

Pursuant to Article 87 paragraph 1 item 35 of the Energy Law, ... and the Agency's Approval No. _____, Crnogorski elektroprenosni sistem AD has issued

Rules for the provision of non-frequency ancillary services in electricity transmission system

-Draft-

Subject

Article 1

(1) Crnogorski elektroprenosni sistem AD (hereinafter: Transmission System Operator) hereby regulates the provision of non-frequency ancillary services for the transmission system throughout the territory of Montenegro.

(2) The Rules for Non-Frequency Ancillary Services (hereinafter referred to as: the Rules), in the transmission system, in particular prescribe:

- 1) specification of products and services,
- 2) qualification procedure,
- 3) conditions for the provision of services,
- 4) procedure for the procurement of non-frequency ancillary services, based on transparent, non-discriminatory, and market-based principles,
- 5) criteria for assessing the existence of market competition and conditions for exemption from the procurement of non-frequency ancillary services on market-based principles, and
- 6) products and services pricing method

(3) Within the meaning of these Rules, the following services shall be considered as non-frequency ancillary services for the transmission system:

- 1) Voltage and reactive power control through reactive power generation and absorption.
- 2) Compensation mode operation for voltage and reactive power control,
- 3) black start capability, and
- 4) island mode operation capability.
- 5) inertia for local grid stability and short-circuit current provision,

(4) Non-frequency ancillary services referred to in paragraph 3 of this Article may be procured through various products in accordance with the provisions of these Rules.

(5) These Rules shall apply to all market participants and all transmission network users who have concluded a contract with the transmission system operator for the provision of non-frequency ancillary services.

(6) Non-frequency ancillary services may be provided by all electricity market participants, including distributed generation, participants offering energy from renewable sources, demand-side management participants, energy storage and aggregators, subject to compliance with the technical requirements for the provision of such services set out in these Rules.

(7) Non-frequency ancillary services are procured to achieve the following objectives:

- ensuring reliable transmission system operation,
- provision of services on a contractual basis under system defense and system restoration conditions, and
- enabling stable and predictable operating conditions for the transmission system operator.

(8) The following annexes form an integral part of these Rules:

- Annex I: Determination of the regulated price of the voltage and reactive power control service through the generation and absorption of reactive power,
- Annex II: Determination of the regulated price of the black-start service provision,
- Annex III: Determination of the regulated price of the island operation service provision, and
- Annex IV: Application form for assessing the capability to provide a specific non-frequency ancillary service

Meaning of terms

Article 2

The terms used in these Rules shall have the meanings assigned to them by the Law.

In addition to the terms referred to in paragraph 1, the following definitions shall also apply in these Rules:

- **Black start** – the capability of a generating module to start up independently from a shutdown condition by means of an auxiliary power source, without external electrical power supply;
- **Island operation** – the operating state of a generating module in which it can safely supply load between its technical minimum and maximum continuous capacity within an electrically isolated part of the system;
- **Provider of non-frequency ancillary services** – a market participant or system user that has fulfilled the prequalification requirements and has entered into a service provision agreement;
- **Prequalified provider of non-frequency ancillary services** – a market participant or system user that has fulfilled the prequalification requirements and has been granted the relevant certification; and
- **Prequalification procedure**– the procedure for verifying the compliance of a market participant or system user with the requirements for the provision of a specific service.

Qualification for Service Provision

Article 3

(1) A transmission system user wishing to provide non-frequency ancillary services to the transmission system operator shall participate in the qualification process.

(2) The qualification process shall consist of:

- a prequalification procedure; and
- a contracting procedure.

(3) The prequalification procedure shall include:

- submission of an Application Form for the assessment of capability to provide a specific non-frequency ancillary service (hereinafter: Application Form) – set out in Annex IV of these Rules;
- assessment of compliance with communication requirements for the provision of the respective non-frequency ancillary service;
- assessment of the capability to provide the respective non-frequency ancillary service;
- preparation of a report on the conducted capability assessment; and
- issuance of a certificate of qualification for the provision of a specific non-frequency ancillary service.

