

CYPRUS TRANSMISSION SYSTEM OPERATOR



**Guidance on Comments
Submission
and
List of Issues**

29 February 2016

BACKGROUND AND GUIDANCE ON THE CONSULTATION PROCESS

Following Cyprus Energy Regulatory Authority's (CERA) Decision 01/2015 regarding the new electricity market arrangements, the Cyprus TSO developed a complete set of Trading and Settlement Rules (TSR), substantially amending the existing TSR, aiming at creating a coherent and analytical document to be used by all market participants transacting in the wholesale electricity market of Cyprus.

The document of the TSR, as finally approved, shall be utilized as the basic tool upon which the software-requirements shall be developed, and therefore it shall comprise an integral part of the corresponding procurement process.

In accordance with the provisions of article 81 (4) of the Law Regulating the Electricity Market N122(I) 2003 and all subsequent amendment laws, the Cyprus TSO initiates today a public consultation on the modified Trading and Settlement Rules and invites all interested parties to submit their comments by **April 8 2016**.

Following any amendments as a result of the public consultation, the new draft of the TSR shall be submitted to the TSR Advisory Committee where the members of the Committee may propose further modifications. The final draft in the English language of the TSR will take into consideration the recommendations of the TSR Advisory Committee. The English version will then be translated in the Greek language and submitted to the Cyprus Energy Regulatory Authority and the Minister of Energy, Commerce, Industry and Tourism for approval. The approved TSR shall form secondary legislation based on the Law Regulating the Electricity Market.

As the draft TSR is a comprehensive technical document, the submission of comments by a great number of interested parties in an uninstructed manner may prove to be challenging for the consultation process. In order to facilitate the consultation process and with a view to creating afterwards a table of submitted comments/positions that could be easily used by the TSR Advisory Committee, the Cyprus TSO invites all interested parties to edit their comments, positions and reasoning by using the two templates as provided below.

- **Template A** shall be used for submission of typos, suggested corrections of the text, additions, clarifications and minor proposed modifications, i.e. on topics which do not impact other sections or processes of the proposed TSR).
- **Template B** shall be used to identify more critical topics whose handling is described in a series of sections within the proposed TSR and significantly

affect the market operation. Comments under this category should focus on the substance of the discussed topic as it is optional for consultation participants to modify proposed TSR according to their approach (i.e. the completion of the last column of template B is optional).

TOPICS FOR WHICH COMMENTS ARE REQUESTED

In the context of the process of developing the detailed TSR document, the TSO has identified the following 13 (thirteen) topics. These either provide for an alternative as allowed by the general guidelines of CERA's decision, or the provisions of the TSR do not fully comply with the aforementioned CERA decision. Therefore, the Cyprus TSO suggests to initiate discussion with market participants and stakeholders on these topics:

1. Draft TSR (Section E paragraph 5) provide for Reserves capacity remuneration based on the marginal pricing approach instead of the pay-as-bid approach adopted in CERA's decision. The Cyprus TSO invites existing and future market participants' views and feedback on the marginal pricing approach.
2. Draft TSR (Annex E.1 paragraph 11.1.4) provide that no Balancing Energy Provider will be allowed to provide more than 25% of the total Replacement Reserve Requirement. This restriction is introduced to protect the Cyprus TSO from contracting a single provider for Replacement Reserve, a situation which may jeopardize the secure operation of the system in case the Balancing Service Providers allocated this responsibility become unavailable. CERA's decision allows topological and dispersion restrictions on operational reserves only for the ISP. Corresponding management for Replacement Reserve is also proposed and the TSO invites relevant comments thereto and any implications of this 25% restriction on the market with existing or future market participants.
3. Draft TSR (Section H1 paragraph 7.2) provide for upper and lower price limits regarding the offers submitted for upwards and downwards balancing energy that do not fully coincide the corresponding limits included within CERA's decision. The Cyprus TSO invites existing and future market participants to discuss the issue.
4. Draft TSR under Section I provide for detailed formulas and methodology in calculating the security cover requirement to be imposed on market participants with respect to the balancing energy and ancillary services procurement, imbalances settlement and other system charges and uplifts.

The Cyprus TSO, based on the guidelines in CERA's decision regarding corresponding coverage requirement, developed a complete and detailed mechanism aiming at protecting not only the MO but all market participants active in the wholesale electricity market of Cyprus. As the consequences of someone's default directly impact on the others players' cash flows and the deficit of the default will be recovered via an extra-ordinary coverage payment imposed on Load Representatives, substantial effort has been spent to provide, to the extent possible, maximum security while restricting barriers to entry for new comers and security cost to all participants. The Cyprus TSO invites existing and future market participants as well as other stakeholders' views and feedback on the proposed approach.

5. The Cyprus TSO also invites discussion towards the possibility incorporated within the draft TSR (in accordance with CERA's decision) of involving a Coverage Institution to undertake all risks the MO is expected to accept with respect to the balancing energy and ancillary services procurement, imbalances settlement and other system charges and uplifts. Such service shall be provided in exchange for a fee that the MO will have to charge proportionally to all Load Representatives.
6. As the proposed scheme for the procurement of Supplementary System Energy expands on CERA's approach, the Cyprus TSO welcomes the opportunity to discuss the draft TSR approach with existing and future market participants. CERA's decision foresees the possibility for additional (supplementary) capacity to be reimbursed for being available, though care should be taken to prevent any price-distortion in the ISP and distortion in real time balancing, due to the procurement of such type of reserve. This capacity will be called to operate under extra-ordinary circumstances of generation resources shortage.

