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**EXPLANATORY NOTE FOR BALTIC BALANCING MARKET RULES
FOR PUBLIC CONSULTATION**

October 2020

DISCLAIMER This document is released on behalf of the transmission system operators (“TSOs”) of Baltic states solely for the purposes of public consultation on Baltic balancing market rules. This version is a draft proposal and does not constitute a firm, binding or definitive TSOs’ position on the content.

Introduction

Elering AS, AS AS “Augstsprieguma tīkls” and LITGRID AB “(hereinafter - Baltic TSOs) following a Regulation (EU) 2017/2195 of November 2017 establishing a guideline on electricity balancing (hereinafter - EB regulation) article 20 for implementation of European platform for the exchange of balancing energy from frequency restoration reserves with manual activation (hereinafter - MARI platform) have prepared Baltic balancing market rules which shall be implemented in order for Baltic states to implement requirements of EB regulation and join the MARI platform.

Baltic TSOs proposal for Baltic balancing market rules is submitted for public consultation for one month until November 7th.

Proposal

Baltic TSOs proposal for Baltic balancing market rules includes implementation of requirements of EB regulation for mFRR balancing energy exchange, including methodologies approved by ACER that are relevant for mFRR balancing energy market.

Baltic balancing market shall be integral part of European mFRR balancing energy market through MARI platform by applying standard mFRR balancing energy product characteristics and activation principles as defined in Implementation framework for the European platform for the exchange of balancing energy from frequency restoration reserves with manual activation in accordance with Article 20 of EB regulation.

Pricing of balancing energy bids activated by MARI platform shall be settled based on marginal pricing as further described in methodology for pricing balancing energy and cross-zonal capacity used for the exchange of balancing energy or operating the imbalance netting process in accordance with Article 30(1) of EB regulation.

Derogation

Baltic TSOs considering:

- a) that pursuant to article 20 (6) of EB regulation, European platform for the exchange of balancing energy from frequency restoration reserves with manual activation (MARI) shall be implemented, operated and used by all TSOs by 2022 Q3,
- b) published mFRR-Platform Accession roadmap, where Nordic TSOs and Polish TSOs expect joining to MARI platform later than expected go-live at 2022 Q3,
- c) Nordic balancing market roadmap, where Nordic TSOs plan to join MARI platform during period 2023-2024 Q3,
- d) current Baltic Balancing market cooperation level with Nordic balancing market, where available cross zonal capacities are used for balancing energy exchange and balancing energy exchange volumes from Nordic areas takes significant share in Baltic balancing market,
- e) significant part of Baltic mFRR balancing energy market is covered from neighbouring countries:

| | 2019 | 2020 until August |
|---|------|-------------------|
| Outside Baltics (Finland, Sweden, Poland) | 55% | 49% |
| Baltic states | 45% | 51% |

- f) that after joining the MARI platform TSOs shall use MARI platform to fulfill all their needs for balancing energy from the frequency restoration reserves with manual activation, thus mFRR cross border exchange might be possible only in emergency situations,

propose that Baltic States shall implement and join MARI platform at the same time with other transmission system operators in the region by latest 2024Q3 in order not to decrease the liquidity in Baltic balancing energy market and not decrease the cooperation level between balancing markets in the region.

Baltic TSOs foresee two possible go-live scenarios for joining MARI platform:

1. Earliest go-live. Baltic states would align and coordinate joining MARI platform with the first neighbouring areas ready to join MARI platform: either Poland or Nordic TSOs. Expected go-live date 2023 Q2-Q3 in accordance with MARI accession roadmap.
2. Go-live date aligned with Nordic TSOs. Baltic states would align and coordinate joining MARI platform with the Nordic TSOs. Expected go-live date 2023 Q3 – 2024 Q3 in accordance with derogation request of Nordic TSOs.

During public consultation Baltic TSOs expects to receive feedback from stakeholders regarding proposed go-live scenario for Baltic states joining to MARI platform.

Implementation

Baltic TSOs will evaluate the input received during public consultation and will prepare final proposal for Baltic balancing market rules to implement requirements of EB regulation and join the MARI platform until end of 2020.

According to proposed principles Baltic TSOs shall apply for the derogation request from article 20(6) of EB regulation in order to implement and join MARI platform in coordinated way in region following the agreed go-live scenario.

Baltic TSOs shall initiate development and implementation of methodology for cross-zonal capacity calculation for balancing timeframe on Baltic Capacity Calculation Region pursuant to Article 37.3 of EB regulation.

The Baltic Balancing market rules shall be implemented on the national level in Baltic States in due time to ensure Baltic states joining to MARI platform following the agreed go-live scenario.