(4) The prequalification procedure for voltage and reactive power control services (through reactive power generation or absorption) and compensation mode operation shall be further defined by a dedicated procedure adopted by the transmission system operator.

(5) The prequalification procedure for black start and island operation services shall also be further detailed in a dedicated procedure adopted by the transmission system operator.

Prequalification Process

Article 4

1) The capability of a market participant or transmission system user to provide a specific non-frequency ancillary service shall be assessed and determined through the prequalification procedure.

(2) A market participant or transmission system user wishing to provide a specific non-frequency ancillary service shall submit a completed Application Form to the transmission system operator.

(3) Based on the analysis of the submitted Application Form, the transmission system operator shall, within 30 days from the date of receipt, determine whether the form has been duly submitted.

(4) If the Application Form is not duly submitted, the transmission system operator shall request rectification of the deficiencies, and the market participant or transmission system user shall be obliged to submit a corrected Application Form within 30 days from receipt of the request.

(5) If the market participant or transmission system user fails to rectify the deficiencies within the prescribed deadline, the application shall be deemed withdrawn.

(6) The transmission system operator shall, within 30 days from the receipt of a duly submitted Application Form, invite the market participant or transmission system user to:

- assessment of compliance with communication requirements; and
- capability assessment for the provision of non-frequency ancillary services.

(7) Within 120 days from the invitation referred to in the preceding paragraph, the market participant or transmission system user shall, in cooperation with the transmission system operator, conduct:

- assessment of compliance with communication requirements; and
- capability assessment for the provision of the respective non-frequency ancillary service.

(8) The assessment referred to in paragraph 7 of this Article shall be carried out in accordance with the prequalification procedures specified in Article 3, paragraphs 4 and/or 5 of these Rules.

(9) Following the completion of the capability assessment, the transmission system operator shall prepare a report on the conducted capability assessment and submit it to the market participant or transmission system user.

(10) For a market participant or transmission system user that has demonstrated its capability, the transmission system operator shall issue a certificate of qualification and deliver it together with the report referred to in paragraph 9 of this Article.

Contracting procedure

Article 5

(1) Within 30 days from the issuance of the certificate referred to in Article 4 of these Rules, the transmission system operator shall submit a draft service provision agreement for non-frequency ancillary services to the prequalified service provider, who shall sign it and return it to the transmission system operator within 30 days from the date of receipt.

(2) If the service provider fails to submit the signed agreement within the period referred to in paragraph 1 of this Article, it shall be deemed that the provider has withdrawn from providing non-frequency ancillary services.

(3) Forms of non-frequency ancillary service agreements shall be published by the transmission system operator on its website.

Non-Frequency Ancillary Services Agreement

Article 6

(1) The non-frequency ancillary services agreement shall be concluded between the transmission system operator and the prequalified service provider and shall include at least the following:

- identification data of the contracting parties;
- type of service;
- contract period;
- locational characteristics of the service provider's generating module within the power system;
- reference number and date of issuance of the certificate of qualification for the provision of the respective non-frequency ancillary service;
- service billing and payment method;
- conditions and amount of contractual penalties in case of non-performance of the contract;
- conditions and amount of financial security; and
- dispute resolution mechanism.

(2) A prequalified service provider who has concluded a non-frequency ancillary services agreement with the transmission system operator shall become a non-frequency ancillary service provider.

Procurement of Services

Article 7

(1) The transmission system operator shall procure non-frequency ancillary services in a transparent and non-discriminatory manner through a procurement procedure conducted via competitive

bidding, which may be organised periodically (annually, monthly, weekly, daily and/or intraday), with at least the following predefined parameters:

- technical and financial product parameters;
- bidding period;
- bid submission method;
- bid submission timeframe;
- bid specification;
- bid selection methodology; and
- required quantity.

(2) Notwithstanding paragraph 1 of this Article, inertia services for ensuring local grid stability and short-circuit current shall be provided free of charge, and shall be mandatory for all providers prequalified for other non-frequency ancillary services, provided they possess the relevant technical capabilities.

