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**ACER Coordination Group for Electricity Regional
Initiatives**

ERI Quarterly Report #4

October 2012 – December 2012

A12-ERI-04

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1 Context

The entry into force of the Third Energy Package and the strong commitment of the Member States to complete the internal energy market by 2014 establishes a **firm regulatory, institutional and political background** for the completion of the internal energy market by 2014.

Nevertheless, 2014 remains an ambitious target date, which requires genuine commitment to the goal of integrating the regions into a single market area and the real mobilisation of stakeholders through the Regional Initiatives process which now falls under the responsibility of the Agency for the Cooperation of Energy Regulators (ACER).

To this end, the National Regulatory Authorities (NRAs) have produced, at the European Commission's request and coordinated by ACER, an **EU Energy Work Plan for 2011-2014** based on clear, commonly agreed objectives and milestones. This Work Plan was drafted on the basis of three important inputs:

- The AESAG (ACER Electricity Stakeholder Advisory Group) input prepared for the 20th Florence Forum in May 2011;
- The contributions of the seven electricity regions defined in Regulation (EC) No 714/2009;
- The draft Framework Guidelines on Capacity Allocation and Congestion Management (CACM).

The EU Energy Work Plan for 2011-2014 in Electricity is constituted from four cross-regional roadmaps focusing on the implementation of the target models for CACM across Europe and seven regional roadmaps complementing and detailing the cross-regional roadmaps and focusing on other important dimensions for the completion of the Internal Electricity Market.

2 Objective of the Quarterly Report

The objective of this Quarterly Report is to monitor progress in the implementation of the roadmaps and to ensure that any obstacle is well identified and can be tackled in the most effective and efficient way.

While the main focus of the Quarterly Reports will be on the implementation of the target models for CACM across Europe, a dedicated part will also review progress at regional level in other important areas of the market integration process.

3 Main insights from the 4th Quarterly report

The European Price Coupling project is further delayed

In addition to the delay in the European price coupling project reported in the 3rd Quarterly report, a new postponement was announced in the last quarter of 2012. This additional delay occurred due to the fact that final details of the solution had to be agreed upon and implemented simultaneously with the process of having change requests from both TSOs and PXs incorporated in the solution (e.g. algorithm, PMB...). In response to this, the Agency requested a more regular and detailed reporting from the project managers. Furthermore, a High-Level Meeting of all CEOs of the companies involved in the implementation process is convened for the 29th of January 2013. This meeting aims to provide a better understanding of the reasons behind the accumulated delay and to improve transparency of the process.

In order to meet the increasingly challenging 2014 target, more attention is placed on laying the grounds for extensions of the NWE price coupling to be implemented immediately after, if not simultaneously with, the project go-live. It is likely that the Baltic region will be covered by the NWE price coupling implicitly from the start, since full coverage of the Baltic region by Nord Pool Spot is planned to start in June 2013.

The tender process for the intraday platform has been finalised and launched

Following the PXs proposal to launch a tender to choose a solution to be implemented at the NWE and afterwards European level, the Agency, NRAs, TSOs and PXs met several times to prepare an efficient, timely and reliable process. The Agency, on request from the Florence Forum, accepted to be involved in the dispute resolution procedure. ENTSO-E coordinated the list of requirements for the selected solution to meet among the TSOs. In December 2012 PXs circulated the Request for Offers to all contenders.

The CEE FBMC project could be restarted following a bilateral TSO agreement

Late 2012, the Polish TSO, PSE-O and a German TSO, 50 Hertz, agreed to run a “virtual phase shifting transformer” on the border, a pilot project expected to start early 2013. The intention is to limit unplanned cross border flows from Germany to Poland. A similar agreement is considered for the Czech-German border. Such agreements could represent a breakthrough in the discussions on the implementation of the day-ahead target model in the CEE region.

4 Review of progress with implementation in each of the cross-regional projects

4.1 Implementation of a single European price market coupling model¹

4.1.1 Description of the project

The target model for the day-ahead timeframe is a European Price Coupling (EPC) model which simultaneously determines volumes and prices in all relevant zones, based on the marginal pricing principle.

Among the different elements of EPC, one of the most important is the choice of a single algorithm that meets the TSOs' requirements in terms of efficient allocation and can be approved by every Member State.

Another important element will be a common governance structure. In order to meet the 2014 deadline, implementation of EPC might have to start under interim governance arrangements until governance guidelines have been finalised.

The general approach to implementation of the target model across Europe relies on the following principles:

- ⇒ Focus on North-West Europe (NWE)² price coupling implementation by the end of 2012;
- ⇒ Adjacent borders may adopt the Price Coupling of Regions (PCR)³ algorithm in parallel and/or join NWE price coupling from the beginning if this does not delay overall progress towards EPC;
- ⇒ Common information level and flexible governance arrangements are necessary to ensure the smooth integration of additional borders.

BNetzA (DE), with the support of AEEG (IT), is co-leading the Single European Price Market Coupling project.

¹ The ACER cross-regional roadmap for the Single European Price Market Coupling Model is available on: http://www.acer.europa.eu/Electricity/Regional_initiatives/Cross_Regional_Roadmaps/Pages/1.-Market-Coupling.aspx

² North-West Europe comprises the CWE region, the Nordic market and Great Britain.

