europex
association of european energy exchanges

Europex response to European Commission consultation on risk preparedness in the area of security of electricity supply

(As handed in on 8 October 2015)

I - Risk Identification and Management

(1) Whilst Directive 89/2005 imposes a general obligation on Member States to ensure a high level of security of supply, the Directive does not specify what measures Member States should take to prevent risks. Would there be an added value in requiring Member States to draw up a plan identifying relevant risks and preventative measures to respond to such risks (risk preparation plans)?

Yes.

It is clearly essential that security of supply risk preparation plans focus on the physical aspects of grid (transmission and distribution) operation. And this would presumably be a focus of risk preparation plans.

However, it is also important that the various electricity markets and imbalance settlement have plans in place for what would happen to them in the event of major grid disruption. Because Market Participants, Balance Responsible Parties and the parties responsible for operating those markets and imbalance settlement need to have clarity and certainty about what will happen beforehand, in this response we are concentrating on the market-related aspects of risk preparedness in the area of security of supply.

From a market perspective, certainty of what would happen in the event of interruptions to security of supply will lower risk in markets and so aid liquidity. So Europex supports any action that clarifies beforehand how markets would work in extreme conditions involving any interruptions to supply.

What the markets (futures, day-ahead, intraday and balancing) and imbalance settlement all need to function well with sufficient liquidity and minimum risk for participants is:

- **Certainty** – of the conditions under which the markets, imbalance settlement, market coupling, Coordinated Balancing Areas and common merit order lists will be suspended or partly-suspended and restored.

  To provide this certainty there should be no discretion on such suspensions if the relevant pre-defined criteria are met. This also suggests that there needs to be different levels of rules and plans at:

  - Member State level – for specifying the conditions for the suspension and restoration of national markets and imbalance settlement
  - Regional level – for specifying the conditions for suspension and restoration of market coupling between coupled day-ahead and intraday markets or when the common merit order list is suspended and restored within Coordinated Balancing Areas
  - Pan-European level for specifying the conditions for suspension and restored where the regional markets have merged or are fully coupled and to ensure overall consistency of approach in the regional and Member State plans.
- **Certainty of the rules** that will apply during market suspensions so that market participants are not exposed to undue financial risk, for example in imbalance settlement
- **Clarity of roles**, not just for TSOs and DSOs but for NEMOs, Market Operators/administrators and power exchanges too in the event of market suspension and restoration. For example, clarity on who monitors the criteria for market suspension and restoration, who actually suspends the markets in the

event of the criteria being met, and who informs the market participants in those markets of suspension and restoration.

- **Practicality** – the criteria under which markets will be suspended and restored must be practical, i.e. they can be easily monitored by the person(s) responsible for suspending and restoring the markets. For example, a criterion based on the financial impact of blackouts on Balance Responsible Parties (BRPs) from imbalance settlement may not be a practical criterion to monitor in real time if the BRPs are suppliers with millions of customers who can switch supplier and who are spread over a large geographical area. In this case a practical alternative criterion might simply be the volume of demand curtailed as a percentage of Member State or regional demand.

(2) If yes, what should be the minimum requirements such risk preparedness plans should comply with? For instance, should they:

a. Explain the various types of risk?

b. Identify the demand side measures Member States plan to take (e.g. use of interruptible contracts, voluntary load shedding, increased efficiency, energy savings)?

c. Identify the supply side measures Member States plan to take (e.g. increased production flexibility, increased import flexibility)?

d. Assess the expected impact of existing and future interconnections?

e. Identify roles and responsibilities?

f. Identify how Member States co-operate or intend to co-operate amongst each other to identify, assess and mitigate risks?

g. Other elements?

In line with our response to Question (1), Europex would support clarity on all these points for all market participants.

