

Diana Welander

4 June 2024

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eSett's Customer Committee meeting 22.05.2024

Date 22.05.2024 14:00 EEST

Place Restaurant Svenska Klubben, Helsinki, Finland

Present	Kristian Lund Bernseter	Statnett SF
	Jani Piipponen	Fingrid Oyj
	Birger Fält	Svenska Kraftnät
	Bård Mageli (Spokesperson)	Volue Market Services AS
	Jarmo Lapakko	EPV Energia Oy
	Olli Taipale	Caruna
	Jesper Vestergaard	Danske Commodities
	Anders Millgaard	Modstrøm
	Lena Ingårda	Vattenfall AB
	David Lundgren (Deputy)	E.ON Elnät AB
	Minnakaisa Ahonen (Chairperson)	eSett Oy
	Diana Welander (Secretary)	eSett Oy
	Tuomas Lahti	eSett Oy
	Tuomas Pulkkinen	eSett Oy
	Tommy Gulin	eSett Oy
	Jonni Laine	eSett Oy
Absent	Karsten Feddersen (Member)	Energinet
	Trond Marthinsen (Deputy)	Lyse Produksjon AS
	Liv Marit Butveit (Deputy)	Volue Market Services AS
	Tarja Heinonen (Deputy)	Sallilan Energia
	Tom Backman (Deputy)	Fortum
	Naji Iskander (Deputy)	Modstrøm
	Jørn Klitgaard (Deputy)	Ørsted
	Håkan Eriksson (Member)	Ellevio
	Jonas Holmgren (Deputy)	Vattenfall AB
	Morten Torgalsbøen (Deputy)	Statnett SF
	Robert Thelander (Deputy)	Svenska kraftnät
	Heikki Raatikainen (Deputy)	Fingrid Oyj
	Preben Høj Larsen (Deputy)	Energinet

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1 **Opening the day, recap of the meeting minutes from the last Customer Committee meeting**

eSett CEO and Chairperson of the meeting Minnakaisa Ahonen opened the meeting and welcomed all Customer Committee members to the meeting that was held this time at Svenska Klubben in Helsinki.

As the Customer Committee spokesperson position rotates among the members, it was explained that a new spokesperson will be selected. The spokesperson is responsible for representing the Customer Committee in external communications and coordinating with eSett about the meeting agenda and topics. The nomination of the new spokesperson will happen at the end of the meeting, and volunteers can step forward during the meeting. The current spokesperson, Bård Mageli, was thanked for his work and contribution.

It was agreed that the next meeting in the fall will be held on 9.10.2024. This will be a Teams meeting and both members and deputies can join.

All members had an opportunity to say their greetings and mention their expectations of the upcoming meeting before the actual agenda started.

The meeting minutes from the last Customer Committee meeting were approved without any comments or revisions.

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2 eSett News

Diana Welander started her presentation by highlighting the successful implementation of various initiatives and projects that have been implemented since the last Customer Committee meeting. Several go live events in Sweden were mentioned, including eSett taking over the invoicing of aFRR and FCR capacity as well as mFRR capacity, 15-minute ISP reporting, as well as the calculation and invoicing of reconciliation settlement being moved to eSett from Svenska kraftnät. Another project during last year was the commissioning of the Viking Link interconnector for electricity markets.

The agenda proceeded to outline the events scheduled for year 2024, including the 15 min ISP reporting in Norway, the BSP Go live in Sweden, the PICASSO project, the CSM Portal launch, the merged production in Sweden, and Statnett's transition to eSett for Capacity settlement starting with mFRR.

The participation in the nationwide cybersecurity exercise TIETO24 was highlighted, emphasizing eSett's commitment to enhancing its incident management capabilities and leadership in cybersecurity. In addition to this nationwide exercise, many internal and external continuity exercises were conducted during last year and the topic is seen as one important focus area at eSett.

The presentation further delved into the transition to the New Cash Account Model, with nine banks having successfully transitioned and others like DNB, SEB, and Danske Bank either fully onboard or in the process of updating the agreements with their customers. The number of non-Nordic market participants involved in settlement operations is increasing, leading to also Central European banks showing interest in becoming settlement banks. Notably, Oesterreichische Kontrollbank AG (OeKB) has already completed the process and is currently accepting Austrian and German clients.

The continuous growth of Balancing responsible parties in operations was also a point of focus, with a detailed graph showing the number of registered BRP Branches per country over several years. Due to the growing number of BRPs and the adoption of the BSP model, leading to an increase in BSPs, eSett has decided to introduce a self-service portal. This portal will allow customers to log in and view their own Customer cases at eSett. Additionally, the current Excel-based BSP/BRP onboarding process will be transitioned to an automated service management system within the portal.