³ PCR is a project comprising six power exchanges: APX-ENDEX, Belpex, EPEX Spot, GME, Nordpool Spot and OMIE and is supported by EuroPEX.

4.1.2 Key milestones and accountabilities

2011	Q3	<p>1. ACER requests that:</p> <ul style="list-style-type: none"> ⇒ NWE (TSOs and PXs) define a very concrete proposal on flexible high-level interim governance arrangements for the NWE/PCR⁴ project, incl. a description of those borders for which differences in approach might be appropriate; ⇒ ENTSO-E validate the PCR algorithm starting point and reach agreement on one single algorithm with Europex; ⇒ Europex demonstrate the efficiency, manageability and reliability of the system design. <p>The NWE NRAs request the TSOs and PXs to prepare a detailed proposal regarding cost recovery for NWE costs.</p>
	Q4	<p>2. ENTSO-E sends algorithm requirements to Europex and assesses the PCR algorithm starting point.</p> <p>3. Europex demonstrates the efficiency, manageability and reliability of the system design to ACER and the NRAs.</p> <p>4. ENTSO-E and Europex propose cost-sharing between NWE and the non-NWE countries.</p>
2012	Q1	<p>5. ENTSO-E and Europex consult market participants on the PCR algorithm starting point as validated by ENTSO-E and report the outcome to ACER and the NRAs.</p> <p>6. NWE (TSOs and PXs) submit to ACER/NWE NRAs for review/validation:</p> <ul style="list-style-type: none"> ⇒ high-level interim governance arrangements for the NWE/PCR project; ⇒ a cost-recovery proposal for NWE costs. <p>7. ACER coordinates the NRAs' 'endorsement' (e.g. by means of a letter of comfort) of:</p> <ul style="list-style-type: none"> ⇒ the starting point of the PCR algorithm; ⇒ cost-sharing between NWE and non-NWE countries for the costs associated with development of the PCR algorithm; ⇒ flexible high-level interim governance arrangements for the NWE/PCR project. <p>8. All NRAs to:</p> <ul style="list-style-type: none"> ⇒ agree on a common, coordinated approval/review process for the algorithm; ⇒ involve MS where appropriate and necessary; ⇒ start national review processes (possibly consultation) in parallel.
	Q2	9. The NWE NRAs approve the cost recovery proposal regarding NWE costs.
	Q3	10. NRA approval/review of national specificities regarding the final algorithm; starting in NWE and the regions formally committed to join in 2012, this step is repeated for every additional border among the respective NRA/TSO/PXs.
	Q4	11. Final introduction of price coupling in NWE.
2013	Q1-Q4	12. Integration of the CEE and/or SWE borders into EPC (if not integrated into the NWE/PCR project from the beginning).
2014	Q1-Q4	13. Integration of the remaining CSE borders, FUI borders and Baltic borders into EPC.

⁴ The pilot project is deliberately defined as a NWE/PCR project to reflect the actual scope of cooperation of, respectively, TSOs and PXs.

4.1.3 Review of progress during this quarter

NWE NRAs received the 2nd Regulatory Report from the Joint TSO/PX Steering Committee (JSC) end of October 2012. The report covers details on the foreseen high level architecture, the shipping arrangements for the CWE-Nordic interconnectors, the operational procedures and governance. However, seemingly it did not cover all of the latest developments regarding the actual situation of the GB market. For the shipping on the GB interconnections to CWE as well as for GB hub internal shipping solutions have been agreed amongst parties concerned. However, contracts and details need to be elaborated.

For the IG meeting in December, TSOs could not deliver results of the impact assessment on the handling of losses in market coupling. Reason is the need to wait for the most appropriate release of the algorithm. It is planned to do simulations based on data for 2011 and to produce a report with the help of an external consultant preferably for the next IG meeting in February 2013.

Unforeseen developments lead to a further delay in the delivery of NWE price coupling beyond Q2 2013 which was later confirmed for a go-live end of October or early November. Already in the margins of the November Florence Forum some concerns were raised as regards a potential for such delay. Reasons for the delay mainly circle around final details of the solution, change requests from both TSOs and PXs and IT related issues.

In reaction to the repeated delay of the project for NWE price coupling, which by now may only start 10 months later than envisaged in the cross-regional roadmap; ACER sent a letter to the JSC and ENTSO-E end of November. ACER raises awareness for the importance of the NWE project for the 2014 target. Moreover, ACER asks for a more detailed planning to be presented at the December AESAG and for monthly reporting to project lead NRAs and ACER starting in January 2013 on the progress made against this schedule.

Additionally, in December ACER invited to a high level meeting to be held end of January to discuss reasons for the continued delay and to identify possible solutions. ACER considers that the accumulated delay in the launch of the pilot project reinforces the necessity of preparing the extension to neighbouring markets in order to reach the 2014 target.

In November 2012, TSOs and PXs of the SWE region signed a Cooperation Agreement on the following aspects: specify region specific pre- and post-coupling arrangements, analyse the changes to be made prior to the extension to the PCR pilot project and prepare for this move. Work on these deliverables has meanwhile started.

