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ACER Coordination Group for Electricity Regional Initiatives

ERI Progress Report #3

April 2015 – September 2015

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Contents

1 Context

This report aims at monitoring the development of pilot projects in line with the Target Model for electricity under the voluntary Electricity Regional Initiative (ERI) process[1]. With the entry into force of the Capacity Allocation and Congestion Management Guideline (CACM GL) on 14 August 2015, this process has been replaced by the formal implementation of the target models for day-ahead, intraday and capacity calculation. Consequently, this is the last ERI Progress Report and from now on, progress and obstacles experienced by the relevant projects will be reported through other channels, in particular the Market Electricity Stakeholder Committee[2].

[1] Please find more information about the ERI process here
http://www.acer.europa.eu/Electricity/Regional_initiatives/Pages/default.aspx
[2] Please find more information about the Market Electricity Stakeholder Committee here
https://www.entsoe.eu/major-projects/network-code-implementation/stakeholder-committees/Pages/default.aspx

2 Implementation of a single European price market coupling model

2.1 The project in a nutshell

The target model for the day-ahead timeframe is a European Price Coupling (EPC) model which will simultaneously determine volumes and prices for all price zones in Europe. This solution requires TSOs and power exchanges (PXs) to develop common arrangements for each stage of the process, including pre-coupling aspects (such as how much transmission capacity to make available to the market), the coupling solution (the development and implementation of the algorithm) and post-coupling aspects (such as the financial settlement between PXs and between PXs and TSOs). The implementation of a single European price market coupling model follows a step-wise approach. The project, first live in the North-West Europe (NWE) region on 4 February 2014, followed by its extension to the Iberian Peninsula on 13 May 2014 and an new one to the northern Italian border on 24 February 2015 covers 85% of the European power market. Following the last extension, the project has been renamed Multi-Regional Coupling (MRC).
In parallel, another project, called 4Markets Market Coupling (4M MC), using the same solution but at a different gate closure time extended market coupling already in place between Czech Republic, Slovakia and Hungary to Romania on 19 November 2014.

2.2 Review of the progress

Overall assessment:

With the MRC project in operation, the monitoring of this project is one main part of regulatory work. Especially the performance of the algorithm in respect of an increasing number of smart bids and the upcoming extensions is in the focus of the regulators.

Besides this work, the transformation of the early implementation projects (MRC and 4M MC) into formal CACM implementation is still an important task. As a first question, the change of the cost sharing has to be answered. NRAs asked the MRC-Project to evaluate how this could be done.

Regions	Progress achieved	Pending issues
NWE	MRC running since 4th February 2014	The following topics are to be monitored in MRC: - performance, PRB - update on loss factors - results of MRC MC - planning for the future expansions
SWE	Full coupling between NWE region and MIBEL since 13th May 2014	
CSE	Full coupling between NWE region, MIBEL and CSE since 24th February 2015	

CEE (the whole region)	See update for the Capacity Calculation	
CEE (the 4 Market Coupling Project)	4M MC running since 19th November 2014	
Croatia	On 18 May 2015, CROPEX, the Croatian power exchange, became a full member of EUROPEX, Association of European Energy Exchanges, with the intention to create the first competitive Croatian day-ahead power market, with the possibility of extension to include an intraday market at a later stage. On 7 July 2015, CROPEX became an observer of MRC.	It is planned that the Croatian day-ahead market will become operational by the end of the fourth quarter of 2015.
Bulgaria	An Independent Bulgarian Energy Exchange (IBEX) was established in 2014 and licensed by the Regulator (EWRC).	The Go-Live of the Bulgarian day-ahead market is planned to be in December, 2015. Concerning the coupling with Romania, there is no meeting planned yet between TSOs and PXs but it should be the case after the launch of the Bulgarian power exchange. Application for observer in MRC is in a process of preparation and submission.
Ireland[3]	The project in Ireland and Northern Ireland to implement new trading arrangements for Q4 2017 remains on track. The detailed design of the energy trading arrangements is in the final phase and detailed market rules drafting, systems development and implementation is commencing.	The Market Operator commenced a program of work in late 2014 to examine the use of EUPHEMIA in the I-SEM market. This trial has seen the development of test cases based on SEM data and processing them through the EUPHEMIA algorithm.

[3] The Single Electricity Market has been granted an exemption to comply with the CACM NC in 2016

3 Implementation of a cross-border continuous intraday trading system across Europe

3.1 The project in a nutshell

The overall objective of the Intraday Cross-Regional Roadmap was to implement the intraday target model on all borders in Europe by the end of 2014. Due to several issues, the implementation project, called cross-border intraday or XBID has been delayed. This project follows a stepwise approach starting with implicit continuous trading covering at least the North West Europe (NWE) region plus Austria and Switzerland forming the NWE+ region.

3.2 Review of the progress

Overall assessment:

On 9 June 2015, the power exchanges leading the XBID project with the support of the concerned TSOs signed a contract with Deutsche Börse AG for the development of the European Cross-Border Intraday Solution (XBID Solution)[4]. This key milestone has eventually been achieved following the cost comfort and the pressure provided by the Regulators and the Commission. The project has entered into the development phase and work continues to meet the requirements of the CACM GL recently entered into force and ensure that the adequate framework in place for future NEMOs and Non NWE+ TSOs to join.

In parallel to the developments at European level, PXs, TSOs and NRAs also work at a smaller geographical scope through the Local Implementation Projects (LIPs) to establish governance arrangements, structure, budget and planning for the stepwise implementation of the solution in 2017.

