



NordREG
Nordic Energy Regulators

A common Nordic platform for balancing services

Report 4/2007

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Preface

The Task 1 in NordREG work programme for 2007, is "A common Nordic Platform for Balancing Services". The aim of the task is to continue along the road towards the realisation of the vision of a common Nordic balance settlement, while taking into account that such an arrangement must be economically viable.

The Electricity Market Group has asked NordREG to specifically evaluate Nordel's suggestions regarding cost base, price model and the number of balances.

It is foreseen in the work programme that the work in the group will continue throughout the year.

The report has been prepared by the Balancing Working Group. The participants in the group are:

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1. Background

In March 2006, NordREG submitted the report “Development of a common Nordic balance settlement” to the Electricity Market Group. The report included a suggestion to evaluate progress and decide on further work in 2007.

At its meeting in Bodø September 2006, The Nordic energy ministers gave their support to the Electricity Market Group’s recommended action regarding a common Nordic balance settlement: *“NordREG is asked to continue its good work towards a common platform for the balancing settlement mechanism and take into account Nordel’s suggestions for a cost reallocation principle and the balancing pricing model.”*

The Electricity Market Group also noted that *“the process towards a platform for the balancing settlement mechanism should have a close connection with the work towards one end-user market.”*

In October 2006 NordREG had a meeting with the Electricity Market Group, it was then clarified that the Electricity Market Group wants NordREG to evaluate the Nordel proposals. In March 2007 NordREG delivered to the Electricity Market Group a status report on how the work was proceeding.

This report includes a more detailed evaluation of Nordel’s proposal. The report identifies laws and regulations that must be changed in order to implement Nordel’s suggestions including Elbas and a common gate closure.

2. Evaluation of Nordel's suggestions

The 7th of February 2007, Nordel announced a Board agreement regarding harmonisation of balance management. The agreement deals with the principles for cost allocation between balance and grid services as well as finding a harmonised Nordic model for calculation of imbalances and the pricing of balance power. The agreement covers:

- common principles for cost allocation
- one-price settlement for the consumption balance and two-price settlement for the production balance
- a common fee structure.

The Board agreement was based on the reports submitted to the Electricity Market Group in April 2006: *Balance Management – common principles for cost allocation and settlement*, and *Status of Nordel's work on Enhancing efficient functioning of the Nordic electricity market*. In the latter report Nordel points to the need for the access to an intra-day market in all the Nordic countries (Elbas) and for a common gate closure. This will give all players the same opportunities to plan themselves into balance closer to the operating hour.

NordREG finds it beneficial for the customers that a common integrated end-user electricity market is developed and that all end-users are able to take part in the Nordic market. A common Nordic balance settlement is one important part of such a change. In its report *Status report to Nordic Council of Ministers – "Elmarkedsgruppen"- A common Nordic Platform for balancing services*, March 2006, NordREG presented the following vision for the development of a common Nordic balance settlement:

The present different systems for balance settlement shall by the year 2010 be replaced by a common Nordic balance settlement.

This means that:

- *It will be possible for a supplier to sell to the whole Nordic market from one legal entity and using only one system for customer management and reporting.*
- *The common Nordic balance settlement will be designed in such a way that it contributes to a well functioning market. This means for example that it will be attractive even for small suppliers and some end-users to be balance responsible parties.*

It is clear that this vision cannot be attained in one single step – in the same report NordREG identified 11 major differences between the conditions regarding balance settlement in the Nordic countries. Nordel's agreement of the 7th of February 2007 addresses the differences that according to NordREG's report need to be harmonised in a first step, namely cost-base, number of balances and price model for imbalance payment. In its proposal Nordel indirectly addresses another important question for the first step raised by NordREG, namely the purpose of balance settlement.