Also in November, Nord Pool Spot announced plans to launch a bidding area in Latvia 3 June, 2013. Final commitment to this introduction depends on approval of Latvian system operator, Augstsprieguma tīkls (AST), as an Independent System Operator by the EU Commission. As Nord Pool Spot already operates bidding areas in Lithuania (since 18 June 2012) and Estonia (since 2010), the Baltic Region would thus be fully covered already before the NWE go-live and be implicitly part of the NWE coupling right from the beginning.

In CSE region PPC project⁵ (Pre and Post coupling project) composed by TSOs and PXs, finalized a cooperation agreement and sent it to NRAs in the middle of January 2013.

⁵ The PPC project consists of a TSO group, the Italian Borders Working Table and PXs.

Two official spokespersons in charge of communicating with NRAs have been selected by PPC project, one from GME and another from Terna. A request for quotation to hire a project manager is going to be launched in next months.

On 16th of January a joint letter was sent by NRAs to PPC project asking for:

- A complete list of activities TSOs and PXs have to conduct for preparation and during the project (based on a first gap analysis);
- A more detailed road map proposal specifying activities, milestones and responsibilities for the Day-Ahead Market Coupling project. The proposed road map should contain also a path leading to the go live in Q1 2014 at least for those borders where shorter project duration seems feasible. The detailed timing steps shall then be discussed by the involved parties with NRAs.

The list of activities as well as the road map is expected to be delivered by the end of February.

Significant
 achievements during
 this quarter

19 October: In an AESAG meeting in Brussels NRAs reported that NWE TSOs have been asked to prepare an Impact Assessment regarding the handling of losses on DC cables in market coupling. This assessment will serve as an input to a common NRA position on this issue. However, requirements are put in place locally and therefore decisions will be taken by the relevant NRAs.

30 October: The NWE Joint TSO/PX Steering Committee forwarded their 2nd Regulatory Report to NWE NRAs. The report provides a more detailed description of the envisaged high level architecture, the shipping arrangements for the CWE-Nordic interconnectors, the operational procedures as well as the governance structure. The launch of the NWE price coupling is targeted for end of Q2 2013.

13 November: TSOs and PXs of SWE region signed a Cooperation Agreement on the following aspects: specify region specific pre- and post-coupling arrangements, analyse the changes to be made prior to the extension to the PCR pilot project and prepare for this move.

15 November: Nord Pool Spot announced plans to launch a bidding area in Latvia 3 June, 2013. Final commitment to this introduction depends on approval of Latvian system operator, Augstsprieguma tīkls (AST), as an Independent System Operator by the EU Commission. As Nord Pool Spot already operates bidding areas in Lithuania (since 18 June 2012) and Estonia (since 2010), the Baltic Region would thus be fully covered already before the NWE go-live and be implicitly part of the NWE coupling right from the beginning.

5 December: NWE CRCC in Copenhagen. NRAs discussed the 2nd Regulatory Report from the NWE JSC, handling of DC losses in market coupling and other potential requirements to be included in the algorithm.

5 December: NWE day-ahead IG meeting in Copenhagen. NWE TSOs and PXs reported that a further delay in the delivery of the NWE price coupling beyond Q2 2013 is expected. Reasons are among others difficulties to agree on final steps, change requests from TSOs (e.g. including LT nomination into ramping constraints) and PXs, software quality issues in the algorithm and PMB as well as difficulties installing local test environments. NRAs asked for a more detailed planning and more frequent monthly reporting about project progress. Moreover, it was stressed that for now it is of highest importance that a firm, reliable delivery date is to be decided.

17 December: In the CSE region the TSOs and PXs decided to finalize a cooperation agreement and to launch a request for quotation to hire a project manager. In order to reach full market coupling coverage of the region by the end of 2014, a phased approach for the different borders is foreseen. At least for the borders between Slovenia and Italy and France and Italy the go-live date will be set to Q1 2014.

18 December: AESAG meeting in Brussels. Based on the updated planning a new go-live date for NWE price coupling is foreseen for end

	of October/beginning of November 2013 only.
Obstacles or delays in implementation	A further delay for the launch of the NWE price coupling has become evident. Whereas the cross-regional roadmap foresaw a launch in Q4 2012 the current planning is around beginning of November. Procedural step 5 (ENTSO-E and Europex to consult market participants on the starting point algorithm), step 8 and step 10 following are still pending.
Potential divergences from the FG on CACM	No divergences identified so far.
Comments	

4.1.4 Action needed to overcome the identified constraint(s) or to address the potential divergence(s) from the FG on CACM

In order to overcome a continuation of delays of the project it is of utmost importance that NWE TSOs and PX commit all necessary resources and effort to meet the go-live date end of October / early November. Given the importance of this pilot project for the overall market integration process and the 2014 target, ACER asked for a monthly reporting to project lead NRAs and ACER about the progress against the planning starting in January 2013. In addition, ACER has convened all CEOs of the companies involved in the NWE pilot project to a High-Level Meeting on the 29th of January dedicated to limit further schedule revision and improve the transparency. The necessity of preparing the extension to neighbouring markets in order to reach the 2014 target will also be discussed and reinforced.

