

**REQUEST FOR AMENDMENT BY
REGIONAL REGULATORY AUTHORITIES AGREED AT
THE (NORDIC) ENERGY REGIONAL REGULATORS'
FORUM**

ON

**ALL TSOS' OF CCR NORDIC PROPOSAL FOR A
METHODOLOGY FOR A MARKET-BASED ALLOCATION
PROCESS OF CROSS-ZONAL CAPACITY FOR THE
EXCHANGE OF BALANCING CAPACITY IN
ACCORDANCE WITH ARTICLE 41(1) OF THE
COMMISSION REGULATION (EU) 2017/2195 OF 23
NOVEMBER 2017 ESTABLISHING A GUIDELINE ON
ELECTRICITY BALANCING**

17 October 2019

I. Introduction and legal context

This document elaborates an agreement of the regional Regulatory Authorities of Denmark, Finland, Norway and Sweden (hereafter referred to as the Regulatory Authorities) made at the (Nordic) Energy Regional Regulators' Forum on 17 September 2019, on all TSOs' of CCR Nordic (hereafter referred to as the TSOs) proposal for a methodology for a market-based allocation process of cross-zonal capacity for the exchange of balancing capacity in accordance with article 41(1) of the Commission Regulation (EU) 2017/2195 of 23 November 2017 establishing a guideline on electricity balancing (EBGL) (hereafter referred to as "the Proposal").

The Proposal was received by the last Regulatory Authority on 17 April 2019. EBGL article 5(6) requires relevant Regulatory Authorities to consult and closely cooperate and coordinate with each other in order to reach an agreement, and make decisions within six months following receipt of submissions of the last relevant Regulatory Authority concerned, i.e. by 17 October 2019.

The Regulatory Authorities reached an agreement in the (Nordic) ERRF on 17 September 2019 to request an amendment to the Request for an exemption.

II. The TSOs' Proposal

The proposal is an element in the TSOs' plans to establish a Nordic aFRR capacity market and, as such, is to be seen in the context of two other proposals submitted to approval with the Regulatory Authorities pursuant to, respectively, EBGL article 34(1) and articles 33(1) and 38(1).

A draft proposal was consulted by the TSOs through ENTSO-E from 3 September 2018 to 4 October 2018 in line with EBGL Article 10(4). Along with the draft proposal, all TSOs published an explanatory document. In the public consultation, all TSOs were seeking input from stakeholders and market participants on the draft proposal. The regional Regulatory Authorities closely observed, analyzed and continuously provided feedback and guidance to all TSOs during various meetings and through a shadow opinion dated 2 November 2018 followed by a mail from the Regulatory Authorities dated 9 April 2019.

III. Agreed Regulatory Authorities' Position

The Regulatory Authorities have reached an agreement that the proposal cannot be approved and therefore request the TSOs to amend the Proposal, in accordance with EBGL article 6(1), taking into consideration the comments presented below.

IV. Requests for changes to the Proposal

Recitals

Recital 2

The Regulatory Authorities request the TSOs to refer to Regulation (EU) 2019/943 of the European Parliament and of the Council of 5 June 2019 on the internal market for electricity (hereafter the "Electricity Market Regulation") rather than Regulation (EC) No 714/2009 of the European Parliament and of the Council of 13 July 2009 on conditions for access to the network for cross-border exchanges in electricity (hereafter referred to as "Regulation (EC) No 714/2009") and to take the former Regulation into

account rather than the latter as it will not apply prior 1 January 2020, cf. Article 75 (1) of the former regulation.

Recital 6

The Regulatory Authorities request the TSOs to use the latest available cross-zonal capacity (CZC) calculated for day-ahead timeframe when setting the maximum volume for CZC allocation.

The Regulatory Authorities furthermore request the TSOs to revise the wording in recital 6 and to refer to bidding zones, rather than a bidding zone, cf. EBGL article 41(2).

Recital 7

The Regulatory Authorities find that the proposed methodology calculates the price differences in the Day ahead market, thus it compares price differences when the decision to reserve capacity is made. Please revise wording so that the method precisely describes that, thereby lowering the risk for misinterpretations.

The Regulatory Authorities request the TSOs to specify that the forecasted market value of CZC for the exchange of energy between bidding zones is based on a comparison on the reference day.

Recital 8

The Regulatory Authorities are unsure whether the word '*or*' actually should be '*and*' in the sentence under (i).

The Regulatory Authorities find recital 8 (iii) misleading as it addresses forecasting for the day ahead prices.

The Regulatory Authorities request that the TSOs clearly describe the proposed methodology. The Regulatory Authorities understand that the proposal is based on a reference day for the establishment of the forecasted day-ahead price and that the prices from the reference day are to be kept unchanged in the reservation process except by the mark up proposed by the TSOs.

Recital 16

The Regulatory Authorities request the TSOs to further substantiate this recital by facts and analysis of distributional effects.

The Regulatory Authorities thus call for further justifications as to how the proposal fulfills the objectives stipulated in EBGL article 3, by providing an in-depth impact assessment based on market simulations. The impact assessment should consist of the following:

1. More detailed market simulations to better justify and clearly disclose how the proposed methodology will lead to a net benefit for the Nordic countries. The simulations shall be based on a sufficiently large set of market data (i.e. 12 months) and describe the effects of adopting the methodology on market prices in each bidding zone. In addition the price differences in the capacity market should be compared with the forecasted price differences.
2. An assessment of the probability that the simulations are accurate.

