Energinet, Fingrid, Statnett and Svenska kraftnät proposal for the establishment of common and harmonised rules and processes for the exchange and procurement of balancing capacity and for the application of a market-based allocation process in accordance with Article 33(1) and Article 38(1) of the Commission Regulation (EU) 2017/2195 of 23 November 2017 establishing a guideline on electricity balancing

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Energinet, Fingrid, Statnett and Svenska kraftnät, taking into account the following.

Whereas

(1) This document is a common proposal developed by the Transmission System Operators Energinet, Fingrid, Statnett, and Svenska kraftnät (hereinafter referred to as “TSOs”) in the geographic area covering the Nordic synchronous area regarding a proposal for the establishment of common and harmonised rules and processes for the exchange and procurement of aFRR capacity in accordance with Article 33(1) of Commission Regulation (EU) 2017/2195 of 23 November 2017 establishing a guideline on electricity balancing (hereafter referred to as the “EB Regulation”) and regarding a proposal for the application of a market-based allocation process in accordance with Article 38(1) of the EB Regulation. This proposal is hereinafter referred to as the “Proposal”.


(3) The goal of the EB Regulation is to establish an EU-wide set of technical, operational and market rules to govern the functioning of electricity balancing markets. It sets out rules for the procurement of balancing capacity, the activation of balancing energy and the financial settlement of balance responsible parties. It also requires the development of harmonised methodologies for the allocation of cross-zonal transmission capacity (hereafter referred to as “CZC”) for balancing purposes. Such rules will increase the liquidity of short-term markets by allowing for more cross-border trade and for the more efficient use of the existing grid for the purposes of balancing energy.

(4) The TSOs are mutually willing to exchange aFRR capacity within the Nordic synchronous area and have developed common and harmonised rules and processes for the exchange and procurement of aFRR capacity. The exchange of aFRR capacity is based on a TSO-TSO model taking into account the available CZC and the FRR dimensioning rules in accordance with Article 157 of the SO Regulation.

(5) The TSOs will set the capacity procurement process and aFRR capacity bids will be submitted to the system implementing the capacity procurement optimisation function. Consistent with Article 58(3) of the EB GL and the EB GL’s aims as stated its Article 3, this optimisation function shall minimise the overall procurement costs of all jointly procured balancing capacity and enhance the efficiency of balancing and of European and national balancing markets. The procurement of upward and downward aFRR capacity is carried out separately. To secure the exchange of aFRR capacity, the TSOs will allocate CZC using a market-based allocation process. The Proposal shall define the bidding zone borders included, the market timeframe, and duration of application.
(6) The TSOs will allocate CZC for the exchange of aFRR capacity when CZC is calculated in accordance with capacity calculation methodologies developed pursuant to the CACM Regulation. When the TSOs implement a flow-based approach, this allocation will occur in accordance with a capacity calculation methodology developed in accordance with Article 20(2) of the CACM Regulation. As a transitional solution until the flow-based approach is implemented, the capacity calculation will be based on the current net transfer capacity (NTC) approach.

(7) The TSOs will ensure both the availability of CZC and that the operational security requirements set out in the SO Regulation are met. This is ensured by market-based allocation of CZC for the exchange of aFRR capacity and described in a separate proposal developed in accordance with Article 41(1) of the EB Regulation. In addition, the TSOs are not allowed to increase the reliability margin due to the exchange of aFRR capacity.

(8) The TSOs shall publish, as soon as it becomes available, information on offered volumes and the prices of procured aFRR capacity, as well as information on the allocation and use of CZC for the exchange of aFRR capacity.

(9) Article 5(5) of the EB Regulation requires that the expected impact of the Proposal on the objectives of the EB Regulation is described. The impact is presented below (points 10 to 16 of this Whereas Section).