The presentation continued with a project overview of the Data exchange solution, emphasizing the aim to create a roadmap for eSett's next-generation data exchange solution that is modern, customer-centric, and harmonizes APIs

The presentation concluded with an update on Merged Production, which was implemented in Sweden from 1st of April 2024. The transition to Merged Production was relatively smooth, despite some initial challenges with the MEPI messages and a small issue in the system due to the summertime change. Statistics on the status of Merged Production as of May 6, 2024, were also shared.

Some participants raised the issue of data control and quality check and expressed their concern that if a DSO reports outliers or incorrect values, there should be some mechanism to detect and remove the data from the settlement system. eSett asked them to send some examples of problematic data to be investigated further.

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3 Independent aggregator – draft model and project status

Tuomas Pulkkinen initiated his presentation with a disclaimer, emphasizing that the independent aggregator model is still in draft form and there are numerous unresolved questions regarding compensation and regulatory imbalances across various countries, with no universally applicable regulations in place. It was acknowledged that the components presented would likely be implemented gradually, with certain elements not being ready for the initial phase and the potential for changes during and after the project.

The Independent Aggregator was described as a Balancing Service Provider (BSP) that activates resources from another supplier or BRP without explicit agreement, providing imbalance adjustment and compensation for the BRP. Tuomas explained that the model's development is ongoing with all TSOs and eSett, with a phased rollout planned for each country and balancing service. For example, an Independent Aggregator for aFRR energy in Finland is targeting a go-live around Q1 2025.

The planned process for imbalance adjustment and compensation with the independent aggregator model was detailed, along with planned changes in NBS structures. It was highlighted that one company could have multiple BSP roles in one country, and Regulation Objects (RO) would support relations to multiple BRPs regarding reserves and multiple REs. The possibility for BSPs to add and terminate RO-BRP and RO-RE relations was mentioned, with visibility for both BRP and RE on the Regulation Objects they are linked to.

A member raised a question about whether it would be the responsibility of the TSO to determine the compensation price. Tuomas clarified that there is a working group established to discuss this matter among others.

There was a brief discussion among members regarding the risks associated with BRPs needing real-time information about activations by independent aggregators. Tuomas acknowledged this as an identified risk, stating that eSett cannot address it directly as they do not handle real-time data. He mentioned that this issue falls under the responsibility of the TSOs to evaluate.

Tuomas proceeded with the presentation by outlining necessary changes in data exchange, introducing a new incoming data flow named Delivered Reserves (DERI), and multiple outgoing data flows for Delivered Reserves, Reserve Compensations, and Regulation Imbalances. He also discussed changes in input data, which were described as similar to Activated Reserves but without specific amounts.

The presentation included settlement views for verifying reserve data and calculations with independent aggregation. An invoice example was provided, outlining a draft plan for invoice products for BRP and/or BSP.

Regarding the project schedule, it was indicated that eSett aims to have the basic solution ready by Q1/2025, with support for all main features for the aFRR energy go-live in Finland and an external testing phase planned before the go-live. Tuomas emphasized that development will continue beyond this date, including the introduction of new balancing services and expansion into additional countries, potentially incorporating new national features.



Minutes

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The presentation concluded with an overview of the responsibilities associated with the new model.

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4 eSett – Review collateral management workshop

This agenda item was facilitated by consultants from PwC. The session encompassed an introduction to the ongoing study, group discussions, presentations of findings, and open dialogue, concluding with a recap highlighting key insights and outlining next steps.

The workshop began with a comprehensive review of the general counterparty risk management. The consultant from PwC led the discussion, offering an insightful analysis of the framework and its impact. The consultant outlined five key needs that should be addressed for effective collateral management. These include market quality, capital efficiency and risk management, cost efficiency, value capture as well as robust and light-tough operations.

The consultant continued by highlighting some key takeaways from the Committee Members' interviews that have been done in the study so far. These interviews served as a base to indicate three key takeaways to be further discussed by the members of the Customer Committee.

Observations from market participant interviews:

- The formula for collateral calculation is not uniformly used across the Nordics
- Variation margin used in Sweden, Norway and Finland (calculation by standard formula)
- In Denmark fixed amount to enter the market as a BRP
- Counterparty risks are not included i.e. the financial stability of market participants
- The formula only takes into account the trading volumes and consumption, not the production or the assets of a company
- Diversified portfolio and/or operation across Nordics is not taken into account

Having one common collateral management model and formula would create consistency for BRPs operating across Nordics and enable operational benefits.

