



European Network of
Transmission System Operators
for Electricity

NETWORK CODES DEVELOPMENT PROCESS

17 FEBRUARY 2012

Table of contents

1 INTRODUCTION3

2 NETWORK CODES CHARACTERISTICS.....4

2.1 STRUCTURE 4

2.2 QUALITY OBJECTIVES 5

3 ROLES IN THE NETWORK CODES DEVELOPMENT PROCESS5

4 NETWORK CODES DEVELOPMENT PROCESS6

5 INTERPRETATIONS OF NETWORK CODES’ RULES 10

6 MAINTENANCE OF NETWORK CODES 10

6.1 NETWORK CODES CHANGE MANAGEMENT 10

6.2 INFORMATION SYSTEM FOR TRACKING OF NETWORK CODES DEVELOPMENT 11

7 PROCESS BLOCK DIAGRAM 12

7.1 NETWORK CODES INITIATED FOLLOWING A REQUEST ADDRESSED TO ENTSO-E BY THE EC 12

7.2 NETWORK CODES INITIATED FOLLOWING AN INTERNAL OR EXTERNAL REQUEST 12

1 INTRODUCTION

Network Codes are among the major products of ENTSO-E, ensuring a high standard of operability, reliability and security of the European electricity transmission systems within the framework of liberalized energy markets.

The Network Codes shall be developed for system operation, system development, cross-border network issues and market integration issues and shall be without prejudice to the Member States' right to establish national codes which do not affect cross-border trade.

According to Article 8(6) of *Regulation No. 714/2009 of the European Parliament and of the Council on conditions for access to the network for cross-border exchanges in electricity* (hereafter Regulation 714/2009), the Network Codes shall cover the following areas, taking into account, if appropriate, regional specificities:

- a. network security and reliability rules including rules for technical transmission reserve capacity for operational network security;
- b. network connection rules;
- c. third-party access rules;
- d. data exchange and settlement rules;
- e. interoperability rules;
- f. operational procedures in an emergency;
- g. capacity allocation and congestion management rules;
- h. rules for trading related to technical and operational provision of network access services and system balancing;
- i. transparency rules;
- j. balancing rules including network-related reserve power rules;
- k. rules regarding harmonized transmission tariff structures including location signals and inter transmission system operator compensation rules; and
- l. energy efficiency regarding electricity networks.

This document defines the characteristics of Network Codes and establishes the process for development and approval of Network Codes.

The process is designed to achieve consensus within ENTSO-E and with the affected stakeholders and in this way be fair, transparent and balanced.

The document foresees two different processes for the development and the approval of Network Codes, depending on the requesting party for the initiation of a Network Code development:

1. requests addressed to ENTSO-E by the European Commission (EC) in accordance with Article 6 of Regulation 714/2009;
2. internal or external requests, in accordance with Article 8(2) of Regulation 714/2009.

ENTSO-E shall submit a Network Code, which is in line with the relevant Framework Guideline, to ACER within a reasonable period of time, not exceeding 12 months (Article 6(6) of Regulation 714/2009).

ENTSO-E shall monitor and analyze the implementation of the Network Codes and their effect on the harmonization of applicable rules aimed at facilitating market integration (Article 8(8) of Regulation 714/2009).

2 NETWORK CODES CHARACTERISTICS

2.1 STRUCTURE

A Network Code defines certain obligations or requirements for entities that operate, plan or use the European electricity transmission systems.

In order to make Network Codes comprehensive and transparent, they may contain the following elements:

