

**All Baltic CCR TSOs' proposal for the
Capacity calculation methodology within
the Baltic Capacity Calculation Region
public consultation responses and TSOs'
reactions**

15th September 2017

During public consultation process on “ All Baltic CCR TSOs’ proposal for the Capacity calculation methodology within the Baltic Capacity Calculation Region”, Baltic CCR TSOs received responses from three parties: Ministry of Economic Affairs and Communications of Estonia; Eesti Energia AS; and INTER RAO Lietuva, AB.

Following table contains Baltic CCR TSOs responses to the received comments.

Comment	All TSO Response
<p>We, AB “INTER RAO Lietuva” and its subsidiaries (INTER RAO) engaged in sale of electricity in the Baltic energy market, including import of electricity from 3rd Countries, and we are referring to you with regard to newly established regional TSOs’ proposal for the Capacity Calculation Methodology for the Baltic Capacity Calculation Region (the Methodology) on 11 August, 2017.</p> <p>We would like to point out that capacity calculation and allocation is currently regulated by the Terms, Conditions and Methodologies on Cross-Zonal Capacity Calculation, Provision and Allocation within the Baltic States and with the 3rd Countries (the Rules), i.e. existing regulation encompasses capacity calculation and allocation rules within Baltic States and with the 3rd Countries (i.e. Russia (Continental Russia and Kaliningrad Oblast) and Belarus).</p> <p>In our opinion, it is very important to assess capacity calculation rules within Baltic States together with the 3rd Countries, because the Baltic power system operates synchronously with UPS/IPS system under the framework of BRELL agreement. The fact that cross border capacities within Baltic States are directly bound by the capacities with the 3rd Countries is also stressed out in the Principles of Determination of Interconnection Capacities from the Third Countries (the Explanatory Document of the Rules), which is published in the LITGRID’s webpage : “As a physical flow of the third countries to Lithuania comes not directly but through north and south directions of BRELL (Belarus, Russia, Estonia, Latvia, Lithuania) Electrical Ring (see figure 1), “the bottle neck principle” affects the calculation of capacity assigned for trade from the third countries, i.e. capacity can be determined not by Lithuania-Belarus but by any other interconnection capacity technical capabilities.”</p> <p>Article 8.1.1 of the Methodology also states that trading capacity calculation between Estonian and Latvian power systems is determined by trading capacities with the 3rd Countries.</p>	<p>Comments are noted.</p> <p>Baltic Capacity Calculation Region Transmission System Operators (Baltic CCR TSOs) acknowledge the need for the separate capacity calculation methodology for Baltic - 3rd countries borders. Baltic CCR TSOs started developing both methodologies (Capacity calculation methodology within the Baltic Capacity Calculation Region and Capacity calculation methodology on the Baltic borders with 3rd countries) in parallel with the aim to prepare both methodologies at the same time. However common decision on Capacity calculation methodology on the borders with 3rd countries was not reached among Baltic TSOs (Elering, AST and Litgrid) and therefore Baltic NRAs have been involved in methodology development process. At the moment the Baltic NRAs are discussing the issue, and Baltic TSOs have not yet received guidance on Capacity calculation methodology on the Baltic borders with 3rd countries. Baltic TSOs continue developing the separate Baltic – 3-rd countries methodology and further progress may be anticipated as guidance from Baltic NRAs shall be made available.</p>

Therefore, it is obvious from the technical point of view and from the Explanatory Document of the Rules and the proposed Methodology that any interconnection capacities within the Baltic States (including interconnection of EE-LV border) determine the capacity assigned for trade from the 3rd Countries, i.e. trading on interconnectors (borders) within the Baltic States technically influences flows on all AC borders, including with the 3rd Countries.

INTER RAO as an EU based undertakings, and as well as all other undertakings of the electricity sector, which perform electricity trading activity in the Baltic States (i.e. trade within any Baltic State or between them), has the same rights and obligations under the EU law. One of the key objectives of the CACM Regulation (and Regulation 714/2009) is to secure that the development of the Methodology meets the objective of fair and equal treatment of all market players; hence undue discrimination of market player access to the market place must not take place. Wherefore, INTER RAO must be treated as all other market participants.