The main *purpose of balance settlement* is for the TSOs to recover the cost of balancing services in the most efficient way taken into account both the needs of reliable supply of regulation power and the goal to enhance a well functioning market. This can theoretically be

done in different ways. In the *Directive 2003/54/EC concerning common rules for the internal market for electricity*, some principles are laid down. One important principle is that balancing tariffs shall be transparent, non-discriminatory and cost-reflective. Another, equally important principle is that appropriate incentives should be provided to balance in-put and off-take of electricity and not to endanger the system. Nordel's suggestion of a common Nordic gate closure (for production plans) close to the operational hour¹, will enhance the TSOs' process of keeping the momentary physical balance. The suggested gate closure open up for more players in the Nordic area to bid their remaining production resources into the regulation power market instead of keeping these resources for possible self-regulation into the operational hour. Thus, the suggested common gate closure will improve the overall balancing mechanism in the Nordic area.

In Nordel's agreement, incentives to balance planned and actual generation are provided by the two-price system for the production balance. The suppliers, especially if they have many small customers, face a challenge when trying to plan themselves into balance – most of their customers have the right to use as much or as little electricity as they want up to their connection limit. The one-price system for consumption will, according to interviews with customers, increase the interest from the customer side to be balance responsible and lead to more flexibility on the demand side in the countries that now have a two-price system for all power. This might improve the functioning of the market and also help the system.

The Nordel agreement means that the number of balances² applied will be harmonised. This will lead to a common Nordic definition of the concept of imbalance, which is important in creating a common Nordic market. The choice of two balances means that vertically integrated companies will not be able to "net" their imbalances and this means that suppliers without production capacity are not discriminated against. Nordel has not described in its February proposal how trade plans will be incorporated in production or consumption plans. There is a need for clarification regarding the treatment of trade plans and trade imbalances.

The goal of cost reflectiveness is mainly addressed in the proposal as a common cost base for balancing services. Basically, this goal means that the costs induced by balancing should be paid for by the balancing responsible parties and the costs caused by grid operation should be paid for through the grid tariff. Nordel has based its proposal on this principle. The most important question is how the power reserves should be recovered.

Cost base according to Nordel:

Administration of balance regulation and settlement (staff costs, IT-systems etc)
Automatically activated Frequency Controlled Normal Operation Reserves (100 %)
Automatically activated Frequency Controlled Disturbance Reserves (10 – 33 %)
Manually activated Fast Active Disturbance Reserves (10 – 33 %)

Nordel has acknowledged that there is not yet objective truth as to how the power reserves should be divided between grid and balancing purposes. The situation may differ between the countries, such that reserves are applied more commonly to grid problems in one country than in another which may justify some variation in cost of power reserves between grid and

¹ A time span between one to three hours and coordinated with the Elbas gate closure.

² Today, the number of balances calculated differs between the countries from one balance in Finland and Norway to three balances in Denmark and Sweden. This means that the concept of *imbalance* differs between the countries.

balancing responsible parties. Nordel suggests a transitional period of several years when each TSO can decide on the fraction between 10 and 33 % for automatically activated frequency controlled disturbance reserves and manually activated fast active disturbance reserves.

Conclusions

NordREG finds that the principles underlying the proposal of a common cost base are in line with the EU directive. The exact allocation of costs will be subject to the national approval process.

The EU directive states that the balancing tariffs should be transparent, cost-reflective and non-discriminatory. The fee structure should not favour companies that are vertically integrated over suppliers, traders or customers without production resources. While there will always be an advantage in being large, the fee structure should be designed in a way that does not add to this advantage.

The proposed model on imbalance pricing does not cover the total cost for balancing services. Nordel has not been explicit on how to recover these costs. It is important that these fees do not discriminate small companies. In order to strengthen the demand side, i.e. to encourage more suppliers, traders and customers to take balancing responsibility, it is important to follow the consequences of harmonised balance management for the retail market.

The process of harmonising the balance management will lead to changes in payments among market participants. In total, the new common system should not be more costly than the old systems. The regulatory authorities need more economic information to be able to assess whether the final fee structure is fair and does not create undue barriers to certain categories of players.