(10) The Proposal contributes and does not in any way hamper the achievement of the objectives of Article 3 of the EB Regulation. In particular, the Proposal serves the following objectives:

(11) The Proposal fosters effective competition, non-discrimination and transparency in balancing markets (Article 3(1)(a) of the EB Regulation) by creating a regional Nordic market with common rules and processes for the procurement and exchange of aFRR capacity and by applying a market-based CZC allocation process for exchanging aFRR capacity. This Proposal, together with the proposal developed in accordance with Article 41 of the EB Regulation, creates a common Nordic system for the procurement and exchange of aFRR capacity. The market is based on common, transparent and non-discriminatory rules for submitting bids and selecting bids to cover aFRR capacity demand in each bidding zone efficiently. The aFRR capacity is settled to a clearing price for each bidding zone that signals the competitive bid price level in each market time unit and incentivises market players to bid according to their actual reservation cost.

(12) The Proposal enhances the efficiency of balancing as well as the efficiency of European and national balancing markets (Article 3(1)(b) of the EB Regulation) and contributes to the objective of integrating balancing markets and promoting the possibilities for exchanges of balancing services while contributing to operational security (Article 3(1)(c) of the EB Regulation). The bid selection of the Nordic market is based on an optimisation that seeks to cover demand in each bidding zone for aFRR balancing capacity by minimising total social costs including, where relevant, the foregone value of CZC to the energy market. This contributes to efficient balancing by making possible an efficient utilisation of aFRR resources across bidding zone borders in order to secure the volume of balancing capacity needed to maintain operational security. When
a European balancing energy market is established, BSPs with aFRR capacity contracts will be committed to submit bids into the balancing energy market on equal terms with BSPs without aFRR balancing capacity contracts, thereby contributing to the efficiency and integration of European markets. Simulations of the aFRR market with realistic assumptions and based on historic bid data from 2018 that take account of the impact of allocating CZC for the exchange of aFRR capacity on the day-ahead energy market show that the increase in socio-economic surplus created by the proposed aFRR capacity market dominates the negative impact on socio-economic surplus in the day-ahead energy market by a large margin, and thereby enhances overall efficiency.

(13) The Proposal contributes to the efficient long-term operation and development of the electricity transmission system and electricity sector in the Union while facilitating the efficient and consistent functioning of the day-ahead, intraday and balancing markets (Article 3(1)(d)) of the EB Regulation) since it establishes a Nordic market for aFRR capacity and implements a market-based CZC allocation process. The Nordic aFRR capacity market provides price signals that reflect the scarcity of aFRR capacity in different bidding zones and the cost of allocating CZC for the exchange of aFRR capacity to these bidding zones. It thereby contributes to efficient investment in new capability for providing aFRR capacity. The implementation of a market-based CZC allocation process ensures that the value of CZC to the day-ahead energy market is considered properly in the determination of the efficient exchange of aFRR capacity and that the Nordic aFRR capacity market allows for the consistent functioning of the day-ahead and intraday markets alongside the balancing markets.

(14) The Proposal ensures that the procurement of balancing services is fair, objective, transparent and market-based, avoids undue barriers to entry for new entrants, fosters the liquidity of balancing markets while preventing undue distortions within the internal market in electricity (Article 3(1)(c) of the EB Balancing) since the TSOs propose the establishment of a common aFRR capacity market for the entire Nordic region in which there is a market-based allocation process for CZC.

(15) The Proposal facilitates the participation of demand response including aggregation facilities and energy storage while ensuring that they compete with other balancing services on a level playing field and, where necessary, act independently when serving a single demand facility (Article 3(1)(f) of the EB Balancing) by establishing a common Nordic market place for aFRR capacity in which the requirements for aFRR capacity products are designed such that they can also be fulfilled by demand response, aggregation facilities and energy storage.

(16) The Proposal facilitates and does not hamper the participation of renewable energy sources in the Nordic aFRR capacity market and thus supports the achievement of the European Union target for the penetration of renewable generation (Article 3(1)(g) of the EB Regulation).

(17) In conclusion, the Proposal contributes to the general objectives of the EB Regulation to the benefit of all market participants and electricity end consumers.

SUBMIT THE FOLLOWING PROPOSAL TO THE RELEVANT REGULATORY AUTHORITIES WITHIN THE NORDIC SYNCHRONOUS AREA:
TITLE 1
General provisions

Article 1
Subject matter and scope

1. The Proposal shall be considered the common proposal from the TSOs for the establishment of common and harmonised rules and processes for the exchange and procurement of aFRR capacity (hereafter referred to as the “Nordic aFRR capacity market”) in accordance with Article 33(1) of the EB Regulation, including rules for the application of a market-based CZC allocation process in accordance with Article 38(1) of the EB Regulation.