Article 9(9) of the CACM Regulation requires that the proposal for terms and conditions or methodologies must be clear and shall include timescale of implementation, description of the expected impact, transparent and etc. As it is provided in the Explanatory Document of the Methodology (Section 7) an advanced announcement of the Methodology project to the market actors mainly enables market participants to evaluate cross-zonal capacities when taking market positions, i.e. market participants must clearly understand the regulation and have enough time to prepare for the changes and take any needed actions.

After the familiarization with the proposed Methodology project, it is noted that the Methodology provisions regarding calculation of trading capacity on the EE-LV border, which also influence the calculation and allocation of transmission and trading capacities with the 3rd Countries, are amended (Article 8.1.2 of the Methodology, amended the description of “P”) comparing with the existing provision of the Rules (Article 5.1 of the Rules, description of “P”). The amended description of the “P”, even though the applied formula is the same, without approved rules of the capacity calculation and allocation with the 3rd Countries is uncertain and not clear. In this case, because of the direct influence between the interconnectors’ capacity calculation and allocation rules on the EE-LV border are not fully and clearly set at the moment, i.e. the TSOs’ proposed Methodology provisions are non-transparent and uncertain regarding the amount of assured emergency power reserves in respective power system that is used for capacity calculations on EE-LV and LV-LT borders.

At the same time Baltic CCR TSOs note, that same methodologies apply to all market participants and hence all market participants shall be deemed to be on equal terms regarding proposed capacity calculation methodology.

It shall also be noted that according to Article 20(2) of Commission Regulation (EU) 2015/1222 establishing a guideline on Capacity Allocation and Congestion Management (hereafter referred to as the “CACM Regulation”), all TSOs in each capacity calculation region shall submit a proposal for a common coordinated capacity calculation methodology within the respective region. Baltic CCR has been approved by ACER on 17th of November 2016 and includes following bidding zone borders: Estonia-Finland, Estonia-Latvia, Latvia-Lithuania, Lithuania-Sweden (SE4), Lithuania-Poland. Baltic CCR doesn’t include border with 3rd countries. Taking into account aforementioned, Capacity calculation methodology within the Baltic Capacity Calculation Region and Capacity calculation methodology on the borders with 3rd countries are developed as separate documents.

Therefore, because the capacity calculation and allocation rules between the EE-LV border are not fully set and not clear, INTER RAO, as a trader, because of unclear trading capacities with the 3rd Countries, cannot properly prepare for the upcoming period (i.e. primarily from 1 January, 2018) and take any market position, assess next year wholesale price volatility of the portfolio, conclude long term agreements with a fixed price, or hedge the price.

The situation is more uncertain because of the AST proposed different position regarding assured emergency power reserves in respective power system that is used for capacity calculations on EE-LV and LV-LT borders (the Explanatory Document of the proposed Methodology, Section 5), which influence trading capacity with the 3rd Countries. It is noted that this new position of AST does comply with the capacity calculation and allocation principles which are applied from 2016 until now. Therefore, without rules of capacity calculation and allocation with the 3rd Countries it is not clear whether such amended description of “P” in the formula is only a formality or the proposed amendments changes the rules of capacity calculation and allocation with the 3rd Countries in essence.

The existing uncertainty clearly discriminates INTER RAO limits the access (or right to know in advance terms and conditions of the access) to the market through EE-LV and LV-LT borders compared to other market participants based on the origin of electricity, i.e. other market participants know in advance the terms and conditions of the capacity calculation rules for the upcoming period and could make planning, assure future generation capacities by concluding long term agreements, use long term financial instruments to hedge the price. While, INTER RAO cannot do any planning and future assessments or make any commitments (conclude power supply agreements with a fixed price) to its clients, or use any long term financial instruments, because the access and access capacity to the main generation sources of INTER RAO in the 3rd Countries is not clear yet.

