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**Baltic TSOs request for derogation
from Article 53 (1) of Commission
Regulation (EU)
2017/2195 of 23 November 2017
establishing a guideline on
electricity balancing**

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Baltic TSOs, considering the following:

Whereas

- 1) Commission regulation (EU) 2017/2195 of 23 November 2017 establishing a guideline on electricity balancing (hereafter referred to as "EB GL") sets requirements for target balancing markets and settlement in European Union. According to Article 53 (1) of EB GL by three years after the entry into force of EB GL, all transmission system operators (hereafter referred to as "TSOs") shall apply the imbalance settlement period of 15 minutes in all scheduling areas while ensuring that all boundaries of market time unit shall coincide with boundaries of the imbalance settlement period.
- 2) According to Article 62 (1) of EB GL a regulatory authority in accordance with Article 37 of Directive 2009/72/EC of the European Parliament and of the Council of 13 July 2009 concerning common rules for the internal market in electricity and repealing Directive 2003/54/EC may, at the request of a TSO or at its own initiative, grant the relevant TSOs a derogation from one or more provisions of this Regulation in accordance with paragraphs 2 to 12. Furthermore, in accordance with Article 62 (2) of EB GL a TSO may request a derogation from the following requirements: "*(d) harmonization of the imbalance settlement period in Article 53(1)*".
- 3) According to Article 62 (5) of EB GL the request for derogation shall include the following information:
 - a) *the provisions from which a derogation is requested;*
 - b) *the requested derogation period;*
 - c) *a detailed plan and timeline specifying how to address and ensure the implementation of the concerned provisions of EB GL after expiration of the derogation period;*
 - d) *an assessment of the consequences of requested derogation on adjacent markets;*
 - e) *an assessment of the possible risks for the integration of balancing markets across Europe caused by the requested derogation.*
- 4) According to Article 62 (8) when assessing the request for derogation (..) the relevant regulatory authority shall consider the following aspects:
 - f) *the difficulties related to the implementation of the concerned provision or provisions;*
 - g) *the risks and the implications of the concerned provision or provisions, in terms of operational security;*
 - h) *the actions taken to facilitate the implementation of the concerned provision or provisions;*
 - i) *the impacts of non-implementation of the concerned provision or provisions, in terms of non-discrimination and competition with other European market participants, in particular as regards demand response and renewable energy sources;*
 - j) *the impacts on overall economic efficiency and smart grid infrastructure;*
 - k) *the impacts on other scheduling areas and overall consequences on the European market integration process.*

considering the criteria established in the EB GL for the requests for derogation and the following information, jointly submit request for derogation to the national regulatory authorities of Estonia, Latvia and Lithuania.

I Introduction

This document is request for derogation from obligation to implement 15-minute ISP until 18 December 2020 as described in Article 53 (1) of EB GL until the 31 December 2024 developed by Baltic TSOs in accordance with Article 62 (2) (d) of EB GL (hereafter referred to as "Derogation request").

Derogation request is developed taking account principles stipulated in the Article 62 (3) of EB GL saying that *"the derogation process shall be transparent, non-discriminatory, non-biased, well documented and based on a reasoned request"*.

According to Article 53 (1) of EB GL by three years after the entry into force of this Regulation, all TSOs shall apply the imbalance settlement period of 15 minutes in all scheduling areas while ensuring that all boundaries of market time unit shall coincide with boundaries of the imbalance settlement period. Since EB GL has entered into force on 18 December 2017, the deadline for implementation 15-minute imbalance settlement period (hereafter referred to as "ISP") is 18 December 2020.

In order to timely and properly implement 15-minute ISP, Baltic TSOs jointly developed Baltic 15-minute ISP implementation Concept Document, that initially envisaged the implementation of 15-minute ISP within the deadline set in Article 53 (1) of EB GL. After that Baltic TSOs carried out the public consultation on the Baltic 15-minute ISP implementation Concept Document from 10 May 2019 to 10 June 2019.