2. The Proposal covers the bidding zones and bidding zone borders of the Nordic synchronous area, which corresponds to an LFC block (hereafter referred to as “Nordic LFC Block”) as defined in accordance with Article 141(2) of the SO Regulation.

Article 2
Definitions and interpretation


2. In addition, in this Proposal, the following terms shall have the meaning below:
   a) “market time unit (MTU)” means, in this proposal, the market time unit applied in the day-ahead market timeframe;
   b) “prequalified balancing service provider (BSP)” means prequalified BSP in accordance with Article 18(5) of the EB Regulation participating in the Nordic aFRR capacity market.

3. In the Proposal, unless the context requires otherwise:
   a) the singular indicates the plural and vice versa;
   b) the table of contents and headings are inserted for convenience only and do not affect the interpretation of the Proposal; and
   c) any reference to legislation, regulations, directive, order, instrument, code or any other enactment shall include any modification, extension or re-enactment of it then in force.

Article 3
Notification process for the use of a market-based allocation process

1. The TSOs shall notify Transmission System Operator(s) located in the Nordic synchronous area about the establishment of a Nordic balancing capacity market in accordance with Article 150 of the SO Regulation. This notification shall include the:
   a) transmission system operators involved;
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b) expected date for the balancing capacity market pursuant to Article 33(1) of the EB Regulation with the CZC allocation to enter into operation;

c) expected amount of power interchange due to the cross-zonal balancing capacity activation process;

d) reserve type and maximum volume of exchange of balancing capacity; and

e) timeframe of the exchange of balancing capacity.

2. The TSOs shall make the notification at least 3 months before the CZC allocation process enters into operation.

**TITLE 2**

**Nordic aFRR capacity market**

**Article 4**

**Market timeframe for application of the allocation process and duration of application**

1. The TSOs shall apply to the Nordic aFRR capacity market a market-based CZC allocation process in accordance with Article 41 of the EB Regulation.

2. The corresponding market-based allocation of CZC shall be determined together with the procurement of aFRR capacity one day (D-1) prior to the delivery day.

3. The TSOs will develop a methodology for a co-optimised allocation process of CZC for the exchange of balancing capacity in accordance with Article 40 of the EB Regulation and will submit a proposal for the use of this process pursuant to Article 38(1) of the EB Regulation together with an assessment on whether or not to apply the co-optimized allocation process as soon as this process is available for application by the TSOs.

**Article 5**

**Prequalification of aFRR capacity**

1. Each BSP participating in the Nordic aFRR capacity market shall be prequalified in accordance with Articles 16 and 18(5) of the EB Regulation. Prequalified BSPs shall be eligible to submit aFRR capacity bids to the Nordic aFRR capacity market.

**Article 6**

**High-level design of the aFRR capacity market**

1. The volume of aFRR capacity procured by TSOs consists of separate volumes for upward aFRR capacity and downward aFRR capacity. These volumes to be procured are defined in accordance with Article 11.

2. There will be a daily auction of aFRR capacity for each MTU.

3. Prequalified BSPs will submit their aFRR capacity bids to the common aFRR capacity market.
4. The gate closure time for prequalified BSPs to submit aFRR capacity bids will be at most one day prior to the delivery day and fall between 00:00 and 12:00 CET. A single gate closure time will apply to the whole market, such that all prequalified BSPs must submit bids by the same point in time.

5. The TSOs will announce the gate closure time to submit aFRR capacity bids, or of any changes to this gate closure time. Such announcements will be made at least four weeks before they take effect, excepting instances when the gate closure time is exceptionally delayed or else the bidding window is reopened. In these instances, the TSOs will announce these changes as soon as they are able to.