4.2 Implementation of a cross-border continuous intraday trading system across Europe⁶

4.2.1 Description of the project

The overall objective of the Intraday Cross-Regional Roadmap is to implement the Intraday Target Model on all borders in Europe by the end of 2014. The Intraday Target Model, as explained in the ACER CACM FG, is a development of continuous intraday trading, to include intraday capacity recalculation, capacity pricing reflecting congestion and the ability to trade sophisticated products.

Target model implementation will make it easier for market parties to trade electricity across borders close to gate closure and keep their positions in balance. The intraday timeframe is seen as increasingly important in the context of growing intermittent generation.

The Intraday Cross-Regional Roadmap envisages a phased approach to implementation, starting with implicit continuous trading which will then evolve to include intraday capacity recalculation, capacity pricing and the ability to trade sophisticated products.

Ofgem (UK) is leading the Single European Continuous Implicit Mechanism for the Cross-Border Intraday Project.

4.2.2 Key milestones and accountabilities⁷

The table below shows the key milestones and commitments identified in the Intraday Cross-Regional Roadmap for 2012 and beyond. Here we review progress in Q2 2012 towards these 2012 milestones. An explanation of how the 2012 milestones contribute to achieving the 2014 objective is provided in the Roadmap.

The northern European region, the CWE region and GB are participating in the TSO-led North-West Europe (NWE) project to introduce an implicit intraday solution on all borders by the end of 2012. The NWE region intraday project is seen as the European pilot project to implement the Intraday Target Model.

Additional projects have been established in the northern European region to implement an intraday solution on the SwePol Link (Q1 2012) and in the Baltic Region (2013), and in the FUI region to implement explicit intraday allocation on the SEM-GB border in Q3 2012.

For the CSE region, a project is already under way to introduce interim explicit access on all borders in Q2 2012. In Q4 2012, the CSE NRAs intend to consult stakeholders on a roadmap to implement the Intraday Target Model.

The CEE region has undertaken to explore options for implementing the target model in Q2 2012 and to decide on a preferred approach in Q3 2012.

⁶ The ACER cross-regional roadmap on continuous intraday trading is available at: http://www.acer.europa.eu/Electricity/Regional_initiatives/Cross_Regional_Roadmaps/Pages/2.-Cross-border-Intraday.aspx

⁷ So far, no project has been agreed upon for the Baltic Cable.

2011	Q3	1. The NWE TSOs, in cooperation with the NWE PXs, develop a detailed project proposal for implementation of an interim solution.
	Q4	2. The NWE region TSOs consult on the detailed project proposal with market parties. 3. The NWE TSOs, in cooperation with PXs, develop options for intraday capacity recalculation and pricing of intraday capacity. 4. The NWE NRAs develop a proposal for the governance structure for NWE ID. 5. The CEE region improves the existing capacity allocation mechanism. 6. Implement continuous intraday trading on the SwePol interconnector.
2012	Q1	7. Northern region to implement intraday trading on the NordNed interconnector 8. SWE region to identify the necessary systems and regulatory changes to implement continuous trading by Q4 2012. SW TSOs and PXs to become involved in the development of the CMM and SOB in Q1 2012.
	Q2	9. CSE region to implement an interim explicit allocation on all CSE region borders. CSE region will propose a roadmap to implement the intraday target model, which will take the NWE pilot project into consideration.
	Q3	10. FUI region to implement explicit allocation on the SEM-GB border 11. CEE region to propose a stepwise approach to implementing the intraday target model
	Q4	12. NWE intraday project to introduce an implicit intraday solution by the end of 2012, which will facilitate hub-to-hub trading. 13. SWE border implementation of an implicit intraday solution as part of the NWE project. 14. Exploring options for incorporating SEM into the NWE project to implement the intraday target model. 15. CEE region to decide on the preferred approach to implementation of the target model. The options for implementing the intraday project will be evaluated by the regulators and a solution will be decided upon in Q3 2012. 16. CSE region to check the proposed roadmap to implement the intraday target model for coherence with existing intraday projects and to submit it for consultation. Once the consultation is over, the NRAs will decide on and commit themselves to the necessary steps to implement the intraday target model.
2013		17. The NWE region PXs, in cooperation with the TSOs, to consult on options and specifications for sophisticated products.
	Q3	18. The CEE region will implement an intraday solution in line with the CACM FG and the NWE project.
	Q4	19. The NWE region to implement the intraday capacity recalculation. 20. The Baltic region to implement intraday trading based on the ELBAS model.
2014	Q1	21. The NWE region to implement capacity pricing.
	Q4	22. The NWE region to implement sophisticated products.

4.2.3 Review of progress during this quarter

4.2.3.1 Progress against milestones

There has been a significant delay in the NWE intraday project due to the failure of power exchanges to agree on the service provider for the intraday platform. As a result implementation of an NWE wide intraday platform will be delayed by at least a year.

Within the FUI region, after the implementation of an interim solution, the commercial operation of the East West Interconnector restarted on 21st of December 2012. A permanent solution is expected to be in place by the end of Q1 2013⁸.

4.2.3.2 Progress in the NWE Pilot Project

a) Background

This section reports on progress with the NWE Intraday Project within this quarter. At the Florence Forum in December 2010, the NWE TSOs announced the launch of the NWE Intraday Project to implement a common approach to intraday trading. In May 2011, the Florence Forum supported the continuation of both the NWE Intraday and Day-Ahead projects, to meet the target date of 2012.