As mentioned before, the preliminary Concept Document aimed to implement 15-minute ISP on 1 December 2020. Feedback was received from 14 market participants, of which balance responsible parties (hereafter referred to as "BRPs"), distribution system operators (hereafter referred to as "DSOs") and balancing service providers (hereafter referred to as "BSPs") were represented. The majority of respondents submitted negative feedback to the Baltic TSOs preliminary Concept Document, outlining the following main aspects:

- the two-step approach for the transition to a shorter ISP seems impractical: step I of the proposal provides no added value when compared to existing arrangements, stakeholders do not see added value from proposed changes if it does not motivate self-balancing closer to real time and does not create signals and incentives for it;
- insufficient time to develop or make changes to IT systems in order to accommodate a shorter ISP including quality of measurement data and measuring resolution, stakeholders see IT implementation challenging and costly, need more time to prepare and allocate budget;
- potential reduction of liquidity of market products traded on the power exchange shorter than the existing 60-minute resolution taking into account the publicly available information¹, that Nordic TSOs have requested derogation to implement 15-minute ISP until 22 May 2022;
- differences in balancing product characteristics in the Baltic-Nordic balancing market, stakeholders indicate that changes to balancing market should not affect liquidity for Baltic-Nordic balancing market cooperation.

¹ See "Nordic Balancing model" homepage: <https://nordicbalancingmodel.net/nordic-tsos-15-minutes-balancing-period-from-22-may-2023/>

By evaluating the feedback from market participants, Baltic TSO's concluded, that 15-minute ISP implementation till 18 December 2020 is not possible.

II Reasons for derogation request

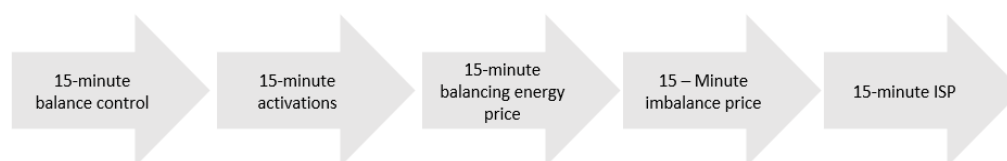
Requirements for proper 15-minute ISP implementation

According to Article 17 (1) of EB GL in real time each BRP shall strive to be balanced or help the power system to be balanced. Furthermore, it should be noted, that according to Article 44 (1) of EB GL and Article 6 (5) of Regulation (EU) 2019/943 of the European Parliament and of the Council of 5 June 2019 on the internal market for electricity (hereinafter referred to as "Regulation 2019/943") the settlement processes shall:

- 1) establish adequate economic signals which reflect the imbalance situation;
- 2) ensure that imbalances are settled at a price that reflects the real time value of energy;
- 3) provide incentives to BRPs to be in balance or help the system to restore its balance.

To comply with these requirements 15-minute ISP **must be implemented properly**. Proper 15-minute ISP implementation means, that occurred imbalance has been allocated and settled with BRP within the time frame of relevant ISP. Namely, imbalance settlement includes attribution of the imbalance to the relevant ISP and the calculation and application of imbalance price of the relevant ISP. Imbalance price calculation, as indicated above, must reflect the real time value of energy. Therefore, it should be linked to balancing energy price. According to Article 45 and 46 of EB GL balancing energy price calculation is based on the activated volume of balancing energy. The time frame for balancing energy activations is balance control period. In order to implement 15-minute ISP properly, described components shall be done in time frame, that does not exceed 15 minutes. If this is not ensured, implement 15-minute ISP concept does not comply with the requirements of Article 44 (1) of EB GL and Article 6 (5) of Regulation 2019/943.

Components for proper 15-minute ISP implementation



Since balancing energy activations in the Baltic balancing market are done in 60-minute time frame, there is only one balancing energy price for each 60 minutes. Balancing energy activations in the Baltic balancing market are related to balance control procedure, that currently is done in 60 minutes. Namely, currently Baltic States power systems work synchronously with the Russian combined (IPS / UPS) system, where Baltic TSOs have obligations to control balance within pre-defined limits within 60minute time frame. For this purpose, Baltic TSOs operates mFRR process with common Baltic mFRR balancing market and all balance discrepancies within 60 minute time frame are handled by Russian system operator. Financial settlement of total imbalance of Baltic States is handled between Baltic TSOs and open balance provider and relevant costs are included in the targeted component

for imbalance prices to ensure financial neutrality of TSO in accordance with common Baltic rules for imbalance settlement.. Until Baltic power systems will be synchronized with power system of continental Europe (hereinafter referred to as "Synchronization"), implementation of automatic FRR (hereinafter referred to as "aFRR") process and creation of aFRR market in Baltics before Synchronization is not necessary and justified. This means, that also balance control until Synchronization in the Baltics will be done in 60 minutes, and there will not be possible to determine different imbalance prices for shorter periods. This argument is also justified although after implementation of requirements of Article 21 of EB GL for joining MARI platform² activations will be done according to the 15 minute balancing market time unit and balancing price will be determined for each quarter of an hour, because imbalance price calculation until Synchronization will be based on balancing energy price of 60 minute timeframe and settlement with open balance service provider. Therefore, proper implementation of 15-minute ISP until 31 December 2024 is not possible.