NordREG has mapped the processes that will be necessary to adapt rules and regulations to the new harmonised system. NordREG views this as an important step towards a truly integrated Nordic electricity market. NordREG is committed to take the steps necessary to make that vision come true.

NordREG views the different elements of the Nordel suggestions as part of the same package. NordREG is aware that in order to find a feasible solution the distribution of costs between players will have to change. This will benefit some players and lead to higher costs to other players as compared to present non-harmonised balance management. In total, though, it is expected that the efficiency of the Nordic market as a whole will improve.

In sum, NordREG finds that the principles agreed on by Nordel create a sound base for a harmonised Nordic balance management that has a potential to enhance the functioning of the Nordic market and also to strengthen the Nordic market in the Regional and European context. The details of the balancing system will have to be designed such that it makes it attractive for suppliers and customers to be balance responsible. The process of change for balance management will have to be modelled in close contact with the Regulatory Authorities according to the national legislation and regulations. In order to ensure a common Nordic approach, the national regulatory authorities will cooperate within NordREG.

3. Approval procedure of the balancing agreement and needed changes of laws and regulations

In order to smoothen the implementation process of Nordel's suggestions including implementation of Elbas and a common gate closure it is vital to clarify which amendments in laws and regulations that has to be done and the time span for such changes.

Below follow descriptions of each country's approval procedure of the balancing agreement and needed changes of laws and regulations.

3.1 Denmark

According to section 27 c in the Danish Electricity Supply Act (*Consolidated Act on Electricity Supply Act, no 1115, 8 November 2006*) balance responsible parties have to provide daily generation plans consumption plans and trading plans to the TSO (Energinet.dk). The TSO is obliged to set objective rules on balancing taking socioeconomic and environmental issues into consideration (*Section 27 c subsection 9*).

The balancing rules and criteria set by the TSO as well as changes in these rules have to be:

- made public to users and potential users of the coherent system (*Section 27 c subsection 10*)
- subject to an audition process of relevant stakeholders (*Section 27 c subsection 11*)
- notified to the national energy regulatory authority (*Section 27 c subsection 11*)

The gate closure is defined in the Danish Electricity Act as the Danish TSO before the day of operation of the next 24 hours is obliged to approve of generation consumption and trading forecasted and notified to the TSO (*Section 27 c subsection 3.*)

Finally, the nature of the imbalance and its payment mechanism is defined in the Electricity Supply Act (*Section 27 c subsection 8*)

The Danish Energy Regulatory Authority is entitled to change balancing rules and criteria, notified by the TSO. A regulatory decision to change notified balancing rules and criteria will be made out of considerations for transparency, objectivity and non-discrimination. Depending on the complexity of such issues, proposed changes in the balancing rules would require 3-9 months. Any appeal of such a regulatory decision would prolong the process further.

The minister for Transport and Energy is authorized to set detailed rules on balancing (*Section 27 d*) for security of supply reasons.

Changes of laws and regulations

The Nordel agreement operates with two types of balance responsibility - production and consumption balance responsibility. Presently, the Danish Electricity Act requires daily generation, consumption and trade plans. Thus, the proposed Nordel agreement with only two balances may imply changes/amendments to the Danish Electricity Act and the balancing rules.

As the gate closure of forecasted balancing plans are defined in the Electricity Supply Act and as the Nordel balancing agreement will imply a harmonised gate closure this section of the Danish Electricity Act will need adjustments.

Finally, it is foreseen that the definition of an imbalance and the mechanism of payment of an imbalance in the Electricity Supply Act (*Section 27 c subsection 8*) needs adjustments in order to comply with the Nordel agreement.

The expected time line for a change or amendments is difficult to assess. If the Danish Electricity Act is already in a change process due to other issues, the time line might be quite short. Alternatively 6 to 9 months. Any change in Danish Energy legislation usually requires support from the majority of the political parties of the Parliament.