In particular, in answer to (e), clarity on any roles assigned to NEMOs, power exchanges or Market Operators/administrators will be essential to our members and market participants. It is important that, as far as possible, all market participants across all markets are notified simultaneously to avoid any issues of insider trading, particularly as all the markets become more harmonised and interdependent both time-wise (forwards through day ahead and intraday to balancing) and geographically (through market coupling and Coordinated Balancing Areas).

In answer to (d), (f) and (g), and from a markets perspective, it is important to determine the criteria when market coupling, and/or sharing of common merit order lists within Coordinated Balancing Areas (CoBAs) will be suspended and restored; or different rules are applied for imbalance settlement. This may depend on where the physical security of supply issue is located geographically in relation to the interconnections between Member States/markets/Bidding Zones.

Consider the following examples.

- A blackout within a small region of a Member State/market/Bidding Zone may not require suspension of any market or market coupling, CoBA, or change to imbalance settlement. However, the financial impact from involuntary imbalance on market participants, e.g. inability to generate, would need to be considered as one of the factors when setting the criteria for market suspension.
- A widespread blackout within a Member State/market/Bidding Zone weakly interconnected with the rest of Europe through other Member State/market/Bidding Zones, may require market suspension within that zone and of market coupling from other zones with that zone and/or the suspension of sharing of bids from that part of a CoBA, but not for the rest of the markets/zones/CoBA, that are coupled with it.

- A widespread blackout within a Member State/market/Bidding Zone that is directly connected to the above zone, may require market suspension both within that zone and of the zone above, but not for the rest of the markets/zones/CoBA, that are coupled with it.
- A widespread blackout within a Member State/market/Bidding Zone strongly interconnected with the rest of Europe may require wider market suspension.
- A key interconnector trips, which may require the suspension of market coupling between the interconnected zones.

If these scenarios are all examined and the criteria determined in advance of any security of supply issues, then this will add certainty for the market, market participants, power exchanges and market operators/administrators and make it easier for market participants enter into contracts.

It is clear that as Europe moves towards meeting the target interconnection levels and/or changes Bidding Zone/CoBA boundaries, these scenarios will need to be re-assessed, so the expected impact of current and future interconnections will be a key part of this (question (d) above). It is also clear that some of the above scenarios can be defined at Member State level (the first bullet point above for example) but some at regional (Bidding Zone and CoBA) levels and that an overall pan-European approach will be needed to set out guidelines for consistency between regions and eventually once the regions merge through increased interconnection and harmonisation, for determining the more detailed rules.

(3) Do you think that it would be useful to establish a common template for risk preparedness plans?

Yes.

This will help to identify any different or inconsistent approaches between Member States and where Europex members work across different Member State requirements will help identify any issues, e.g. with market coupling during emergency situations. In using this template, it will be important both to ensure that there is a common understanding between Member States of how to interpret the requirements in completing the template and in reading it once completed. And that the common template meets the specific needs of every Member State that uses it.

(4) Given that electricity markets are increasingly interlinked, should risk preparedness plans be prepared at the national, regional or EU level?

There is an argument for a hierarchy of interlinked plans at all levels, not just at one level alone. See our answer to Question (2) above where national plans were needed to address when the local markets would be suspended; regional plans were needed to set out when market coupling/CoBAs would be suspended or partly suspended; and a pan-European approach setting out the guidelines for consistency across market coupling and CoBAs.

(5) Do you see a role for the Commission in assessing these plans?

Would you see an added value of having the plans peer reviewed, at a regional or EU level?

See our answer to Question (4) above. There is a role for setting out overarching guidelines for the regional plans, which could be undertaken by the Commission.

Depending on the level of plan, the plans should be reviewed at the same level, i.e. national or regional or EU level. As noted in our answer to Question (4) we see the need for all three levels of plan.

What role do you see in this context for the Electricity Coordination Group?

We do see a potential role in the Electricity Coordination Group in bringing together policy on the technical aspects of security of supply. However, in order to do this the Electricity Coordination Group should formally involve relevant market stakeholders, including NEMOs, power exchanges, market operators/administrators and market participants.