Other actions for 15-minute ISP implementation.

After evaluation of all elements of current Baltic balancing market setup, Baltic TSOs concluded, that for 15-minute ISP implementation also following actions must be performed:

1. by joining MARI platform (and obligation under Article 20 of EB GL) following changes in Baltic balancing market shall be implemented:
 - 1.1. implementation of 15-minute balancing energy market time unit (hereinafter referred to as "MTU");
 - 1.2. implementation of standard manual frequency restoration reserve (hereinafter referred to as "mFRR") energy product;
 - 1.3. implementation of 15-minute settlement for BSPs;
 - 1.4. implementation of balancing energy pricing within 15-minute time frame;
 - 1.5. modification of the processes of BSPs (e.g. updates in production planning systems).
2. Baltic local developments and adaptation to ensure that all boundaries of MTU, such as intraday and day ahead MTUs, shall coincide with boundaries of the 15-minute ISP;
3. Development of relevant IT solutions of market participants (changes in data hubs and 15-minute metering) and modification of the processes of BRPs (e.g. updates in trading and balance management and production planning systems), that are necessary for metering data actual resolution in 15 minutes, collection, use and ensure the availability and proper usage of short-term electricity, including balancing.

Actions listed above are significant for 15-minute ISP implementation, but implementation of those actions without 15-minute balance control does not ensure proper implementation of 15-minute ISP. Since joining MARI platform requires to implement EB GL requirements for Baltic mFRR balancing market, including mFRR energy Standard product and 15-minute balancing MTU, Baltic TSOs are planning to implement them by the time when it is feasible for Baltics to join the MARI platform, which is expected not later than Q3 2024. Therefore, detailed roadmap specifying how to address and ensure the implementation of the concerned action to implement 15-minute ISP and relevant deadlines are included in Section IV of this Derogation request.

² MARI platform - European platform for the exchange of balancing energy from frequency restoration reserves with manual activation

III The provisions from which a derogation is requested and the requested derogation period (according to Article 62 (5) a) and b))

Baltic TSOs ask regulatory authorities to grant a derogation from obligation implement 15-minute ISP **until 18 December 2020**, as described in **Article 53 (1)** of EB GL, until the **31 December 2024**.

The deadline for granting the derogation is justified with the estimate of the time period, that is necessary to meet all requirement for proper implementation of 15-minute ISP. Namely, the last action, that will be taken to implement 15-minute ISP is organize Baltic total balance control in 15-minute time frame. As explained in Section I of this Derogation request Baltic total balance control in 15-minute time frame cannot be implemented before Synchronization, that according to Agreement on the conditions of the future interconnection of power system of Baltic States and power system of continental Europe shall be done until 31 December 2024.

IV Roadmap specifying how to address and ensure the implementation of the concerned provisions of EB GL after expiration of the derogation period (according to Article 62 (5) c))

Taking into account the implementation of MARI platform, which includes 15-minute mFRR balancing products and preparation for Synchronization, that requires introduction of aFRR processes, the proper implementation of 15-minute ISP in Baltics is foreseen to be done by completing 2 major milestones which corresponds to major changes to market participants:

Milestone 1 – joining MARI platform – changes in Baltic balancing setup shall be made according to the EB GL requirements concerning mFRR processes and for joining MARI platform and sequential implementation of related 15-minute data exchange capability on TSO-TSO, TSO-BRP and TSO-BSP business processes level;

Milestone 2 with target date Q4 2024 – a) introduction of aFRR processes in Baltics for preparation to Synchronization and sequential joining PICASSO platform; b) 15-minute ISP measurement data collection on DSOs level according to national legislation.

These milestones have been chosen to mark two most important preconditions for proper 15-minute ISP implementation:

- 1) finalization of 15-minute resolution implementation for data exchanges at TSO-TSO, TSO-BRP and TSO-BSP level (since MARI project implements overall data exchange standardization and 15-minute mFRR products), and
- 2) introduction of Baltic total balance control in 15-minute resolution, that is only possible after establishment of Baltic aFRR process.

