

# Public consultation for 2<sup>nd</sup> draft FRR CM mark-up methodology

Webinar 9. Maj 2022

# Agenda

- Introduction
- Background
- Assessment by Optimeering
- 2nd amendment proposal
- Stakeholder questions
- Closing remarks

# Introduction

- The Nordic TSOs have sent the 2nd amendment methodology as well as an explanatory document for public consultation during **April and May 2022 (deadline 20. May 2022)**.
- The mark-up methodology is related to the methodology for the market-based allocation process of cross-zonal capacity for the exchange of balancing capacity for the Nordic CCR in accordance with Art. 41(1) in EB GL.
- The Nordic aFRR capacity market is planned to go-live in Q4 2022.
- The proposed amendment to Art. 6 on determination of the forecasted market value is done to
  - Increase the accuracy of the methodology, and
  - Safeguard the day-ahead market at aFRR capacity market go-live.
- Dynamic mark-up process and parameters as defined in Article 6 of the ACER decision will remain as they are in the current forecasting methodology.

# Background

- Amendment proposal in June 2021, based on ACER decision no. 22-2020 5th August 2020
  - Amendment proposal was supported by an evaluation made by Optimeering
- 1<sup>st</sup> amendment proposal had no change in the mark-up, which was defined as:
  - For negative or zero market spread the mark-up will be 0.1 EUR/MWh
  - For positive market spread the mark-up will be 1 EUR/MWh
  - The positive mark-up value can vary between 1 and 5 EUR/MWh
  - In case the average forecast error over the last 30 days differs with more than 1 EUR/MWh compared to the mark-up applied the day before, the mark-up will increase or decrease with 1 EUR/MWh
- The CCR Nordic NRAs found that the proposal had no legal content, and hence could not be approved

# Assessment by Optimeering

- ACER decision 22-2020 has based the forecasted market value of cross-zonal capacity on Article 39(5) principle (b).
- The Nordic TSOs have applied the same principle when making the assessment requested in Art. 6(4) covering the listed items from (a) to (e):
  - a) The accuracy of the forecasted market value when applying different ranges of historical time series as input data for determining the mark-ups, per bidding zone border and per direction
  - b) The accuracy of the forecasted market value when applying different time intervals for defining and updating the mark-ups, per bidding zone border and per direction
  - c) The accuracy of the forecasted market value when applying different reference days
  - d) The accuracy of the forecasted market value when applying additional relevant factors influencing demand and generation patterns in the different bidding zones
  - e) The estimated welfare effect for a range of confidence levels of the positive forecast errors, per bidding zone border and per direction
- Conclusion was that application of different ranges of historical time series shows that longer historical times series (a) gives marginally better results on average.
- Applying item (b) to (e) does not improve the results significantly and does not support change in the mark-up methodology.

# 2<sup>nd</sup> draft FRR CM mark-up proposal

- ACER decision 22-2020 , Art. 6 (3) required to have different mark-up values per bidding zone border.
  - The different mark-up values for each bidding zone border depends on the day-ahead market spread and dynamic mark-up values.
  - Those borders with higher forecast error will have higher dynamic mark-ups.
- The 2<sup>nd</sup> amendment includes
  - For negative or zero market spread the mark-up will be 0.1 EUR/MWh
  - For positive market spread the mark-up will be 5 EUR/MWh
  - The positive mark-up value can vary between 1 and 5 EUR/MWh
  - In case the average forecast error over the last 60 days differs with more than 1 EUR/MWh compared to the mark-up applied the day before, the mark-up will increase or decrease with 1 EUR/MWh
- The Nordic TSOs will monitor the efficiency of the forecasting methodology, including the dynamic mark-up when the Nordic aFRR capacity market goes live. The monitoring will include a comparison of the forecasted and actual market values of cross-zonal capacity for the exchange of energy.

# Stakeholder questions

# Closing remarks

- The Nordic TSOs has sent the 2nd amendment methodology as well as an explanatory document for public consultation during **April and May 2022 (deadline 20. May 2022)**.
- The TSOs plan to submit the 2nd amendment methodology to the NRAs for approval in **June 2022**.
- The TSOs have agreed to make only minor changes to mark-up methodology.
- The TSOs have agreed make no changes to the different mark-up for different bidding zone borders, since this is already fulfilled in the existing methodology, where the dynamic mark-up will result in a differentiation between bidding zone borders from 1-5 EUR/MWh.
- The Nordic aFRR capacity market is planned to go-live in Q4 2022.
- The efficiency of the forecasting methodology will be evaluated 3 month after go-live and at least once a year in accordance with article 12(5) of ACER decision.