3.2 Finland

The balance agreement includes the terms and conditions which are to be approved by the Energy Market Authority according to Electricity Market Act. When the TSO wants to change the balance service agreement and the related application instruction for balance service agreement, it will deliver the new version of the agreement to the Energy Market Authority and requests for the confirmation of the new agreement.

Before making a decision, the Energy Market Authority applies a consultation process in which it gives an opportunity to those parties to whom the decision will concern, i.e. balance responsible parties, to express their views and comments.

In a consultation process the normal hearing time is 2-3 weeks. Energy Market Authority requires also a sufficient time to study the proposal. Thus the whole approval process will take at least 2-3 months. If disagreements or negative comments from the balance responsible parties or disagreement between the TSO and the Authority exist, the approval process may take longer time than 2-3 months.

TSO may appeal Energy Market Authority's decision at Market Court. However, the Electricity Market Act states that the authorised conditions may be applied despite an appeal, unless the court of appeal decides otherwise.

In the approval process the Energy Market Authority will check, if the suggested balance service agreement is in accordance with the Electricity Market Act. The Electricity Market Act states that the terms and conditions of trade for balancing electricity shall be **equitable** and **non-discriminatory**. Furthermore the terms and conditions of trade for balancing electricity **shall not contain any conditions or limitations that would be unfounded or that would obviously restrict competition within electricity trade**.

The Electricity Market Act also states that the pricing of balancing electricity shall be reasonable. Presently and also during the next regulatory period (2008-2011) pricing of balancing services is supervised together with the TSO's other transmission services.

Changes of laws and regulations

The Electricity Market Act and Electricity Market Decree include provisions on balancing. The Electricity Market Decree also sets requirements on metering data. No changes in current legislation are required in order to implement Nordel's proposal.

In order to implement Nordel's proposal, the TSO should update the current balance service agreement and the related application instruction for balance service agreement. According to the Electricity Market Act, the Energy Market Authority has to confirm by its decision the terms and conditions of balance services and methods of pricing balance services before the TSO applies them.

The section 38 a on the Electricity Market Act refers: *“By its decision, the electricity market authority shall confirm... terms of the services under system responsibility of the grid operator subjected to the system responsibility and methods to determine the fees charged from the services.”*

In section 16 on the Electricity Market Act about the system responsibility it is stated that: *“In the electricity network licence, the electricity market authority orders one network operator to be responsible for the technical operation and reliability of Finnish power system and to discharge the duties involved in national balance responsibility in an appropriate manner that is equitable and non-discriminatory to all electricity market participants (system responsibility). The transmission system operator under the systems responsibility shall maintain and develop its activities and services within the system responsibility and maintain, operate and develop its electricity system and other equipment needed for fulfilling the system responsibility and the connection to other systems, so that the prerequisites for an efficiently functioning electricity market can be ensured.”*

Furthermore in section 16 a concerning national balance responsibility it is stated that: *“The terms of acquisition for electricity needed for maintaining national balance responsibility, and the terms of trade for balancing electricity, shall be equitable and non-discriminatory to all electricity market participants, and they shall not contain any conditions or limitations that would be unfounded or that would obviously restrict competition within electricity trade.*

However, these terms shall take account of the conditions necessitated by the reliability and efficiency of the electricity system. The pricing of balancing electricity shall be reasonable.”

3.3 Norway

Changes in the balancing agreement are not a subject for approval by the Norwegian Water Resources and Energy Directorate (NVE). NVE is, however, to be given any possible changes in the balancing agreement for review within reasonable time in advance. This means that if NVE has any objections against the possible changes, the Regulator can ensure that the appropriate amendments will be undertaken.

Changes of laws and regulations

In section 4-3 in the Energy Act it is stated that the entity with responsibility for balance settlement should provide correct settlement of all feeds into and taps from the grid so that “an economic balance in the power market is achieved”. The term economic balance is also utilized in the preparatory works of the act. The implementation of a two price model on production may thus require a change of the Energy Act.