Also the existing uncertainty about the EE-LV border capacity calculation principles, which directly influence trading capacity with the 3rd Countries, contradicts with legal certainty and transparency principles and limits INTER RAO rights to freely trade and compete in the European energy market.

<p>The existing uncertainty also limits the guarantee of the lowest price to Baltic States customers, because INTER RAO is one of the largest players in the electricity market in Lithuania and other Baltic States and could not propose to its customers the lowest and most competitive price based on the existing uncertainty.</p> <p>Furthermore, as it could be noted in the Explanatory Document of the Methodology (Section 7), the TSOs' aim is to apply this Methodology from beginning of the 2018, therefore, the national regulatory authorities are asked to approve this Methodology as soon as possible, even though the Article 9 of CACM Regulation sets 6 months for the national regulatory authorities to take a decision.</p> <p>To sum up, in our opinion, this unprecedented rush without full set of clear capacity calculation and allocation rules in the Baltic CCR cannot be justified. First of all, we suggest putting on hold this proposed Methodology project, until full set of capacity calculation and allocation rules are prepared, including the rules of capacity calculation and allocation on EE-LV border, which influence trading with the 3rd Countries, and then repeat public consultation. Secondly, we support LITGRID position that emergency power reserves should be assessed in respective power system for capacity calculations. Moreover, more than one and a half year proved that existing capacity calculation model ensures better utilization of infrastructure, ensures a possibility to import more electricity from the 3rd Countries and leads to more intensive competition in the electricity market, which means better prices for consumers, and power market operation in the most efficient matter, without any negative influence to the security of supply.</p>	
<p>1. Proposed Capacity Calculation Methodology for the Baltic CCR does not enable to fulfill the aims of CACM Regulation, which are stipulated in its Article 3.</p> <p>According to Explanatory document for the „Capacity Calculation Methodology within the Baltic Capacity Calculation Region“, the proposal has been written with the aim to ensure that methodology developed for Baltic CCR is as efficient as possible from the market point of view. The capacity calculation methodology for interconnections between the Baltic countries and UPS/IPS is covered by a separate methodology among the Baltic countries only, as the cross-border interconnectors with the third countries are not covered by CACM Regulation. However, TSOs have put on an open online consultation only one methodology, which is meant for Baltic CCR. The methodology which should govern calculation and allocation of transfer capacities with the third countries is not put up for public consultation.</p> <p>Given the background information, which Eesti Energia has obtained from various sources, there are continuous disagreements among the Baltic TSOs regarding how cross-border transfer capacities with the third countries should be calculated and allocated. Existence of given disagreements is also highlighted on pages 7 and 8 of Explanatory document for the „Capacity Calculation Methodology within the Baltic Capacity Calculation Region“, where Latvian TSO specifically refers that „in some cases planned power flow calculations show</p>	<p>Comments are noted.</p> <p>Baltic CCR TSOs has started developing Capacity calculation methodology on the Baltic borders with 3rd countries with the aim to develop such methodology that will enable optimal cross-border transmission capacities between Baltic and 3rd countries considering power systems operational security.</p> <p>However common decision on Capacity calculation methodology on the borders with 3rd countries was not reached among Baltic TSOs (Elering, AST and Litgrid) and therefore Baltic NRAs have been involved in methodology development process. At the moment the Baltic</p>