(6) What level of transparency should be given to the plans?

Who should be informed of what?

There is a balance to be struck here between the need for certainty for the markets and market participants (see above) and the risks to security (from terrorism or cyber security breaches for example) from revealing too much in the public domain.

However, we do not see a problem in making public the following. Indeed, we think clarity on these points is essential for the proper functioning of the markets both before, during and after the market suspension and restoration.

- Roles and responsibilities for notifying the markets, suspending and restoring the markets should be clear to all involved.
- The criteria for market, market coupling, CoBA suspension and restoration (including which markets, etc. are suspended – see our answer to Question (2) above).
- The rules for financial settlement in respect of the periods of market suspension.

(7) How often should risk preparedness plans be made/be updated?

What are the relevant time frames to be covered?

In line with our answers to Question (2) above, the regional and/or EU-level plans should be reviewed and if necessary updated at least whenever there is a significant change to a Bidding Zone boundary, CoBA boundary, market coupling or CoBA arrangements, and major new interconnection planned or completed.

From a markets perspective, these plans must cover at least the lifetime of the electricity contracts being entered into by market participants to given certainty, as far as is possible, over the lifetime of those contracts of the market suspension and restoration rules that may impact them.

(8) Given the challenges that DSOs are facing (e.g. integration of renewables, more decentralised systems), should DSOs take an active participation in the assessment of the risks and preparation of the risk preparedness plans?

If yes, do you see the need for separate assessments and separate risk plans at the DSO levels?

Or do you believe it is more appropriate to ensure an active participation of DSOs in risk assessments and risk preparedness plans covering the entire electricity system?

DSOs should be involved in the same way as other key actors in the grid and electricity markets, no more no less. So DSOs, TSOs, NEMOs, power exchanges and market operators/administrators should all be involved in their respective areas of expertise, e.g. DSOs in relation to plans for their own distribution systems and markets (if they operate any) and to the extent that they interact with other plans, e.g. with their connected TSO(s), with those plans too. Independent (non TSO/DSO) market operators, NEMOs and power exchanges should be involved in the same way with plans for their own markets and where the suspension of their market would impact on other markets all the impacted market operators/administrators, NEMOs and power exchanges should be involved. And importantly, where TSO (or DSO) plans involve actions that would impact the markets, e.g. prevent a generator from generating according to its contractual commitments, then the market actors should be involved too. DSOs are very

important actors but no more so than many others that need to be involved in the preparation of these plans.

(9) Ensuring cyber security is an increasingly important aspect of security of supply. What measures should Member States take to protect themselves against possible cyber-attacks or other cyber-related threats?

Do you see the need for specific EU rules on cyber security, targeted to the energy field?

Given the cross-border nature of cyber security risks, what scope is there for enhancing cooperation (for instance through the exchange of best practices)?

Cyber security is a critical issue facing all aspects of the electricity supply chain. As far as the markets operated by exchanges are concerned, extensive measures are already taken and we do not see the need for specific EU rules. Europex has been active in facilitating exchange of best practices between its members. Addressing Crisis Situations.

(10) Currently, it appears that in some Member States detailed emergency plans exist, whereas in others, there are only very summary emergency plans. Should there be an obligation for all Member States to plan for crisis situations, e.g. by including relevant rules and measures in overall risk preparedness plans?

Yes.

For the reasons given in our answer to Question (2) and to encourage market certainty and therefore liquidity.

(11) If yes, what should be the minimum requirements to be included?

For instance, should Member States be required to:

a. Identify actions and measures to be taken in emergency situations (market and non-market-based)?

b. Set out the conditions for the suspension of market activities?

c. Identify categories of protected customers' which, in case of a crisis, should not be subject to a disconnection measure (or only be disconnected by way of a last resort)?

d. Establish rules for cost compensation?

e. Indicate how they intend to co-operate with other Member States?

f. Reflect any other issues in their plans?