The suggested solution to cost allocation implies that some proportion of the reserve costs is to be defined as a cost of the balancing settlement services, not only a cost of the system

operation activities as in the current legislation. This probably means a changes in the Energy Act, in Section 5A-1 (Responsibility for system operation) as well as the definition of the activities of the entity responsible for settlement, Section 4-3 (Metering, settlement and invoicing), which has to be extended to include responsibility for some proportion of the reserve costs, not only metering, settlement and invoicing services.

A change in the Act will probably take at least 6 months.

Regulations governing metering, settlement and coordinated action in connection with electricity trading and invoicing of network services is issued by NVE. In section 4-8 about fees it is stated that the entity with settlement responsibility can collect fees from the Balancing Responsible Parties, (BRPs), in order to “cover the costs of efficient operation” of the Balancing settlement service. If Nordel’s proposal on Balancing Settlement is to be implemented, this section would need a specification of the structure of the fees and what costs that are to be covered.

The suggested change in gate closure implies a change in the Regulations relating to the system responsibility in the power system in Section 8 (Bidding, production planning and output regulation). This Regulation is issued by NVE

The introduction of Elbas trade in Norway will, according to Statnett’s license for the Organisation of cross-border trade of Electricity, require an approval by the Ministry.

3.4 Sweden

According to chapter 8 paragraph 4 of the Electricity Act *“An electricity supplier may only supply power at points of output where someone has assumed the financial responsibility for ensuring that the input of power into the national electricity system is equal to the power supplied at the point of output (balance responsibility). Such an undertaking should be by agreement with the authority on which system responsibility rests.”*

According to the Balance agreement a balance responsible party must:

- plan for, and in a businesslike way achieve, an hourly balance between the supply and withdrawal of electricity,
- be registered at the National Tax Board to pay energy tax,
- be equipped with systems for electronic reporting via Ediel, in accordance with the TSO’s (Svenska Kraftnät’s), instructions, or enter into an agreement with a proxy who has such equipment,
- report the required information to Svenska Kraftnät’s Balance Service,
- undertake to scrutinise settlement data from Svenska Kraftnät,
- ensure that information received is dealt with as agreed,
- pay for the services Svenska Kraftnät performs for the company,
- observe the terms and conditions applicable to regulation under special operating conditions.

The agreement also describes management of the balance regulation, where companies with regulation resources can connect in order to make bids regarding the rapid upward or downward regulation of power stations. The TSO can then suborder these bids in order to subsequently be able to maintain the reliable operation of the power system.

The TSO as the system responsible authority is obliged to provide a standard Balance agreement. The TSO can not sign a balancing agreement until the methods used to draw up the conditions in the agreement have been approved by the Energy Markets Inspectorate. The Balance agreement is valid during one year³ (between the 1st of November to the 31st of October) and must after that be reviewed and approved by the Energy Markets Inspectorate. Svenska Kraftnät drafts a balance agreement and it is then being referred for consideration to the participants concerned. According to chapter 8 paragraph 4a of the Electricity Act the conditions in the Balance agreement shall be **objective** and **non-discriminatory**. The aim with *objectivity* is that the total fee is correctly divided between the balance responsible parties. This however does not imply that the division between the balance responsible parties must be equal but that the cost reflects the costs that the TSO has had for that actor. The aim with non-discriminatory is that a balance responsible party should not be treated better than another balance responsible party.

As said before, the TSO is not allowed to enter into an agreement with any balance responsible party before the methods used for the Balance agreement is approved by the Energy Markets Inspectorate. The Energy Markets Inspectorate scrutinizes the Balance agreement and views the comments from actors concerned in order to decide whether the agreement and methods used is objective and non-discriminatory. This approval procedure takes around 1 to 2 months.

After approving the Balance agreement the Energy Markets Inspectorate makes the announcement public through the five biggest Swedish news papers and on the Inspectorate's webpage. The TSO is also obliged to make the conditions in the agreement public and on request leave written information about the conditions. The Government or, by authorisation of the government, the Energy Markets Inspectorate may issue further instructions on how the conditions should be made public.

