

EXPLANATORY DOCUMENT ON NETWORK CODE DEMAND RESPONSE (NC DR) IMPACT TO EB REGULATION AND RECOMMENDED AMENDMENTS - EUDSO ENTITY AND ENTSO- E PROPOSAL

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Executive Summary

This document describes the proposals including justifications for the amendment to the Commission Regulation (EU) 2017/2195 of 23 November 2017 establishing a guideline on electricity balancing (hereafter 'EB Regulation') with the goal of aligning EB Regulation to the new Network Code on Demand Response (NC DR).

The new NC DR has been drafted in accordance with ACER Framework Guidelines on Demand response by the Drafting Team of ENTSO-E and the EU DSO Entity together with the Drafting Committee. The NC DR, as drafted today, impacts the EB Regulation.

An analysis was conducted by the EU DSO Entity and ENTSO-E with the purpose to identify the set of amendments necessary to ensure consistency between EB Regulation and the new NC DR. Those considered amendments refer to:

1. Minimum bid size of standard balancing products;
2. Imbalance adjustment processes;
3. Annex: Requirements in case balancing bids are used to ensure system balance in a context of redispatching.

This document refers to the draft content of the NC DR and the proposed EB Regulation amendments may need to be clarified further once the NC DR content is finalised.

1. Minimum bid size

Framework Guideline on Demand Response provisions

Framework Guideline (FG) on Demand Response¹ provides in its paragraph (21):

“in order to enable access to all balancing markets, the new rules shall reduce the minimum bid granularity at least for the first bid of each BSP to not higher than 0.1 MW for all balancing capacity and accordingly for all balancing energy products, based on the respective market time unit, and set a clear timeline for the implementation of this change. The new rules shall set out a derogation process for MSs for not applying the minimum bid granularity requirement mentioned in the previous sentence, including a clear timeline for a cost benefit analysis to be performed by the TSO(s) of the concerned MSs, and regular re-assessments to ensure that the derogation is lifted in case the outcome of the analysis is changed.”

Draft NC DR requirements

Network Code Demand Response draft clarifies in whereas and in Article 29:

Whereas Title II (e) : The minimum bid size of standard balancing products is defined as 1.0 MW for: standard products for balancing capacity for frequency restoration reserves and replacement reserves in accordance with Article 25(2) of Regulation (EU) 2017/2195, and for standard products for balancing energy for (automatic and manual) frequency restoration reserves and replacement reserves in accordance with Articles 19(1) and 19(3)(i), Articles 20(1) and 20(3)(i), and Articles 21(1) and 20(3)(i) of Regulation (EU) 2017/2195. This Regulation requires an evolution of the bid granularity of standard balancing products intended to facilitate the participation of smaller resources in balancing services by means of aggregation.

Article 29

Granularity of standard balancing products

- 1. By twelve months after entry into force of this Regulation, all TSOs shall develop a proposal for a roadmap for the implementation allowing to set the bid granularity of all standard balancing products at one decimal starting from the minimum bid size of standard balancing products as defined in the implementation frameworks pursuant to Articles 19, 20, and 21 of Commission Regulation (EU) 2017/2195.*
- 2. A competent national regulatory authority may, at the request of a TSO or at its own initiative, grant the relevant TSOs a derogation from the provision set out in paragraph 1 for all or some standard balancing products if the implementation is judged inefficient based on following cumulative conditions:
(a) unfavorable cost-benefit analysis of the reduction of bid granularity; and
(b) negative impact to the implementation of Commission Regulation (EU) 2017/2195.*
- 3. Where the relevant national regulatory authority grants a derogation, it shall specify its duration. Derogation may be granted for a maximum period of two years. The TSO(s) of the concerned MS(s)*

¹ [FG_DemandResponse.pdf\(europa.eu\)](#)

shall reassess the conditions based on which the implementation of the provision set out in paragraph 1 was judged inefficient and submit the assessment to the national regulatory authority before asking for an extension of the derogation period.

Explanations of required EB Regulation amendments

All TSOs consider the integration of smaller resources in balancing processes is more efficient and effective through aggregation. There is an understanding that lowering minimum bid below 1 MW size has very low added value in terms of improving market access requirements and may create an unnecessary burdensome process, while at the same time making it more difficult the monitoring of service performance. On the other hand, TSOs understand that allowing higher granularity would make a difference for aggregators and facilitate the update of their portfolios with new participating resources joining them.

