

# Input from Nordic stakeholders to the Common Market Design paper and response from the Nordic TSOs

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## Introduction and reading guide to this document

The Nordic TSOs would like to thank all stakeholders for input both to the informal common Nordic consultation and the formal national consultations in line with the Electricity Balancing Guideline (EB Regulation)<sup>1</sup> in Sweden, Finland and Denmark<sup>2</sup>.

This document provides an overall summary of the input received from stakeholders to the [Common Market Design paper](#) and our response to the input received. For convenience of the reader, the summary of input and our response is structured in the same way as the Common Market Design paper (following the same division of chapters). We have tried to summarise and answer the key input received, not necessarily every detail, and hope to have interpreted the input correctly.

We have received in total eight responses directly to the Common Market Design paper by the following stakeholders:

- Statkraft Energi AS
- Energy Norway
- Tussa Energi AS, Tafjord Kraftproduksjon AS, Istad Kraft and Troms Kraftproduksjon AS
- NTE Energi AS and Trønder Energi Kraft AS
- Danish Energy Association
- Energi Danmark A/S
- Finnish Energy
- Fortum Oyj

The input received from the stakeholders listed above is also published directly together with this document at the NBM webpage.

Furthermore, input from the following Swedish stakeholders was given to the Common Market Design paper through the formal national consultation in Sweden, as Svenska kraftnät opened up for feedback directly through the national consultation:

- Energiföretagen Sverige
- Jämtkraft AB
- Markedskraft AS

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<sup>1</sup> COMMISSION REGULATION (EU) 2017/2195 of 23 November 2017 establishing a guideline on electricity balancing.  
<https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32017R2195>

<sup>2</sup> The process is different in Norway as the EB Regulation is not yet a part of Norwegian law. Therefore, no national consultation has been open at the same time in Norway.

- Uniper
- Vattenfall AB

Svenska kraftnät will issue responses to the national Swedish consultation in January 2021, while Fingrid and Energinet will provide responses to their national responses in December 2020.

## Input to the "Introduction"

The "Introduction" chapter in the Common Market Design paper includes an overview of the content and the purpose of the paper, including the high aim of harmonisation by the Nordic TSOs.

There were a few comments from stakeholders to this chapter. Finnish Energy found that the paper could have been more developed (mature) and detailed, while Fortum found it could have been clearer on what was included and not. We understand that harmonisation and level playing field is important for the stakeholders in general, even if not explicitly mentioned by all, as the case is by e.g. Energy Norway and Jämtkraft. Energy Norway also urge the Nordic NRAs and TSOs to seek to ensure harmonisation during the national implementation processes.

As a response from the Nordic TSOs, the purpose of the Common Market Design paper is to be a supporting and non-legal document and was thereby intentionally kept on a high-level. The formal and legal processes for implementing necessary changes are national and the details will be handled on national level. Some issues are however further elaborated in this document based on specific feedback. The Nordic TSOs are continuously working to ensure a high level of harmonisation.

## Input to the "Overview of the model"

The "Overview of the model" chapter in the Common Market Design paper includes several sections, where the main purpose of the chapter is to give an overview of the proposed Nordic market design and the overall motivation for it. An overview of the timeline of changes foreseen going forward was also included, which will require changes to the currently proposed market design and possibly also give room for additional changes.

On the overall design of a single price and single position, the support from stakeholders in general is strong. This is in line with feedback received from stakeholders on previous occasions.