Regions	Progress achieved	Pending issues
NWE+	The project parties requested cost recovery from the NWE+ NRAs in order to sign the contract with Deutsche Börse AG (DBAG) on 27 February 2015. The NWE+ NRAs replied with their Statement of Principles agreed upon on 31 March and consequently the project PXs completed the contractual agreement in June 2015. The project is now in the XBID core development phase which is scheduled to be completed in Spring 2016. The	The project parties' tentative timeline for the development and Go Live of the XBID solution stretches to Q3 2017. There is a risk that the project parties may not agree with the results of the performance tests during the development phase and this may impact on costs and timelines. There is also a risk that the negotiations on 3rd party support for hosting and maintenance may miss their deadline for completion due to slow progress.

[4] https://www.epexspot.com/document/32326/2015-06-09_XBID_Press%20Release_Contract%20Signature.pdf

	functional specifications of the project and the shipping module requirements have been agreed by all parties. Both of these topics have proven difficult to agree upon and have added to delays which may yet extend the project timeline. Go Live preparation is now expected between April and July 2017. The LIPs will look to align with the XBID solution testing phase in the Summer and Autumn of 2015 in preparation for Go Live after July 2017.	Moreover, the evolution of the current arrangements to comply with the CACM GL may be time-consuming (especially regarding the preparatory work for the Market Coupling Operator plan and the governance arrangements). LIPs are still being scoped out. Regulators are awaiting further information on go live scenarios. One important issue is how to include non-NWE+ parties into the project without detrimental impacts on the planning.
SWE	The Iberian PX (OMIE) participates in the NWE+ project.	
CSE	After a few months of delay, the project is again progressing and developments are expected mainly in 2016, but, in any case the completion of the project is not expected before 2017.	
CEE	No development	
Croatia	For the time being, explicit allocation exists for cross-border capacity in intraday on the SI-HR border.	Allocation of cross-border capacity in intraday should be implemented next on the HU-HR border. No date for the moment.
Romania	An intraday market is functional since 2014. Last year 1.3% of the internal consumption was traded on ID market with an increasing trend in 2015.	
Bulgaria	The intraday market is not implemented yet.	According to the current situation all efforts of IBEX (Bulgarian market operator) are focused on launching the day-ahead market. The intraday nominations are not possible so far, which is a prerequisite to include an intraday market at a later stage.
Ireland[5]	The project in Ireland and Northern Ireland to implement new trading arrangements for Q4 2017 remains on track. The detailed design of the energy trading arrangements is in the final phase and detailed market rules drafting, systems development and implementation is commencing.	The timing of the XBID project is a key input to the design of the energy trading arrangements. There will likely be a requirement to develop an interim arrangements to ensure that there is a functioning intraday market in place for Go-Live.

[5] The Single Electricity Market has been granted an exemption to comply with the CACM NC in 2016

	Continuous intraday trading will be the exclusive route to intraday physical contract nominations which is in line with the European Target Model. The possibility to have auctions remains viable and has many attributes for the system.	

4 Implementation of a single European set of rules and a single European allocation platform for long and medium-term transmission rights

4.1 The project in a nutshell

The objective is to give participants an opportunity to hedge themselves against congestion costs and day-ahead congestion pricing, 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;
2. Implementation of the single allocation platform;
3. Harmonisation of nomination procedures;
4. A potential move to Financial Transmission Rights (FTRs).

4.2 Review of the progress

Overall assessment:

In line with the roadmap to deliver a set of harmonised auction rules (EU HAR) applicable from early 2016 onwards, ENTSO-E launched a public consultation on the EU HAR and related annexes related to regional or border specificities in March 2015. ENTSO-E reviewed the draft documents based on the received contributions and a new proposal was discussed on 28 May with NRAs and market participants during the last stakeholder advisory group meeting. In June, the relevant TSOs[6] agreed within ENTSO-E on the text to be submitted to the NRAs' approval. The rules were translated where needed and formally submitted for approval by each TSO to the corresponding NRA throughout the summer. Most NRAs announced that the rules will be approved in October 2015. The objective to apply the rules for LTTRs with delivery as from 1st January 2016 still holds. In particular, it is expected that the EU HAR will apply to the 2016 annual auctions and to the January 2016 monthly auctions.

Among the potential problems towards a timely approval of all relevant NRAs, the Polish NRA announced that their decision will consider the result of the peer review[7] conducted by ACER upon their request on whether the absence of capacity allocation procedure on the German-Austrian border is in line with the relevant legislation.

From a content point of view, it must be noted that some of the border (or regional) specific annexes[8] are not fully in line with the draft FCA GL and the ACER Recommendation 2/2014 for several reasons.

Regarding the merger between the two allocation regional platforms CASC and CAO, the new entity, called the Joint Allocation Office (JAO), is still expected on time to run the 2016 auctions. Legal constitution was finalised on 1 September 2015 but functional transition is ongoing as to enable the resulting Joint Allocation Office to perform the yearly auctions for 2016 and to apply the EU HAR. For this purpose, the JAO would use a new auction tool. The market participants already

[6] The EU HAR cover all EU Member States (plus Switzerland) except Bulgaria, Cyprus, Malta, Norway, Sweden, Finland and Lithuania. For more information on the EU HAR, please visit the dedicated webpage.
[7] Dealing with the issue of congestion management in the DE-AT border.
[8] IFA, BritNed, CZ-SK, SK-HU, HU-RO and AT-IT.

expressed their concerns regarding the timely information and organisation of a proper adaptation process to the new tool.