Following a series of high-level meetings with the Commission and NRAs, ENTSO-E and Europex presented a joint proposal for the implementation of a common approach to intraday trading in the NWE region by the end of 2012 and pan-European implementation of the Intraday Target Model by the end of 2014 (the 'September proposal'). The September proposal was supported by the ACER Board of Regulators and incorporated into the ACER Intraday Cross-Regional Roadmap.

The December 2011 Florence Forum endorsed both the ACER Intraday Cross-Regional Roadmap and the September proposal and it welcomed the NRAs' formal commitment to the process.

b) Project objectives

The NWE project proposed is a phased approach to achieve the Intraday Target Model with the implementation of basic continuous trading in 2012, which will then evolve towards implementation of the Intraday Target Model by the end of 2014.

The September proposal confirmed that Europex and ENTSO-E were committed to the implementation of a pan-European cross-border intraday mechanism consisting of a Shared Order Book (SOB), performing continuous cross-border implicit intraday matching, and a Capacity Management Module (CMM), allocating cross-border intraday capacity in a continuous manner.

For the Interim Model, ENTSO-E and Europex proposed ELBAS as a starting point for the technical solution to be implemented on a border-by-border basis during 2012. This would allow continuous cross-border trading of standardised hourly products on a hub-to-hub basis. It would also allow for over-the-counter (OTC) access to cross-border capacity on some borders. ENTSO-E and Europex stated that the aim was to cover at least the NWE region by the end of 2012.

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<http://www.eirgrid.com/media/EirGrid%20East%20West%20Interconnector%20up%20and%20running.pdf>

In this quarterly report we focus on implementation of the Interim Model in 2012. However, it should be noted that NWE implementation of the interim model is seen as an important step towards the Intraday Target Model.

c) NWE progress

Following the developments of the 3rd quarter where six power exchanges (EPEX Spot, APX-ENDEX, Belpex, Nord Pool Spot, OTE, OMIE) proposed ACER to organise a tender process to select a service provider, on 19 October, a Request for Information (RfI) was published which initiated this tender process and described what they tendered for. The RfI is available here: <http://www.apxendex.com/press-releases/request-for-information-rfi-for-the-intraday-cross-border-solution/>

NWE regulators hosted an Implementation Group meeting on 25 October in London with an additional pre-meeting to inform European stakeholder associations of progress with the project. At the NWE meeting, NWE TSOs presented the final ENTSO-E requirements for the intraday platform and PXs presented details of their selection process and the criteria and requirements for the tender. Also, all NWE parties agreed on the process to select the intraday platform, including for ACER to provide an informal opinion in case PXs are unable to achieve consensus.

The Florence Forum on the 21 November welcomed the initiative by EUROPEX and PXs to organise a tender process for the necessary IT systems for the intraday platform. The Forum expressed concerns on the continued deadlock between PXs and called for a robust and timely dispute resolution procedure to be put in place with the involvement of ACER. The Forum reaffirmed the urgency of having the IT system for the interim solution in place by Q1 2013 and implemented soon after. The Commission explained that it is prepared to hand over the project to ENTSO-E should the deadlock situation continue.

On 5 December PXs sent their final functional and technical requirements to the potential platform providers that had met the pre-qualification requirements.

On 7 December, ACER sent a letter to PXs to confirm its willingness to issue an informal opinion that they should commit to follow in case a deadlock occurs. In addition, ACER gave four high-level criteria on which its opinion would be based.

On 21 December PXs sent the final Request for Offers (RfO) to the potential platform providers and confirmed the final timeline for their selection process.

Here below is the last communicated time schedule of the tender process.

Step	Deadline
FRs & TRs final draft distributed	5.12.2012
RFO distributed	21.12.2012
Deadline for Vendors to submit questions on the RFO to PXs	18.1.2013
Deadline for PXs to answer questions of Vendors on the RFO	25.1.2013
Deadline for receiving the Offers from Vendors	8.2.2013
Technical evaluation - Q&A sessions with Vendors, Technical shortlisting of Vendors + ENTSOE validation of the Technical evaluation against their technical requirements (subject to the final clarification with TSOs)	1.3.2013
Commercial evaluation phase: Q&A with shortlisted vendors	8.3.2013
General workshop evaluation sessions with vendors/ Final vendor selection and start of contract negotiations	30.3.2013

Notification of the result to ACER (final selection or escalation): 30 March 2013.

An overview of the service being tendered for by the six power exchanges and more information can be found in the [Request for Information](#).

Significant achievements during this quarter	<p>21 November: Endorsement by the Florence Forum of the organisation of a tender process for selecting the platform</p> <p>7 December: Confirmation of the ACER involvement in the dispute resolution process</p> <p>21 December: Sending of RfO to all contenders</p>
Obstacles or delays in implementation	The smooth continuation of the Intraday project is now tied up to a successful outcome of the PXs tendering process.
Potential divergences from the FG on CACM	
Comments	

4.2.4 Action needed to overcome the identified constraint(s) or to address the potential divergence(s) from the FG on CACM

NWE NRAs to elaborate and propose a process for the ACER non-binding opinion in coordination with ACER and non-NWE NRAs.