### Need for additional measures

On the additional measures (mitigation measures to limit incentives for self-balancing) and explanations on the current balancing model, there was more diverging input from stakeholders (also in line with feedback previously received). On the general motivation, Energiföretagen Sverige and Finnish Energy asks for more explanation on the mitigation measures and want more analysis to confirm the need. Uniper states that TSOs exaggerate the risks associated with self-balancing. Fortum and Jämtkraft questions if the model is in line with the EB Regulation and/or the all TSOs methodology for harmonisation of imbalance settlement methodology

(ISH)<sup>3</sup>. Both Fortum, Uniper and Finnish Energy find self-balancing (active imbalances to support the system) by balance responsible party (BRP) to be positive, even if Fortum acknowledges that it can be a problem in combination with proactive balancing. Energiföretagen Sverige and Vattenfall urge TSOs to not jump into conclusions regarding self-balancing and thereby include mitigation measures from the start, but instead introduce a checkpoint 6-12 months after go-live. Energiföretagen Sverige and Vattenfall however accepts and understand the need to ensure high quality production plans, but several Swedish stakeholders opposes requirements to plan in balance and highlights a risk that such measures result in market inefficiencies by restricting optimal dispatch of flexible resources. Jämtkraft on the other hand does not find the requirement to follow production plans acceptable. Finnish Energy supports the planning into balance but would like to see other or better tools for the BRPs to achieve this and find the requirement redundant with the imbalance fee. Norwegian stakeholders are understood to largely accept the motivation for the mitigation measures. NTE Energi and Tussa Energi (on behalf of several) hope that the requirements to plan in balance will increase the liquidity of intraday trading. Statkraft Energi however asks the TSOs to trust the market adaption to a greater extent, and Energy Norway urge the TSOs to consider more market-based approaches.

The Nordic TSOs would first like to address the topic of the legality of the current Nordic model. The EB Regulation allows for different balancing philosophies and models and does not harmonise into only one allowed approach. This is among other explicitly supported by the following extract from ACERs [decision document](#) on the ISH in point 84 (our underlining):

"The imbalance settlement is a national settlement scheme, defined in the national terms and conditions pursuant to Articles 18(6)(f) and 18(6)(k) of the EB Regulation. The EB Regulation already harmonises some aspects of the imbalance settlement (such as the duration of the imbalance settlement period, which shall be 15 minutes pursuant to Article 53(1) of the EB Regulation) and also explicitly allows for non-harmonisation of some other aspects (such as the incentives to BRPs, where both being in balance and helping the system to restore its balance are acceptable, pursuant to Article 44(1)(c) of the EB Regulation). However, imbalance settlement has many other features and at least some of them should be further specified and harmonised pursuant to Article 52(2) of the EB Regulation."

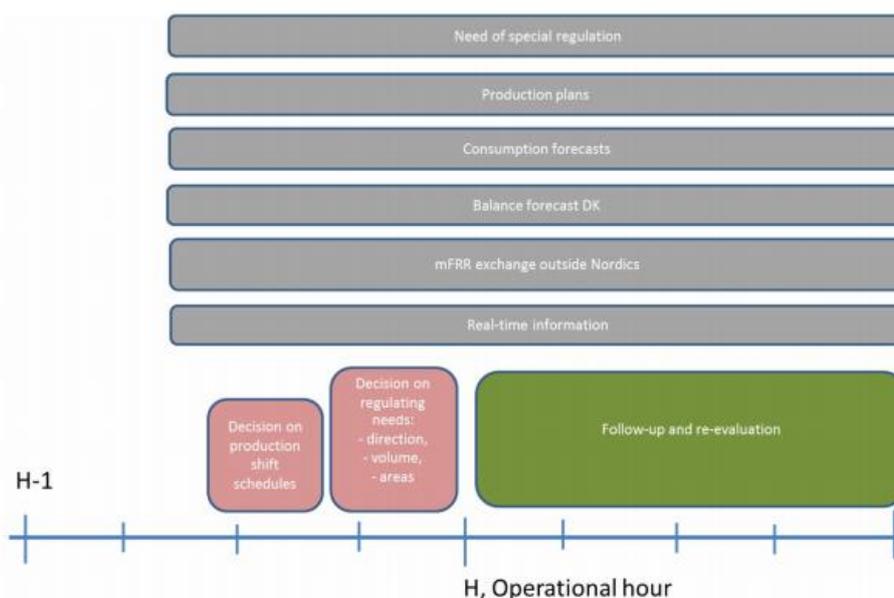
The EB Regulation and thereby also the ISH (as the ISH is bound by the Regulation) allows for different balancing models, including both proactive and reactive balancing approaches by the TSOs, and for such models to be based on either a) BRPs being in balance or b) BRPs helping the system to restore its balance. Within a dominantly proactive balancing approach, it is important that the BRPs plan in balance (and follow production plans) as uncoordinated actions between TSOs and BRPs in the same timeframe are not beneficial to system security and efficient balancing. This is in potential contrast to a reactive balancing model based on the use of aFRR, where the activation of aFRR is based on real-time measured imbalances by the load-frequency controller. Within such a model, it can be possible and efficient to open for BRPs helping the system (depending on certain other pre-conditions, for example the efficiency of the price signals and congestion issues), as the coordination problem is at least partly removed. TSOs that base their balancing

