

**Explanatory document concerning Fingrid Oyj's
proposal for the rules for suspension and restoration of
market activities in accordance with Article 36(1) and
rules for imbalance settlement and settlement of
balancing capacity and balancing energy in case of
suspension of market activities in accordance with
Article 39(1) of the Commission Regulation (EU)
2017/2196 of 24 November 2017 establishing a
network code on electricity emergency and restoration**

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1. Introduction

Commission Regulation (EU) 2017/2196 of 24 November 2017 establishing a network code on electricity emergency and restoration (“ER Regulation”) requires that each transmission system operator (“TSO”) develop rules for market interactions in emergency, blackout and restoration states of the transmission system. The proposal for such rules shall be submitted to relevant regulatory authority (“NRA”) for approval in accordance with Article 4(2) of ER regulation, and the approved rules shall be published.

This document is an explanatory document accompanying the Proposal from Fingrid Oyj (hereinafter “Fingrid”) for the rules for suspension and restoration of market activities in accordance with Article 36(1) of ER Regulation, and the rules for imbalance settlement and settlement of balancing capacity and balancing energy which shall be applicable for imbalance settlement periods during which the market activities were suspended in accordance with Article 39(1) of ER Regulation.

This explanatory document is structured as follows. The legal requirements for the Proposal are presented in Chapter 2. Chapter 3 provides a description of the selected approach regarding the rules for suspension and restoration of market activities and its justification. Chapter 4 presents the rules for imbalance settlement and settlement of balancing capacity and balancing energy in case of suspension of market activities. Finally, the timeline for implementation is provided in Chapter 5.

2. Legal obligations

Article 35

Article 35 of ER Regulation deals with the procedure for temporary suspension of market activities in specific system states, namely the emergency, blackout and restoration states.

According to Article 35(1), a TSO may suspend one or more market activities in situations where:

- (a) *the transmission system of the TSO is in blackout state; or*
- (b) *the TSO has exhausted all options provided by the market and the continuation of market activities under the emergency state would deteriorate one or more of the conditions referred to in Article 18(3) of Regulation (EU) 2017/1485; or*
- (c) *the continuation of market activities would decrease significantly the effectiveness of the restoration process to the normal or alert state; or*
- (d) *tools and communication means necessary for the TSOs to facilitate market activities are not available.*

As regards to which market activities may be suspended, Article 35(2) has the following content:

- (a) *the provision of cross zonal capacity for capacity allocation on the corresponding bidding zone borders for each market time unit where it is expected that the transmission system shall not be restored to the normal or alert state;*

- (b) the submission by a balancing service provider of balancing capacity and balancing energy bids;
- (c) the provision by a balance responsible party of a balanced position at the end of the day-ahead timeframe if required by the terms and conditions related to balancing;
- (d) the provision of modifications of the position of balance responsible parties;
- (e) the provision of schedules referred to in Article 111(1) and (2) of Regulation (EU) 2017/1485, and
- (f) other relevant market activities the suspension of which is deemed necessary to preserve and/or restore the system.

Article 36

Article 36 of ER Regulation defines the legal requirements concerning the rules for suspension and restoration of market activities.

First, Article 36(1) sets the timeline for developing the proposal concerning the rules for suspension and restoration of market activities as follows:

“By 18 December 2018, each TSO shall develop a proposal for rules concerning the suspension and restoration of market activities.”

In addition, according to Article 36 (3), the rules for suspension and restoration of market activities shall be compatible to the extent possible with:

- (a) the rules on provision of cross zonal capacity within the concerned capacity calculation regions;
- (b) the rules for submission by balancing service providers of balancing capacity and balancing energy bids resulting from arrangements with other TSOs for the coordination of balancing;
- (c) the rules for provision by balance responsible party of a balanced position at the end of day-ahead timeframe if required by the terms and conditions related to balancing;
- d) rules for provision of modifications of the position of balance responsible parties; and
- (e) the rules for provision of schedules referred to in Article 111(1) and (2) of Regulation (EU) 2017/1485.”