The appeal by the Energy Markets Inspectorate can be lodged with the administrative court.

Changes of laws and regulations

No changes have to be made in the Electricity Act in order implement Nordel's present suggestions. The legal base for Svenska Kraftnät as a TSO is constituted in the framework given in chapter eight of the Electricity Act. According to paragraph 11 "*The authority on which system responsibility rests shall be responsible for the balance settlement between those to whom balance responsibility has been assigned, in accordance with the instructions issued by the government, or, by authorisation of the government, by the authority.*"

Which has already been stated above the Electricity Act regulates the Balancing agreement. No changes in the Electricity Act are needed in order to make Nordel's proposal insofar as is known today possible. However in order to implement Nordel's proposal, the TSO should update the current balance agreement which must then be approved by the Energy Markets Inspectorate.

³ This has been so for practical reasons but is no binding rule.

3.5 Conclusions

Changes in legislation and legal provisions are needed in order to implement Nordel's suggestions including Elbas and a common gate closure in each country. The time span for those changes varies depending on the amount and the complexity of the amendments and the procedure of such changes. Political decisions are required in order to take the legislation forward.

Below follows a short summary of what changes that has to be done and the approximately time span for such changes.

	Denmark	Finland	Norway	Sweden
Changes in Laws	Electricity Supply Act	No	Electricity Act	No
Changes in Regulations	Yes	No	Regulations governing metering, settlement and coordinated action in connection with the electricity trading and invoicing of the network services	No
Changes in balancing agreements	Yes	Yes	Yes	Yes
Approximately time needed for changes in laws	6 to 9 months		6 months	
Approximately time needed for changes in regulations	6 months		6 months	
Approximately time needed for changes in balancing agreement	3 to 4 months	2 to 3 months		1 to 2 months

4. A coordinated NordREG approval and implementation procedure

Nordel's recent proposal contains

- a common agreement for the cost base for balance settlement – this is basically related to how to regard the costs of reserves
- a common pricing model for imbalances
- a common fee structure

The wider Nordel proposal of April 2006 also contains

- a common gate closure for changes in the plans submitted to the TSOs
- the introduction of Elbas in all the Nordic bidding areas

NordREG regards Nordel's proposals as part of a road map towards the vision of one common end-user market and the vision of one common balance settlement⁴. In this respect, NordREG sees it important to regard all the five bullet points as part of the same "package".

NordREG stated in its report 3/2006 that by 2010 the present different systems in the Nordic countries for balance settlement shall be replaced by a common Nordic balance settlement. The present Nordel agreement regarding harmonisation of balance management is only one step towards such a goal.

In its first report on common balance settlement in March 2006, NordREG pointed out a number of differences regarding balancing and balance settlement that will have to be further harmonised in order to reach the goal of a common Nordic Balance Settlement. They range from different metering and profiling rules, different requirements for the companies that choose to be balancing responsible, different requirements regarding deposits to cover financial risks and so on. These differences are not crucial for the first step until 2009, but in order to reach the full benefit of a common Nordic end-user market where suppliers can be active in all Nordic countries such differences create barriers.

The process to implement a common system for balancing services in the four Nordic countries requires actions from ministries and legislators, national regulatory authorities, NordREG, TSOs and Nordel.

Nordel has now initiated the process by reaching an agreement on the system and it has submitted its proposal to the Electricity Market Group and NordREG for review and analysis.

NordREG has analysed the principles and emphasises the importance to reach a common political view on the proposal by the Nordic energy ministers at the next ministerial meeting as amendments are needed in legislation in two countries, Denmark and Norway.

During 2007 NordREG will continue with the analysis of the cost base and criteria and publish the outcome of this work in a report that is due in December 2007. NordREG is also planning to arrange a workshop during the autumn together with the working group within

⁴ Here balance settlement is used to describe the whole issue of balancing, i.e. both balance management and the financial settlement after trade.