<sup>3</sup> ACER Decision on the imbalance settlement harmonisation methodology: Annex I. Methodology for the harmonisation of the main features of imbalance settlement. 15 July 2020. Follow links to access the Decision document and Annexes: [http://www.acer.europa.eu/Official\\_documents/Acts\\_of\\_the\\_Agency/Individual%20decisions/ACER%20Decision%2018-2020%20on%20the%20harmonisation%20of%20the%20main%20features%20of%20imbalance%20settlement%20%28ISH%20.pdf](http://www.acer.europa.eu/Official_documents/Acts_of_the_Agency/Individual%20decisions/ACER%20Decision%2018-2020%20on%20the%20harmonisation%20of%20the%20main%20features%20of%20imbalance%20settlement%20%28ISH%20.pdf)

on a highly reactive model typically use mFRR to release aFRR when a certain amount of aFRR has been activated, to always ensure sufficient availability of aFRR to balance in real-time. This is in contrast to a proactive TSO, which use mFRR as the main balancing product and aFRR to handle imbalances which were not captured in the imbalance prognosis.

Finnish Energy has asked for more information on the use of the production plans. The current proactive balancing in the Nordics is supported by the use of the production plans as a key input in the balancing process including the imbalance prognosis. Therefore, the production plan quality is of high importance. More information on the use of production plans can be found in the [Nordic paper on production plans](#) published in March 2020 referred to in the Common Market Design paper. The March paper further refers to a document named "[Nordic Balancing Philosophy](#)" from 2016 that describes the current balancing model and the use of production plans in further detail. In the latter document we recommend to read at least chapter 3, and in particular chapter 3.3, to learn more about the use of the final production plans sent in at 45 min before real-time in the balancing process. The use is among other illustrated in the following figure in the document:

Figure 1 The current balancing process



*Fig 4: Illustrative example of the balancing process. The operators need to consider a lot of information in order to make decisions.*

So as a brief summary to the above, the Nordic TSOs see the current balancing model as both legally compliant and the mitigation measures as duly motivated.

Finnish Energy asked whether the needs for requirements are the same in all areas. The balancing process with requirements described above is common across the Nordics, and thereby required in all areas. Congestion management issues, which we have not directly addressed above, will always in theory be present between bidding zones. In addition, local bottlenecks need to be handled which is predominantly an issue in Norway. Some of the mitigation measures may therefore require a national adaptation, but the overall need is common.

Finnish Energy and Energiföretagen Sverige asked for analysis with data to substantiate the risks of self-balancing. With the current balancing model and