- **Identification number** is the unique number given by the Codes Administrator.
- **Title** shall be brief and concise, allowing for a quick and unambiguous identification of the area covered by the Network Code.
- **Scope and Subject matter of the Network Code** shall mean a brief, comprehensive description of the Network Code, of its main objectives and shall contain a general identification of the addressees obliged to comply with the Network Code, subject to any special regime further detailed in the Network Code.
- **Definitions** introduce or define specific values or a specific naming as given facts that may be used or cited within the Network Code.
- **Rules** define obligations or requirements that are fixed and binding for the addressees. Rules are the core part of a Network Code.
- **Special rules:** in case of identified objective differences, typically in electricity systems or in market structures, a Rule may include variances for a TSO, a group of TSOs (for example a synchronous area) or other network code's addressees or group of addressees. These variances are called Special Rules.
- **Entry into force** identifies the exact moment when the Rules and the Special Rules become binding subject to transitory regimes that are specified, if relevant, in the Network Code.
- **Monitoring and Implementation Criteria** are criteria which enable ENTSO-E to perform its task of monitoring and analysing the implementation of Network Codes and of the guidelines adopted by the Commission, as foreseen in Article 8 of Regulation 714/2009. The Monitoring and Implementation Criteria shall define the range of expected values or of expected targets in which the Network Code is considered as being complied with and shall state one or more performance requirements which, if achieved by the concerned entity(ies), will contribute to a reliable transmission system and a successful market integration.

2.2 QUALITY OBJECTIVES

The following main quality objectives serve as a guideline for the development and set-up of the “Network Codes”:

- **Transparency.** Technical and physical principles of transmission grid operation are clearly described. The Network Codes should to a reasonable extent be written in a form readable to non-experts. Additional to technical and physical principles, operational figures relevant for the Internal Electricity Market should be taken into account.
- **Unambiguousness.** All rules of Network Codes are written to be straightforward and unmistakable.
- **Future proofing and relevance to the present.** Rules in Network Codes shall anticipate the future conditions of the system and adopt a forward looking approach. In addition, rules included in Network Codes shall be periodically assessed by ENTSO-E to promptly identify the need for adaptation to the changing technical, market and legislative environment and, if necessary, to initiate an amendment procedure with ACER, in accordance with Article 7 of Regulation 714/2009.
- **Adequate level.** The Network Codes shall include rules based on effective technical solutions ensuring an adequate and reliable power system as well as market integration and not based on a lowest common denominator compromise. The rules in the Network Codes shall aim at achieving an objective that is the best approach for the overall performance.
- **Measurability.** Monitoring and Implementation Criteria, including each performance requirement shall be stated so as to be objectively measurable.
- **Consistent terminology.** Each Rule, to the extent possible, shall use a set of standard terms and Definitions that are approved through the Network Codes development process.

3 ROLES IN THE NETWORK CODES DEVELOPMENT PROCESS

Within the Network Codes development process the ENTSO-E has the following competencies and powers:

The Assembly is the general leading body of ENTSO-E responsible for:

- approval of the Annual Work Program, that includes the plan to develop or to amend a Network Code, including self initiated regional Network Codes;
- approval of the external requests for the development or amendment of a Network Code;
- approval of the “draft proposal” of a Network Code prior to launching the formal stakeholders consultation process;
- approval of the “final proposal” of a Network Code prior to its submission to ACER and EC.

The **Board** is the managing body of ENTSO-E responsible for:

- evaluation of the external requests for the development/revision of a Network Code, prior to their submission to the Assembly decision;
- coordination of work across Committees;
- coordination with ACER.

The Committees (System Development, System Operations, Market) are the ENTSO-E bodies responsible for developing the Network Codes in their respective areas, including the respective periodic review, as foreseen in Section 6 below.

The Legal & Regulatory Group is the ENTSO-E body ensuring appropriate legal and regulatory support during the Network Codes development process, including if necessary, its periodic review, as foreseen in Section 6 below.

The Drafting Team is a team of experts, set up by and working under the coordination of a Working Group or a Committee, responsible for the development of a Network Code including the assessment of and response to comments during the consultation process and including its periodic review, as foreseen in Section 6 below. The Drafting Team is supported, as needed, by the Legal & Regulatory Group, the Codes Administrator and the ENTSO-E legal advisors.

The Codes Administrator (function in the Secretariat) administers the Network Codes development, and periodic review processes, ensuring the compliance with this Network Codes development process especially in the following areas:

- integrity of the processes, and the consistency, quality and completeness of a Network Code;
- support to the Board in the coordination of the work across Committees and coordination of the different Drafting Teams together with the Committees;
- cross checking and coordination of the requirements of the different Network Codes; and
- administration of the consultation process associated with the Network Codes.

ENTSO-E Legal Advisors ensure that legal language, format and structure of a Network Code comply with the expected standards of an EU legislation considering that the Network Code will become EU legislation after the comitology process. They are working in close cooperation with the relevant Network Code Advisor, the Drafting Team and the LRG.