Regions	Progress achieved	Pending issues
Baltic		A decision about TRs is still to be taken for the Latvian-Lithuanian border (i.e. introduction of TRs or introduction of CfDs or no product at all).
Northern		There are still no decisions on TRs for NorNed, the Baltic cable and the SwePol link.
CWE		See above the paragraph on the EU HAR
SWE		See above the paragraph on the EU HAR Still no roadmap for IPE to join JAO
CWE, CSE, CEE, Croatia & FUI	See above the paragraph on the EU HAR	
Romania		See also above the paragraph on the EU HAR
Bulgaria	The BG-RO and BG-GR borders should be dealt together as both are included in the proposed South East Europe Capacity Calculation Region.	No development before the FCA GL enters into force.
Ireland[9]	Consistent with the derogation granted to the Ireland and Northern Ireland under CACM, and the SEMC decision under the high level design, financial transmission rights will be introduced for Q4 2017. A consultation has been published and a decision is expected to be made on the type of FTR that will be used in December 2015.	

[9] The Single Electricity Market has been granted an exemption to comply with the CACM NC by 2016

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

5.1 The project in a nutshell

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. The flow-based allocation method is preferable for short-term capacity calculation in highly meshed and highly interdependent grids. Whatever the method chosen, a common grid model must be used.

The South-West, Central-South and France- United Kingdom – Ireland regions have decided to go on applying the ATC method.

In the Nordic region, NordREG (an organisation for the Nordic energy regulators) took the decision in 2012 not to introduce Flow Based in the coming future while investigating further into the merit of this allocation method.

5.2 Review of the progress

Overall assessment:

The CWE FB MC Project went live on 21 May 2015. The CWE FB MC Project submitted the final documents for approval to the CWE NRAs on 13 March 2015. CWE NRAs finalised their respective decisions on 23 April 2015. The CWE FB MC went live with a first trading day on 20 May (First delivery day: 21 May).

Each individual decision of the CWE NRAs included a common “CWE NRAs Memorandum of Understanding of the Implementation of Flow Based Market Coupling in the CWE Region” on the issue of Flow Factor Competition as well as a common “Position Paper of CWE NRAs on Flow-Based Market Coupling”. In line with the Memorandum of Understanding, the CWE FB MC Project drafted Terms of Reference in Q2-Q3 2015 and should launch a call for tender in Q4 2015 to appoint a consultant to perform the necessary studies regarding the Flow Factor Competition. The CWE NRAs Position Paper presents the common position of CWE NRAs on the current FB MC as well as on the Requirements for further improvements of the CWE Flow Based methodology. The first of these requirements deal with issues that need to be addressed by November 2015 and which are currently being developed by the CWE FB MC Project partners.

CEE project parties have submitted the high level roadmap and the common costs budget for the project to the NRAs. Budget (in respect to Project Management Office costs and shares per party) and roadmap were slightly updated. The project Go-Live is still expected for 3 July 2018.
Full Market Simulations Reports (related to security oriented option (SOO) Step 2), are – together with the presentation - expected by the end of September 2015 and will be discussed at the TSOs’ high level meeting on 7 October 2015. CEE TSOs are working on the framework for finalization of CEE FB capacity calculation (CEE FB CC) concept, covering evaluation of CEE FB CC Concept against the CACM GL requirements and the coexistence with the CWE FB CCR, under the umbrella of joint project.

Regions	Progress achieved	Pending issues
Baltic		Still no decision about capacity calculation taken
CWE	**Successful go-live of the CWE FBMC on 21 May** The CWE FB MC project parties continue developments on the FB MC, mainly in the context of the requirements imposed by the CWE NRAs (first requirements have a delivery date in November 2015) The FB MC results can be consulted online (http://www.casc.eu/en/Market-data/Implicit-Allocation), The public documents that serve as basis for the decisions by CWE NRAs: (http://www.casc.eu/en/Resource-center/CWE-Flow-Based-MC/Approval-Documents)	Continuing developments of the requirements from CWE NRAs by the CWE FB MC Project. Monitoring by CWE NRAs ongoing
CEE	Project budget and high level roadmap finalized (6/2015), updated in line with CACM Common Cost sharing agreed (08/2015) FPA signature ongoing	FPA signature completion Continuing project developments, setting up of remaining project structures (election of the project convenors, nomination of PX-side CEE Joint Steering Committee co-chair)
CSE – Northern Italian borders	Implementation of a daily process for D-2 cross-border capacity computation on the Italian Northern Borders: The internal dry run (first step out of three of the testing phase) is completed. The external dry run, providing market participants with the opportunity to acquire sensitivity and experience about this new process, started on 30 July.	The full live test, the final step of the testing phase, is expected to start in November 2015. This aims at confirming whether the new daily computed NTCs are suitable for operation by TSOs. Resulting NTCs will be used for allocation purposes. After the successful completion of the full live test, TSOs of the Italian Northern Borders will communicate the effective Go-live date.
Croatia		Still no decision about capacity calculation taken. This decision is impeded by the fact that Croatia is not included in any of the regions mentioned in the Regulation (EC) 714/2009.

Bulgaria		Still no decision about capacity calculation taken. This decision is impeded by the fact that Bulgaria is not included in any of the regions mentioned in the Regulation (EC) 714/2009.
Ireland	Market Coupling will be implemented in Ireland and Northern Ireland in Q4 2017. Decisions on capacity calculation regions will be made as part of the implementation of the trading arrangements.	
Nordic	Simulations of the Nordic FB prototype tool with Euphemia have started.	So far the results indicate serious concerns related to the performance of Euphemia algorithm when Nordic FB model is introduced in the total MRC area, i.e. when MRC also include CSE and SWE.

6 Integration of Electricity Balancing markets

6.1 Description of the target model for Electricity Balancing in a nutshell

The target model for Electricity Balancing is two-fold.

First, strong coordination between TSOs is required to permit the optimised activation of balancing energy as well as the sizing and exchange of balancing reserves. According to the provisions of the Framework Guidelines on Electricity Balancing (EBFG), activation will be based on a multilateral TSO-TSO Common Merit Order (CMO) for the manually-activated frequency restoration and replacement reserves and an equivalent concept for the automatically-activated frequency restoration reserves.