Recommended EB Regulation amendments

Accordingly, the following amendments are recommended to Art 25(4) of EB Regulation.

“ 4. The list of standard products for balancing energy and balancing capacity may set out at least the following characteristics of a standard product bid:

- (a) preparation period;
- (b) ramping period;
- (c) full activation time;
- (d) minimum and maximum quantity;
- (e) deactivation period;
- (f) minimum and maximum duration of delivery period;
- (g) validity period;
- (h) mode of activation;
- (i) bid granularity. “

In addition, the following amendments are recommended to Art 25(6) of EB Regulation:

“ 6. Standard products for balancing energy and balancing capacity shall:

- (a) ensure an efficient standardisation, foster cross-border competition and liquidity, and avoid undue market fragmentation;
- (b) facilitate the participation of demand facility owners, third parties and owners of power generating facilities from renewable energy sources as well as owners of energy storage units as balancing service providers.

(c) have a granularity of one decimal (0.1 MW) following the implementation timeline define in Art 25a;

(d) minimum quantity of one (1 MW). “

In addition, Art 29 of the draft NC DR shall be moved to EB Regulation as a new Art 25a:

“ Article 25a

Granularity of standard balancing products

1. By twelve months after entry into force of this Regulation, all TSOs shall develop a proposal for a roadmap for the implementation allowing to set the bid granularity of all standard balancing products at one decimal starting from the minimum bid size of standard balancing products as defined in the implementation frameworks pursuant to Articles 19, 20, and 21 of Commission Regulation (EU) 2017/2195.
2. A competent national regulatory authority may, at the request of a TSO or at its own initiative, grant the relevant TSOs a derogation from the provision set out in paragraph 1 for all or some standard balancing products if the implementation is judged inefficient based on following cumulative conditions:
 - (a) unfavorable cost-benefit analysis of the reduction of bid granularity; and
 - (b) negative impact to the implementation of Commission Regulation (EU) 2017/2195.
- ~~1.3.~~ Where the relevant national regulatory authority grants a derogation, it shall specify its duration. Derogation may be granted for a maximum period of two years. The TSO(s) of the concerned MS(s) shall reassess the conditions based on which the implementation of the provision set out in paragraph 1 was judged inefficient and submit the assessment to the national regulatory authority before asking for an extension of the derogation period. “

For clarity and consistency, the content of the new Art 25a(2) and 25a(3) could be moved and synchronised with the content of the current Art. 62 of EB Regulation derogations.

2. Imbalance adjustment related processes

Framework Guideline on Demand Response provisions

FG on Demand Response provide in its paragraph (21):

“the new rules shall specify the process to verify the provision of balancing energy, including the data that should be exchanged between the TSO and the BSP, and the settlement of the provided balancing energy, by amending the provisions of Title V, Chapter 2, of the EB Regulation, with respect to the balancing energy volume, taking into account the different resource providers, as well as the aggregation models described in the next paragraph.”

FG on Demand Response provide in its paragraph (37):

“The new rules shall distinguish between the imbalance adjustment of the BRP(s) of the market participants (including SPs) behind the metering point(s) of the connection point, and the

adjustments to the allocated volume of the BRP(s) responsible for the imbalances on the connection point, differentiating the respective calculations, depending on the applicable aggregation model, but in any case ensuring consistency among the volumes involved, in order to avoid free-riding.”

Draft NC DR requirements

These EB Regulation amendments refer to Article 28 “Imbalance Settlement” of the draft NC DR.

Explanations of required EB Regulation amendments

Adjustment and settlement of imbalances are processes intended to clarify financial responsibility of each BRP in case of deviations from its contractual position in the different electricity markets.

In case of any mismatch position, each BRP takes financial responsibility of the imbalance settled by TSO in line with EB Regulation and NC DR, when applicable.

The draft NC clarifies the case of adjustment of the BRP position and imbalance settlement dependent on the aggregation model.

The choice between the options outline in Art. 28(1) will be made nationally.

In the case of aggregation model pursuant to Article 28(1)(c) is implemented nationally, it should be clearly defined to whom the imbalance adjustment applies:

In case of balancing energy provided by a (balancing) service provider, other than the supplier, in the long-term, day-ahead, intraday market, and regardless how the compensation to supplier of the energy bought that will not be finally paid by the customer (since not consumed) is nationally applied, **in case the aggregation model implemented the imbalance calculation described in Article 28(1)(c) of draft NC DR, the imbalance adjustment pursuant to Article 49 of EB Regulation shall be always applied to both concerned BRP: the one associated to the balancing service provider (e.g., independent service provider BRP) and the supplier-BRP.**

This is in line with Article 5(2)(c) of ‘Methodology for the harmonisation of the main features of imbalance settlement’ (ISH methodology) pursuant to Article 52(2) EB Regulation.

