

2011-04-06 Ver 1

Erik Spiegelberg, phone +46 70-377 37 75
Mats Nilsson, phone +46 70-609 6841

ENER-NC-
PRIORITIES@ec.europa.eu

Vattenfall's comment on the EC Public consultation paper of "the priority list for the development of network codes for 2012 and beyond"

The European electrical system as it is today.

Today the starting point is a feasible electrical system in Europe that consists of several synchronous subsystems connected to each other via HVDC-links. The overall purpose is to create a better functioning pan European competition market for electricity.

The subsystems are created during a long period of time and differ a lot in their technical functionality, much depending on what primary energy sources there are at hand and where the production facilities are sited compared to load centres etc.

Hence for each subsystem the reigning rules for planning, expanding and operating the system that are due differ to some extent compared to other subsystems. The security of supply has in each and every subsystem been prioritized creating individually defined set of rules for the involved stakeholders that originally were geographically defined monopolists.

Transforming the technical feasible systems into competitive markets with unbundled production and network businesses has been a certain stress for each subsystem thus creating non-discriminating rules to cope with for the stakeholders.

Defining the rules has normally been a task for the system operators guided by a framework of competitive guidelines set by the regulators. This huge transformation has been made mainly through setting new administrative rules without affecting the subsystems basic technical specifications such as frequency accuracy, reserve capacity, voltage levels, fault protection schemes etc.

VATTENFALL AB

ADRESS

162 87 Stockholm

TELEFON

08-739 50 00

info@vattenfall.se

ORG NR

556036-2138

BESÖKSADRESS

Jämtlandsgatan 99

FAX

08-37 01 70

www.vattenfall.se

PUBLIKT BOLAG (publ)

Stockholm

In the aim of widening the competitive market for electricity there is a need for adopting new rules for the market opening. The prioritized areas are to create non-discriminating rules for the stakeholders mainly via new administrative trading rules without creating new costly technical demands

The existing assets in each synchronous subsystem represent large amounts of capital and the investment decision for each asset has been made via evaluating the pros and cons at hand at the moment of construction.

Recommendation

Our strong recommendation to the commission is to reschedule the timing of all processes in creating the new Framework guidelines and Network codes for electricity where proposed trading rules constitute the basis for a parallel development process for the System codes. The Framework guidelines and Network codes should contain the roles applicable between the stakeholders rather than being too detailed.

Vattenfall believes that the main barriers to cross border trade are predominantly regulatory, political and commercial. Vattenfall considers the existing technical problems as important but only secondary to the aforementioned predominant problem areas. Thus, Vattenfall strongly support that the immediate priority should be the development of the operational security requirements which underpin the other technical codes.

The proposed scheduling will in Vattenfall's opinion lead to a suboptimized electricity system in Europe with an unlevel field of competition for the players thus hazarding the entire deregulation of the European Electricity market.

General Comments

Vattenfall recognizes that the decision by the European Council on 4 February 2011 to achieve completion of the internal market for electricity by 2014 increases the importance of an efficient governance in the process of developing market-related framework guidelines and network codes.

Vattenfall stresses that the development and adoption of the market framework guidelines and network codes should go in parallel with the implementation of the market coupling and intraday projects on the ground. More specifically, the implementation of the decision of the last Florence Forum on establishing a NEW regional market for both Day-Ahead and Intraday by 2012 should in no case be delayed because of the work on the network codes during 2011 and 2012.

To our knowledge, the deadline of 2014 is primarily relevant for the market related codes. With regard to the other framework guidelines and network codes, it will be important to set the priorities correctly. Vattenfall underlines that defining common operational security requirements relevant for cross-border market functioning is essential for development of the other technical codes and thus should be given the immediate priority. Without a clear upfront view upon how the system will be operated there is a significant risk for 'over-regulation' by too detailed requirements for network users.

Furthermore, it is necessary to avoid a situation where the quality of the technical framework guidelines and network codes is compromised if aimed to be finalized before 2014. Therefore, the deadline for delivering the network connection and system operation network codes must be extended to 2014 to be harmonized with the market codes.

Vattenfall agrees that network connection and system operation framework guidelines and network codes should set minimum common standards. This may prevent situations that could have a negative impact on cross-border trade and the European system operation and security. However, the market roles shall never prescribe technical solutions. This has always to be respected and the network codes should not be over-prescriptive and go beyond cross-border issues.

All the draft proposals for the Framework Guidelines and Network Codes should be accompanied by relevant Impact Assessments outlining the main policy options and underpinned by their comprehensive cost-benefit analysis. Vattenfall believe that the Impact Assessments should be subject to public consultation (separately or as a part of the consultation on the relevant Framework Guidelines or Network Codes) and that the 3-year work plan should make specific reference to the timing of these public consultations to facilitate preparation stakeholder input.

CONSULTATION QUESTIONS

Q1. Are the priorities proposed for 2012 the correct ones?