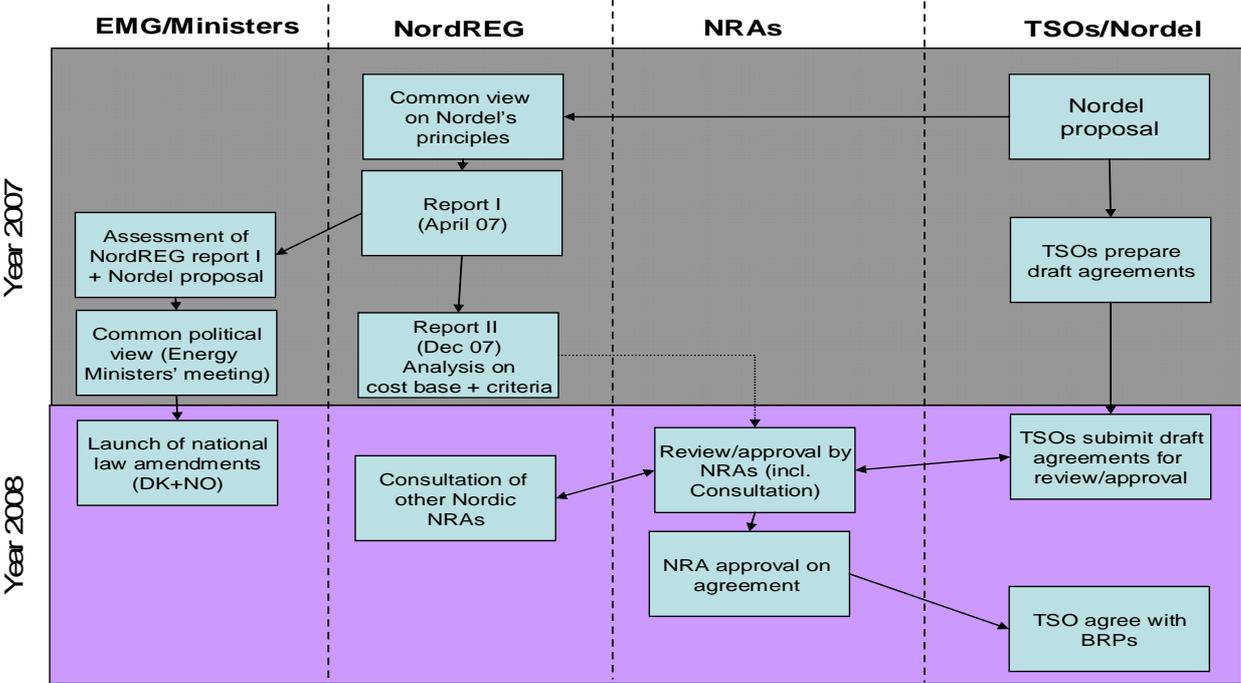
Nordel dealing with balancing, in order to look further into the practical and economical consequences for different players.

The December report will be an important element in the national regulatory authorities review and approval processes when the TSOs have submitted their draft balance agreements for ex ante approval to their regulatory authorities as required by the Electricity Directive.

The current Electricity Directive 2003/54/EC states in its Article 23 paragraph 2(b) that “The regulatory authorities shall be responsible for fixing or approving, prior to their entry into force, at least the methodologies used to calculate or establish the terms and conditions for the provision of balancing services.” Accordingly, an ex ante approval procedure is to be applied by the national regulatory authorities to approve the system for balancing services. As the system is a common one for the four Nordic countries, coordination and a common view is needed also from the national regulatory authorities who shall individually on the basis of their national mandate approve the system and the related draft agreements for each TSO.

It is foreseen that the TSOs submit the draft balance agreements for approval at the beginning of 2008 to allow the national regulatory authorities enough time for the approval process. The approval process will include a national consultation of relevant stakeholders in each country, and additionally, a consultation of the other national regulatory authorities to ensure a harmonised approach in all the four countries. Depending on the receipt of the applications the approval of the draft balance agreements should be finalised in late fall of 2008 to allow the TSOs to enter into new balance agreements which should be in force by the first of January 2009.