Second, well-designed market incentives for market participants will support the development of a well-functioning balancing market and contribute to limiting residual balancing volumes. They will affect:

- Balance Service Providers (BSPs), through harmonisation of the pricing method to procure the balancing energy (towards pay-as-cleared-based) and through the requirements on terms and conditions to facilitate the participation of the RES and the demand response;
- Balance Responsible Parties (BRPs), through the definition of common features for an efficient settlement of energy imbalances.

To turn these ambitious requirements into concrete projects, the Agency invited ENTSO-E to select pilot projects[10]. To that end, for a Balancing Pilot Projects Stakeholder Group was set to involve stakeholders in the design, implementation and governance issues related to these pilot projects.

Furthermore, the Florence Forum requested in November 2014 ACER and ENTSO-to jointly co-chair a Balancing Stakeholder Group focussed on the early implementation of the Electricity Balancing Regulation. Early 2015 ENTSO-E and ACER have worked to develop a Terms of Reference for this group which was endorsed by AESAG in April 2015.

The main objective of the Balancing Stakeholder Group (BSG) is to provide a European level forum where ACER and ENTSO-E will be able to discuss and consult with stakeholders the proposals for different development of implementation projects and draft terms and conditions or methodologies that shall be developed by TSOs pursuant to the EB Regulation. Among those, the proposals for the Implementation Framework for the regional implementation models are of significant importance. In addition, the BSG will allow ENTSO-E to report on the implementation projects and allow NRAs where applicable to report on regulatory progress of adaptation and preparation for the early implementation of the EB Regulation, and potential issues with existing (national) legislation. ACER, ENTSO-E and stakeholders shall learn from the implementation activities and gain important lessons needed for future development and detailing of the electricity balancing target model.

[10] The list of selected pilot projects can eb found here: http://acernet.acer.europa.eu/portal/page/portal/ACER_HOME/Stakeholder_involvement/AESAG/3rd_AESAG_Meeting/3.1%20ENTSO-E%20(Kekkonen)%20Balancing%20NC.pdf

6.2 Review of the progress achieved by pilot projects and early implementation work

In September 2015 a meeting was held to give a state of play on the early implementation work and development of pilot projects

Early implementation

In March 2015 the Terms of Reference set for the BSG defined a planning to provide deliverables for early implementation of the Regulation on Electricity Balancing. This planning, as well as the actual progress of the delivery for all projects can be found below

ACER is highly concerned by the delay to provide the deliverables for the early implementation period

Early Implementation deliverable : BSG ToR deadlines (black) and actual planned delivery (red)

Deliverables	2015			2016		State of play as of 23 Sep 2015
	Q2	Q3	Q4	Q1	Q2	
EU roadmap for Early Implementation of Electricity Balancing Regulation						
- Draft proposed definition of CoBAs for all processes			Nov			Proposal for IN CoBA only !
- Draft Roadmap proposal				√		
Cost Benefit Analysis on Imbalance Settlement Period						
- Methodology and criteria	√	Sept				
- Final CBA				√	?	Possible postponement due to short budget
Proposal for Standard mFRR & RR products						
- Energy	√ →		?			Revised proposal being developed
- Capacity			√			No updates !
Proposal for Standard aFRR products						
- Outcomes of the study			√ →	Feb		
- Proposal					√	No planning announced
List of Activation Purposes of Balancing Energy bids			√			No updates !
Proposals for pricing methodology					√	
High level principles for Balancing algorithms					√	

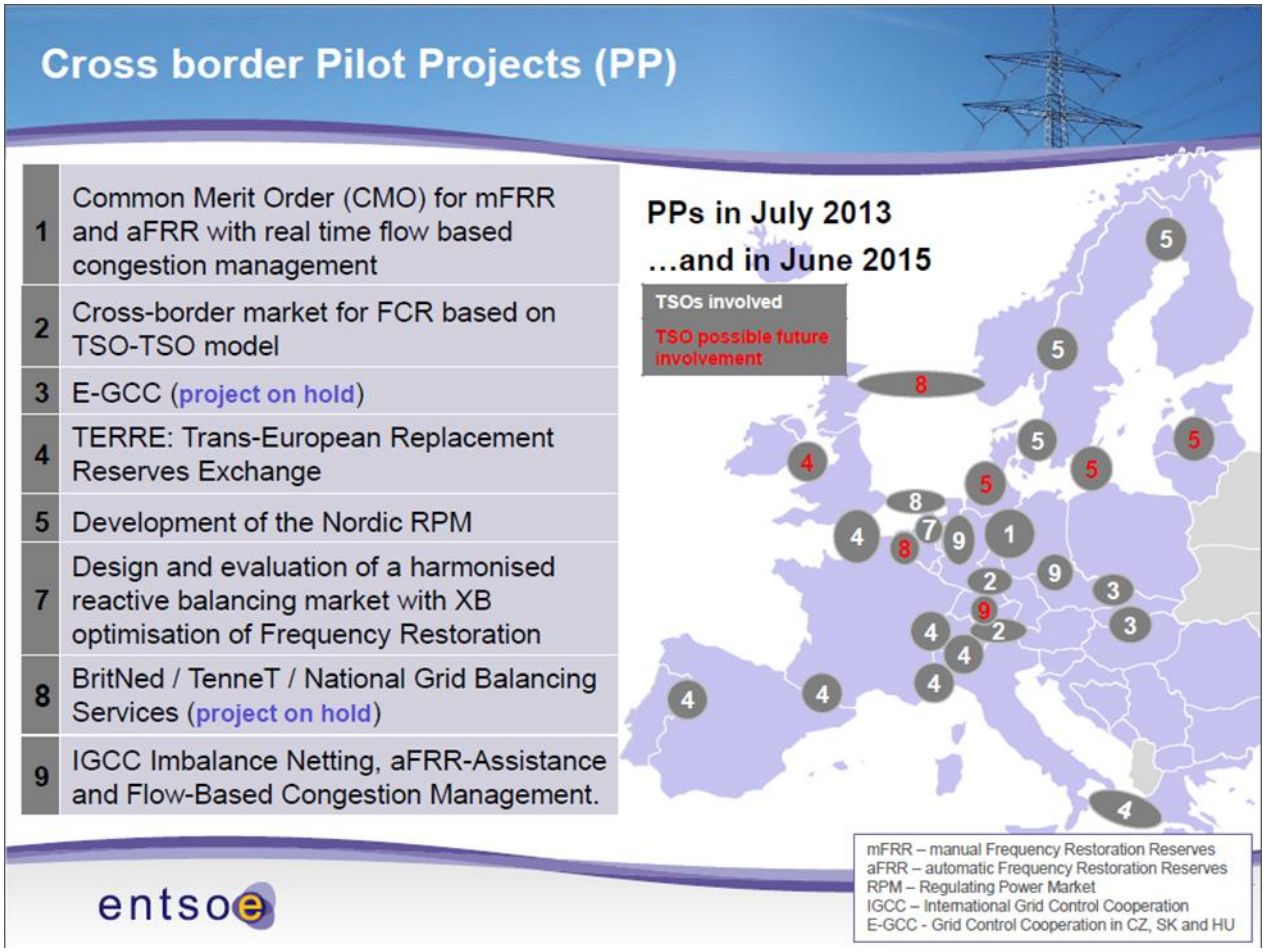
Balancing Stakeholders Group, 23 September 2015

