

## **VGB response to ACER consultation on NC Load Frequency Control and Reserves**

First of all VGB would like to thank ACER for the opportunity of providing comments on the Network Code Load Frequency Control and Reserves (NC LFCR). The following represents the opinion of several power generators across Europe.

In the scope of the consultation process of April 2013 we could realize as positive outcome that for the human safety rules and for the nuclear safety rules reference was made in the latest version of the code as well as the more binding frequency quality definition (Chapter 3 Table 2). Furthermore we can continue that the code was extended by an own chapter more detailed regarding the topic of operational agreements as requested in the consultation, but finally it is still staying on the surface and is not going too deep into the agreements itself.

But overall we did not found a large number of our comments which did not yet find their approval in the new proposal. Please find more details in the following statement.

### **General**

The NC LFCR sets out a process for exchange of energy and reserve that is largely based on a TSO-TSO relationship. On the other hand the Framework Guidelines on Electricity Balancing envisage in 3.3.2 the “multilateral TSO-TSO model with common merit order list” (CMO model) for energy. The same as for Reserves the Framework Guidelines envisages (i) exchange (of) surpluses of reserves through a bilateral reserve trading mode and (ii) multilateral reserve trading involving TSOs and BSPs. Until the development of a CMO based model the NC LFC shall elaborate further a simple TSO-BSP model which ensures consistency with the basic EU freedoms to exchange services across borders.

The NC LFCR allows for multiple circumstances where TSOs may unilaterally interfere in commercial decision making and in the market for balancing energy and reserves. This is not acceptable in a code that is supposed to be facilitating and reinforcing the internal market. These sections either should be removed or alternatively revised to ensure that market participants are always compensated for such interventions. If TSOs have several carte blanches of this type they are less likely to operate the reserve procurement in an efficient way and this could perversely make the system less secure.

### **Specific Articles**

#### **Chapter 1 Article 1 (2) a) General Provisions**

*“ 2. This Network Code aims at: a) achieving and maintaining a satisfactory level of System Frequency quality and efficient utilisation of the power system and resources;”*

An “efficient utilisation of power [...] resources” is an intervention into the market rights of the stakeholders. It is their right to manage their own resources. Taking into account the principle of a market system this part of the sentence as well as the “efficient utilisation of the power system” should be deleted.

## Chapter 1 Article 2 (2) Definitions

*“Replacement Reserves (RR) means the reserves used to restore/support the required level of FRR to be prepared for additional system imbalances. This category includes operating reserves with activation time from Time to Restore Frequency up to hours”*

RR requires a clearer definition and well defined activation rules that should minimise the scope for activation during the market timeframe. The idea, that the TSOs can procure and activate resources “for hours” during the operation of the intraday market risks, totally undermining the objectives of the CACM code and the target model.

There are still a few definitions missing even though the words are written in big letters in the text:

- FCR Capacity used in Chapters 43, 45, 50, 59, 60, 74, 77 in big letters
- FCR Exhaustion used in Chapters 4, 10, 21, 71 in big letters

## Chapter 2 Operational Agreements (including all Articles with references to this Chapter)

Due to the rule of non-discrimination and the new Transparency Guidelines all Operational Agreements described in Chapter 2 should be under approval by the National Regulatory Authorities (NRA) also publicly available and under market parties consultation.

Chapter 2 describes the Operational Agreements which have to be established by the TSOs after entry into force of the Network Code Load Frequency Control and Reserves. The agreements include rules, requirements and / or parameters described in the Network Code itself. But they also give the TSOs the authority to set up rules, requirements and / or parameters which are not part of the NC LFCR and as far they are not under NRA approval and market parties’ consultation. The NRA approval for any added rules, requirements and / or parameters is asked for in the Supporting Document (Article 3.5, page 15, last line). The Supporting Document has not the same status as the Network Code itself which is legally binding. We would therefore advice to include Chapter 2 in Article 4 “Regulatory Approvals”. In line with this we also recommend to consult those added rules, requirements and / or parameters in the agreements with the stakeholders. Nevertheless to avoid discrimination all agreements should be publicly available.

The possibility of setting up additional requirements by TSOs will lead to heterogeneous requirements for Reserve Providing Units within and across different synchronous areas. The development of a cross border market for reserves would, however imply a harmonised set of requirements for all Reserve Providing Units. Therefore, all technical requirements should explicitly be defined in the NC LFCR without any chance of setting up more stringent requirements. Beware of competition distortion, due to different requirements for the stakeholders depending on the TSO area they are connected to.

## Article 42 System States Related to the System Frequency

The Network Code on Load Frequency Control and Reserves aims at establishing basic principles for cross-border trade of balancing reserves. We appreciate this intention, as it allows efficient allocation of balancing reserves in the European system. However, the code stipulates constraints concerning cross-border trade of balancing reserves by several parameters, which should be avoided considering the advantages of trade. In particular, the restriction of export of balancing reserves between neighbouring LFC-blocks is objectively irreproducible, as potentials are not fully used, i.e. as it creates inefficiencies.

The purpose of this restriction should be explained and alternatives presented. If necessary, it might be sufficient not to categorically restrict exports, but to stipulate restrictions for well-defined, exceptional circumstances.

#### Article 45 (6) FCR Provision

*"For the Synchronous Area CE and NE, a FCR Providing Unit [...] shall be able to fully activate its FCR continuously for a time period of not less than 30 minutes and for an equivalent longer time period in case of Frequency Deviations smaller than the FCR Full Activation Frequency Deviation".*

The FCR full activation is required for a period not exceeding 15 minutes at the moment. FCR providers are compliant with these current arrangements, whereas the new requirements are technically not possible to be fulfilled by a high number of providers. A 30 min threshold will lead to a restricted number of potential FCR providing units and therefore to extra costs for FCR providers and the system.

Regarding the FCR Provision there is a discrepancy with the Network Code Requirements for Generators where it is stated in Article 10 (2) c) 6) that "The Power Generating Module shall be capable of providing full Active Power Frequency Response for a period specified by the TSOs, considering the technical feasibility, for each Synchronous Area between 15 min and 30 min, considering the Active Power headroom and primary energy source of the Power Generating Module." Another contradiction is the Time to Restore Frequency which is set in Article 9 (3) Table 1 for CE with 15 minutes. FCR shall be fully active within this timeframe until the activation of FRR. Less than 30 minutes of activated FCR is not in line with the objective of ACER's Framework Guidelines on Electricity Balancing to have a non-discriminatory reserve procurement that 'is set to foster liquid balancing markets and avoid undue entry for new entrants'.

#### Articles 52-53 and Articles 62-65 TSO-TSO Exchange and Sharing of FRR and RR

The scope for TSO-TSO exchange and sharing, particularly for FRR, is too high in detail given that only "surpluses" are supposed to be exchanged in this way. Such a high degree of sharing calls in question the whole load control structure that is elaborated in the network code. If such high levels of sharing are permitted, it does not make sense to maintain separate control blocks and control areas. Our view is that sharing between TSOs should not exceed the level of transmission margin (TRM) established in the capacity calculation process. This means that conducting a separate assessment of the amount of transmission capacity that could be reserved is not necessary. The whole issue of how much capacity is held back from the market can then be considered holistically and both economic and system security arguments can be checked out together. The current sequential treatment has a strong risk of "salami slicing" of transmission capacity so that little is left for market participants.