4 NETWORK CODES DEVELOPMENT PROCESS

The process involves the following steps:

1. Initiation
2. Drafting including informal consultation
3. Formal consultation
4. Approval
5. Enforceability

Step 1 – Initiation

ENTSO-E shall elaborate Network Codes in the areas stipulated in Article 8(6) of Regulation 714/2009 upon:

1. a request addressed to it by the EC in accordance with Articles 6 and 8(1) of Regulation 714/2009. This request will be based on the relevant Framework Guideline;
2. an internal (usually Committee) or external request, in accordance with Article 8(2) of Regulation 714/2009. A request should comprise the description of the new Network Code. The request should provide sufficiently descriptive detail to clearly define the scope of the Network Code and the justification for the request including an impact assessment of implementing or not implementing the Network Code. External requests are first assigned by the Board to a Committee and then assessed by the concerned Committee. The request and the Committee's assessment are forwarded to the Board and then to the Assembly for approval or further actions.

The plan to develop a Network Code will be included in the Annual Work Program proposed and managed by the Committee, coordinated across Committees by the Board, and approved in the form of the overall ENTSO-E Annual Work Program by the Assembly. The Annual Work Program shall set clear timetables for the drafting and approval stage of the Network Code, consistent with the Regulation 714/2009 and the 3-year Work Plan agreed between ENTSO-E, ACER and the EC.

Once the request is approved, the relevant Committee, with the support of a Working Group, if necessary, assigns the request to the designated Drafting Team to develop a Network Code.

If the proposed Network Code has implications for any combination of planning, operations, or market issues, the Drafting Team shall include a composite of individuals having the appropriate planning, operations, and market expertise. In addition appropriate involvement of the other Committee(s) concerned shall take place.

The Board shall coordinate with ACER in respect to Framework Guidelines, aiming at a common understanding of the scope of work and a the timetable before a Network Code is included in the Annual Work Program.

Step 2 – Drafting including informal consultation

During the drafting process, the Drafting Team will work aiming at the Network Code being in line with relevant ACER Framework Guidelines.

In order to ensure stakeholders' information, input and engagement during the drafting process, the Drafting Team will propose to the relevant Committee one or a number of specific workshops, describing their detailed topics and timing, and possibly additional

informal consultations with stakeholders and regulators. The proposal will be assessed by the relevant Committee which takes the decision to launch the informal, early consultation process.

Early informal consultation will in particular be organized with Distribution System Operators on cross border topics affecting them in their capacity to ensure distribution network integrity and stability, contributing to overall system security, reliability, integrity and stability.

The Drafting Team prepares the “working draft” of a new Network Code, according to the timetable stipulated into the Annual Work Program approved by the Assembly, providing that it will not exceed a period of 6 months. Included in this time period are: (1) the Secretariat work to ensure that the legal language, the format and the structure of the Network Code comply with the expected standards of an EU piece of legislation considering that a Network Code shall become a binding EU law after the comitology process; and (2) the LRG general legal assessment of the Network Code.

The “working draft” of the Network Code will be submitted to the relevant Committee for comments and approval. If the proposed Network Code has implications for any combination of planning, operations, or market issues, the Drafting Team shall include a composite of individuals having the appropriate planning, operations, and market expertise. In addition appropriate involvement of the other Committee(s) concerned shall take place. Based on the received comments, the Drafting Team and the Secretariat (traditionally a team composed of the relevant Network Code Administrator, the relevant Network Code Advisor and the relevant Legal Advisor) revise the “working draft” as needed, and after a legal assessment carried out by the LRG, the Secretariat submits the “draft proposal” of the Network Code for the Assembly’s approval with copy to the Board whose function is to coordinate it between different concerned Committees. The period between the finalization of the “working draft” and the Assembly approval of the “draft proposal” should not exceed 6 weeks. If necessary, an extraordinary Assembly meeting will be called or a written voting procedure will be organized, according to the provisions of Article 12.5 of ENTSO-E Articles of Association.

The “draft proposal” shall be accompanied by supporting material, including:

- a description of the objectives pursued together with the justification of the most important technical choices made when drafting the network code;
- a summary of how stakeholders have participated in the network code drafting process including a summary of network code public consultation.

