

Notification on the use of market-based allocation of cross zonal capacity for the Baltic Balancing Capacity Market

4th November 2024

The Transmission System Operators (TSOs) of the Baltic Capacity Calculation Region (Baltic CCR); Elering AS, AS “Augstsprieguma tīkls” and Litgrid AB, expect to take the common Baltic market-based allocation process of cross-zonal capacity for the exchange of automated frequency restoration reserves (aFRR) and manual frequency restoration reserves (mFRR) balancing capacity into use on 4th of February 2025. The exact implementation date will be announced on local TSOs websites when approved.

The methodology for market-based allocated is approved by the national regulatory authorities (NRAs) of the Baltic CCR in September 2023 in accordance with article 41(1) of Commission Regulation (EU) 2017/2195 of 23. November 2017 (EB GL). The Baltic balancing capacity market clearing algorithm is a daily auction optimization that allocates cross zonal capacity and selects bids that meet the requirements for aFRR and mFRR at the lowest socio-economic cost. The aFRR and mFRR capacity market will have gate opening time at 00:00 EET (D-14), i.e., two weeks before delivery day. The gate closure time is set to 09:00 EET (D-1). The pricing is based on marginal pricing (pay-as-cleared). The Baltic TSOs expect to interchange between 200 MW and 400 MW of aFRR and mFRR combined on both Baltic internal border and both directions on average due to the cross-zonal FRR activation process when the market-based allocation process is taken into use.

The maximum volume of cross zonal capacity for exchange of balancing capacity is 50 % of cross-zonal capacity for each bidding zone border calculated for the day-ahead timeframe in accordance with the capacity calculation methodologies developed pursuant to Article 20(2) of the CACM Regulation. Hereafter the 50 % will be allocated between the aFRR capacity market and the mFRR capacity market. If the limit for the maximum volume of cross-zonal capacity allocated for the exchange of balancing capacity is not sufficient to satisfy TSO demand in a bidding zone, a TSO may increase the percentage limit on the relevant bidding zone borders for the relevant day-ahead market time units. The limit for the maximum volume of cross-zonal capacity allocated for the exchange of balancing capacity shall only be increased to the point until the TSO demand is satisfied and maximum up to 70% of the calculated cross- zonal capacity calculated for day ahead market timeframe.

The Baltic TSOs have identified that after synchronization with Continental European Synchronous Area (CESA) in February 2025, the only feasible way of fulfilling reserve procurement requirements as defined in Commission Regulation (EU) 2017/1485, is common procurement of balancing capacity with implementation of sharing of reserves and allocating cross-zonal capacity between the internal Baltic bidding zones for sharing of reserves. Not fulfilling reserve requirements in the Baltic bidding zones after synchronization with CESA may mean reduction of reference incidents (for instance, net transfer capacities of Baltic external HVDC links). Nevertheless, an assessment has been made by the Baltic TSOs to investigate the welfare loss for the day-ahead market from reduction of available trading capacity on the Baltic internal borders due to allocation of cross-zonal capacity for balancing capacity. This has been compared to the welfare gain of implementing the balancing capacity cooperation with sharing of reserves between the Baltic TSOs. The indicative net positive effect of the Baltic balancing capacity market is 470 million Euros per year.

The standard balancing capacity products which will be exchanged are aFRR in up and down regulation direction, and mFRR in up and down regulation direction. The first Gate Opening time

for the Baltic balancing capacity market will be the 21st of January 2024. The first Gate Closure time for the Baltic balancing capacity market will be the 4th of February 2025, and the first delivery date will be the 5th of February 2025.