As highlighted above, the actual progress does not match the deadlines set in the BSG Terms of Reference. ACER is concerned by the delay on the deliverables for the early implementation that ENTSO-E agreed to deliver, in particular:

- The roadmap to regional balancing markets ("the ENTSO-E COBA proposal") which should provide clarity and show how the current pilot projects are expected to fit with this proposal,
- The CBA on the imbalance settlement period which should be provided before Q2 -16.

The Agency reiterates the importance of keeping the deadlines of the early implementation deliverables as jointly agreed in the Terms of Reference, especially for those which have a clear European potential.

Follow-up on Pilot Projects



	Project	Progress achieved	Pending issues
1	Germany	The analysis of the potential design of a common future FRR Balancing Market, comprising the national markets of Austria, Belgium, Germany and the Netherlands, has been continued. A TSO expert group is currently studying into detail the technical and market aspects of such a co-operation. For more details, see project "EXPLORE" as well	

2	FCR AT/CH/DE/NL	The cooperation between the German, Austrian, Dutch and Swiss TSOs went live on April 7th, 2015	The next step is to monitor the economic variables (social welfare, etc.). The actual cooperation may be extended to other TSOs. Elia (Belgium) and RTE (France) already showed interests in joining.
3	E-GCC (CZ-SK-HU)	Project on hold	
4	TERRE	Good progress in the design phase despite an increasing number of TSO´s collaborating: • The algorithmic optimization is currently tested • The optimization mix a netting of need and activation of offer • The CMO will allow elasticity at TSOs need • Regarding settlement issues: it is envisaged the application of marginal price and the treatment of congestion rents	Potential future extension towards Eirgrid. The design phase is expected to be completed by the end of 2015. An implementation group (TSOs & NRAs) is scheduled on 1 October and should be followed by a meeting with stakeholders during Q4 2015. NRAs asked TSOs to formally consult on the outcome of the design phase before launching any request for approval or further implementation.
5	Nordic	Feasibility studies on extending the Nordic mFRR market to the Baltic, Germany and Poland finalized in 2014: • Showed a positive net benefit of exchange • Mapped differences in market design and obstacles for integration ToR for Baltic – Nordic integration has been developed Analysis of different exchange models between Nordic and other synchronous areas has been initiated 2nd TSO-NRA meeting organised in September 2015.	TSOs to identify potential models for exchange between Nordic and Baltic, Germany and Poland. Project plan for Nordic – German cooperation to be developed Nordic – Polish progress on hold until clarification of CoBA definitions
7	NL-BE	See “other”	
8	BritNed	Project on hold	
9	IGCC	IGCC TSOs have continued and almost finalized the drafting of a multilateral contract that is to replace existing bilateral contracts between IGCC members. The	As a next step, IGCC TSOs envisage to investigate enhancements of IGCC settlement. In addition, there are ongoing talks with further TSOs to

		multilateral contract shall include general principles for the imbalance netting co-operations and is considered to be a prerequisite for the aspired enlargement of the IGCC to further countries.	join the IGCC (RTE plans to join in March 2016).
Other	EXPLORE	The German (50 Hertz, Amprion, TenneT and TransnetBW), Belgian (Elia), Dutch (TenneT) and Austrian (APG) TSOs have decided to proceed with the analysis of the potential design of a common FRR Balancing Market. This project is called EXPLORE (European X-border project for Long term Real-time balancing Electricity market design). The focus of the project is the development of a design for a common mFRR and aFRR balancing market in the involved countries. An expert group has been set up that currently identifies harmonisation requirements for a common merit order for activation and for a common procurement of reserves.	Based on this analysis TSOs and NRAs want to decide whether it would be beneficial to merge EXPLORE with one or both the ENTSO-E pilot projects 1 and 7 or to keep EXPLORE separated. So far no decision on this has been taken yet but TSOs are planning to take this decision by the end of this year. So for the time being the reporting of the pilot projects 1 and 7 stays separated.