(3) The transmission system operator shall publish the invitation to public bid referred to in paragraph 1 of this Article on its website.

(4) Only providers of non-frequency ancillary services that have concluded a valid service provision agreement with the transmission system operator for the respective service subject to procurement may participate in the competitive bidding.

Competitive Bidding

Article 8

(1) In the competitive bidding process, a non-frequency ancillary service provider shall submit a price expressed in EUR and a quantity expressed in the appropriate unit of measurement for the respective non-frequency ancillary service.

(2) The transmission system operator shall, by comparing the required quantity with the offered quantities and corresponding prices, establish a list of selected bids in accordance with the bid selection methodology.

(3) Upon completion of the bidding process, the transmission system operator shall notify all non-frequency ancillary service providers of the bidding results and issue notices of bid selection.

(4) A non-frequency ancillary service provider whose bid has been accepted shall be obliged to provide the non-frequency ancillary service to the transmission system operator under the respective bidding

Absence of Competition

Article 9

(1) The transmission system operator shall publish a public call for expression of interest for the provision of non-frequency ancillary services on its website.

(2) Based on the expressed interest, the transmission system operator shall assess the existence of market competition at least once a year.

(3) The transmission system operator shall consider that market competition exists for the provision of non-frequency ancillary services:

- voltage control, if the total reactive power injection or absorption by the prequalified providers of voltage control services exceeds the level required to maintain voltage within prescribed limits in a defined area for at least 80% of the time, and there are at least two service providers jointly covering at least 120% of the required service volume, with no single provider covering more than 60%;
- black start, if the number of prequalified service providers capable of providing the service for at least 80% of the time for which the service is required is greater than one at the level of the power system of Montenegro;
- island operation, if the number of prequalified service providers capable of providing the service for at least 80% of the time includes at least two providers jointly covering at least 120% of the required service volume, with no single provider covering more than 60% of the required service volume at the level of the formed electrical island.

(4) In cases where market competition does not exist, the transmission system operator shall submit a duly substantiated request to the Energy Regulatory Agency for an assessment of eligibility for exemption from market-based procurement of non-frequency ancillary services, in accordance with the law governing energy activities.

(5) Where the Agency grants an exemption from market-based procurement of non-frequency ancillary services, the transmission system operator shall procure such services at prices determined in accordance with Annexes I, II and III of these Rules.

(6) The prices referred to in paragraph 5 of this Article shall be calculated by the transmission system operator immediately prior to the publication of the call referred to in paragraph 1 of this Article and shall form an integral part thereof.

Regulatory treatment

Article 10

(1) Costs incurred by the transmission system operator arising from the implementation of these Rules shall be classified as non-controllable costs.

(2) Where the transmission system operator procures a specific non-frequency ancillary service in accordance with Article 7 of these Rules, the transmission system operator shall, in the process of approval of the regulated allowed revenue, submit to the Regulatory Agency:

- the required volumes for each non-frequency ancillary service for the relevant regulatory period; and
- a report on the realised volumes and costs of providing non-frequency ancillary services for the current regulatory period.

(3) Where the transmission system operator procures non-frequency ancillary services in accordance with Article 9 of these Rules, it shall, in addition to the documents referred to in paragraph 2 of this Article, also submit to the Regulatory Agency:

- a duly substantiated application for procurement of non-frequency ancillary services that cannot be ensured under market-based principles, including an assessment of the possibility of ensuring such services under market-based principles; and
- prices for non-frequency ancillary services determined in accordance with Annexes I, II and III.

Service availability

Article 11

(1) Each non-frequency ancillary service provider shall provide the transmission system operator with information on the availability of generating modules for the provision of non-frequency ancillary services.

(2) In the event of unavailability of generating modules for the provision of non-frequency ancillary services referred to in paragraph 1 of this Article, and for the purpose of ensuring secure operation of the power system, the transmission system operator shall retain the right to activate unused prequalified generating module capable of providing the non-frequency ancillary services referred to in paragraph 1 of this Article.