<p>overloads on Estonian-Latvian border. In such way, ensuring minimum trading capacities on Lithuania-Belarus (3rd country) border harms power system security...“. Although Latvian TSO in this case has referred on calculations which show overloads, Eesti Energia is also aware of repeated occasions when due to conflicting allocation methods applied by Baltic TSOs, Estonian-Latvian interconnection has also experienced physical overloads.</p> <p>We can of course always discuss whether Baltic electricity markets should become more integrated with the third countries electricity markets (as Lithuanian TSO is arguing in the explanatory document) or deepen its integration with the EU common electricity market, but given the conflicting views of Latvian and Lithuanian TSOs regarding allocation of transfer capacities with the third countries, the proposed methodology for Baltic CCR can not fulfill the aims of CACM Regulation, which are stipulated in its Article 3. In order to make endorsement of Capacity Calculation Methodology for the Baltic CCR feasible, the Baltic TSOs need to work out the capacity calculation methodology for interconnections between Baltic countries and UPS/IPS, which would effectively role out appearance of operational security issues inside of Baltic CCR (on the border between Estonia and Latvia). This requirement has so far not been met.</p> <p>With reference to the above-described issues, we are proposing the following: Given the amount of financial support, the Baltic countries have received for constructing new cross-border interconnectors (Estlink2, LitPol Link, NordBalt, ongoing construction of third interconnector between Estonia and Latvia), clear preference should be given for cross-border trade between the EU Member States. Cross-border transfer capacities with the third countries should be allocated to the market only in case it will not cause operational security issues for the trade between the EU Member States.</p>	<p>NRAs are discussing the issue, and Baltic TSOs have not yet received guidance on Capacity calculation methodology on the Baltic borders with 3rd countries. Baltic TSOs continue developing the separate Baltic – 3rd countries methodology and further progress may be anticipated as guidance from Baltic NRAs shall be made available.</p>
<p>2. The Baltic countries shall focus on establishing common and coordinated transmission model.</p> <p>According to EC Regulation No 714/2009 Annex 1 point 3.5, Transmission System Operators (TSOs) within the Baltic region shall coordinate all steps from capacity calculation to secure operation of the network with clear assignment of responsibility. Such coordination shall include in particular the use of common transmission model dealing efficiently with interdependent physical loop-flows and having regard to discrepancies between physical and commercial flows.</p> <p>Previous agreement between the Baltic TSOs in respect of capacity allocation on the borders with the third countries was signed in 2015. From 1 of March 2016 Lithuania unilaterally introduced the tariff (5,27 €/MWh) for the interconnection services for the export of electricity from Lithuania to the third countries (NJL tariff). The NJL tariff was allegedly meant to cover cross-border transmission costs, which are not covered through ITC mechanism. Lithuania claimed that new interconnections (NordBalt and LitPol Link) will lead to more costs not</p>	<p>Comments are noted.</p> <p>The consultation concerned the regional TSO proposal for the Capacity Calculation Methodology for the Baltic CCR, in accordance with Article 20 of CACM Regulation. The proposal covers the Baltic CCR Capacity Calculation Methodology, and NJL tariff is not part of the TSOs proposed methodology.</p>

<p>covered by ITC mechanism and therefore introduction of NJL tariff is necessary.</p> <p>Given the size of the NJL tariff, it is obvious that it is not only impacting commercial flows from Lithuania to the third countries but also the flows within the Baltic region. As the Baltic TSOs have agreed in 2015 not to allocate transfer capacity to the market on Estonian-Russian and Latvian-Russian borders, then the impact of NJL tariff to trade within the Baltic region should have been analysed prior its introduction, which was also pointed out by Latvian TSO but neglected by the Lithuanian regulator during the public consultation phase.</p> <p>One and half years have passed since the introduction of NJL tariff and not a single MWh has been traded from Lithuania to the third countries on market terms by the EU market participants. In spite of absence of any cost base, the Lithuanian regulator unilaterally adjusted the size of NJL tariff in the beginning of the year 2017 from 5,27 €/MWh to 5,23 €/MWh.</p> <p>Given the fact that no export transactions by the EU market participants from Lithuania to the third countries have been conducted since the introduction of NJL tariff but there are very significant import flows from the third countries to Lithuania (annually about 3,2 TWh) and off-the-market export flows from Kaliningrad region to Belarus, there is every reason to claim that there is no cost base (incurred costs of usage of interconnection services) for NJL tariff, this tariff does not fulfil its purpose and it is discriminatory towards the EU market participants.</p> <p>With reference to the above-described issues, we are proposing the following: The Baltic TSOs and national regulatory authorities (NRAs) should consider jointly whether the application of NJL tariff by Lithuania is in accordance with the principles of the agreement which was concluded by the Baltic TSOs in 2015. If the TSOs and NRAs should agree on application of respective tariff, this tariff should cover both, exports and imports, in order to avoid current discrimination of the EU market participants.</p>	
<p>3. Proposed Capacity Calculation Methodology for the Baltic CCR unduly restricts intraday trading between the Baltic countries.</p> <p>The last agreement which was concluded by the Baltic TSOs in respect of capacity calculation and allocation in 2015, contained point 6.6 according to which:</p> <p>if ATCEIbas EE->LV = 0 MW, then ATC in direction from Lithuania to Latvia is set 0 MW.</p>	<p>Comments are noted.</p> <p>Regarding intraday capacity calculation for LV-LT border in direction from Lithuania to Latvia, it should be noted, that new formula for LV-LT intraday capacity calculation was introduced. Proposed methodology foresee provision of</p>