This supporting material might also identify and justify those cases, if any, where departure from the policy choices in the framework guidelines, and implicitly from the initial impact assessment, is made.

Step 3 - Formal Consultation

Following the approval of the “draft proposal” the Assembly launches a formal stakeholder consultation process, allowing any interested party to provide comments.

The formal consultation process will be conducted according to the provisions of the “ENTSO-E Consultation Process” (document available on the ENTSO-E website).

All comments are assembled by the Codes Administrator and then sent to the Drafting Team and to the relevant Committee. Based on its own evaluation and on the relevant Committee’s input, the Drafting Team will revise the “draft proposal” as needed and issue the “final proposal” of the Network Code. It will report and document its opinion on all comments received in accordance to the requirements of the ENTSO-E Consultation Process.

Following a positive assessment by the concerned Committee and after a legal check by the LRG, the Secretariat sends the “final proposal” to the Assembly for approval.

If the relevant Committee does not support the “final proposal”, it may return the document to the Drafting Team for further work with a clear statement on how to proceed and what to adapt.

This step, including additional rounds for consultation and the assessment of the formal consultation, will be usually 2 months and should not exceed a period of 3 months.

Step 4 - Approval

The Assembly will take a decision on the “final proposal” of the Network Code no later than at its next meeting or, if necessary, an extraordinary Assembly meeting will be called or a written voting procedure will be organized, according to the provisions of Article 12.5 of ENTSO-E Articles of Association.

The Assembly will consider the relevant Committee’s proposal of the Network Code and the document on the treatment of all the comments received. In order to preserve the integrity of the due process, the amendments or modifications that the Assembly decides on the “final proposal” shall be documented on the ENTSO-E website, and the voting of the ENTSO-E Members shall be reported to ACER. If the Assembly chooses not to adopt a “final proposal” of the Network Code, it may either re-table the Code later, or return it to the relevant Committee for further work, or terminate the Network Code activity, providing to ACER the material reasons for this decision in relation to the non-adopted draft.

Following the approval by the Assembly, the “final proposal” of the Network Code will be submitted to ACER for evaluation with updated supporting material.

Step 5 - Enforceability

For Network Codes initiated following a request addressed to ENTSO-E by the EC, in accordance with Article 6 of Regulation 714/2009, once ACER concludes that the “final proposal” of the Network Code is in line with the relevant Framework Guideline, it submits the document to the EC with a recommendation for adoption. The EC adopts the Network Code making it final and binding in all EU Member States. For ENTSO-E Members from non-EU Member States, the enforceability of these Network Codes shall be pursued by contractual or other appropriate legal means, including the existing contracts or treaties between the EU and those states. Specifics for the ENTSO-E monitoring and analysis of

implementation of the Network Codes will be addressed in a separate ENTSO-E compliance monitoring process description.

1. If ACER does not consider the “final proposal” to be in line with the relevant Framework Guideline, it will return it to the Assembly with a reasoned opinion. The Assembly will decide on further steps to be taken.
2. For Network Codes initiated following an internal or external request, in accordance with Article 8(2) of Regulation 714/2009, ENTSO-E will duly take into account the opinion of ACER. The final approval will be done by the Assembly and contractual or other appropriate legal means shall be pursued to make the Network Codes binding.

5 INTERPRETATIONS OF NETWORK CODES’ RULES

Any Party materially affected by the Network Code is allowed to request an interpretation of the particular Rule. Such requests shall be sent to the Codes Administrator. The request shall contain a description of the circumstances surrounding the request and what clarifications are required as applied to those circumstances. The request should indicate the material impact to the requesting party or others caused by the lack of clarity or a possibly incorrect interpretation of the Rule. The relevant Committee assisted by the Codes Administrator shall prepare a written interpretation of the Rule as soon as practical, but no later than 60 days after receipt of the request. The interpretation shall be made available on the ENTSO-E website.

The interpretation is subject to the approval by the Assembly. Where appropriate, ENTSO-E shall liaise with ACER and the Commission before issuing an interpretation.