(3) Where it is determined in real time that the service is unavailable or does not comply with the technical characteristics of the provider established during the prequalification procedure in more than 5% of the time or number of activation events for which availability was declared during the settlement period, the service provider shall not be entitled to the contracted remuneration for that settlement period.

Article 12

(1) The transmission system operator shall issue activation instructions for non-frequency ancillary services in accordance with the non-frequency ancillary services agreement, depending on the service being activated.

(2) The fee for the provision of non-frequency ancillary services shall be calculated:

- separately for each billing interval and each service; and
- based on the quantities determined in the activation instructions for the respective delivered service or on the physically delivered energy for the provided service, and the unit prices defined in the bids of the non-frequency ancillary service provider.

(3) The billing method for each individual non-frequency ancillary service shall be defined in the non-frequency ancillary services agreement.

(4) In the event of activation of a non-frequency ancillary service that results in a change to the market position of a market participant, balancing energy settlement shall be carried out in accordance with the applicable balancing rules of the power system, whereby balancing costs shall be borne by the transmission system operator.

Entry into Force

Article 13

These Rules shall enter into force on the eighth day following their publication in the "Official Gazette of Montenegro".

Annex I: *Determination of the regulated price of the voltage and reactive power control service through the generation and absorption of reactive power*

(1) The voltage and reactive power control service through reactive power generation or absorption shall be paid:

- *for the availability of the reactive power range for automatic voltage control, per unit of availability; and*
- *for generated and absorbed reactive energy without automatic voltage control, per unit of reactive energy.*

(2) The price for the availability of the reactive power range shall be calculated according to the following formula:

$$C_{ops} = \frac{P_{pmpre}}{2J_{ras}}$$

where

P_{pmpre} – estimated annual revenue from excessive absorption of reactive energy;

J_{ras} – total availability of prequalified providers, calculated as the product of installed capacity, average annual load factor, and nominal power factor of all prequalified providers of automatic voltage control services.

(3) The price of generated and absorbed reactive energy shall be calculated according to the following formula:

$$C_{reak} = C_{ppre}$$

where:

- *C_{ppre} – the price of excessive reactive energy absorption, as determined in accordance with the decisions of the Agency establishing the tariffs for the use of the transmission and distribution*

Annex II: *Determination of regulated price of the black-start service provision*

(1) The black start service shall be paid based on the installed capacity of the service provider required for system restoration without the presence of external voltage and shall be determined as follows:

$$C_{BlackStart} = C_G$$

where:

C_G – the unit tariff for transmission system usage applicable to generators during the regulatory period.

Annex III: *Determination of the regulated price of the island operation service provision*

(1) The island operation service shall be paid based on the energy produced during island operation and shall be determined as follows:

$$C_{\text{island}} = C_{\text{DA MEPX}} + 0.1 \times C_{\text{ENS}}$$

where:

C_{DA MEPX}— the price in the Montenegrin day-ahead market for the corresponding hour;

C_{ENS}— the value of energy not supplied determined in accordance with the Law on Cross-Border Exchange of Electricity and Natural Gas.

Annex IV: *Application form for assessing the capability to provide a specific non-frequency ancillary service*

<i>Applicant</i>	
<i>Name</i>	
<i>Address</i>	
<i>Tax ID</i>	
<i>Authorized person</i>	
<i>Authorized person function</i>	
<i>Facility</i>	
<i>Facility type</i>	
<i>Name</i>	
<i>Installed capacity</i>	
<i>Connection point</i>	
<i>Non-frequency ancillary service</i>	
<i>Serviced offered by the Applicant</i>	<input type="checkbox"/> Voltage and reactive power control through reactive power generation and absorption <input type="checkbox"/> Compensation mode operation for voltage and reactive power control <input type="checkbox"/> black-start <input type="checkbox"/> Island operation <input type="checkbox"/> inertia for local grid stability and short-circuit current provision
<i>Qualification period</i>	
<i>from</i>	_____
<i>to</i>	_____
<i>Time and place of submission</i>	
	<i>at</i> _____, _____
<i>Authorized person signature</i>	
	