6. In choosing the gate closure time, TSOs will endeavour to set the gate closure time as close to real time as possible subject to the need to both ensure the resilience of the balancing capacity market, for example in the event of insufficient bids or a technical failure, and fulfil the TSOs’ obligations, notably in relation to maintaining the operational security of the power system and providing information on the CZC capacity available to the electricity market.

7. The procurement optimisation function selects aFRR capacity bids and allocates CZC for the purpose of exchanging aFRR capacity in accordance with Article 12.

8. Accepted bids shall be notified to the relevant BSPs no later than 30 minutes after completion of the procurement. The publication of the procurement results shall be in accordance with Article 14.

9. Accepted aFRR capacity bids shall be fully available for aFRR energy activation during the delivery period. In the event that a BSP transfers its aFRR capacity obligation in accordance with Article 34 of the EB Regulation, this obligation to be fully available for aFRR energy activation during the delivery period will also be transferred as part of the capacity obligation.

**Article 7**

**Characteristics of products and bids**

1. The aFRR capacity bid shall include the following information:
   a) price of the bid in €/MW;
   b) volume of the bid in MW;
   c) MTU(s) for which the bid is valid;
   d) bidding zone for which the bid is issued;
   e) divisibility of the bid; and
   f) direction of the bid (upward balancing capacity or downward balancing capacity).

2. The aFRR capacity bid shall comply with the following requirements:
   a) minimum bid volume equals 1 MW;
   b) the volume of the bid shall be divisible by 1 MW;
   c) only a bid with a bid volume of less than 50 MW can be indivisible; and
   d) the full activation time of the bids shall be set by each TSO in accordance with the methodologies pursuant to article 157 and 159 of the SO GL Regulation.
3. The following links between bids may be used:
   a) bids with the same volume, direction and prices of consecutive MTUs can be linked, meaning that all these bids must either be rejected or accepted;
   b) an upward bid can be linked with a downward bid of the same MTU, meaning that both bids must either be rejected or accepted; and
   c) it will be possible to present a single upward or downward bid as a bid curve, where only one bid of the group of bids constituting the bid curve can be selected. Bid curves cannot be combined with the linking of upward and downward bids.

**Article 8**

**aFRR capacity bid submission**

1. Prequalified BSPs or service providers delegated by these prequalified BSPs are allowed to submit bids for aFRR capacity.
2. Bids shall be submitted by the gate closure time as described in Article 6.
3. The bid format and communication protocol shall be in accordance with ENTSO-E data exchange recommendations. The latest versions of the recommendations shall be made available on the TSOs’ websites.
4. The TSOs shall be able to view all bids submitted for the Nordic aFRR capacity market.

**Article 9**

**Settlement of procured aFRR capacity**

1. BSPs will receive an availability payment for each MTU in which their aFRR capacity bid is accepted. This availability payment is equal to the accepted bid volume multiplied by the clearing price for the relevant aFRR capacity product in the relevant bidding zone, as defined in paragraphs 2 and 3.
2. The clearing price in a bidding zone will equal the greatest of:
   a) the highest accepted bid for that product in that bidding zone, and,
   b) where CZC capacity is reserved to import aFRR capacity into the relevant bidding zone, the price of any aFRR capacity imported into the zone, which equals the sum of the clearing price of the aFRR product in the exporting bidding zone and the CZC reservation cost assumed to enable the transfer, as defined in Articles 5 and 6 of the TSOs’ proposal for a market-based allocation process of CZC for the exchange of balancing capacity pursuant to Article 41 of the EB Regulation.
3. Notwithstanding paragraph 2, where, for a given cross-zonal border, the implied market value of CZC for the exchange of energy, as defined in Article 5 of the TSOs' proposal for a market-based allocation process of CZC for the exchange of balancing capacity pursuant to Article 41 of the EB Regulation, is zero and the absolute limit on the volume of aFRR capacity that can be reserved, as defined in Article 4 of the TSOs' proposal for a market-based allocation process of CZC for the exchange of balancing capacity pursuant to Article 41 of the EB Regulation, is not binding in the market solution, the connected bidding zones across the relevant border shall have the same clearing price. In these cases, the bidding zone with the highest price, as determined by the rules in paragraph 2, among the set of bidding zones that must have the same price sets the price in all these bidding zones.
Article 10
Methodology for allocating CZC for Nordic aFRR capacity market

1. The TSOs shall ensure both the availability of CZC and that the operational requirements set out in the SO Regulation are met by applying a market-based allocation process for allocating CZC to the balancing timeframe. The TSOs shall allocate CZC to the Nordic aFRR capacity market in accordance with a methodology pursuant to Article 41(1) of the EB Regulation.

