

To DUR, Ei, EV and RME-NVE

Subject: Evaluation Report of the parallel run of the FB capacity calculation methodology for the go-live of the Nordic aFRR balancing capacity market

Dear Nordic NRAs,

On August 5, 2020, ACER adopted four decisions¹ approving methodologies for the establishment of a Nordic aFRR balancing capacity market. ACER decision no. 21-2020 establishes that the TSOs shall implement the methodologies no later than 12 months after a decision has been made by ACER. A pre-condition for the go-live of the Nordic aFRR capacity market is however that cross-zonal capacity, in accordance with article 38(5) in EBGL, is calculated pursuant to the approved Nordic flow-based day-ahead capacity calculation methodology.

In October 2020, the Nordic NRAs provided guidance on when Article 38(5) in EBGL could be considered fulfilled for the go-live of the Nordic aFRR capacity market. The guidance states that the Nordic capacity calculation methodology must deliver appropriate capacity calculation results. To assess the fulfilment of this requirement the Nordic TSOs should submit an evaluation report covering at least three consecutive months of external parallel runs for the Nordic NRAs to assess.

The Nordic NRAs have also provided guidance in September 2022. The guidance states that the market situation is substantially different today from 2020 and that the interrelationship between the aFRR capacity market and the day-ahead market is important for the Nordic NRAs. The Nordic NRAs therefore suggest that a public consultation of the evaluation report is carried out. The NRAs also suggest that concepts related to security of supply and operational security are clarified.

The Nordic TSOs have prepared an evaluation report which can be found in Annex I. The submitted report addresses criteria that are to be submitted later for the final checkpoint of the implementation of the flow-based capacity calculation methodology². The evaluation report is based on three consecutive months of external parallel runs covering June 5 to September 4, 2022, and has been prepared exclusively to enable the Nordic NRAs to assess compliance with article 38(5) in EBGL with respect to the go-live of the Nordic aFRR capacity market.

The evaluation report demonstrates that the flow-based capacity calculation methodology has delivered appropriate results during three consecutive months. Based on the outcome of the report, the Nordic TSOs consider the legal pre-condition set in ACER's decision no. 21-2020 for the go-live to be fulfilled.

The evaluation report has been in public consultation and a stakeholder webinar was held on October 10, 2022. The TSOs have received input from four market players during the consultation. The markets players have different opinions on whether or not the Nordic TSOs comply with article 38(5) in EBGL. Two of the respondents support go-live,

¹ ACER decisions no. 19-22/2020

² Side-letter, i.e. agreement by NRAs of CCR Nordic on the implementation of a final checkpoint for go-live of CCR Nordic FB CCM (October 14, 2020)

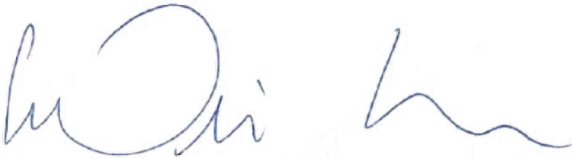
while the other two is of the opinion, that flow-based should be in production use before the Nordic aFRR capacity market can go live. The stakeholders' feedback and the Nordic TSOs' assessment of the feedback can be found in Annex II and III.

The Nordic TSOs have in addition to the legal requirement of Article 38 (5) in EBGL enclosed a note on "Effects of aFRR capacity allocation to the day-ahead market prices in the Finnish bidding zone" (Annex IIII) and a note on "Security of Supply Assessment in relation to aFRR CM" (Annex V). The notes suggest that the introduction of a Nordic aFRR capacity market has a positive effect for year 2023 on the average day-ahead price in Finland compared to the national aFRR CM and that the Nordic aFRR capacity market will improve the security of supply situation in the Nordic region in the upcoming winter.

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The Nordic TSOs would like to invite the Nordic NRAs to take due considerations of the objectives in the EBGL³, when assessing compliance with article 38(5) EBGL with respect to the go live of the aFRR capacity market, i.e. the positive socio-economic value of the go-live of the Nordic aFRR capacity market due to increased competition for aFRR reserves and the positive impact on the Nordic security of supply situation in the coming winter.

Yours sincerely,



Lowina Lundström, chairman of the Nordic Balancing Steering Committee

Annex I. Evaluation report for go-live of Nordic aFRR Capacity Market

Annex II. Stakeholder feedback to Nordic aFRR CM

Annex III. TSO Assessment on stakeholder feedback

Annex IIII. Effects of aFRR capacity allocation to the day-ahead market prices in the Finnish bidding zone

Annex V. Security of Supply Assessment in relation to aFRR CM

³ Pursuant to article 3(1) and 3(2) in the EBGL, the main objectives of the electricity balancing guideline are to foster effective competition, non-discrimination and transparency in balancing markets; enhancing efficiency of balancing and integrating balancing markets and promoting the possibilities for exchanges of balancing services while contributing to operational security.