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for energy consumers

All interested parties,
stakeholders in GB and beyond,
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Dear colleague,

Approval of the proposal for the implementation framework for the exchange of balancing energy from Replacement Reserves.

On 18 June 2018, we¹ received a proposal for the implementation framework (IF) for the exchange of balancing energy from replacement reserves² (RR) in accordance with Article 19 of the guideline on electricity balancing³ (the EBGL). The proposal was developed by all Transmission System Operators (TSOs) performing the reserve replacement process (RRP)⁴ and was submitted to us by the relevant TSOs in Great Britain in line with our assignment of obligations.⁵

This letter sets out our decision, in line with the All Regulatory Authority agreement reached by the relevant Regulatory Authorities, to approve the RR IF, pursuant to Article 5(3)(a) of the EBGL Regulation. The letter further outlines the necessary next steps.

Background

The Trans-European Replacement Reserves Exchange (TERRE) is the implementation project of the European platform for the exchange of balancing energy from RR as required by Article 19 of the EBGL. The goal of the TERRE project is to develop a platform that allows the TSOs performing the RRP to exchange balancing energy from this type of reserve. Through the TERRE platform, Balancing Service Providers⁶ (BSP) in Great Britain will be able to provide balancing services to other TSOs in the European Union in addition to Great Britain's Electricity System Operator (ESO).

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 '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.

³ Commission Regulation (EU) 2017/2195 of 23 November 2017 establishing a guideline on electricity balancing (the EBGL). The EBGL came into force on 18 December 2017. It can be accessed at: https://eur-lex.europa.eu/legal-content/EN/TXT/?toc=OJ:L:2017:312:TOC&uri=uriserv:OJ.L_.2017.312.01.0006.01.ENG

⁴ The reserve replacement process (RRP) means a process to restore the activated frequency restoration reserves and, additionally for Great Britain and Ireland/Northern Ireland, to restore the activated frequency containment reserves. The TSOs that plan to perform the reserve replacement process are the TSOs of Great Britain, France, Switzerland, Spain, Portugal, Italy, Czech Republic, Romania, and Poland. TSOs in Greece, Norway, Sweden, Finland and Denmark are currently considering performing the RRP.

⁵ See the mTSO decision letter here: <https://www.ofgem.gov.uk/publications-and-updates/decision-assignment-transmission-system-operator-obligations-under-guideline-electricity-balancing-regulation-within-gb>

⁶ Balancing Service Provider (BSP) means a market participant with reserve-providing units or reserve-providing groups able to provide balancing services to TSOs.

In accordance with Article 19 of the EBGL, the European platform for the exchange of balancing energy from RR should consist at least of the activation optimisation function as well as the TSO-TSO settlement function. It shall also apply a multilateral TSO-TSO model with common merit order lists to exchange all balancing energy bids from all standard products for RR. The RR IF proposal should include at least:

- a) the high-level design of the European platform;
- b) the roadmap and timelines for implementation of the European platform;
- c) the definition of the functions required to operate the European platform;
- d) the governance and cost sharing of the European platform;
- e) the designation of the entity or entities that will perform the functions of the European platform;
- f) the framework for harmonisation of the terms and conditions related to balancing;⁷
- g) the detailed principles for sharing the common costs;
- h) the balancing energy gate closure time for all standard products;
- i) the definition of standard products;
- j) the TSO energy bid submission gate closure time;
- k) the common merit order lists; and
- l) the description of the algorithm for the operation of the activation optimisation function for the balancing energy bids from all standard products.

The proposal for the RR IF was publicly consulted upon by all TSOs through ENTSO-E from 21 February 2018 to 4 April 2018, in line with Article 10 of the EBGL. Some of the key concerns raised by stakeholders was on the use of elastic needs⁸ by TSOs, the possibility of counter-activation⁹ within the platform, and the gate closure time for the submission of balancing energy bids. We thank stakeholders for participating in the consultation and informing TSOs and relevant Regulatory Authorities of their concerns. Following the consultation, TSOs updated the proposal taking into account the concerns that were highlighted by stakeholders.

The EBGL requires the competent Regulatory Authorities to consult and closely cooperate and coordinate with each other in order to reach an agreement and take decisions within six months following the receipt of a proposal by the last regulatory authority. The last Regulatory Authority received the RR IF proposal on 27 June 2018. A national decision is therefore required by 27 December 2018.

Our decision

We have reviewed the proposal submitted to us in line with the requirements of the EBGL, the wider objectives of the Regulation (EC) No 714/2009,¹⁰ and our statutory duties and obligations. In making our decisions we have considered the justification, provided simultaneously with the submission of the proposals, for the inclusion or exclusion of views resulting from the consultation undertaken by TSOs.

As required by Article 5(6) of the EBGL, we have consulted, closely cooperated and coordinated with the other relevant Regulatory Authorities in order to reach agreement

⁷ Set up pursuant to Article 18 of the EBGL.

⁸ Elastic balancing energy needs allow TSOs to submit a price for their need which indicates the maximum price they are willing to pay in order to satisfy their need through the RR-Platform. TSOs are also able to submit volume needs without a specifying a price.

⁹ Counter-activations are the activation of opposite bids (upward and downward) on the same time step. Counter-activations can naturally result from a clearing performed according to the merit order principle.

¹⁰ 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 and repealing Regulation (EC) No 1228/2003 This Regulation aims at setting fair rules for cross-border exchanges in electricity. Additionally, it aims at facilitating the emergence of a well-functioning and transparent wholesale market with a high level of security of supply in electricity. It provides for mechanisms to harmonise the rules for cross-border exchanges in electricity.

on the proposal for a RR IF. The All Regulatory Authority agreement for the proposal was reached on 14 December 2018. This agreement is attached as an annex to this decision letter and constitutes the reasons for our decision.

In line with this All Regulatory Authority agreement, we hereby approve the RR IF proposed by the relevant TSOs in Great Britain.

Decision not to undertake an Impact Assessment

We have not undertaken an Impact Assessment for this proposal. The proposal does not create new obligations for market participants, but instead creates a platform that will facilitate the trade of balancing services between different countries. Taking into account the limited scope of the proposal, we therefore consider that it does not constitute a significant change to existing requirements and arrangements. Furthermore, the requirement to implement a platform for the RR process has already been subject to an IA.¹¹ Accordingly, we consider that an additional impact assessment at this stage is unnecessary.

Next steps

In accordance with this decision, the RR IF will take effect following approval by all competent authorities. As such, the TSOs performing the RR process must publish the RR IF on the internet in line with Article 7 of the EBGL Regulation, and must meet the implementation deadlines required by Article 19 of the EBGL.

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

Yours sincerely,

Louise van Rensburg

Interim Deputy Director, SO and Whole System, Systems & Networks

¹¹ https://ec.europa.eu/energy/sites/ener/files/documents/20130610_eu_balancing_master.pdf