This “by default” approach is removed from the currently proposed methodology but according to background information which Eesti Energia has obtained, Lithuanian and Latvian TSOs nevertheless are planning to continue with the same approach as previously, although the wording in new proposal is provided in a more ambiguous manner. Eesti Energia is of the opinion that application of such approach unduly restricts intraday trading between the Baltic countries.

Under the circumstances where:

- the transfer capacity between Sweden and Finland is fully exhausted or out of operation; and
- NordBalt cable between Sweden and Lithuania has been out of operation but comes to market in intraday timeframe; and
- there is significant intraday demand in Finnish bidding area which drives intraday demand and prices high also in Estonian bidding area; and
- even if ATCElbas EE->LV = 0 MW but there is unused capacity from Estonia to Finland and Estonian TSO is prepared to react on increased demand in Finland and Estonia, the proposed methodology does not enable to use power flows which are entering via NordBalt to Lithuania for satisfying increased demand in Estonia and Finland.

The described scenario was played out last time on 1 of August 2017 and this is not a single such occasion which has occurred.

With reference to the above-described issues, we are proposing the following:

CACM Regulation was introduced to enhance cross-border cooperation between the TSOs. So, we propose that TSOs would take advantage of this new and more detailed regulation by reacting swiftly and in coordinated manner to changing situations in the regional electricity markets and enabling efficient usage of available infrastructure for the benefit of consumers. Application of given “by default” approaches as stipulated in the agreement which was concluded by Baltic TSOs in 2015, is contradictory to aims of CACM Regulation. We propose, that the TSOs could consider, whether the proposed wording of the methodology could be adjusted or specified in order to avoid application of unnecessary “by

intraday capacities on LV-LT border in direction to Latvia not on the basis of commercial trade results on EE-LV border (as is in currently effective rules on capacity calculation within Baltic countries), but on planned physical power flow conditions on EE-LV border. It is expected that such approach will allow to increase intraday trading capacity in LV-LT border in direction from Lithuania to Latvia, but will also ensure secure operation of power system. Therefore it should be noted that mentioned “by default” approach”, which foreseen “automatic” provision of “0” ATC value for LV-LT border (in direction from Lithuania to Latvia) in case of commercial congestion on EE-LV border, will not be used if new proposed methodology is approved by NRAs and comes in force.