Once the Network Code becomes EU legislation, the rules on the EU jurisdictional system as foreseen in the Treaties and in the EU case law shall apply and govern the interpretation of the Code. The interpretation given by ENTSO-E is to be assessed accordingly.

6 MAINTENANCE OF NETWORK CODES

6.1 NETWORK CODES CHANGE MANAGEMENT

In order to keep the Network Codes up to date they are periodically reviewed by the each relevant Committee, at least every five years. In case a need for review is identified, the relevant Committee shall present to the Assembly the proposed amendments together with an explanation as to why the amendments are needed. The Assembly shall decide to further

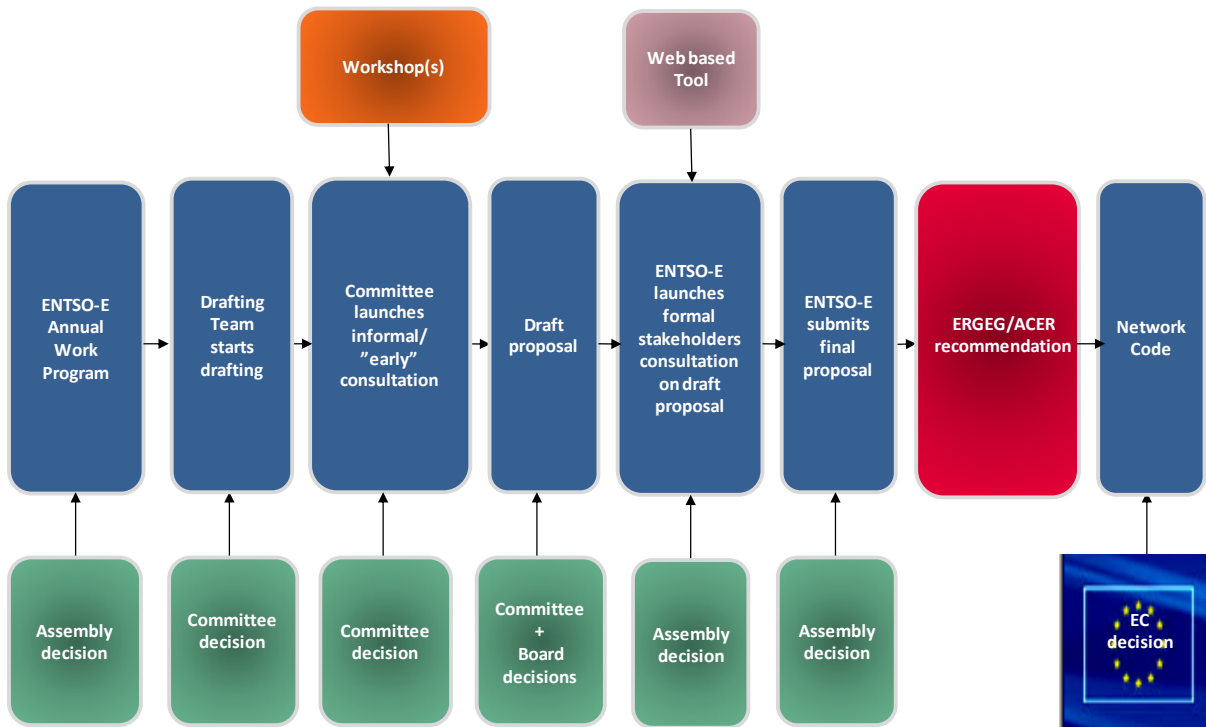
proceed this report to ACER, so that an Amendment of the Network Code can be initiated by ACER in accordance with Article 7 Regulation 714/2009.

6.2 INFORMATION SYSTEM FOR TRACKING OF NETWORK CODES DEVELOPMENT

The whole procedure of developing Network Codes will be tracked on the ENTSO-E website using electronic tools for the publishing of drafts, sending and publishing comments and publishing the approved Network Codes. The Codes Administrator is responsible for maintaining and updating the database.

7 PROCESS BLOCK DIAGRAM

7.1 NETWORK CODES INITIATED FOLLOWING A REQUEST ADDRESSED TO ENTSO-E BY THE EC



7.2 NETWORK CODES INITIATED FOLLOWING AN INTERNAL OR EXTERNAL REQUEST