NWE NRAs to consider and agree on cost sharing principles for common and local implementation costs.

4.3 Improvement and harmonisation of the allocation and nomination rules for long and medium-term transmission rights⁹

4.3.1 Description of the project

The cross-regional roadmap reflects the main objectives of the CACM FG that set the target model. The objective is to give market participants an opportunity to hedge themselves against congestion costs and day-ahead congestion pricing, in a manner compatible with zone delimitation, through one single access point and a harmonised set of rules for long-term transmission rights, where financial markets do not enable them to do so in an efficient manner.

In order to achieve this objective, four areas of work have been identified:

1. Harmonisation of the allocation rules, since existing allocation rules may differ greatly among themselves and from the CACM FG. The CACM FG envisages a harmonised set of rules for borders where PTRs with UIOSI are applied, and a harmonised set of rules for borders where Financial Transmission Rights (FTRs) are applied.
2. Harmonisation of the allocation platform, as transmission rights today are allocated on different platforms. The CACM FG requires TSOs to implement a single platform (point of contact) at the European level.
3. Harmonisation of nomination procedures as the variety of procedures for using transmission rights may represent a barrier for some market players. As set out in the CACM FG, there should be greater harmonisation of nomination rules, deadlines and processes.
4. The implementation of FTRs may require a change in regulation. A dedicated ACER task force has been created in order to study this issue. Member States and regulators will have to assess this question carefully when deciding on the long-term transmission rights to be implemented.

CRE (FR) and EI (SE) are co-leading the European Platform for the Allocation of Long-Term Transmission Rights Project.

4.3.2 Key milestones and accountabilities

2011	Q3	1. Drafting of rules by the TSOs following NRA guidance (CWE+CSE+Switzerland).
	Q4	2. NRA approval for entry in force at the beginning of 2012 (CWE+CSE+Switzerland). Rules applying to the CWE region in line with CACM FG (in particular, firmness). 3. Assessment of the legal consequences of moving towards FTRs (would MiFID legislation be applicable and, if so, what would be the impact on the allocation platforms?) → ACER in coordination with ENTSO-E and stakeholders.
		4. The NRAs' to decide on the possibility of implementing Transmission

⁹ The ACER cross-regional roadmap for the European Platform for the Allocation of Long-Term Transmission Rights is available at:
http://www.acer.europa.eu/Electricity/Regional_initiatives/Cross_Regional_Roadmaps/Pages/3.-Long-Term-Transmission-Rights.aspx

2012	Q1	Rights on the Portuguese-Spanish (IPE) border (Q1 2012), in the northern region (within the NE region and between the NE region and others) (end of Q2 2012), and in the Baltic region (end of Q4 2012). 5. Depending on that decision, NE, NE – Continent, Baltic, IPE to join CASC.
	Q1-Q2	6. Benchmark for the current LT nomination procedures (ENTSO-E). 7. Impact assessment of the implementation of FTRs → ENTSO-E in co-operation with ACER.
	Q1-Q3	8. The NRAs compare existing auction rules in order to list the differences between them and in comparison with the CACM FG. Agreement on a common wish list for a single European set of allocation rules (this wish list to indicate requirements for FTRs and for PTRs). End of Q2 ACER will issue a public consultation document containing a wish list, an analysis/position on the different models for the LT hedging and nomination processes, with a view to delivering a common work plan.
	Q3-Q4	9. Definition of a wish list for the harmonisation of nomination rules based on the decision to move towards FTRs (ACER+ENTSO-E). 10. Agreement on an implementation schedule for this harmonisation (ACER+ENTSO-E). 11. Subject to the conclusions of the legal analysis and impact assessment, elaboration of a pan-European implementation schedule for the move towards FTRs → ENTSO-E and ACER, in close consultation with stakeholders.
	Q4	12. The TSOs draft new allocation rules in line with the common wish list agreed by the NRAs. The NRAs to follow this work closely. A dedicated ENTSO-E TF could be created to supervise this work.
2014	Q3-Q4	13. NRA approval of new allocation rules for entry in force at the beginning of 2014.

4.3.3 Review of progress during this quarter

The public consultation launched by ACER on Forward Risk Hedging Products & Harmonization of Long Term Capacity Allocation Rules ended on 28 October. During the 4th Quarter ACER Task Force on Long-Term Transmission Rights has drafted an evaluation of responses to the public consultation. The final version of the evaluation of responses will be published in early 2013.

ACER “wish-list” for further harmonization of auction rules for Long-Term Transmission Rights will also be updated. According to the cross-regional roadmap ENTSO-E will have to draft the common set of rules by Q2 2013, in close cooperation with stakeholders. This set of rules should be submitted to NRAs for approval by mid-2013 in order to enter in force in 2014.

As the project is slightly running beyond schedule and as ENTSO-E has been asked to start drafting the Forward Capacity Allocation NC, a two-step approach could be envisaged:

- In 2013, the “wish-list” requirements should be integrated in auction rules as much as possible;
- In 2014, a single European set of rules would be drafted.

In exchange to this additional time, TSOs would be required to adopt the same approach for the European single platform:

- In 2013, the list of requirements for the single platform is to be prepared by TSOs;
- In 2014, the creation of this platform takes place.