Recommended EB Regulation amendments

The following amendments are recommended to Art. 2(14) of EB Regulation:

“(14) ‘imbalance adjustment’ means an energy volume representing the balancing energy from a balancing service provider or, where necessary, energy volume representing the energy from congestion management or from voltage control and applied by the connecting TSO for an imbalance settlement period to the concerned balance responsible parties, used for the calculation of the imbalance of these balance responsible parties; “

And, accordingly, the following amendments are recommended to Art. 49 of EB Regulation:

“ Article 49

Imbalance adjustment to the balance responsible party

1. Each TSO shall calculate an imbalance adjustment to be applied to the concerned balance responsible parties for each activated balancing energy bid or, where necessary, each activated energy bid representing the energy from congestion management or from voltage control.

2. For imbalance areas where several final positions for a single balance responsible party are calculated pursuant to Article 54(3), an imbalance adjustment may be calculated for each position.

3. For each imbalance adjustment related to activation of balancing energy bid, each TSO shall determine the activated volume of balancing energy calculated pursuant to Article 45 and any volume activated for purposes other than balancing.

4. For each imbalance adjustment related to activation of any ancillary services bid representing the energy from congestion management or from voltage control, the requesting system operator shall, where necessary, determine the activated volumes of energy for every concerned balance responsible party and communicate these volumes to the relevant TSO. “

3. Annex: Topics assessed for amendments in the EB Regulation

The topic below have been considered for amendments in the EB Regulation, but no exact amendments were ultimately considered necessary.

Requirements in case balancing bids are used to ensure system balance in a context of redispatching

Framework Guideline on Demand Response provision

Paragraph 76 of FG reads:

“new rules shall clarify the process for using bids from the balancing energy markets to close open position due to congestion management by a SO, including in which cases these bids should be considered as ‘activated for internal congestion management’ as described in Art 30(1)(b) of the EB Regulation.”

Draft NC DR requirements

These EB Regulation amendments refer to Article 77 “Ensuring system balancing” of the draft NC DR.

Explanations of EB Regulation amendments

In order to ensure that the system is balanced, it is vital that measures taken to solve congestions in TSO or DSO grid are balanced. This may be realised by implementing measures that are by design balanced (for every upwards or downwards measure, there is a countermeasure). In this case system balance is always inherently ensured. This countermeasure can be taken by market parties or by the requesting system operator.

However, not in all Member States, redispatching actions are per design balanced. In some redispatching markets, there is an option for unilateral redispatching actions to be left imbalanced and eventually, the netted need of upwards-downwards redispatch actions would be counterbalanced as part of the balancing actions taken by the TSO.

In case balancing bids are used for this purpose the marking of the use of bids is applied in accordance with the Methodology for classifying the activation purposes of balancing energy bids as described in Article 29(3) of the EB Regulation. **The list of purposes is deemed sufficient and no amendment necessary.**

Choosing the way this is ensured is up to national implementation. In any case it has to be ensured, that imbalances due to redispatch are solved as efficiently as possible.

FG provisions refer to the possibility for the use by TSOs of balancing energy bids, either within European or national balancing markets, to cover possible remaining gap of energy in the system and to ensure system balance in a context of redispatches activated to cope with congestion management or voltage issues. In this case, the TSO will do so in line with Article 3(3) of *Activation Purpose Methodology*² pursuant to Article 29(3) of EB Regulation and may consider the activation as for system constraint purposes. **The list of purposes is deemed sufficient and no further complementary requirement is necessary in the NC DR.**

No recommended amendments to EB Regulation were identified as EB Regulation is deemed sufficient and does not prohibit for the NC DR provisions.

²[https://eepublicdownloads.entsoe.eu/clean-documents/nc-tasks/200716_A29\(3\)_ACER%20Decision%2016-2020%20on%20balancing%20APP-%20Annex%20I.pdf](https://eepublicdownloads.entsoe.eu/clean-documents/nc-tasks/200716_A29(3)_ACER%20Decision%2016-2020%20on%20balancing%20APP-%20Annex%20I.pdf)