Furthermore, according to Article 36(4), each TSO shall convert the situations for which the suspension of market activities may apply into objectively defined parameters taking into account the following factors:

- (a) the percentage of load disconnection in the LFC area of the TSO corresponding to:
 - (i) the inability of a significant share of balancing responsible parties to maintain their balance; or
 - (ii) the necessity for the TSO not to follow the usual balancing processes to perform an efficient re-energisation;
- (b) the percentage of generation disconnection in the LFC area of the TSO corresponding to the inability of a significant share of balancing responsible parties to maintain their balance;

(c) the share and geographic distribution of unavailable transmission system elements corresponding to:

(i) the desynchronisation of a significant part of the LFC area rendering the usual balancing processes counterproductive; or

(ii) the reduction to zero of cross zonal capacity on a bidding zone border(s);

(d) the inability of the following affected entities to execute their market activities for reason(s) outside their control:

(i) balance responsible parties;

(ii) balancing service providers;

(iii) NEMOs and other entities assigned or delegated to execute market functions pursuant to Regulation (EU) 2015/1222;

(iv) transmission connected DSOs;

(e) the absence of properly functioning tools and communication means necessary to perform:

(i) the single day-ahead or intraday coupling or any explicit capacity allocation mechanism; or

(ii) the frequency restoration process; or

(iii) the reserve replacement process; or

(iv) the provision by balance responsible party of a balanced position in day ahead and the provision of change of its position; or

(v) the provision of schedules referred to in Article 111(1) and (2) of Regulation (EU) 2017/1485."

Article 37

Article 37 defines the requirements for the procedure to restore the market activities following the suspension pursuant to Article 35(1).

Article 38

The rules for suspension and restoration of market activities developed pursuant to Article 36 shall contain a communication procedure detailing the tasks and actions expected from different parties during the suspension and restoration of market activities in accordance with Article 38.

Article 39

Article 39(1) of ER Regulation sets a legal requirement to each TSO to develop a proposal concerning the rules for settlement in case of market suspension as follows:

"By 18 December 2018, each TSO shall develop a proposal for rules for imbalance settlement and settlement of balancing capacity and balancing energy which shall be applicable for imbalance

settlement periods during which the market activities were suspended. The TSO may propose the same rules it applies for normal operations.”

According to Article 39(3) of ER Regulation, the above rules shall:

- (a) ensure the financial neutrality of each TSO and relevant third party referred to in paragraph 1;
- (b) avoid distortions of incentives or counterproductive incentives to balance responsible parties, balance service providers and TSOs;
- (c) incentivise balance responsible parties to strive to be balanced or help the system to restore its balance;
- (d) avoid any financial penalties imposed on balance responsible parties and balancing service providers due to the execution of the actions requested by the TSO;
- (e) discourage TSOs from suspending market activities, unless strictly necessary, and incentivise TSOs to restore the market activities as soon as possible; and
- (f) incentivise balance service providers to offer services to the connecting TSO that helps restore the system to normal state.

3. Suspension of market activities

Fingrid proposes not to suspend market activities pursuant to Article 35(1) of ER Regulation. The reasoning is presented below.

Pursuant to Article 35(2) of ER Regulation following market activities may be suspended:

- (a) the provision of cross zonal capacity for capacity allocation on the corresponding bidding zone borders for each market time unit where it is expected that the transmission system shall not be restored to the normal or alert state

As regards to the single day-ahead coupling, Fingrid does not consider it necessary to temporarily suspend the provision of cross-zonal capacities concerning the Finnish bidding zone borders in situations referred to in Article 35(1) of the ER Regulation. Instead, Fingrid considers that Article 26(3) of Regulation (EU) 2015/1222 provides sufficient means to reduce the cross-zonal capacities regarding the Finnish bidding zone borders if needed for operational security reasons.

As regards to the provision of cross-zonal capacity to the single intraday coupling, Fingrid also considers it not necessary to suspend this market activity. However, the cross-zonal capacities that are used as input data for the single intraday coupling concerning the Finnish bidding zone borders may be reduced in accordance with 26(3) of Regulation (EU) 2015/1222. The reductions may apply for each market time unit for which it is foreseen that the system is not yet restored to normal or alert state.

Concerning the already allocated capacity, Article 72 of Regulation (EU) 2015/1222 stipulates that each TSO shall have the right to curtail allocated cross-zonal capacity in the event of *force majeure*. In addition, according to Article 16(2) of Regulation (EC) No 714/2009 curtailment may also be used in emergency situations where the TSO must act in an expeditious manner and re-dispatching or countertrading is not possible.