In the picture below the steps of a coordinated procedure to implement the Nordel proposal are envisaged.



5. Comments from the public consultation

General comments

Comments on the report have been received from The Finnish Energy Industries, Fortum, Nordel, Dansih Energy Association, Swedenergy and Vattenfall. These stakeholders all welcome the NordREG work towards a common balance settlement as this is a prerequisite for a common Nordic end-user market.

In addition to this Nordenergi and Danish Energy Association have given some general comments regarding the process, mainly suggesting some changes to the process of work in NordREG that would allow for better possibilities for stakeholders to express their views. The Danish Energy Association especially points out the wish to be included in the workshops planned for the fall. Further, the Danish Energy Association puts a great emphasis on the North European perspective. The EU-regulation should not be seen as being static, and it should be taken into account how the Nordic region can ensure that the rules on a Nordic level enforces the integration into the Internal European Energy market. The Danish Energy Association is concerned that a Nordic harmonisation will move the Nordic countries away from the terms and regulations in for example Germany, Poland and The Netherlands, which in this particular case will mean poorer competitive conditions for the Danish power producers. The Danish Energy Association has attached its comments to the hearing on the Nordel report.

Specific comments

The Finnish Energy industries stress the importance of the development of the intra-day market (Elbas) as a way for the actors to trade themselves in balance. They also, together with Swedenergy emphasise the link between balancing and peak load arrangements including pricing in extreme situations, and request that these issues are taken into account in NordREG's work.

The comments by the Danish Energy Association are related to the general concern that the harmonisation of balancing in the Nordic countries might mean competitive disadvantage in relation to especially Germany, Poland and The Netherlands. Specifically, the Danish Energy Association criticizes to two parts of the Nordel proposal, one being charging parts of the costs for reserves on the balancing responsible parties (now in Denmark financed by the net tariff), and the other the introduction of an extra consumer fee. Since many consumers have long term contracts, this leads to the need of at least a 3 year period from approval to implementation of changes.

Vattenfall and Fortum raise the issue of the regulatory role in creating a common Nordic retail market. Vattenfall says "our belief is that the leading role in this work has to be taken by the regulators, creating the institutional setting leading to the common Nordic retail market. In some regard the report is somewhat un-clear in what regard NordREG has mapped the processes, which these mapped processes are, and what NordREG's commitment in the creation of this should be". Fortum has raised the same issue, stressing the importance that the work related to changes in legislation and regulation is started as soon as possible.

Vattenfall also raises concerns regarding NordREG's "conclusion that especially small companies should be protected" and asks for further guidance from the regulators how the pricing mechanism should be constructed given the goals set up in the report.

Nordel comments that the complete integration of the balance management is probably not justified just on its own merit, without a fair expectation for a Nordic retail market. As to the retail integration, Nordel notes that 2010 seems optimistic. Nordel also regards it as optimistic to envisage that a complete harmonisation and integration of the balance management (settlement and control) by 2010. According to Nordel, it can even be questioned if further integration (after the first step by January 1, 2009) is justified on its own merits only. Nordel finds that Nordel and NordREG should coordinate the timeline for their projects regarding both balancing and a Nordic retail market.

Nordel also makes a clarification regarding how trade plans will be incorporated in production or consumer plans. Nordel notes that any trade imbalance will be part of the consumption imbalance. Further, Nordel mentions that they will present a complete fee structure in the beginning of the autumn. In consequence with the clarification regarding trade plans and imbalances, Nordel mentions that Energinet.dk does not share the view that changes in Danish law are a necessary precondition for the implementation envisaged for 2009. Finally, Nordel finds the timetable for the implementational/approval processes in the report too vague and would prefer a formal approval on principles by the end of 2007 and a final approval of the details by July 1, 2008. Nordel also has identified a need for extensive co-operation in the future.

The comments received in the public consultation will be taken into consideration in NordREGs further work regarding balancing.