



Explanatory document to Energinet and Svenska kraftnät proposal in accordance with Article 33(1) of the Commission Regulation (EU) 2017/2195 of 23 November 2017 establishing a guideline on electricity balancing

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Introduction

This document provides background information as well as the motivation for Energinet and Svenska kraftnät amended proposal for the establishment of common and harmonized rules and processes for the exchange and procurement of FCR balancing capacity in accordance with Article 33(1) of Commission Regulation (EU) 2017/2195 of 23 November 2017 establishing a guideline on electricity balancing (hereinafter referred to as “the EB Regulation”). This proposal is hereinafter referred to as “the Proposal”, and Energinet and Svenska kraftnät are hereinafter collectively referred to as “the TSOs”.

Purpose

The purpose of the exchange of FCR balancing capacity is to ensure operational security for the control area of Sweden and bidding zone of eastern Denmark (DK2). The common FCR balancing capacity market adds operational security of supply, however also market function efficiency is expected to increase compared to separate domestic market setups.

Background

The TSOs have developed an amended proposal for a common market for the procurement of FCR balancing capacity. The common balancing capacity market is based on the Nordic FCR dimensioning process, which determines the FCR balancing capacity volume obligation for the Nordic synchronous area. A common market allows for the demand obligation of the TSOs to be partly procured outside the TSO’s control area, if the offers available are more cost effective than the offers available to the connecting TSO. The overall amount of procured balancing capacity should generally not change, only its geographical distribution.

The TSOs currently use two types of Frequency Containment Reserves (FCR): FCR for normal operation (FCR-N) and FCR for disturbance situations (FCR-D). In addition to procuring FCR-D for upward regulation, the TSOs are also procuring FCR-D for downward regulation as of January 2022¹ using the same market setup as the already existing FCR balancing capacity products. The Proposal therefore includes three FCR-products: FCR-N, FCR-D upwards and FCR-D downwards.

Legal basis

Regional capacity markets are not mandatory under European legislation, but regulated. Article 33(1) of the EB Regulation establishes that TSOs exchanging [...] balancing capacity shall develop a proposal for the establishment of common and harmonised rules and processes for the exchange and procurement of balancing capacity. Since the TSOs are exchanging FCR balancing capacity, a draft proposal was developed and a public consultation of the draft proposal was conducted as required by article 10 of the EB Regulation. The TSOs have assessed the views of stakeholders resulting from the consultation, and have prepared a consultation report including TSO analysis and subsequent conclusions in Annex A.

¹ Svenska kraftnät started procuring FCR-D for downward regulation i January 2022. Energinet is awaiting procurement of FCR-D for downwards regulation until the approval of the joint proposal for the common DK2/SE FCR market, as stipulated by the Danish Utility Regulator.

The proposal

Application of the TSO-TSO model

The TSOs will exchange FCR balancing capacity based on a TSO-TSO model. This implies that each Balancing Service Provider (hereinafter “BSP”) provides balancing capacity to its connecting TSO which also has prequalified the BSP. There shall only be contractual arrangements between the TSOs and between BSPs and their connecting TSO.

The TSOs shall strive to establish national requirements (BSP agreements) that are as similar as possible within the common market area in order to ensure a level playing field for BSPs and to facilitate the functioning of the common FCR balancing capacity market. The BSP agreement is regulated by Article 18 of EB GL.

Proposed amendments

Since several exemptions has been granted, along with changes to the FCR market design an amended proposal has been justified. The list of amendments are specified below:

- a) **Addition of attributes to FCR capacity bids (regulatory approved) (Article 6);**
- b) **Removal of SEK as a currency in capacity bid unit costs (Article 6);**
- c) **Addition of divisibility as a complement to indivisibility (Article 6, 10);**
- d) **Added the right for TSOs to request the reason for a direct repurchase, and reservation of the right to deny a direct repurchase for any other reason than technical unavailability (Article 9);**
- e) **Addition of restriction to only allow transfer of obligation within a Control Area (regulatory exemption) (Article 9);**
- f) **TSO-TSO settlement in the PAC regime has been further detailed and specified (Article 11);**
- g) **Removal of publication of individual bids (regulatory exemption)(Article 13);**
- h) **Removal of publication of volume weighted average unit price for each product, auction and time frame (Article 13).**

Motivation for amendments

Here follows an explanation to each amendment as specified in the list a-f above.

- a) **Addition of attributes to FCR capacity bids.** The regulatory approved proposal for Article 154.2 in the SO Regulation includes different attributes such as dynamic and static response for FCR products. In order to ensure compliance with required system stability requirements, the attributes will need to be specified in the bids.
- b) **Removal of SEK as a currency in capacity bid unit costs.** As most providers uses EUR, in order to simplify bid handling and compilation for both providers and TSOs, SEK was removed as an option.

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- c) **Addition of divisibility as a complement to indivisibility.** In order to ensure and further enhance the market function, the TSOs proposes to add divisibility along with minimum acceptance criteria for capacity bids. This will reduce the risk of rejection of bids even though the unit cost is below the clearing price.
 - d) **Added the right for TSOs to request the reason for a direct repurchase, and reservation of the right to deny a direct repurchase for any other reason than technical unavailability.** The frequency of direct repurchase has increased over time, and in order to ensure that the mechanism is used according to purpose, the TSOs reserves the right to request a written statement of reason for direct repurchase, and the right to deny a direct repurchase for any reason other than technical unavailability.
 - e) **Addition of restriction to only allow transfer of obligation within a Control Area.** This was added to the amended proposal, and already regulatory approved.
 - f) **TSO-TSO settlement in the PAC regime has been further detailed and specified.** Clarifications and details added compared to the previous version. The TSO-TSO settlement is based on a pool model, and costs/benefits are proportionally distributed.
 - g) **Removal of publication of individual bids.** This was added to the amended proposal, and already regulatory approved.
 - h) **Removal of publication of volume weighted average unit price and adding clearing price.** This has been removed in the transition to pay-as-cleared.