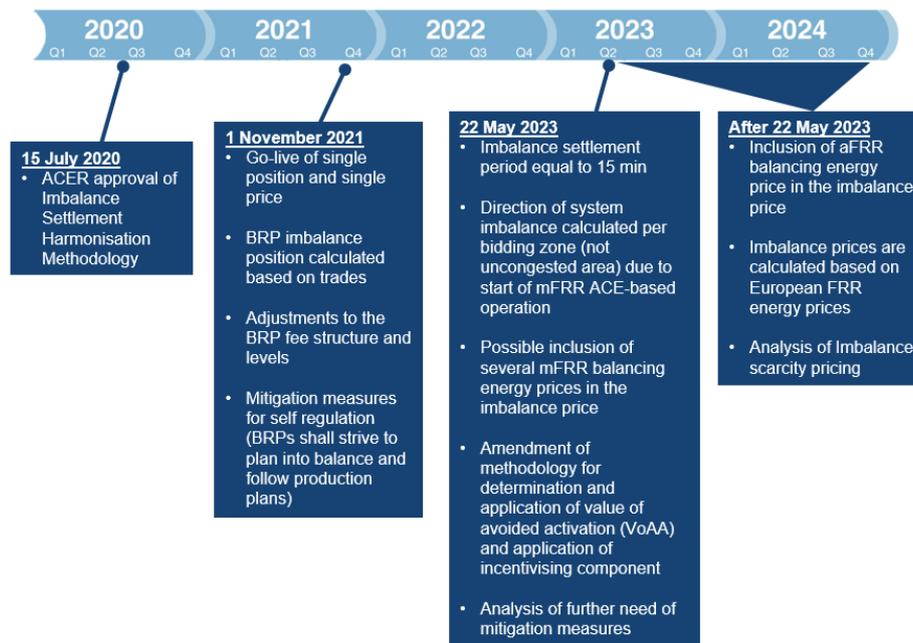
requirements on the BRPs, including financial settlement in case of deviations between production plans and actual production, we do not expect to see the issues of primary concern to any significant extent as the most flexible assets which could impact are within production.

Some stakeholders asked for more market-based measures or to start without mitigation measures and evaluate the need at a later stage. As it takes time to implement measures, it is important for the Nordic TSOs to be clear from the start on our expectation on the market behaviour of BRPs. As we gain experience and also start to detail the market design of the next steps, the mitigation measures and their current design will be reassessed.

## Timeline

With relevance to the timeline, some stakeholders asked for more commitment and details on the future steps. Fortum commented that it is positive that market participants concerns are heard when designing the timeline but find the timeline inconclusive as it lacks details and commitment. Uniper asked for more clarity and detail on the timeline and would like to see more detailed planning. Vattenfall states that the balancing markets currently undergo extensive development why specific comments in one consultation may be partially or fully dependent on market development addressed in another context. There is also input summarised above to the overall model which is relevant to comment here.

Figure 2 From the Common Market Design document – "Overview of up-coming changes to imbalance settlement (not necessarily exhaustive)"



The NBM program represents a complex transition process to automated operations and ACE-based balancing with standardised balancing products. This represents a large change from the current highly manual processes supported by a large degree of flexibility in the mFRR product and activation processes. In addition, the process requires changes which depend on approvals from national regulatory authorities. It also requires new IT systems to be designed. It is not an easy process, and changes on the way may become necessary. However, this does not imply that the Nordic TSOs are not committed to this change.

The current proposal for implementation on 1. November 2021 is an accommodation of existing design to ensure legal compliance with the ISH, which becomes effective in January 2022, respecting the boundaries given by the current balancing model. We appreciate that stakeholders are interested in discussing the detailed market design of the future steps, even if not in scope of the Common Market Design paper.

During the transition process, which the NBM program constitutes, the Nordic TSOs will be fully ACE-based when introducing an aFRR balancing energy activation market and partly ACE-based at 15 min with the introduction of 15 min imbalance settlement period (ISP) (aFRR still activated based on the frequency). We look forward to inviting the market participants to discuss the market design, including the need for mitigation measures in the future, for the following steps. This includes topics such as the possibility to open up for BRPs balancing closer to real-time and potentially also BRPs taking active imbalances.

In this context we would also like to remind stakeholders that the current highly integrated balancing model in the Nordics has been a front runner in a European context and which has created a high level of welfare for Nordic market participants over a long time period. The Nordic TSOs understand the current model is still providing a valuable balancing, even with the transition to come through the NBM programme.

## Input to the "Imbalance calculation"

The "Imbalance calculation" chapter in the Common Market Design paper includes a high-level overview of how the single imbalance based on a single position will be calculated.

We received one supportive comment from Finnish Energy, else there were no comments from stakeholders to the imbalance calculation.