Furthermore, high and/or rapidly increasing collateral requirements can create problems for BRP's

- Ability to cover requirements for large collateral requirements within a tight schedule can be problem for banks and BRP's
- Collateral limits (on-demand guarantees) banks have granted for their customers will reduce the overall limits for each customer

The workshop focused on three topics: capital efficiency and risk management, cost efficiency, and robust and light-touch operations. Each focus area was linked to a specific question that the workshop participants were asked to discuss in small groups.

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The consultant explained the objectives and expected outcomes of each group discussion, as well as the criteria and guidelines for evaluating the proposed solutions. The participants were divided into three groups, each assigned to one focus area. The groups were given 30 minutes to discuss their topic and prepare a presentation of their results. The consultant also provided some background information and data to support the discussions, such as the current collateral calculation formula, the frequency and duration of reporting and invoicing, and the default processes and procedures.

After the group discussions, each group presented their findings and proposed solutions to the rest of the participants. The consultant facilitated the feedback and discussion session, highlighting the main points and common themes. The questions and feedback from the participants are summarized below.

The questions were:

1. Capital efficiency and risk management - How to effectively reduce the overall risk in the market? – Workshop summary
 - The current model works well in a normal market situation but is challenging in extreme market situations (e.g. price shocks)
 - The price has high impact on the collateral and in price shocks the collateral increases rapidly which is in line with the counterparty risk
 - The main issue and risk for the BRPs is to raise big amounts of money within short notice to meet the collateral requirement
 - No harmonized collateral model at the moment
 - In Norway a default fund is in place in addition to the variation margin
 - In Denmark only a default fund / entry fee is in place

Ideas:

- The production could be netted with sales in the calculation of the collaterals. Although this was seen very difficult to implement in practice
- Credit rating information could be applied in the calculation of the collaterals
- The amount of collateral could be leveled out over a longer period (for instance the P-term could be average over the last 21 days) to increase the stability
- An entry fee collateral model could be introduced

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- The market situation could be considered during the calculation of the collaterals (e.g. combination of consumption and negative prices)
2. Cost efficiency – what are the biggest drivers for cost efficiency, and could they be influenced? – Workshop summary
- An easy and efficient data exchange with interface to eSett data warehouse via e.g. API's would be beneficial
 - More real-time data to allow faster decision-making and reaction
 - The proposed 'decrease reporting period from 13 to 9 days' could cause operational issues without increased automation and process harmonization
 - Harmonizing the reporting requirements between market areas would be beneficial
 - Unharmonized processes might lead to competitive differences and edges between market participants
 - It would be more efficient if bilateral corrections would be done by eSett
3. Robust and light-touch operations – Are there operational issues that could hurt trading capabilities and risk operational losses? – Workshop summary
- The notification process for collateral change could be improved. The email should contain the amount of the necessary change so BRPs can react quickly and don't have to check manually
 - An easy and efficient data exchange with interface to eSett data warehouse via e.g. API's would be beneficial
 - BRPs could check the amount of collateral demand with real-time data
 - In an extreme scenario a BRP may not be able to fulfill its obligations. Collaterals are required to cover risks arising from these scenarios. If there were no collaterals, an imbalanced BRP unable to meet its obligations would have to be transferred out of the market which could potentially have significant impact on the market.
 - The collateral requirement formula includes the coefficient m which describes how many future days are taken into account when the impact of imbalance is calculated. There are different views that for how many days the coefficient m should include. On the other hand, if eSett would do market monitoring and BRPs are available also during weekends, the coefficient m could be smaller than today

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The PwC consultants thanked the participants for their active involvement and valuable input. They summarized the main points of the workshop and informed everyone that they would continue developing recommendations for the collateral working group based on the interviews and discussions. A detailed report with insights will be provided to eSett.

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5 General market analysis and Open data

Due to time constraints, Tommy Gulin's general market analysis and open data presentation was canceled. The presentation slides and materials are available on eSett's website. Members and Deputies are encouraged to review them and send any questions or comments to eSett via email. This topic will be revisited with updated values at the next meeting.

6 Summary and next meeting

The next Customer Committee meeting is scheduled for October 9, 2024. This meeting will be a Teams meeting and both Customer committee members and deputies can participate.

Jesper Vestergaard was chosen as the new spokesperson for the Customer Committee and will attend eSett's Board meeting on 13.6.2024. Minnakaisa will send the invitation to Jesper.

The Chairperson thanked the Customer Committee members for active participation in the meeting and ended the meeting.

Attachments:

eSett News – Diana Welander

Independent aggregator – draft model and project status – Tuomas Pulkkinen

eSett – Review collateral management - PwC

General market analysis and Open data – Tommy Gulin

Distribution:

Customer Committee members and deputies