

To:

Mr Christian Zinglensen
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Mr Christophe Gence-Creux
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Dear Mr Zinglensen,

We approach you together representing the Nordic electricity transmission system operators. There is an urgent issue for the decision of ACER on the table regarding the methodologies needed for establishing a regional Nordic market for automatic frequency restoration reserve (aFRR) capacity market. The draft methodologies have been submitted for ACER's decision by the Nordic regulatory authorities.

The Nordic electricity market has been a frontrunner when it comes to the development of day-ahead and intraday markets. To have well-functioning markets and transparent price signals we have introduced bidding zones inside the country borders for structural congestions, which has also been the aim of the European electricity market legislation.

Currently, we are developing our balancing markets together among the four Nordic countries and TSOs. We are challenged by the speed of the green energy transition and the growing needs for balancing. In recent declaration, the Nordic Council of Ministers for Energy has acknowledged to step up this green transition on energy further. To be able to ensure the adequacy of balancing reserves in all the bidding zones for 'A green Nordic region', it is crucial that we are able to procure balancing reserves across the borders of the bidding zones – i.e. across the country borders and across the borders of the bidding zones within each country.

To be able to fulfill our responsibilities for system operation and balancing, we have been working together to create regional markets for balancing capacity and energy with the aim of connecting to the common European balancing platforms. To supplement that and to ensure a safe and smooth transition we have considered it of paramount importance that we as a first step establish a regional

market for aFRR capacity with the possibility of reserving a small share of cross-zonal transmission capacity when needed.

We are deeply concerned with the possible outcome of the current process regarding the aFRR draft methodologies and ACER decisions, if that would result in a situation where we would be delayed to establish the regional aFRR capacity market that is urgently needed. Reason for such delay is that, legal interpretation of wording in the EB Regulation results in that we are able to implement the aFRR capacity market in accordance with ACER draft decisions, only when cross-zonal capacity is calculated with flow-based capacity calculation methodology, which is under development in the Nordic capacity calculation region.

The Nordic market and the relevant construction for balancing, namely the load frequency control block, consists of four countries and 11 bidding zones, which is exceptional in Europe. As opposed to large bidding zones, small bidding zones may lack balancing resources. That is why it is important to be allowed to allocate cross-zonal transmission capacity for the exchange of balancing energy. We see that the Nordic area should not be punished for applying bidding zones through such interpretation that would delay the implementation of the cross-zonal and cross-border trading of balancing capacity. In any case the operational security needs to be taken care of also in those bidding zones not having aFRR capacity available, and cross-zonal transmission capacity is needed for that purpose. This leads to not only to a more costly, but also a less transparent approach for TSOs, to secure the necessary reserves for a safe operation of the power system.

The need for aFRR is increasing and the aFRR is also the backbone of the new balancing model that is being developed among the Nordic TSOs in the Nordic Balancing Model program. It is necessary to develop the capability of this reserve to be able to introduce the ACE based balancing and 15 minutes market resolution required by the European legislation. That is also the prerequisite for joining the European platforms.

Finally, we want to repeat our key message. Together as Nordic TSOs we are working to create a regional market for aFRR capacity – the first of its kind in Europe. Delaying implementation of a common Nordic aFRR capacity market due to interpretation of the EB Regulation will cause a socio-economic loss for the Nordic society on approximately 50 million euros per year. This would conflict with the overall objective of the EB Regulation, namely to establish cross-zonal markets – and Nordics should not be punished for having done a proper bidding zone configuration.

We would very much appreciate the opportunity to give more insight into these issues that are decisive in this current regulatory issue. The outcome will be critical for the development of the Nordic market and its balancing market development that will decide how we as TSOs will be able to secure the operation of the power system.

Yours sincerely,

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