## Input to the "Imbalance pricing"

The "Imbalance pricing" chapter in the Common Market Design paper includes a section on how to calculate the dominating direction, a section on pricing in ISPs with activation and a section on pricing in ISPs without activation.

## Determination of the dominating direction

On the determination of the dominating direction, there was only one explicit comment by Finnish Energy. Finnish Energy supports the current proposal but does not support a future change to calculate the dominating direction based on the bidding zone. The latter change is however mandated by the ISH, as the basis for the current proposal is an exception which allows the Nordics to set the dominating direction across imbalance price areas = bidding zones in the time period before we have implemented ACE-based balancing. Calculation per bidding zone = imbalance price area is mandated (non-optional) by the ISH when we have introduced ACE-based balancing. For the details on this, please refer to article 8 of the ISH, in particular 8(3), and point 73 of the ACER decision on the ISH.

## Determination of the imbalance price in both ISPs with and without a dominating direction

On the sections on how to calculate the imbalance price, we understand that all but two stakeholders support or accept the proposal on imbalance pricing. This includes both ISPs with a dominating direction and no dominating direction (for the latter, use of the day-ahead price as final imbalance price). Statkraft Energi explicitly supports the pricing in ISPs with no dominating direction, while Energiföretagen Sverige and Vattenfall state that they accept it. Finnish Energy have questions to the proposal of pricing in ISPs without a dominating direction, while Fortum questions the legality of the proposal and finds it not forward-looking. Energiföretagen Sverige and Vattenfall stress the importance of including an aFRR balancing energy price in the imbalance price.

On the legal basis for the imbalance pricing in ISPs without a dominating direction, the Nordic TSOs have carefully assessed the legal basis and are assured that the proposal is fully compliant with the ISH. According to article 7(3)(d) of the ISH, the TSO shall either use Article 9(1) or 9(2) of the ISH to calculate the imbalance price in case of no activated positive or negative balancing energy (no dominating direction). Article 9(1) and 9(2) in turn point to Article 10, which outlines the calculation rules for the value of avoided activation (VoAA), defined in article 2(2)(c) of the ISH, but also to Article 9(6)(b), which lists a set of additional components including the incentivising component, which can be further applied to the calculation of the imbalance price. The VoAA thereby represents the "base price" to apply in ISPs without activation, but the final imbalance price can then be altered by the application of the incentivising component, as proposed by the Nordic TSOs.

In this context, we would also like to refer to the explanation of the purpose of the incentivising component in the [explanatory document](#) to the final All TSOs proposal on the ISH (before the referral by NRAs to ACER), page 20-21, and the following extracts<sup>4</sup>:

"A TSO may decide to implement an imbalance pricing scheme that takes into account liquid local, short term wholesale market prices (e.g. Intraday-prices in this market area or Day-Ahead where Intraday is not sufficiently liquid)"..... In that way, gambling on arbitrage between the wholesale market and imbalance prices should not be possible..... An incentivizing component, that may for example represent the price spread between imbalance and Intraday market prices, sets an additional boundary condition that the imbalance price shall be at least the price of the defined wholesale market price."

The proposal of the Nordic TSOs is in line with the above-mentioned explanation. The main motivation of the incentivising component is already maintained in the current mFRR pricing rules in the Nordics, by the intrinsic linking with the day-ahead price (these pricing rules are not changed on 1. November 2021). It is however necessary to explicitly restate the link for ISPs without a dominating direction due to the calculation rules for the VoAA. The Nordic TSOs will however for sake of completion propose an incentivising component which applies to all ISPs. The component will only have a value in ISPs without activation as long as the current mFRR pricing rules apply. In addition, the Nordic TSOs will use a harmonised approach to calculate a numerical value for the VoAA based on bid prices, which will

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<sup>4</sup> The incentivising component has been consulted through the process of establishing the ISH and confirmed by ACER in the final approval of the methodology.

be published together with the numerical value of the incentivising component, to comply with the requirements of the ISH.