CERA's approach on the issue calls for market suspension in the event of an emergency, allowing the TSO to utilize such capacity at administratively set prices. Whilst drafting the details of the TSR, the Cyprus TSO realised that market suspension might be avoided, and instead a mechanism within the ISP process could be utilised in cases there is a need for extra capacity. Such an approach however raises the following question:

- Should the ISP restrict dispatching of such units to levels equal to their technical minimum¹?

¹ In which case, if the problem cannot be resolved, the TSO will be allowed to increase progressively the output level (as input parameter to the ISP) up to the point that a solution is found

- Should the **energy prices** be set in the Supplementary Energy Contracts or should it be set at the Administratively Defined Energy Offer Cap?
- Should the **energy prices** of these units, as defined in their contracts considered to further comprise corresponding Balancing Energy Offers in the RTBM and included in the calculation of the Marginal Settlement Price and the Imbalance Settlement Price?
- Should only cold reserve participate in the auctions for supplementary system energy?

The Cyprus TSO invites discussion on above listed questions which are interrelated. The Cyprus TSO aims to create the most efficient scheme for additional capacity remuneration.

7. Draft TSR (Section K paragraph 9) provide for a series of Non-Compliance Charges which are aiming at deterring market participants from manipulating the market or creating obstacles in its proposed operation. The Cyprus TSO invites comments and feedback on the proposed methodology for penalties' calculation especially in terms of creating a fair, transparent and non-discriminatory framework for the operation of the Market.
8. The proposed TSR do not allow RES-curtailments by the ISP for reasons other than system security, which is in full compliance with CERA's decision. As the ISP is a tool that incorporates the capability of resolving the system in a way to maximize the social welfare, the possibility for RES-curtailments and corresponding compensation on the basis of better economic efficiency is an approach to be examined. The Cyprus TSO invites market participants and stakeholders' views and feedback on the issue.
9. Based on the general principles described in CERA's decision regarding Market Metering Requirements and Metering profiling and Reconciliation, draft TSR provide for a detailed methodology on how corresponding metering data will be transferred to the wholesale level and be used for wholesale settlements. The methodology described in the draft TSR had to incorporate provisions regarding metering data management and processing, metering data reporting cycle, losses calculation and estimations of Participants' Energy quantities for settlements incorporating the approach of profiles along with ex-ante and ex-post Representation Percentages. As the proposed methodology had to define details that go beyond CERA's decision, the Cyprus TSO invites existing and future market participants and stakeholders to review the proposed methodology and submit their comments and/or alternatives. In particular, the Cyprus TSO

invites comments on the principles for the calculation of the ex-ante and ex-post Representation Percentages of Load Representatives.

- 10.** Within the draft TSR, in a series of cases, further details are set to be determined within corresponding Manuals. The Cyprus TSO undertook serious effort to restrict the type of information and details to be included in the Manuals to those related only to processes and details that do not impact the essence of the rules for trading and settlement. In this respect the Cyprus TSO invites participants to comment on specific information that they consider as appropriate to be included in the TSR, instead of corresponding Manuals.
- 11.** The Cyprus TSO, in the process of developing the detailed draft TSR, realized that it would be beneficial to utilize a period of 5' minutes as the time unit for instructions' issuance under real time balancing conditions. However, as according to CERA's decision, the settlement period is strictly defined to 30' minutes, the draft TSR propose a methodology on how to calculate the Marginal Settlement Price and the Imbalance Settlement Price. The Cyprus TSO invites comments and feedback by existing and future market players on this topic.
- 12.** Draft TSR allow a submission of offers by RES-units for both, upwards and downwards, balancing energy while the CERA decision makes reference only to downwards balancing energy from this type of generation. Draft TSR also allow participation of RES-units in the Reserves capacity, provided that they fulfill the technical requirements. The Cyprus TSO welcomes the views of existing and future market participants on the issue.
- 13.** CERA's decision defines that, for a first period, Load Representatives (on behalf of dispatchable load) should submit one P-Q pair in the RTBM however it allows this to change right after. The draft TSR (in view also of the software procurement) have incorporated the possibility for load representatives to submit more than one P-Q pair in the RTBM and the Cyprus TSO welcomes discussion on the issue by market participants.

Indicatively, it is mentioned that comments on the above topics 2, 3, 11 and 13 could be submitted under Template A, while other comments should be submitted under Template B.

It is also clarified that the above list of discussion topics is neither mandatory nor restrictive. The entire detailed document named draft "Trading and Settlement Rules" is set under consultation, meaning interested parties may submit comments, corrections and reasoned approaches, suggest alternatives, indicate

missing clarifications or other omissions, as they may deem appropriate for the entirety of the document.

For individual extensive comments or proposals, a reference to a separate document may be inserted in the appropriate column of the submission form. A cross-reference to the S/N of the comment must be inserted in the additional document.

COMMENTS SUBMISSION TEMPLATES

A. Suggested Text Modifications (corrections, typos, omissions, separate modifications etc.)

Name of Company/Individual/Stakeholder

Name, email address and phone number of corresponding contact person

S/N	Section of the TSR	Number of the TSR Paragraph	Segment in its original format <i>(please copy relevant segment)</i>	Proposed Section Modification <i>(please insert track changes in the text of the previous column)</i>	Discussion/reasoning on the proposed modification

B. Topics Discussion

Name of Company/Individual/Stakeholder

Name, email address and phone number of corresponding contact person

S/N	Topic Title	TSR Approach <i>(please provide for a short description of the TSR approach according to your understanding)</i>	TSR reference <i>(please name the paragraphs and sections' number where the topic is addressed within the TSR)</i>	Proposed Approach and Reasoning <i>(please provide your approach and reasoning on the topic)</i>	Proposed text Modifications <i>(please copy those segments of the TSR where the topic is addressed and insert your proposed modifications in track changes)</i>