In relation to markets, all the above is necessary to give certainty to the markets. This would include (a), (b), (d) and (e) as a minimum. But more than this, as noted in our answer to Question (4), the plans should be established at all of national, regional and pan-European levels for the reasons given in that answer.

II - Roles and Responsibilities

(12) In relation to risk preparedness, how do you see the roles and responsibilities of:

- **National governments?**
- **National regulators?**

To approve the national plans for market suspension and restoration and rules for imbalance settlement during market suspension and in coordination with other national regulators to approve the plans for suspension and restoration of market coupling and CoBAs.

- **TSO's?**

To determine plans for emergency and transmission grid restoration in their own areas and to coordinate with other TSOs and connected DSOs on these matters.

TSOs will also play a key role in monitoring the criteria under which markets, etc. will be suspended and restored. However, they should have no discretion on suspension and restoration if the relevant criteria are met.

The will have a role in determining what those criteria are, particularly for the balancing markets, but for other markets and imbalance settlement they should have no preferential role over other stakeholders in determining what the criteria should be. These should be proposed in conjunction with all stakeholders and approved by the appropriate regulatory bodies.

- **DSO's?**

To determine plans for emergency and distribution grid restoration in their own areas and to coordinate with their directly connected TSO(s) and interconnected DSOs on these matters.

If DSOs play a role in actively balancing their distribution system, then, like TSOs, they will play a key role in monitoring the criteria under which their active management will be suspended/restored. But, again like TSOs, they should have no preferential role in determining the criteria for suspension/restoration of other markets.

- **European bodies such as ENTSO-E, ACER and the Electricity Coordination Group?**

Regional market suspension and restoration, e.g. for market coupling and CoBAs must be determined by rules set at the appropriate level involving the appropriate parties. So for day-ahead and intraday market coupling it suggests that NEMOs and the regional TSOs, should all be involved in determining the rules and consulted upon with market participants and approved by the relevant regulators. For CoBAs, the relevant TSOs and market operators should be involved in determining the rules. For market coupling covering the whole of Europe, ENTSO-E, all NEMOs and ACER must also be involved.

- **European Commission?**

To give overarching guidance to those establishing plans at regional and pan-European level to ensure consistency of approach. This can best be done through its adoption, with Member States, of the Network Code on Emergency and Restoration for example.

- **Other stakeholders, such as consumers?**

NEMOs, power exchanges, market operators/administrators are key to the successful suspension and restoration of markets so should be included as noted above. Market participants should be consulted on any requirements or expectations that will fall on them during market suspension and restoration so that they can plan and make financial/contractual preparation as necessary. As noted above, clarity in advance of what will happen during any market suspension and restoration will be essential to the proper functioning of markets before, during and after. Consumers should be consulted on their tolerance to supply interruptions when setting security standards and for establishing their willingness to pay (Value of Lost Load) as this will set the market design criteria. As Demand Side Response becomes increasingly prevalent, these consultations will need to take account both of such voluntary load reduction and the wishes of those who are unable to access Demand Side Response. When security of supply standards and Value of Lost Load standards are set, all consumers and markets should be notified to set expectations.

(13) Given the fact that many actors are concerned by security of supply issues, would you see an added value in the designation by each Member State of a 'Competent Authority', responsible for coordinating security of electricity supply issues at national level?

As noted in our answer to Question (8), there are lots of different key actors who should have responsibility at various levels. However, if a Competent Authority is established at Member State level, that body should be either the Member State itself or the National Regulatory Authority. However, there is a need for coordination at regional and pan-European levels as well, e.g. for regional markets.

(14) If it is decided to strengthen regional co-operation on a more structural basis between various players (e.g. when drawing up risk preparedness plans), how should regions best be defined?

In terms of markets, the regions must be defined in relation to Coordinated Balancing Areas and Bidding Zones.

END.