2. The TSOs shall allocate CZC for the exchange of aFRR capacity only if CZC capacity is calculated in accordance with the capacity calculation methodology developed pursuant to the CACM Regulation. As a transitional solution until a flow-based approach, which is the approved capacity calculation methodology for CCR Nordic, has been implemented in the CCR Nordic, the TSOs are allowed to allocate CZC for the exchange of balancing capacity by applying the current capacity calculation method, i.e. the net transfer capacity (NTC) method.

3. The allocated CZC for the exchange of aFRR capacity shall be taken into account in the day-ahead and intraday capacity calculation timeframe as previously allocated CZC in accordance with a methodology pursuant to Article 20(2) of the CACM Regulation.

4. The TSOs shall regularly assess whether the CZC allocated for the exchange of aFRR capacity is still needed for that purpose. When CZC allocated for the exchange of aFRR capacity is no longer needed, such CZC shall no longer be included as previously allocated CZC in the calculation of CZC.

Article 11
The demanded volume of aFRR capacity

1. The TSOs shall define the reserve capacity requirements in accordance with Article 32(1) of the EB Regulation.

2. Each TSO is responsible for demanding the aFRR capacity necessary to fulfil the requirements set in accordance with Article 32(1) of the EB Regulation.

3. Each TSO shall inform the BSPs and other TSOs about the demanded volume of aFRR capacity in the bidding zone(s) of their control area, at the latest two hours before the gate closure time of the aFRR capacity market.

Article 12
Procurement optimisation function and bid selection for aFRR capacity

1. The inputs to the capacity procurement optimisation function are:
   a) demand of aFRR capacity for each bidding zone;
   b) maximum procurement volume of aFRR capacity for a specific bidding zone, or a set of bidding zones (This can be included if necessary due to operational security requirements pursuant to Article 165(3)(g) of the SO Regulation);
c) minimum procurement volume of aFRR capacity for a specific bidding zone, or a set of bidding zones (This can only be used if the dimensioning process according to Article 157(2)(g) of the SO Regulation requires such limitations);

d) bids from BSPs for each bidding zone;

e) the forecasted market value of CZC for each bidding zone border in the day-ahead market timeframe defined in accordance with Article 5 of the TSOs' proposal for a market-based allocation process of CZC for the exchange of balancing capacity pursuant to Article 41 of the EB Regulation;

f) the mark-ups to the forecasted market value of CZC for each bidding zone border in the day-ahead market timeframe defined in accordance with Article 6 of the TSOs' proposal for a market-based allocation process of CZC for the exchange of balancing capacity pursuant to Article 41 of the EB Regulation; and,

g) The maximum volume of CZC that can be allocated to the exchange of balancing capacity defined in accordance with Article 4 of the TSOs' proposal for a market-based allocation process of CZC for the exchange of balancing capacity pursuant to Article 41 of the EB Regulation.

2. In the capacity procurement optimisation process, bid selection together with the CZC allocation are optimised to minimise the socioeconomic costs of procurement given the constraints defined in Article 12(1). The socioeconomic costs of procurement are defined as follows, summing across all bids, bidding zones, borders and directions.

$$\sum_{i,a,b} (\text{bidcost}_i \times \text{bidvolume}_i \times \text{selected}_i + \text{czccost}_{ab} \times \text{czcreservation}_{ab})$$  \hspace{1cm} (Equation 1)

Where:

- bidcost$_i$ is the bid cost of bid i;
- bidvolume$_i$ is a valid increment of bid i;
- selected$_i$ is boolean denoting whether or not the bid increment is accepted;
- czccost$_{ab}$ is the cost of reserving CZC from bidding zone a to bidding zone b, which is equal to the sum of the forecasted market value of the CZC and any applicable mark-up as defined in Articles 5 and 6 of the TSOs' proposal for a market-based allocation process of CZC for the exchange of balancing capacity pursuant to Article 41 of the EB Regulation; and,
- czcreservation$_{ab}$ is the volume of CZC capacity from bidding zone a to bidding zone b reserved for the exchange of aFRR capacity.