7 Progress report from the 8th Region prepared by ECRB

Contents

1 Overview of Regional Integration in the 8th Region

The 8th Region is characterised by **significant heterogeneity**. Structural challenges in some of the jurisdictions of the region relate to governance issues like a lack of independence of regulators, non-existence of power exchanges, or ineffective unbundling of TSOs. Effective market opening is hindered by a number of legislative provisions in some countries, in particular related to public supply, single buyer models, regulated energy prices, non-market based procurement and trade of electricity and monopoly positions in electricity generation and supply. At the same time, additional commitment from various actors in the region is deemed to be a necessary precondition for further improvements.

Progress in overcoming the existing legal and structural problems has been made in the period of Q2/2015-Q3/2015 by transposition of the electricity acts of **Third Package** by Albania and good progress made in this direction by Montenegro and Ukraine. Together with Serbia, who transposed the Third Package already in December 2014, development of secondary legislation enabling proper market functioning will now be essential.

High level political commitment to

- establish organised electricity markets (including power exchange functionalities);
- introduce market based balancing; and
- ensure coverage of all Western Balkan countries by SEE CAO for forward capacity allocations

has been expressed by the August 2015 at the Vienna summit of the so-called ***Western Balkan 6 Initiative*** with related progress to be realised until the July 2016 summit.

A central element for promoting the creation of a regional market, together with the final prospect of forming part of the Internal Energy Market in a consecutive step, is the so-called *Regional Action Plan for Wholesale Market Opening in South East Europe* (SEE RAP). The SEE RAP has been jointly developed by the Energy Community Regulatory Board and ENTSO-E Regional Group SEE and received support of the Ministerial Council and Permanent High Level Group of the Energy Community. Ukraine and Moldova are not a part of the SEE Regional Action Plan due to the limited amount of synchronous interconnection capacity with the other bidding zones. The SEE RAP has been designed in line with the elements of the European Electricity Target Model, but also faced delay in its implementation.

The Table below provides an overview of the state of play in the elements of the SEE RAP:

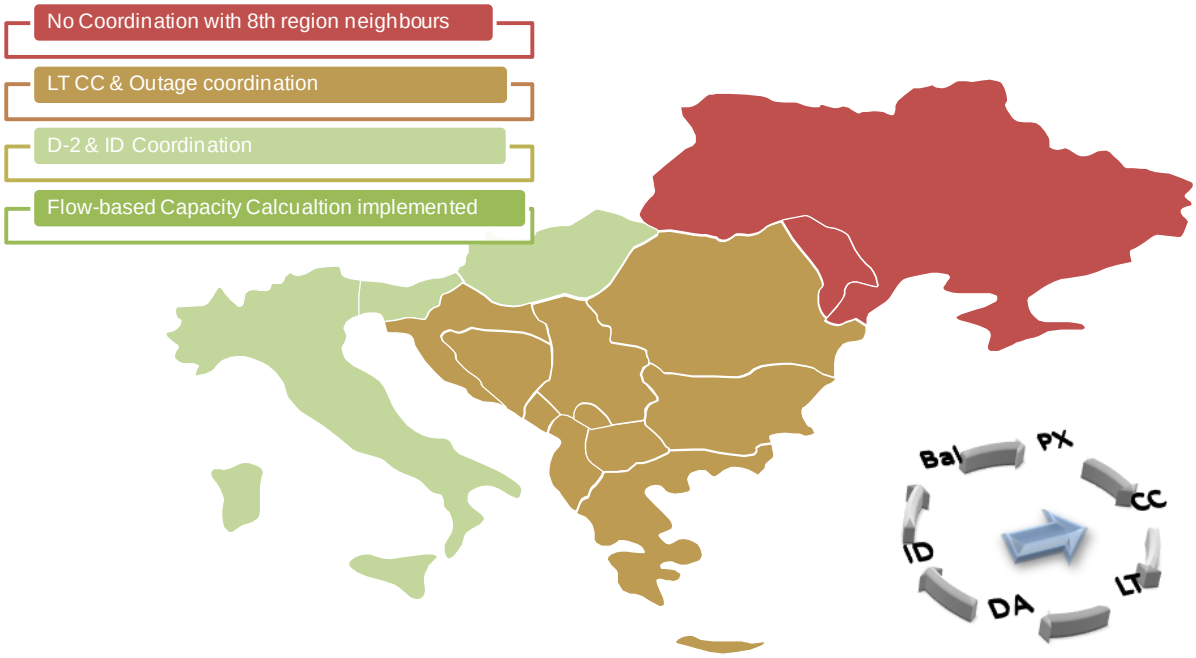
Activity	Target Date	State of Play
Capacity calculation		
Revise and enhance a common grid model (CGM) for the SEE region	Q4 2011	
Harmonize methodologies/ procedures for capacity calculation for yearly / monthly / day ahead time horizons	Q4 2014	
Forward markets		
Coordinated bilateral explicit auctions implemented on all borders within the SEE region	Q2 2015	
Centralized multilateral coordinated (NTC-based in a first step, flow based remaining the final concept) auctions on relevant SEE borders (auctions performed by CAO as the service provider, i.e. single point of contact within SEE region)	Q4 2014	
Multilateral coordinated auctions on all borders within the SEE region (regional one-stop-shop and, finally/or, EU solution)	Q3 2016	
Day-Ahead market		
Establishment of power exchanges in several SEE countries or contracting services from the existing PX	31/12/14	
Bilateral/ trilateral market coupling in the SEE region (nucleus approach or different regional initiatives) – tight volume coupling as a possible interim step	Q3 2015	
Implementation of price based market coupling (EU target model) in the entire SEE region	Q1 2017	
Pan-European market coupling including the SEE region operational	Q2 2018	
Intraday market		
Survey on existing intraday capacity markets in the SEE region	Q2 2011	
Establishment of cross-border intraday capacity FCFS solution on several borders in SEE	Q1 2013	
Establishment of cross-border intraday capacity market on several borders in SEE	Q1 2015	
Establishment of harmonized regional solution for intraday capacity allocation	Q2 2018	
Pan-European intraday solution (continuous trading) including the SEE region operational	Q2 2020	