3. A qualitative description and explanation as to how market sensitivities e.g. assumptions on how the bid prices may alter the results in the analysis (to indicate relevant uncertainties in the future market set-up).
4. A more thorough analysis of welfare effects per bidding zone and show distributional effects, both in terms of costs (e.g. for IT developments) and benefits.
5. A demonstration that the uplift level of 1 EUR/MWh and the use of reference days is appropriate including a sensitivity analysis and if not to make use of differentiated uplift levels at different bidding zone borders.
6. A description of the confidence levels for the estimations of price differences in the day ahead timeframe.

Articles

Article 2

The Regulatory Authorities request the TSOs to refer to the recast Electricity Market Regulation (2019/943) and the recast Electricity Market Directive (2019/944) instead of Regulation 714/2009 and Directive 2009/72/EC.

Article 4

The Regulatory Authorities request the TSOs to refer to bidding zone borders in the proposal's article 4(1) as the current wording may be interpreted as 10 % of the total forecasted CZC and a higher percentage per border.

Article 5

The Regulatory Authorities do not find the current method for the market value of CZC for exchange of balancing capacity to be transparent or firm.

The Regulatory Authorities therefore request the TSOs to include a mathematical description on how the market value is calculated in the proposed methodology, further described in the explanatory document.

Article 5 and article 6

The Regulatory Authorities ask the TSOs to consider any need for changes to the proposed approach in the proposal's article 5 and article 6 taking into account the results of the impact assessment to justify recital 16.

EBGL 39(5) requires that the forecasted market value of cross-zonal capacity for the exchange of energy between bidding zones shall be calculated based on the expected differences in market prices of the day-ahead and, where relevant and possible, intraday markets between bidding zones.

The Regulatory Authorities request the TSOs to further motivate and justify why intraday prices are not included in the price forecast, if possible supported by an analysis.

Article 6

The Regulatory Authorities ask the TSOs to consider any need for further changes to the proposed approach in the proposal's article 6(3) and article 6(4) for determination of allocated volume of CZC for the exchange of energy between bidding zones following the previous request to justify recital 16.

The Regulatory Authorities ask for the input of the optimization function to be properly defined.

Article 7

The Regulatory Authorities request the TSOs to use more precise wording. Thus, article 7(2) in the proposal should present the exact settlement rule i.e. the difference should correspond to the difference between the highest accepted bid prices in each bidding zone.

Further, the paragraph should be reviewed taken into account the outcomes of the Regulatory Authorities requests for amendments to the proposal pursuant to EBGL articles 33(1) and 38(1), i.e. the choice of pay-as-bid versus pay-as-cleared, as requested in relation to article 8 and article 12 of that proposal.

Article 8

The Regulatory Authorities find it insufficient to refer to relevant TSOs in the proposal's article 8(3). The firmness rules shall clearly define the financial obligations.

The Regulatory Authorities find the reference to EBGL article 8(2) in the proposal's article 8(3) unclear.

The Regulatory Authorities request the TSOs to change the reference to CACM article 20(2) in the proposal's article 8(4), which seems to be the correct reference.

Article 9

The Regulatory Authorities request the TSOs to change the reference to the proposal's article 7, which seems to be the correct reference instead of the proposal's article 8.

The proposal includes the possibility for TSOs to conclude common agreements without presenting the criteria on which those potential agreements can be made.

The Regulatory Authorities request the TSOs to formulate precise rules for sharing of congestion income, cf. EBGL article 41(1)(c) read in conjunction with the general principles for settlement in EBGL article 44, and to ensure that the requirements of EBGL 41(4) are met, which requires i.a. that the sharing of congestion income for CZC has been allocated for the exchange of balancing capacity via the market-based process shall ensure equal treatment with the CZC allocated for the exchange of energy.

Further, the proposal's article 9(2) should be reviewed taken into account the outcomes of the Regulatory Authorities requests for amendments to the proposal pursuant to EBGL articles 33(1) and 38(1), i.e. the choice of pay-as-bid versus pay-as-cleared, as requested in relation to article 8 and article 12 of that proposal.

Article 10

The Regulatory Authorities suggest adding the word "it" which seems to be missing in the very first part of the first sentence in the proposal's article 10(5).

Article 11

The Regulatory Authorities request the TSOs to make necessary adjustments of the proposal's article 11(2) taking into consideration the comments based on EBGL article 38(5) by the Regulatory Authorities on article 9(2) in the proposal submitted by the TSOs pursuant to EBGL articles 33(1) and 38(1).

V. Conclusion

The Regulatory Authorities have assessed, consulted, closely cooperated and coordinated to reach the agreement that they cannot approve the Request for an exemption pursuant to Article 41(1) of the EBGL.

According to EBGL article 6(1), the Regulatory Authorities hereby request amendments to the Proposal. The amendments, shall take into account the Regulatory Authorities' assessment above and be submitted by all TSOs no later than two months after receiving the last Regulatory Authorities request for amendment in accordance with EBGL article 6(1).

The Regulatory Authorities have agreed to issue their national decision to request an amendment to the amended Proposal on the basis of this agreement by 17 October 2019.