The Nordic TSOs fully agree that the aFRR balancing energy activation price is an essential part of the future imbalance price calculation and is a part of the harmonised European target model as well as the Nordic TSOs plan (see figure 2 above). The current aFRR market design (pro-rata aFRR capacity, no energy activation market and activation based on frequency) in the Nordics is however not fit for the purpose. Inclusion of an aFRR price requires an activation market and pricing based on aFRR bids (see article 9(3)(e) of the ISH). The Nordic TSOs are currently carrying out preparatory work in order to accommodate for an aFRR energy activation market, and the plan forward will be communicated in the Nordic TSO aFRR EAM strategy, which will be published in mid-2021.

## Input to the "Requirement on following production plans"

The " requirement on following production plans " chapter in the Common Market Design paper explains the elements of the proposed requirement and the commonly proposed monitoring process. It is important to note that national specifics may apply to this requirement.

Most of the feedback on this requirement was on the overall need for the requirement, as discussed above. However, there were some comments more directly related to this chapter. Finnish Energy asks for the possibility to update plans until real-time as part of providing the BRPs with better tools to comply with the requirement (see also their feedback to the requirement to plan in balance), and only in case of particular needs in certain areas that requirements could be stricter. Finnish Energy supports anonymous KPIs as an information source for operational benchmarking between market participants only. Vattenfall support the proposal to monitor and follow (e.g. using KPIs) the quality of the production plans, and potentially also publishing the results. Fortum finds the proposal incompliant with the EB Regulation and ISH as the requirement is only valid for production, and not also consumption. Uniper opposes that TSOs only require production to follow plans and propose to shift focus to only the requirement on BRPs being in balance. Jämtkraft states that the requirement goes against equal treatment/level playing field since no corresponding requirement are put on consumption. Fortum also finds it incompliant that national requirements may apply and that renewables may be punished by the gate closure of plans at 45 min before real-time.

The need for the production plans and their use in the balancing process from 45 min before real-time is explained in the document referred to above. By that explanation it is clear that it is important that the Nordic TSOs can trust the production plans provided at 45 min before real-time, as these are important for the operational processes to balance the system which also start already after the gate closure of the plans. In addition, it is part of the overall model of a proactive TSO that there is a hand-over between the BRPs and the TSOs in the balancing process, from which point BRPs are asked to follow their plans and leave the remaining balancing to the TSO.

The TSOs are allowed to ask the market participants for operational and market information necessary to operate the power system.<sup>5</sup> It is out of scope of the design elements for this market design document to assess the information required and needed by the TSOs for the operational processes going forward. This includes the potential need for consumption plans and different need for details for the different TSOs. It should however be clear that the BRPs need to behave in a way which does not on purpose detriment the value of operational information provided to the TSOs, which is the core of the proposed requirement.

## Input on the "Requirement for planning in balance"

The "requirement for planning in balance" chapter in the Common Market Design paper explains the elements of the proposed requirement and the commonly proposed monitoring process.

As for the “requirement to follow production plans” above, most of the input on this requirement is on the overall need for and efficiency of the requirement which is discussed above. Finnish Energy asks also here for the possibility to trade until real-time as part of providing the BRPs with better tools to comply with the requirement (see also their feedback to the requirement to follow production plans). Fortum does not find a legal justification for the requirement. Fortum finds the statement that wholesale markets end when balancing timeframe starts to be incorrect and that the two requirements on BRP behaviour may be in conflict.

We refer mainly to our answer above to the comment by Finnish Energy on trading until real-time. We repeat that the proactive balancing approach by the Nordic TSOs is based on a handover by the market participants to the TSOs, where remaining flexibility after closure of the wholesale market is asked for as balancing market bids. To Fortum we would like to repeat that a balancing approach based on BRPs planning in balance is allowed by the EB Regulation, as discussed above. The common intraday gate closure in the Nordics apart from the border to Estonia is one hour before real-time. Further, the two requirements are not in conflict as they are sequential in time: First plan in balance in the wholesale markets, thereafter, follow production plans.