Fully implemented
Partly implemented
Not implemented

2 Progress in the Elements of the Regional Action Plan and Beyond

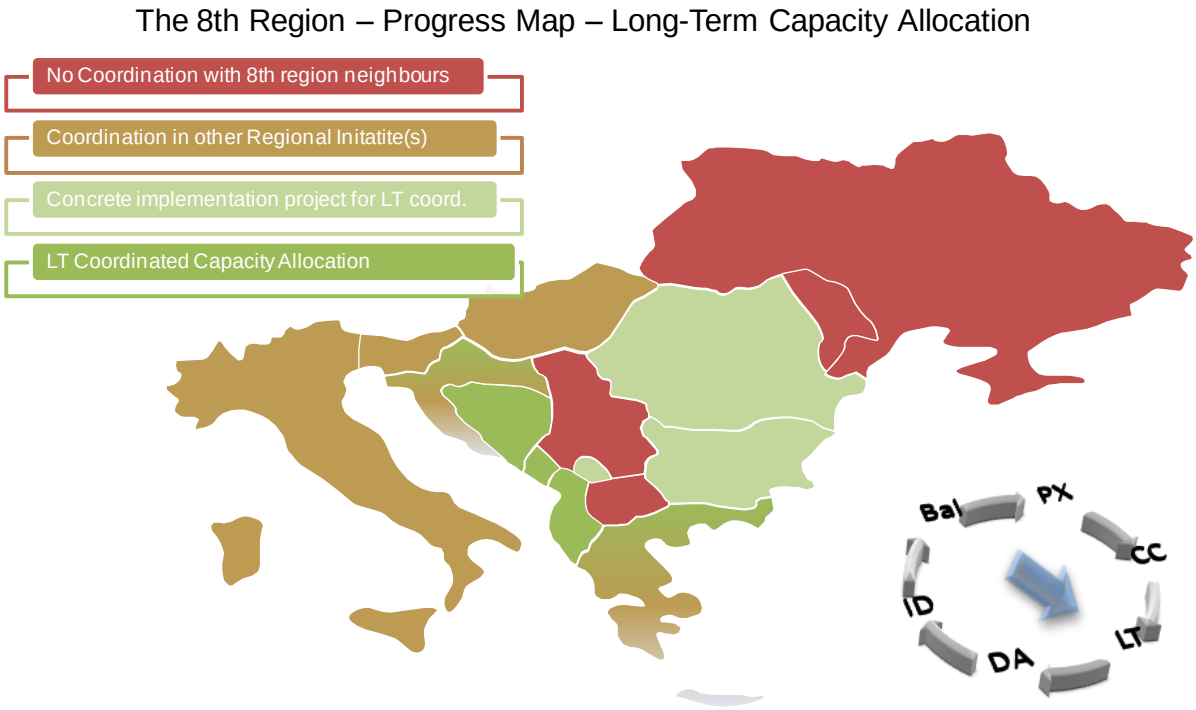
2.1 Capacity Calculation

The 8th Region – Progress Map – Coordinated Capacity Calculation



With regard to capacity calculation, the SEE region's TSOs are already running a coordinated capacity calculation process based on a rotational sharing of model merging responsibility. With the adoption of the CACM Regulation on 24 July 2015 in the European Union, a challenge with regard to the definition of the so-called Capacity Calculation Regions (CCR) arises. The factually existing SEE CCR for forward capacities will have to be acknowledged and a new D-2 process based on this region will have to be established in order to fulfil the Code's requirements, even though the majority of jurisdictions of the region does not fall under immediate applicability of the CACM Regulation. Consequently, this is important to allow the EU Member State TSOs to follow their obligations in a reasonable manner with its interconnected partners. The definition of the CCRs and the processes attached to it show that the discrepancies in legal framework of the Energy Community between the EU Member States and the other Parties will have to be bridged by early implementation on the one hand and the timely inclusion of relevant provision into the Energy Community acquis on the other hand.