3. The outputs from the capacity procurement optimisation function are:

a) accepted bids for each bidding zone (selected$_i$ in Equation 1); and,

b) allocated CZC for the exchange of aFRR capacity for each bidding zone border (czcreservation$_{ab}$ in Equation 1).

4. The TSOs shall not increase the reliability margin calculated in accordance with Article 22 of the CACM Regulation due to the exchange of aFRR capacity.
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Article 13

TSO-TSO settlement in the aFRR capacity market

1. TSOs shall pay for the volume of aFRR capacity required by their bidding zones, as described in Article 11.

2. Where aFRR capacity volumes are transferred across a bidding zone border, as shown by the corresponding reservation of CZC to enable the transfer, and the border separates two bidding zones controlled by different TSOs, settlement between the TSOs shall be conducted as described in paragraph 3.

3. The TSO importing aFRR capacity will pay the TSO exporting aFRR capacity an amount equal to the volume of aFRR capacity transferred multiplied by the average clearing price for the relevant aFRR capacity product in the two bidding zones, as defined in Article 9.

Article 14

Publication of information for the exchange of aFRR capacity

1. The TSOs shall publish the following information for aFRR capacity in accordance with Article 12(3) of the EB Regulation:

   a) offered volumes as well as offered prices of procured aFRR capacity bids for each bidding zone. The bid data shall be anonymised. This information shall be published to the market once the market clearing results are available and no later than one hour after the accepted bids have been notified to the relevant BSPs;

   b) the allocated CZC for the exchange of aFRR capacity for each MTU on the following day. This information shall be published after the aFRR capacity market clearing results are available together with the forecasted market values of CZC used in the aFRR capacity allocation process at the latest one hour before the single day-ahead coupling gate closure time, as defined in accordance with Article 47(2) of the CACM Regulation. The information includes:

      i. date and time when the decision on allocation was made;

      ii. period of the allocation;

      iii. volumes allocated; and

      iv. market values used as a basis for the allocation process in accordance with Article 39 of the EB Regulation.

   c) the information on the use of allocated CZC capacity for the exchange of aFRR capacity at the latest one week after the use of allocated CZC:

      i. volume of allocated and used CZC for each MTU and for each bidding zone border;

      ii. volume of released CZC for subsequent timeframes for each MTU and for each bidding zone border; and

      iii. estimated realised costs and benefits of the allocation process. The TSOs will, based on the aFRR capacity bid data, estimate the reduction in procurement costs compared to fulfilling the reserve requirements of the demanded FRR without allocating CZC for exchange of aFRR capacity. These estimated costs and benefits will be published as values for each day for the Nordic aFRR capacity market.
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TITLE 3
Final provisions

Article 15
Publication and implementation of the Proposal

1. The TSOs shall publish the Proposal without undue delay after the relevant regulatory authorities in the Nordic Capacity Calculation Region have approved the Proposal or a decision has been taken by the Agency for the Cooperation of Energy Regulators in accordance with Article 5(6), Article 5(7), Article 6(1) and Article 6(2) of the EB Regulation.

2. The TSOs shall implement the Proposal no later than 12 months after the approval by the relevant regulatory authorities in the Nordic Capacity Calculation Region or a decision has been taken by the Agency for the Cooperation of Energy Regulators.

3. The TSOs shall implement the Proposal in co-operation, enabling procurement and exchange of aFRR capacity in the Nordic LFC block.

Article 16
Language

The reference language for the Proposal shall be English. For the avoidance of doubt, where TSOs need to translate the Proposal into their national language(s), in the event of inconsistencies between the English version published by TSOs in accordance with Article 7 of the EB Regulation and any version in another language, the relevant TSOs shall, in accordance with national legislation, provide the relevant national regulatory authorities with an updated translation of the Proposal.