Baltic total balance control in 15-minute resolution will be ensured as a result of establishment of Baltic aFRR processes by 31 December 2024. This is required by Agreement on the conditions of the future interconnection of power system of Baltic States and power system of continental Europe. It should be also noted, that implementation of aFRR process in Baltic states is required also by Article 2(2), 2(4) and Annex I of Commission Regulation (EU) 2017/1485 of 2 August 2017 establishing a guideline on electricity transmission system operation. Establishment of Baltic aFRR processes will also lead to Baltic TSOs obligation to

join PICASSO platform³ and create Baltic aFRR market, that is mandatory under Article 20 of EB GL.

Reaching these milestones will ensure that all elements of Baltic balancing setup and energy markets (Balancing and Intraday) **are in place for effective and self-balance motivating Baltic 15-minute ISP functioning**. More detailed roadmap is provided in Table 1.

Table 1 "Roadmap for 15-minute ISP implementation"

			2021				2022				2023				2024			
			Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Milestone 1	mFRR platform MARI	Derogation request submitted to NRAs																
		NRA approval																
		Amendment of standard terms and conditions for BSPs and BRPs																
		NRA approval of BSP and BRP TC*																
		IT implementation																
Expected go-live																		
Milestone 2	aFRR platform Picasso	Concept for Picasso implementation																
		Baltic balancing market rules amendment with aFRR balancing energy market																
		Amendment of standard terms and conditions for BSPs and BRPs																
		NRA approval of BSP and BRP TC**																
		IT implementation																
Expected go-live																		

For the implementation of 15-minute ISP following national regulatory authorities (hereinafter referred to as "NRA") decisions are expected:

1. Each NRA approval of national standard terms and conditions for BSPs and BRPs for joining MARI platform while introducing the changes as further described in Table 2.
2. Each NRA approval of national standard terms and conditions for BSPs and BRPs for joining PICASSO platform while introducing the changes as further described in Table 2.

Table 2 "Changes to the elements of the Baltic balancing setup and energy markets"

Market elements	Current situation	Expected changes and interrelation with milestones	
		Milestone 1	Milestone 2
BRP scheduling	60-minute resolution schedules Gate closure time (hereinafter referred to as "GCT") GCT 45 minutes before ISP (LV, LT) GCT 20 minutes before ISP (EE)	According to national BRP terms and conditions: - 15-minute schedules – LT and LV - 60-minute and 15-minute schedules - EE ⁴ GCT 25 minutes before ISP	
ID market	Established Single Intraday Coupling (XBID) allows trading with 15-minute intraday market products, but TSOs and nominated electricity market operator's (hereinafter referred to as "NEMOs") local systems and joint business processes shall be addressed	Baltic local developments and adaptation to ensure that all boundaries of market time unit (hereinafter referred to as MTU) shall coincide with boundaries of the ISP15	
mFRR Balancing market	<ul style="list-style-type: none"> • 60-minute products • Common merit order list for each 60 minutes • GCT 45 minutes before ISP • Full activation time 15 minutes • Marginal price for each 60- minute ISP 	Requirements as defined for European mFRR balancing energy platform	
Settlement for BSPs	60 minutes	15 minutes	

³ PICASSO platform - European platform for the exchange of balancing energy from frequency restoration reserves with automatic activation

⁴ EE TSO would enable for BRPs to submit balance plans according to market product resolution (1h or 15min).

Settlement for BRPs	Imbalance volume and imbalance price for 60 minutes	15 minutes Imbalance price methodology update to include European mFRR balancing energy standard product and pricing	15 minutes Imbalance price methodology update to include European aFRR balancing energy standard product and pricing
aFRR Balancing market	Not established	Requirements as defined for European aFRR balancing energy platform	
Balance control by TSOs	60 minutes	60 minutes	15 minutes
Metering data	60 minutes	15 minutes at TSO level At DSO level – according to national rules and regulations*	15 minutes at TSO level At DSO level – according to national rules and regulations*

* With the objective of implementing 15-minute ISP as a full package primary metering data in 15-minute resolution are needed. In order to have 15-minute resolution metering data the meters should be changed or reconfigured, if possible. Therefore, specific requirements to implement 15-minute resolution metering must be included in relevant amendments to the national legislation. Where, 15-minute metering data will not be available, technical solution to allocate 60-minute resolution data to relevant 15-minute ISP shall be in place (detailed information is included in the Baltic 15-minute imbalance settlement period implementation Concept Document after PC).

Detailed changes in day-ahead and intraday markets, balancing market, imbalance settlement and metering data allocation and 15-minute ISP implementation that are needed for the full implementation of 15-minute ISP are described in the Baltic 15-minute imbalance settlement period implementation Concept Document after public consultation. The derogation is requested only regarding 15-minute ISP, not market time unit, meaning that Baltic TSOs would implement 15-minute market time unit for intraday markets in cooperation with NEMO's by supporting the initiative of NEMO's.