In the SWE region, the project of establishing CASC as the long-term capacity allocation platform is still in progress. The main achievements were the following:

- For the France-Spain interconnection:
 - Following the request for comfort sent by REE and RTE to their NRAs and to the Spanish Ministry in June, CNE and CRE expressed their support to the project in their respective Letters of Comfort on 10 October and 17 October. The Spanish Ministry also sent its Letter of Comfort to the TSO on 7 November.
 - Spanish and French TSOs were expected to sign a MoU by November in order to enable the Transmission Rights allocation for France-Spain border through CASC from May 2013. The MoU has not been signed yet and is now expected to be signed in January 2013. Therefore the go-live date for the project could be delayed.
 - The extension of CASC to the SWE region implies that CASC rules for capacity allocation by explicit auctions apply to the France-Spain interconnection. In this regard TSOs will consult end of January or beginning of February.
 - Regarding the approval process for the harmonized auction rules (HAR), discussions are still on-going. At this stage:
 - A broad consultation of market players is foreseen.
 - Relevant NRAs approve the HAR under consultation: each NRA confirms during the consultation whether he has to approve or not.
- For the Portugal-Spain Interconnection:
 - In September Iberian TSOs were invited by their NRAs to officially request comfort regarding the TRs allocation through CASC.

- CNE received the request for comfort from REE on 3 December, although some additional information regarding the planning, description of the project and associated costs is already pending. This information should be sent by REE before CNE takes a decision.
- REN, the Portuguese TSO, stated in ERI SW and MIBEL meetings that a “letter of comfort” is not necessary for them as previous positions of ERSE and the current mechanisms for costs recovery already provide the necessary “comfort”.

In the NWE region, the market coupling project requires access rules for England-France Interconnector (IFA) to evolve. In November TSOs (RTE and National Grid) asked their NRAs (CRE and Ofgem) to provide a preliminary common view prior the consultation on IFA access rules the TSOs plan to do. In December both NRAs sent letters to their TSOs expressing their concerns regarding three main issues: firmness, curtailment of interconnector capacity and “use-it-or-sell-it”.

- Firmness: NRAs expect TSOs to guarantee at least financial firmness, in accordance with the CACM FG
- Curtailment: NRAs recommend that the capacity is curtailed pro-rata (without any differentiation between capacity holders)
- Use-it-or sell-it: NRAs recall that any amendment to the UIOSI rules has to be consistent with the CACM FG.

Significant achievements during this quarter	<p>10 and 17 October : Letters of Comfort from CNE and CRE to respectively REE and RTE regarding the expansion of CASC as long-term capacity allocation platform</p> <p>28 October : End of the public consultation on Forward Risk Hedging Products & Harmonization of Long Term Capacity Allocation Rules</p> <p>7 November : Letters of Comfort from the Spanish Ministry</p>
Obstacles or delays in implementation	Changes in IFA rules in preparation for NWE market coupling: issues regarding firmness, curtailment and UIOSI Extension of CASC to the SWE region delayed
Potential divergences from the FG on CACM	No divergences identified so far.
Comments	

4.3.4 Action needed to overcome the identified constraint(s) or to address the potential divergence(s) from the FG on CACM

Feedbacks from discussions about MiFID at Member States level were not positive. Although the part of the ACER amendment covering the TSOs tasks is likely to be adopted, the part covering market participants is less supported.

4.4 Implementation of fully coordinated capacity calculation methodologies and particularly the flow-based allocation method in highly meshed networks¹⁰

4.4.1 Description of the project

The target model, as defined by the CACM Framework Guidelines, specifies that TSOs need to apply an *Available Transfer Capacity (ATC)* or a *Flow-based (FB)* method. A flow-based allocation method is however clearly preferable for short-term capacity calculation in highly meshed and highly interdependent grids. Whatever the case, a common grid model must be used.

By nature, the capacity calculation method and the market coupling method and algorithm are highly interdependent. The FB method and market coupling implementation must be coordinated.

Coordination among the TSOs will be of key importance for successful implementation of the required capacity calculation method, for optimising utilisation of the infrastructure and for implementing the flow-based allocation method. Coordination with regard to capacity calculation will be required among all TSOs, not only when two regions apply the same method (FB or ATC), but also in cases when one region applies the FB and the other ATC-based calculations.

Prior to switching to the FB method, the following requirements are to be fulfilled:

- ⇒ Full coordination of principles and data;
- ⇒ No negative impact of the FB method on system security;
- ⇒ Increased social welfare brought about by the application of the FB method;
- ⇒ Sufficient time provided for market participants to adapt to the new method;
- ⇒ Work on and implementation of FB capacity calculation and market coupling need to be closely coordinated.

CREG (BE) and E-Control (AT) are co-leading the Capacity Calculation Project.

4.4.2 Key milestones and accountabilities

	Q1	1. CEE FBA implementation path evaluation and decision by the CEE NRAs, in coordination with ACER and the NRAs and stakeholders from other relevant regions, based on input from CEE TSOs and the CAO. 2. CEE MC decision and compatibility with the CWE (cf. price market coupling, 4.1).
	Q2	3. Study of the impact of bidding zones by the CWE TSOs and PXs, in cooperation with the CWE NRAs.

