
Explanatory document to Energinet, Fingrid, Statnett and Svenska kraftnät proposal for exemption for not allowing balance service providers to transfer their obligations to provide aFFR capacity in accordance with Article 34(1) of the Commission Regulation (EU) 2017/2195 of 23 November 2017 establishing a guideline on electricity balancing

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1. Background

The Nordic TSOs Energinet, Fingrid, Statnett and Svenska kraftnät (hereinafter referred to as “TSOs”) have mutually agreed to propose a common market for aFRR capacity. The TSOs have for that purpose put forward a proposal for “establishment of common and harmonised rules and processes for the exchange and procurement of balancing capacity” as set out in EB GL Article 33 and 38 and a proposal for the “application of a market-based allocation process” as set out in EB GL article 41.

The TSOs aim to procure aFRR capacity two days before the provision of the same capacity and the contracting period is set equal to the day-ahead MTU. The procurement is carried out for each of the eleven LFC areas in the Nordic LFC block and – when economically efficient – transmission capacity between LFC areas is allocated to the market in order to accommodate such aFRR capacity exchange.

2. Definitions

EB GL, Article 2.26: ‘transfer of balancing capacity’ means a transfer of balancing capacity from the initially contracted balancing service provider (hereinafter referred to as “BSP”) to another BSP;

3. Applicability and legal basis

In accordance to EB GL, article 34(1), the TSOs shall allow BSP to transfer their obligations to provide balancing capacity within the geographical area in which the procurement of balancing capacity has taken place.

In case the transfer of balancing capacity requires the use of cross-zonal capacity, the transfer is conditional on the requirement that the cross-zonal capacity is already available in the previous allocation process or via the probabilistic approach in outlined in EB GL Article 33(6).

The concerned TSOs may, however, propose an exemption from the obligation to allow transfer of balancing capacity in cases where the contracting period for balancing capacity pursuant to Article 32(2)(b) are strictly less than one week. The proposed Nordic aFRR capacity market fulfils this requirement; hence, such proposal for exemption is applicable for the proposed aFRR capacity market.

EB GL, Article 5(3) stipulates that such a proposal for exemption shall be subject to approval by all regulatory authorities of the concerned region. This implies that approval is required to be granted by the same regulatory authorities scrutinising the proposal for “establishment of common and harmonised rules and processes for the exchange and procurement of balancing capacity” in accordance with Article 33(1) of EB GL.

4. Public consultation

The TSOs proposed not to allow transfer of bids in the public consultation of the Nordic TSOs’ proposal for establishment of common and harmonized rules and processes for the exchange and procurement of aFRR capacity (opened 3rd September 2018, closed 4th October 2018). The TSOs proposed to base this on a proposal for exemption in accordance to EB GL article 34 (refer to Explanatory document of the consultation, section 2.2.3). The TSOs received no input from stakeholders during the consultation related to this exemption.

5. Proposal for exemption

The TSOs have developed a proposal to request exemption from:

- Transfer of an obligation to provide aFRR capacity (i.e. aFRR capacity bids) between eligible BSPs within the same bidding zone.
- Transfer of an obligation to provide aFRR balancing capacity (i.e. aFRR capacity bids) between eligible BSPs across bidding zone borders.

6. Justification

In the proposed aFRR capacity market capacity is procured close to the provision of the capacity (D-2). This implies that the timeframe where transfer of obligation between BSPs can take place is very limited, around 27 hours in case the transfer is allowed until one hour before the delivery day (in accordance with EB GL Article 34(2)). The added economic efficiency of establishing such secondary market procedures would come from optimising the overall dispatch due to changed conditions during this time frame and from reduced risk for the BSPs (e.g. in case of suddenly changed production capability).

The impact on operational security – in accordance with EB GL, Article 34(3)(b) - shall be considered. Consequences of transfer within a bidding zone is not decisive, even though not negligible since it would add uncertainty to the exact location of reserves and possibly the TSO verification of the transfer and changed operational conditions that follows. The consequence of transfer between bidding zones are however significant since it may result in a reallocation of aFRR capacity without a corresponding reallocation of cross-zonal capacity. The latter would not be possible to efficiently accommodate under current market rules. This since the transfer of aFRR capacity bids would be allowed close to provision of the aFRR capacity and well after the TSOs have allocated cross-zonal capacity to the day-ahead market.

The economic efficiency added by permitting transfer of aFRR capacity bids within a bidding zone is deemed insignificant. The Nordic bidding zones are in general relatively small (compared to continental Europe) with limited number of eligible BSP in each bidding zone. The very short time frame for such a secondary market to be open further reduce the added value.

Transfer of aFRR capacity bids between bidding zones would require a new process for allocation of cross-zonal capacity, which in turn would affect the efficiency of the overall transmission capacity allocation processes.

7. Considerations

At the same time, the TSOs fully recognise the possible benefits of accommodating for transfer of aFRR capacity bids. Procedures to accommodate transfer within bidding zones can be re-evaluated and established at a later stage and as a further development of the Nordic aFRR capacity market. The TSOs propose that such a development (and the complexity and investment costs it brings) has to be clearly justified where at least the following are re-evaluated:

- The increase of number of BSPs indicate a substantial increase of possible transfers.
- There is an increase of smaller and new types of BSPs for which the financial risk of a defaulting is perceived as a barrier for market entrance.

Transfer of aFRR capacity bids is evaluated per bidding zone where the need might be more evident in the larger bidding zones.

Transfer of aFRR capacity bids across bidding zones would however bring complexity as previously described and is consequently not perceived by the TSOs as a natural market development. A re-evaluation would require a new methodology for allocation of cross-zonal capacity.

8. Consequences if exemption is not granted

In the event that the proposal for exemption within a bidding zone is not approved:

- Additional processes and procedures, legal framework and IT system support must be developed. This would delay the go-live of the market and impose additional costs for the TSOs and for the BSPs.

In the event that the proposal for exemption across bidding zones is not approved:

- Would implicitly block the proposed Nordic aFRR capacity market since it would heavily impact on the cross-zonal allocation method.