V An assessment of the consequences of requested derogation on adjacent markets (according to Article 62 (5) d))

Currently balancing energy exchange between Baltic and Nordic TSOs is performed on bilateral agreements between Finish TSO and Elering for high-voltage direct current interconnections Eslink I and Estlink II, and Swedish TSO and Litgrid for high-voltage direct current interconnection NordBalt. Main principles on balancing energy exchange on these cross borders are harmonized and allows balancing energy exchange between Baltic-Nordic areas not only in emergency situations, but also for the purposes to utilize the most economical balancing resources for power system balancing. Meanwhile cooperation with Polish balancing market is done only in emergency situations.

Derogation from Article 53 (1) of EB GL regarding implementation of ISP 15 until 18 December 2020 will not affect established cooperation with Nordic and Polish balancing markets. Baltic, Nordic and Polish TSOs are participants of MARI project. Therefore, further development of Baltic, Nordic and Polish balancing markets is done according to requirements of Implementation framework for the European platform for the exchange of balancing energy from frequency restoration reserves with manual activation, that are basis for MARI project.

Any amendments of balancing energy exchange between Baltic and neighboring areas (Nordic, Poland) is foreseen in the framework of implementation of MARI platform, which shall be coordinated with all relevant parties. Baltic TSOs have intention to implement MARI platform in parallel with Nordic and Polish TSOs in order not to reduce the liquidity of the established cooperation of Baltic, Nordic and Polish balancing energy market as further described in Baltic TSOs proposal for the Baltic balancing market rules published in October 2020⁵.

VI An assessment of the possible risks for the integration of balancing markets across Europe caused by the requested derogation (according to Article 62 (5) e)).

The derogation from Article 53 (1) of EB GL until the 31 December 2024 will not cause any direct or indirect risk for integration of balancing markets across Europe.

No changes to Baltic balancing market setup will be made until joining MARI platform. Implementation of European mFRR balancing energy platform is foreseen as the first milestone of implementation of 15-minute ISP in Baltics, By joining MARI platform following changes will be implemented:

- implementation of 15-minute balancing energy MTU;
- implementation of standard mFRR energy product;
- implementation of 15-minute settlement for BSPs;
- implementation of balancing energy pricing within 15-minute time frame;
- modification of the processes of BSPs (e.g. updates in production planning systems).

Changes in the Baltic balancing market listed above can be implemented without implementing 15-minute ISP.

By reaching compliance with Article 21 (1) of EB GL Baltic TSOs are planning to ensure that Baltic mFRR balancing market is integral part of European mFRR balancing market by joining MARI platform when it is feasible - which is expected not later than Q3 2024.

Also, the derogation from Article 53 (1) of EB GL until the 31 December 2024 will not cause any direct or indirect risks for operational security as operational procedure of balancing market will comply with requirements of synchronous area. For the implementation of new operational procedures for aFRR and mFRR balancing energy market for the synchronization to Continental Europe power system the operational security requirements will be followed as defined in Commission Regulation 2017/1485 of 2 August 2017 establishing a guideline on electricity transmission system operation.

VI the impacts of non-implementation of the concerned provision or provisions, in terms of non-discrimination and competition with other European market participants (in particular as regards demand response and renewable energy sources) and the impacts on smart grid infrastructure (according to Article 62 (8) i) j))

The derogation from Article 53 (1) of EB GL until the 31 December 2024 should not negatively impact development of smart grid infrastructure since certain level of implementation of smart grid infrastructure is considered as precondition for the full implementation of 15-

⁵ <https://www.ast.lv/en/events/baltic-tsos-have-commonly-prepared-baltic-balancing-market-rules-operation-european-mfrr>

minute ISP. The current smart grid infrastructure in the Baltics has not been sufficiently developed. Namely, in order to have 15-minute resolution metering data the meters should be changed or reconfigured, if possible. Such changes have impact for all electricity grid users and especially distribution system operators, therefore specific requirement 15-minute resolution metering should be included in relevant amendments to the national legislation.

Complete implementation of 15-minute ISP is indirectly linked to the demand response development, but since 15-minute ISP later implementation, as previously mentioned, is not a cause of delay of development of smart grid infrastructure, the derogation from Article 53 (1) of EB GL until the 31 December 2024 will not negatively impact development of demand response in Baltic energy markets.

The derogation from Article 53 (1) of EB GL until the 31 December 2024 will not negatively impact usage of renewable energy sources.