<p>default” approaches.</p>	
<p>4. Application of constraints by the Polish TSO unduly restricts cross-border trading between Poland and Lithuania, and between Poland and Sweden.</p> <p>We have with particular interest read the explanation of the Polish TSO regarding the reasoning for using allocation constraints. By application of central dispatch market model and thereby by bearing increased responsibility, the Polish TSO explained why sometimes implementation of allocation constraints is required.</p> <p>Given the fact the the Polish TSO has limited during every and each day the capacity of LitPol Link (and SwePol Link) in direction from Lithuania to Poland (and in direction from Sweden to Poland) to 0 MW during night hours (from 00.00 to 06.00, occasionally also until 09.00) and such practice continued since the start of normal operations of LitPol Link for 16 months in a row, we see considerable gap between the statement of the Polish TSO and reality in respect of application of allocation constraints. Therefore, the question remains whether Polish regulations and their application are in accordance with the EU regulations and, most importantly, enable to achieve the aims of the EU common electricity market in practice.</p> <p>This issue requires further attention and if required then adjustments in practices of the Polish TSO.</p> <p>For conclusion. Proposed Capacity Calculation Methodology for the Baltic CCR does not enable to fulfill the aims of CACM Regulation as allocation practices on the borders with the third countries clearly impact allocation practices in Baltic CCR and so far the Baltic TSOs have not been able to agree on methodology which would eliminate discrepancies between the two mentioned allocation methodologies. As long as this situation continues the Baltic NRAs should not endorse proposed Capacity Calculation Methodology for the Baltic CCR.</p> <p>There is also obvious need in the Baltic countries to focus on establishing common and coordinated transmission model, which would in the best possible way enable to take efficient use of available infrastructure. The Baltic countries have tried to resolve those issues for years but so far the results have been limited. Therefore, the countries could seek assistance from the EC Commission, in order to find way out of current deadlock.</p>	<p>Comments are noted.</p> <p>On June 1st, 2017 Polish TSO modified the practice of limiting transfer capacities in direction from Lithuania to Poland to zero during night hours to the value calculated according to the algorithm described in the explanatory document. These calculations are done on a daily basis and were introduced once relevant operational methodologies and IT tools were implemented in the framework of their continuous improvements. On top of the above on July 1st, 2017 Polish TSO together with Lithuanian and Swedish TSOs implemented so called virtual bidding zone PLA, which allows to combine allocation constraints on Polish interconnections with Sweden and Lithuania (see www.pse.pl/index.php?dzid=32&did=3422 for more information). This action shall be treated as a first step towards ultimate solution when allocation constraints are applied on all PL borders at the same time. The above both improvements allowed to offer transfer capacity in direction from Lithuania to Poland during night hours. Thus according to Polish TSO there is no gap between the algorithm described in the explanatory document (see figure 3) and the real practice in respect of application of allocation constraints on the Polish – Lithuanian and Polish – Swedish borders as the necessary adjustments in practices of Polish TSO have already been implemented.</p>

<p>Thank you for this clear and thorough proposal.</p> <p>We take this opportunity to note the following:</p> <p>According to §3 of the Explanatory document, the CCR regions (and borders) were defined in accordance with ACER decision, thus only including borders within EU Member States.</p> <p>As cross-border trade between the Baltics and our eastern neighbours is frequent and usually one-sided (import), it has significant impacts to the market participants in the Baltics (e.g. reducing available cross-border capacity). As the methodology under consultation does not cover 3rd countries, the market participants in the Baltics will not have a level playing field compared to entities operating in 3rd countries.</p> <p>We propose to use this momentum and the knowledge attained during the creation of this methodology to create a specific methodology for capacity calculation and allocation between the newly formed Baltic CCR and 3rd countries.</p> <p>If this is not possible, the TSOs and NRAs should make sure, that the existing system is utilized in a way that is fair to the market participants who are governed by EU law and have to abide by all the rules. The current methodology, in our understanding, does not address this issue.</p> <p>All the best and keep up with the good work!</p>	<p>Comments are noted.</p> <p>Baltic Capacity Calculation Region Transmission System Operators (Baltic CCR TSOs) acknowledge the need for the separate capacity calculation methodology for Baltic - 3rd countries borders. Baltic CCR TSOs started developing both methodologies (Capacity calculation methodology within the Baltic Capacity Calculation Region and Capacity calculation methodology on the Baltic borders with 3rd countries) in parallel with the aim to prepare both methodologies at the same time. However common decision on Capacity calculation methodology on the borders with 3rd countries was not reached among Baltic TSOs (Elering, AST and Litgrid) and therefore Baltic NRAs have been involved in methodology development process. At the moment the Baltic NRAs are discussing the issue, and Baltic TSOs have not yet received guidance on Capacity calculation methodology on the Baltic borders with 3rd countries. Baltic TSOs continue developing the separate Baltic – 3-rd countries methodology and further progress may be anticipated as guidance from Baltic NRAs shall be made available.</p>