## Input on the "BRP fees"

The "BRP fees" chapter in the Common Market Design paper includes a description of the proposed revised structure for the BRP fees and notes that the Nordic TSOs have started work to evaluate a possible harmonisation of the BRP imbalance fee level, which will be subject for a separate note aiming at early Q1 2021.

This chapter received input from all stakeholders who provided input to the Common Market Design paper. We will first address comments to the BRP fee structure before we address the comments to the fee levels.

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<sup>5</sup> We hereby refer to the COMMISSION REGULATION (EU) 2017/1485 of 2 August 2017 establishing a guideline on electricity transmission system operation (SO Regulation) and relevant national legislation. Link to the SO Regulation: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32017R1485>

## BRP fee structure

The Nordic TSOs understand that most stakeholders support a harmonised fee structure across the Nordics, even if only Finnish Energy and Statkraft Energi are explicit on this in their input. We also understand that most stakeholders support or accept the proposed BRP fee structure. Statkraft Energi explicitly supports the proposed structure, while Markedskraft explicitly supports a merged volume fee for production and consumption.

Danish Energy and Energi Danmark however do not support the proposed structure specifically for the imbalance fee. They find that the imbalance fee should not be imposed on imbalances which reduce the system imbalance (so imbalances in the opposite direction of the dominating direction should not be charged the fee). Energi Danmark argues this to be important when going forward to a more reactive balancing method and a new balancing philosophy. Danish Energy agrees that it is important for participants to plan into balance, and that an imbalance fee will create incentives to avoid imbalances. However, they see an imbalance fee on all imbalances regardless of direction as a punishment, also as they argue that an imbalance in the right direction reduce the TSOs' costs.

The proposed BRP fee structure is simply a revision of the current BRP fee structure to take into account the implementation of a single balance position. The Nordic TSOs have in the Common Market Design paper proposed that the current consumption and production volume fees should be merged into one volume fee, including both consumption and production.<sup>6</sup> In addition, the imbalance fee which is currently charged to all imbalances calculated in the consumption imbalance (which includes consumption and trade imbalances), is expanded to be calculated including all imbalances. There is no fundamental change to the design by this TSO proposal.

The imbalance fee can be seen as a trading fee which applies to all BRPs which have imbalances which are handled in the balancing markets, in the same way as trading fees applies in the day-ahead and intraday markets. The TSOs have costs related to having the capability to balance the system in real-time (capacity costs) in addition to administrative costs to perform the actual balancing operation and settlement.<sup>7</sup> These costs are largely independent of the dominating direction of a given ISP and should also be seen by the BRPs. The general imbalance fee also gives an economical incentive to plan in balance and may thereby stimulate increased trade in intraday markets.

The Nordic TSOs would like to clarify that the proposed fee structure will be revisited in the following steps (as illustrated in figure 2 above) as it is part of a holistic market design.

## BRP fee levels

The Nordic TSOs also received quite a bit of feedback on the level of the fees and the cost bases. Below we try to summarise the key input. There are different opinions on whether the imbalance fee level should be harmonised or not. Statkraft Energi, NTE Energi (on behalf of several) are understood to support harmonisation of the imbalance fee level, at least to a certain point. Uniper as well support full harmonisation of the imbalance fee level, even though they argue that the fee level

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<sup>6</sup> This point does not apply to Denmark as these fees are collected through the grid tariffs instead.

<sup>7</sup> Not all these costs are covered by the imbalance fee, but also the volume fee and partly through grid tariffs (depending on national setup).

should be kept as low as possible. For Statkraft Energi this is related to the dispatch of assets. Uniper argues that different imbalance fee levels may incentivise market players to move imbalances to the areas with the lowest fees, which in turn would undermine the target to optimize load flows to maximize social welfare within the market.

On the other hand, Finnish Energy and Danish Energy are hesitant to harmonise the imbalance fee level. Finnish Energy is concerned about different cost bases, while Danish Energy is sceptical to harmonise as there are major geographical and technical differences of the electricity systems in the Nordics. Furthermore, Danish Energy is worried about the effect of a high imbalance fee on renewables. NTE Energi (on behalf of several) support an increased imbalance fee. Statkraft Energi suggests that the TSOs consider a harmonisation of which costs are covered through the fees and which are covered through the grid tariffs.