***Q2. What should be the longer-term priorities for 2013 and beyond?
Please also specify in your response the expectations you have for the scope of these priorities.***

Framework guidelines and network codes on capacity allocation and congestion management

Vattenfall supports the proposed timeline for adoption of the Framework Guidelines on Congestion Management and Capacity Calculation and the respective network codes. Vattenfall agree that the network codes on Day-Ahead and Intraday should be the first issue to be managed by ENTSO-E, followed by the Capacity Calculation network code and the Forward Market network code.

Vattenfall also support the finalization of the draft EC guideline on governance by mid 2011 as it should provide relevant input on governance-related aspects to the Day-Ahead and Intraday network codes. Vattenfall would like to point out, however, that the 3-year work plan does not include an indication of the timing of the public consultation on this comitology guideline.

In Vattenfall's view, the importance of reaching an agreement on governance principles for Day- Ahead and Intraday has been widely recognized by all stakeholders. Given that the discussions on this topic primarily have been held between the Commission, ENTSO-E and EUROPEX in the AHAG Day-Ahead governance project, without the market parties' involvement, the public consultation of the final draft proposal will be crucial.

Vattenfall welcomes the proposal to launch the preparation of the Framework Guidelines on Balancing during the 2nd half of 2011. However, as many features of the target model for balancing have not been discussed in sufficient detail in the PCG, more time for ample stakeholder input must be ensured. Therefore, we believe that the deadline for the finalization of this Framework Guideline should be extended until early 2012.

Framework guidelines and network codes on network connection and System Operation

Vattenfall believes that the main barriers to cross border trade are predominantly regulatory, political and commercial. Vattenfall considers the existing technical problems as important but only secondary to the aforementioned predominant problem areas. Thus, Vattenfall strongly support that the immediate priority should be the development of the operational security requirements which underpin the other technical codes.

The system security criteria need to be determined in order to proceed with, and support the connection codes. The absence of system security criteria

that belongs to the system code, makes the assessment of the technical codes very difficult or in practice impossible. Stakeholders lack a functioning baseline to assess how proportionate the measures being included in the Network codes. The pilot code “Requirements for grid connection applicable to all generators” is a good example to this.

The network codes on grid connection and system operation should be at the correct level of detail. With regard to the scope, the technical codes should set minimum common standards for criteria that have a direct impact on European system security. When introducing requirements dealing with issues only indirectly impacting European system security, network codes should only define objectives/criteria to be fulfilled.

Thus more intense monitoring and international cooperation by the regulators may suffice to achieve a good and efficient level of harmonization. Therefore Vattenfall strongly suggest that the decision for changes of this remains at Region/Member State level. Requirements concerning these should become a part of the Region/National grid codes, and monitoring of the suitability of these a concern of the national regulators. However, to promote increasing future harmonization, and accommodate converging development paths the regulators could be tasked to make regional development plans for these grid codes.

To justify the changes relevant impact assessments including cost efficiency (cost/benefit analysis) as well as competitive issues such as the new grid codes creating un-necessary barriers should accompany the proposal for new codes. In addition, an explanation of the rationale for the proposed changes would ensure the transparency of the process. Socio-economic costs and benefits should be demonstrated if any new standards or substantial revisions of present standards are introduced.

As ENTSO-E as well as the European regulatory authority ACER are new entities with substantial new responsibilities, Vattenfall considers it of utmost importance that the Commission takes all reasonable steps to safeguard proper stakeholder involvement. An absolute minimum would include involving those directly impacted by the changes in the code drafting process.

In case of the network code on Distribution system operators and industrial load connection, the participation of stakeholders representing Distribution system operators in the early phase of the document preparation (“Common scoping discussions”) is indispensable. Distribution system operators in their capacity as network operators cannot be circumvented by Transmission

system operators imposing on them requirements which disregard their specific responsibilities and/or may not allow them adequate operation of their networks. The system operators' responsibility for the entire synchronous electrical system shall not be mixed up with the different network operators responsibility for their grids.

Q3. In the 3-year-plan for electricity, several network codes are proposed for a single framework guideline. In gas, only one network code per framework guideline is foreseen. The Electricity and Gas Regulations do not specify whether a framework guideline has to be mirrored by a single network code or whether the issue can be divided into several subissues.

Do you agree that keeping both options, as used by ENTSO-E on the one hand and ENTSG on the other hand, are viable? Do you agree with the order in which the sub-issues in electricity will be tackled under the framework guidelines for capacity allocation and congestion management, network connection and system operation? Do you agree that the sub-issues marked red in the 3-year-plan for electricity in Annex 1 are the essential ones to ensure completion of the single market by 2014?

Framework guidelines and network codes on network connection and system operation

Vattenfall believes that both the structure and dependencies between the different Framework guidelines and Network codes need to be clarified. It then becomes even clear what content the different Framework guidelines and Network codes should have. It then becomes much easier to determine in what order the work is to be conducted

Vattenfall realize that, to save time, much of the necessary work on Framework guidelines and Network codes would be possible to run in parallel. In addition, the codes on network connection and system operation will require timely adaptation to each other.

It is also important that both Framework guidelines and Network codes are designed to meet a dynamic technological development. Thus they should outline a framework rather than micromanage at a too detailed level.

Vattenfall, External Relations, European Affairs

Gunnar Lundberg