¹⁰ The ACER cross-regional roadmap for the Flow-Based Capacity Calculation Method for short-term capacity allocation is available at:
http://www.acer.europa.eu/Electricity/Regional_initiatives/Cross_Regional_Roadmaps/Pages/Capacity-Calculation.aspx .

2012		4. Review of the ATC method in the Nordic area by the NE NRAs. 5. Information exchange between the CWE and CEE FB and other regions.
	Q3	6. Decision on FB or the ATC capacity calculation method for CSE, NEE, SEE.
2013	Q2	7. CWE FB MC implementation by CWE TSOs with CWE NRA approval.
2014	Q4	8. Coordinated European Capacity Calculation

4.4.3 Review of progress during this quarter

The CWE FBMC project has suffered an additional delay. The start of the external parallel runs, which will influence the go-live date of the FBMC, has been postponed to mid-February 2013. The CWE FBMC project representatives expect better success rates for FBMC runs with the introduction of a new prototype at the beginning of December. A new detailed planning of the CWE FBMC project should be presented to the Market Parties in Q1 2013. The first Market Forum linked to the external parallel runs should take place in March. The CWE FBMC project foresees a Q&A internet forum to answer technical questions concerning Flow-based Methodology, the operational process, the Flow-based project and the utility tool.

In the CWE FBMC project advances have been made on the FRM parameters, offering positive first results. The remaining main challenges to be solved are the design of the GSK, CB choice and congestion income allocation sharing key.

During the reporting period the development in CEE region and cooperation between FB working groups in CEE and CWE did not experience any progress. Intensive discussions on unplanned flows continued for the next three months. Project parties, National Regulatory Authorities, ACER and governance organisations brainstormed the existing and also one new proposal on the way forward. Involved parties unfortunately could not agree on any option. In late 2012, the Polish TSO, PSE-O and a German TSO, 50 Hertz, reached an agreement on a pilot project in the form of “virtual phase shifting transformers”, which is expected to start in early 2013 and last at least until the end of March 2013. The intention is to limit unplanned cross border flows from Germany to Poland (and indirectly to other countries). A similar agreement is considered for the Czech-Germany border. Such agreements could be an important step to unlock the discussions on the implementation of the day-ahead target model.

Meanwhile, Poland and Romania expressed their possible interest in joining the Czech, Slovak and Hungarian trilateral market coupling.

Significant achievements during this quarter	4th October: CWE technical FBMC meeting mainly dealing with congestion income allocation, NRA monitoring and transparency
	10th October: CEEE Forum
	27th November: CEE RCC meeting
	10th December: CWE technical and specialist meeting mainly

	<p>dealing with the communication of the additional delay and start of the external parallel run. Also the advance in GSK, FRM and CB were reported.</p> <p>18 December: Agreement between 50 Hertz and PSE-O, TSOs in charge of the Germany – Poland border on a pilot project in the form of “virtual Phase Shifter Transformers”.</p>
Obstacles or delays in implementation	See section 4.4.4 below.
Potential divergences from the FG on CACM	No divergences identified so far.
Comments	

4.4.4 Action needed to overcome the identified constraint(s) or to address the potential divergence(s) from the FG on CACM

With the announced postponement during Q3 2012 and the additional delay in Q4 2012, the target date of Q2 2013 for the launch of the FBMC will not be reached. CWE NRAs urged the TSOs again to do their best in having a good FBMC in place as soon as possible and to inform the market well of the advances made and new elements related to the use of FBMC. Informing the market in due time and providing them with the relevant information is crucial for the NRAs.

Since the deadlock situation in CEE continues, the main challenge is still the reaching of the regulatory agreement on the steps towards the target model. Before this step is done, none of the following steps (developing of the specific roadmap, cooperation with the CWE/NWE) can be started.

5 Review of progress with implementation in other important areas

In this section, the NRAs review achievements and obstacles, at regional level, regarding other important dimensions/areas for the completion of the Internal Electricity Market.

5.1 Transmission development plans

5.2 Development of cross-border balancing

On the basis of the Framework Guidelines on Electricity Balancing that were adopted in September 2012, ENTSO-E has started to work on the development of the corresponding network code as well as a pilot project that ACER expects to be ambitious, as suggested during last Florence Forum. During the 4th quarter of 2012, ENTSO-E organised two stakeholders advisory group meetings - in October and December respectively. Meantime, few projects were developed at regional or bilateral level:

- The International Grid Control Cooperative (IGCC) system, which is the international expansion of Module 1 of the German GCC, had gradually expanded in 2012. On October 1st, the initiative was extended to Belgium (Elia);
- In November, the French and Spanish regulators (CRE and CNE) comforted the development of exchanges of balancing energy in the SWE region. The project should be launched in the second half of 2013;
- The Nordic TSOs announced in December that they agreed to establish a joint office for balance settlement. The office is to be located in Finland, with a presence in Sweden (Svenska Kraftnät) and Norway (Statnett). The joint balance settlement is expected to be operational in 2015.

5.3 Transparency

ACER is expecting the launch of the Comitology Process for the adoption of the Transparency Guidelines.

5.4 Management and use of interconnections



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