On the use of the imbalance fee to create incentives, a concern raised by some stakeholders is the relation to the cost base and that such a fee would create (undue) income for the TSOs. This is at least partly raised by Statkraft Energi, Tussa Energi (on behalf of several), Finnish Energy and Danish Energy. Statkraft Energi also understand the proposed increased imbalance fee to be a penalty fee. They are concerned about how to identify the size of a penalty element, and also argue that a high imbalance fee can increase the balancing of own portfolio in the balancing timeframe and take flexible assets out of the balancing markets (the BRP keeps the resources for themselves). Tussa Energi (on behalf of several) are concerned about the increasing imbalance fee in Norway.

NTE Energi (on behalf of several) are concerned that the volume fees should be at a low and predictable level in order to facilitate sound decisions on for example new power production. Uniper and Jämtkraft on the other hand oppose that dispatchable resources shall pay volume fees just as high as intermittent generators or consumers and argue that this contradicts the application of the polluter pay principle.

We will hereby attempt to answer the input above. The Nordic TSOs apply quite different mechanisms and approaches to ensure availability of balancing capacity. Some reserves are for example only ensured by some of the TSOs (such as peak load reserves and disturbance reserves). There are also difference in market design (for example remuneration of FCR energy). This makes a harmonised discussion on which costs to cover through the fees and which to cover through the grid tariffs of less value, as the underlying differences are too large. In addition, there are quite different cost bases across the Nordics due to the prices to procure reserves, which also impacts on the possibility to harmonise the fee levels while ensuring financial neutrality. The Nordic TSOs however still find it valuable to consider the level of the imbalance fee and the possibility to harmonise this fee level as it impacts on dispatch decisions in the common Nordic market and to give desired incentives. There is today a harmonised span which applies to the consumption imbalance fee, with a cap and floor of 0.1 – 0.5 EUR/MWh (Nordel agreement from 2007). The Nordic TSOs will therefore continue to work on harmonisation of the imbalance fee level which, as already communicated, will be described in a separate note aiming at early Q1 2021. Such harmonisation would indirectly impact on the volume fee, since the settlement processes all together should ensure financial neutrality (see article 44(2) of the EB regulation).<sup>8</sup>

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<sup>8</sup> Say you have a defined cost base, for example all costs of FCR capacity is to be covered by the BRP fees. If the imbalance fee is then set at for example a fixed level, the remaining cost base will need to be covered by the volume fee.

On the exact setting of a level for the imbalance fee, the Nordic TSOs appreciate the input received and will take it into consideration in the ongoing work on this fee level (see above).

## Shortage pricing

Fortum asked about the lack of motivation in the Common Market Design paper of not using a shortage pricing function, as an integral part of the requirement in article 44(3) of the EB Regulation.

The introduction of a shortage pricing function will be addressed on national level as relevant. Generally, the Nordic TSOs plan to assess pricing in case of scarcity in the coming market design (as illustrated in figure 2), based on the scarcity component allowed by article 9(6)(a) of the ISH.

## Overall conclusion – final common market design proposal

Taking into account the input received to the common market design proposal, it is the Nordic TSOs opinion that the proposed common market design still serves the point of which it was intended and sends/creates the correct incentives and messages to market participants in the interim phase starting on 1 November 2021, when single pricing and single balance is introduced.

We appreciate all the input received to the proposed market design and also recognise a substantial part of the feedback from the more than a year long process and discussion with stakeholders related to the Single Price project. We also acknowledge that some of the feedback related to the fees have not been equally discussed within the context of the project.

We would again like to emphasise that the current proposal addresses the interim phase until implementation of 15 min ISP, and the discussions for the following phases are yet to come. We look forward to inviting stakeholders to discuss these upcoming phases and have taken note of fundamental questions that have been addressed by stakeholders.