side at European level. Furthermore, all the connection codes have a chapter regarding derogations. Such chapters do not exist in the operational codes. EURELECTRIC regrets this because this means that in case of an unpredictable evolution in the behavior of networks

¹ For technical codes such as grid connection and system operation, however, the European convergence of technical issues impacting DSOs is not necessary.

due to an unforeseen evolution of RES, new legislative actions are needed. Such legislative actions need time and an identical result can be achieved by a derogation accepted by all involved parties.

Apart from the NC implementation which will involve a substantial resource commitment, we would also urge the Commission and ACER to put forward some concrete, robust and inclusive proposals on how the codes will be subsequently amended and their implementation monitored in an efficient manner, in order to respond to changing system and market conditions, while still ensuring adequate stakeholder involvement.

As far as the gas network codes and guidelines are concerned, we believe it is appropriate to focus on a staged implementation of the Gas Tariffs Network Code as already stated in our joint statement at the last Madrid Forum. To this purpose, we would welcome a reduction in scope of the existing Tariffs Network Code (focusing principally on transparency and consultation) and its speedy adoption through comitology. Having agreed the basis for a de-scoped Tariffs Network Code, we think the Commission should prioritise the development of a sustainable pan-European model of transmission charging in 2016, which promotes flexible and efficient flows between market areas and helps facilitate greater market integration.

Adopting EU-wide rules for a market-based approach to the allocation of ‘new build’ gas transmission capacity (via an amendment of the Capacity Allocation Mechanisms Network Code) and the CEN standard on H-gas quality will also be important milestones for 2016. However, bearing in mind that European Standards obtain the legal status of national standards in all CEN countries once published, with any conflicting national standards being withdrawn, it is not entirely clear why the CEN standard on H-gas quality also needs to be adopted through comitology (via an amendment to the Interoperability Network Code).

Process to prepare the network codes and guidelines

EURELECTRIC believes that no additional network codes/guidelines are needed for the moment. Efforts should now focus on the adoption and implementation of existing NCs at national level.

Should further codes be elaborated or should the existing ones be modified in the future, EURELECTRIC believes that the process for the development or modification of network codes and guidelines should be improved based on the lessons learned so far and from good practice in the gas network codes’ development:

- The implementation of network codes is the backbone of the market integration process, and the governance process must ensure coherent, good-quality codes. **Stakeholder involvement should be strengthened – especially in developing, amending and monitoring the electricity NCs - and the convergence of markets across Europe should be a number one priority** throughout the entire code development and implementation process. Should new codes be developed in the future and/or should the current ones be amended, the European Network Code Stakeholder Committees should be closely involved with a stronger role to be played by ACER. The timely establishment of the three European Stakeholder Committees (ESCs) is crucial.
- Decisive action should be taken to strengthen the independence and balance of the entities involved in the governance process. We remain strongly concerned that ENTSO-E is given extensive powers in elaborating the network codes, despite being a directly

interested party in them. **We would therefore encourage opening a discussion on actions increasing the control of the NC drafting process, by ACER or the EC to counterbalance the power currently conferred upon ENTSO-E in this respect by the 3rd Energy Package.** This applies not only to drafting legal or technical text, but also to amending existing codes and, most importantly, monitoring their implementation over time. Direct interaction between TSOs and other stakeholders (like DSOs, generators, etc.) should also be provided for.

- **Economic and societal impact assessments should be developed in a more transparent manner, published and widely consulted upon in parallel to the FG and NCs' development.** This is in contrast to the current practice of publishing the impact assessment (including detailed cost-benefit analyses) at the end of the process, when everything has already been settled. **Before any FG is developed or any existing one is reshuffled, there should be a thorough scoping exercise** (as is the case with the Transmission Tariffs NC) with the full involvement of stakeholders. Some specific questions should be answered: (1) How much does the codes' implementation cost? (2) How much do the codes contribute to system security and safe operations? (3) How much do the codes facilitate access to the grid for new users? Only after that, should a decision be taken on whether or not more FGs/NCs are needed in a specific field, be it market or grid related.
- **We also regret the lack of transparency and inclusiveness in the Comitology phase.** The Comitology process is by nature not very transparent, nor is it open to stakeholders' input: not all draft versions of the codes/guidelines are circulated and when they are, this is often very late in the process and amendments are not properly explained to stakeholders. Also, the rejection of stakeholder comments is often not explained. In addition, the cost-benefit analyses to justify particular modification or re-drafting proposals are also missing or are insufficiently documented for any third party to be able to analyse the figures coming out of them and to justify any NC redrafting action.

The governance structure to ensure stakeholder involvement at European level should be complemented by similar structures at local/regional level, as any implementation issues will be raised at this level first. We therefore urge ACER and ENTSO-E to put pressure on the National Regulatory Authorities to actually set up National Structures and Regional Stakeholder Committees in Member States where these are still missing. The links and coordination process between the Stakeholders' structures set up at local/regional and European levels should be further clarified. The stakeholder committees should be represented not only sectorally, but also geographically.

Completion of the Internal Energy Market

The completion of the Internal Energy Market is a clear no-regret option, and more work is needed to complete the process also on other fronts than the network codes. The swift implementation of the 3rd Energy Package and the integration of wholesale markets across all timeframes thus remain absolutely crucial objectives. Some Member States still lag behind, even in the implementation of the 2nd Energy Package.

Market integration should focus in particular on developing robust cross-border intraday and balancing markets to ensure that the system remains balanced as the share of renewables continues to grow. Progress on this front is lagging behind. To achieve this, it is also crucial to

ensure a larger degree of involvement and coordination between TSOs as, without such coordination, intraday markets, regional cooperation and increasing interconnectivity won't produce the desired results. In those aspects and operations whereby TSO/DSO coordination is required, it will also be important to stress the crucial nature of the coordination between transmission and distribution grid operators on matters of overlapping activity as per the provisions made in the NCs on demand connection, emergency and restoration, and operational security.

EURELECTRIC pursues in all its activities the application of the following sustainable development values:

Economic Development

▶ Growth, added-value, efficiency

Environmental Leadership

▶ Commitment, innovation, pro-activeness

Social Responsibility

▶ Transparency, ethics, accountability



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