European Network of
Transmission System Operators
for Electricity

Explanatory document for Energinet and Svenska kraftnät's application for exemption to the obligation to allow transfer of FCR balancing capacity in accordance with Article 34(1) of Commission Regulation (EU) 2017/2195 of 23 November 2017 establishing a guideline on electricity balancing

October 19, 2022

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1. Introduction

This document describes more thoroughly how the propose exemption to the obligation to allow transfer of FCR balancing capacity shall be interpreted and why an exemption is needed.

The methodology for common and harmonised rules and processes for the exchange and procurement of FCR balancing capacity in accordance with Article 33 of the EB Regulation was approved by the Swedish and Danish regulatory authorities on May 31, 2022. The application for exemption will require an amendment of Article 9(1) in the approved methodology.

2. Background

Energinet and Svenska kraftnät (hereinafter referred to as "TSOs") have mutually agreed to establish a common market for FCR 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" in accordance with Article 33 of the EB Regulation. This proposal was approved by the Danish and Swedish National Regulatory Authority in May 2022. The TSOs aim to procure FCR capacity at two complementary auctions on the day before the provision of FCR capacity (D-1) and the contracting period is set equal to the day ahead market time unit. The procurement is carried out for SE1, SE2, SE3, SE4 and DK2 in common auctions.

The TSOs proposes not to allow transfer of bids between DK2 and any other bidding zone in the common market.

3. Applicability and legal basis

Pursuant to Article 34(1) of the EB Regulation, within the geographical area in which the procurement of balancing capacity has taken place, the TSOs shall allow balancing service providers to transfer their obligations to provide balancing capacity.

Pursuant to Articles 4(1) and 5(3)(d) of the EB Regulation, the concerned TSOs may request an exemption from this requirement if contracting periods for balancing capacity pursuant to Article 32(2)(b) of the EB Regulation are strictly less than one week and submit it for approval to the regulatory authorities of the concerned region.

The Proposal fulfils the requirement of Article 34(1) of the EB Regulation as the contracting period for FCR capacity in the methodology pursuant to Article 33(1) of the EB Regulation on the common rules for procurement and exchange of balancing capacity in the common FCR Capacity Market, which complies with the requirement of Article 32(2)(b) of the EB Regulation, is at maximum one day. This Proposal therefore complies with the requirement to receive an exemption from the obligation to allow transfer.

4. Public consultation

The public consultation of the proposal of the Exemption opens at 2022-10-19 and closes at 2022-11-18.

5. Proposal for exemption

The Exemption requires the following change to Article 9(1) in the approved proposal in accordance with Article 33(1) in EB Regulation.

1. Each BSP is allowed to transfer its obligations *within the connecting TSOs Control Area* to provide balancing capacity pursuant to Article 34 in the EB Regulation. When transferring their obligation to provide FCR balancing capacity, a BSP also transfer their obligation to be fully available for FCR energy activation during the delivery period.

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6. Justification

In the approved FCR Capacity Market, capacity is procured close to the provision of the capacity (D-1). This means that the timeframe during which the transfer of obligations between balancing service providers can take place is limited. In addition, balancing service providers can sell back capacity to the TSOs at the FCR Capacity Market's second auction.

The added economic efficiency of establishing secondary market procedures would come from optimising the overall dispatch due to changed conditions during this timeframe and from reduced risk for the BSPs (e.g. in case of suddenly changed production capability).

The impact on operational security – in accordance with Article 34(3)(b) of the EB Regulation - shall be considered. Consequences of transfer between control area 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 contraction of FCR capacity takes the available Transmission Reliability Margin (hereafter specified as "TRM") into account, as specified in Article 22 of the CACM regulation. The consequence of transfer between Control Areas are however potentially significant since it may result in a redistribution of FCR capacity possibly without a corresponding sufficient TRM. The latter would not be possible to efficiently accommodate under current market rules if the transfer of FCR capacity bids between Control Areas would be allowed close to provision of the FCR capacity and well after the TSOs have allocated cross-zonal capacity to the day-ahead market.

7. Considerations

At the same time, the TSOs fully recognise the potential benefits of accommodating for transfer of FCR capacity bids between control areas (Sweden and Denmark). Procedures to accommodate transfer between control areas can possibly be re-evaluated and established at a later stage and as a further development of the common market for FCR capacity along with methods linked to Article 22 in the CACM. 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.

8. Consequences if exemption is not granted

In the event that the Exemption is not approved:

- Additional processes and procedures, existing and approved methodologies and IT system support must be developed. This would delay the go-live of the transfer of bid obligation mechanism and impose additional costs for the TSOs and for the BSPs.

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