(b) the submission by a balancing service provider of balancing capacity and balancing energy bids;

Fingrid proposes not to suspend the submission of balancing capacity and balancing energy bids pursuant to Article 35(1) of ER Regulation. However, in situations referred to in Article 35(1) of ER Regulation, the balancing energy bids submitted in the Finnish bidding zone may be declared unavailable to other TSOs in accordance with Article 29(14) of Regulation (EU) 2017/2195 due to operational security constraints. In addition, the cross-zonal capacities concerning the Finnish bidding zone borders available for the exchange of balancing energy and imbalance netting in accordance with Article 37 of Regulation (EU) 2017/2195 may be reduced for reasons of operational security, similar to the reductions made pursuant to 26(3) of Regulation (EU) 2015/1222. This ensures that exchange of balancing energy or imbalance netting cannot be concluded using the Finnish bidding zone as the transit route in situations where the conditions of Article 35(1) of ER Regulation apply.

Where balancing service providers are unable to submit balancing capacity and balancing energy bids for reasons outside their control (e.g. *force majeure*), the consequences are as defined in the terms and conditions for balance service providers in accordance with Article 18(5)(k) of Regulation (EU) 2017/2195.

(c) the provision by a balance responsible party of a balanced position at the end of the day-ahead timeframe if required by the terms and conditions related to balancing

Fingrid does not require in the terms and conditions related to balancing developed pursuant to Article 18 of Regulation (EU) 2017/2195 that balance responsible parties provide a balanced position at the end of the day-ahead timeframe. Hence, the suspension of a market activity regarding the provision of a balanced position at the end of the day-ahead timeframe is not considered relevant as regards to Fingrid's proposal concerning the rules for suspension and restoration of market activities pursuant to Article 36(1) of ER Regulation to be applied in the Finnish bidding zone.

(d) the provision of modifications of the position of balance responsible parties

The provision of modifications in this context is interpreted to refer to modifying the balanced position provided at the end of the day-ahead timeframe. Since Fingrid does not require the provision of a balanced position at the end of the day-ahead timeframe, the above Article 35(2)(d) of ER Regulation is considered not relevant as regards to Fingrid's proposal concerning the rules for suspension and restoration of market activities pursuant to Article 36(1) of ER Regulation.

(e) the provision of schedules referred to in Article 111(1) and (2) of Regulation (EU) 2017/1485

Fingrid proposes not to suspend the provision of schedules (e.g. the production plans) in situations referred to in Article 35(1) of ER Regulation. Instead, Fingrid would like to continue receiving information from market participants to the extent possible also in these situations. At the same time it is, however, acknowledged that the provision of information by market participants may be affected by reasons outside their control during emergency, blackout and restoration states. In case of non-compliance, the consequences are as defined in national terms and conditions for balance responsible parties in accordance with Article 18(6)(i) of Regulation (EU) 2017/2195.

(f) other relevant market activities the suspension of which is deemed necessary to preserve and/or restore the system

No other relevant market activities that are deemed necessary to suspend in situations referred to in Article 35(1) of ER Regulation have been identified.

4. Imbalance settlement and settlement of balancing energy

Article 39(1) sets the legal requirement to Fingrid to develop a proposal concerning the rules for imbalance settlement and settlement of balancing capacity and balancing energy during periods when market activities are suspended. As Fingrid does not propose to suspend market activities pursuant to Article 35(1) of ER Regulation, it follows that no specific rules for imbalance settlement and settlement of balancing energy can be proposed either.

Notwithstanding that Fingrid proposes not to suspend market activities in situations referred to in Article 35(1) of ER Regulation, it may use in these situations the system operator's authority granted on the basis of 45 § of the Finnish Electricity Market Act (588/2013) and Regulation (635/2013) of the Ministry of Employment and Economy thereof. In particular, 9 § of the said Regulation stipulates that the system operator has the right to give instructions to electricity producers and consumers in situations where operational security is threatened. On the basis of this national legislation, Fingrid has published general instructions on the management of serious disturbances ([Sähköjärjestelmän vakavien häiriöiden selvittämisen yleisohje-KH40000](#), [in Finnish]).

Regarding the rules for settlement concerning situations where Fingrid has instructed the production or consumption of electricity, the above general instructions published by Fingrid have the following content:

Activities performed [on the basis of Fingrid's instructions] have a direct impact on market participants' measured production or consumption and thereby their imbalances. No separate trades are concluded concerning such instructed changes in production or consumption. Compensations for the performed activities are taken into account as part of the imbalance settlement.

This principle applies also to situations referred to in Article 35(1) of ER Regulation.

5. Implementation timeline

Fingrid's proposal for the rules for suspension and restoration of market activities in accordance with Article 36(1) of ER Regulation and the rules for imbalance settlement and settlement of balancing capacity and energy in accordance with Article 39(1) of ER Regulation is implemented immediately after it has been approved by the Finnish Energy Authority as the competent regulatory authority.