2.2 Forward Markets

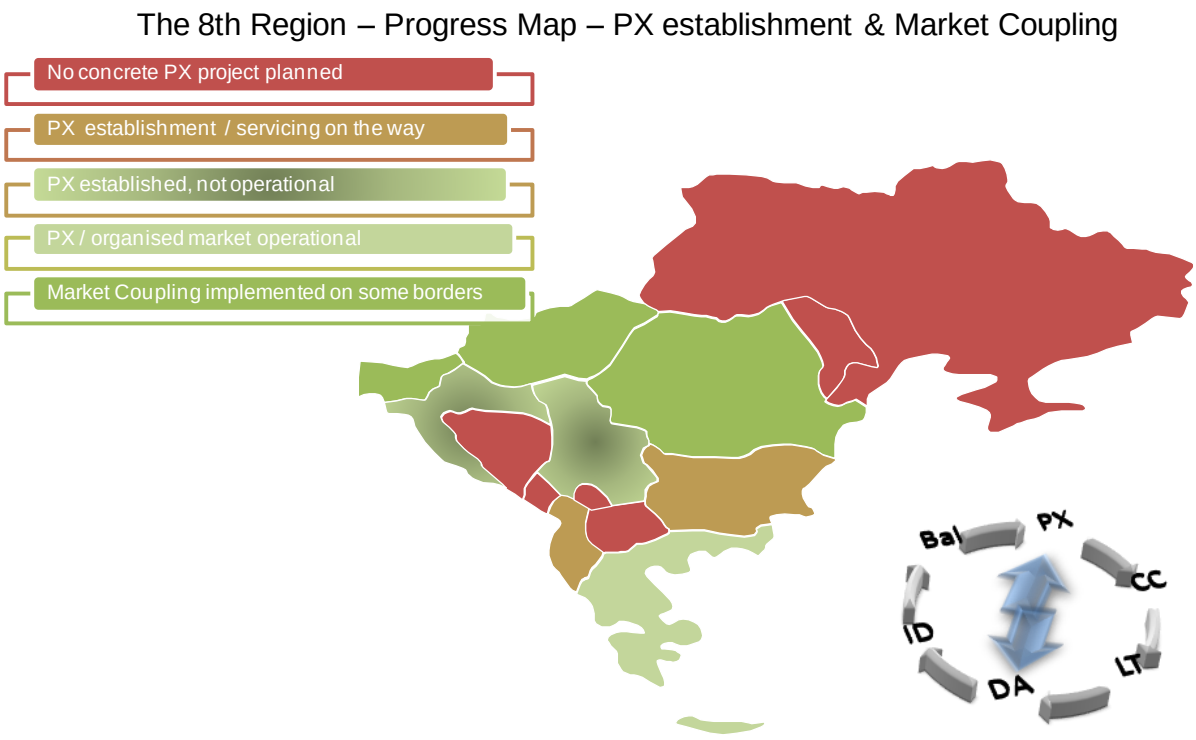


The coordinated allocation of long-term cross-zonal transmission capacities is one of the cornerstones of early stage market integration. In Southeast Europe, the Coordinated Auction Office in Southeast Europe (SEECAO) has finally taken up its operation and is continuously growing with regard to the borders it services. In the end of 2014, the first products were auctioned for the borders between Bosnia and Herzegovina, Croatia and Montenegro. In a next stage, Albania, Greece, and Turkey have started allocation for the majority of their borders in the last half year, allowing for a coordinated approach leading to reduced transaction costs, better competition, more transparent pricing and lower system cost. The system operators of Kosovo* and Serbia are expected to allocate their long-term cross-border capacities through SEECAO by the end of 2015 or the beginning of 2016, respectively. The system operators of FYR of Macedonia, Hungary[11] and Bulgaria showed some reluctance towards regional cooperation in this regard.

Two elements will shape the future development of the SEECAO. First, the outcomes of discussions with the system operators of Serbia, Romania, Hungary and Bulgaria will determine the establishment of comprehensively coordinated allocation of forward capacity. Second, the process for the creation of Harmonised Auction Rules (HAR) for all auction offices in Europe which was initiated by ENTSO-E will lead to the further integration and standardisation of forward capacity allocation in the entire Energy Community. In the mid-term future, with the application of the Forward Capacity Allocation Network Code, a Single Platform will replace interim solutions after a merger of all remaining auction offices.

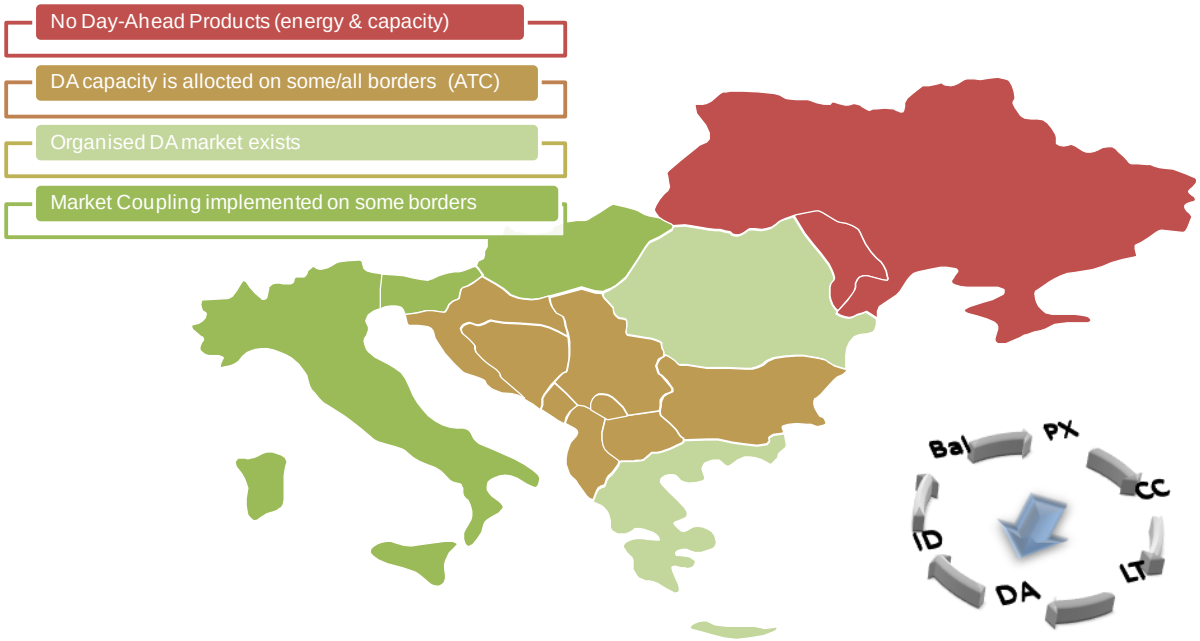
[11] Hungary is explicitly listed by Ministerial Council Decision 2008/02/MC-EnC as member of the 8th Region. The exemption granted to Hungary (and members of the 7 EU Regions in general) by chapter 3.2 of the Annex to Regulation 714/2009 cannot be interpretated to also apply to the SR-HU border.

2.3 Organised Markets and Market Coupling at Day-Ahead



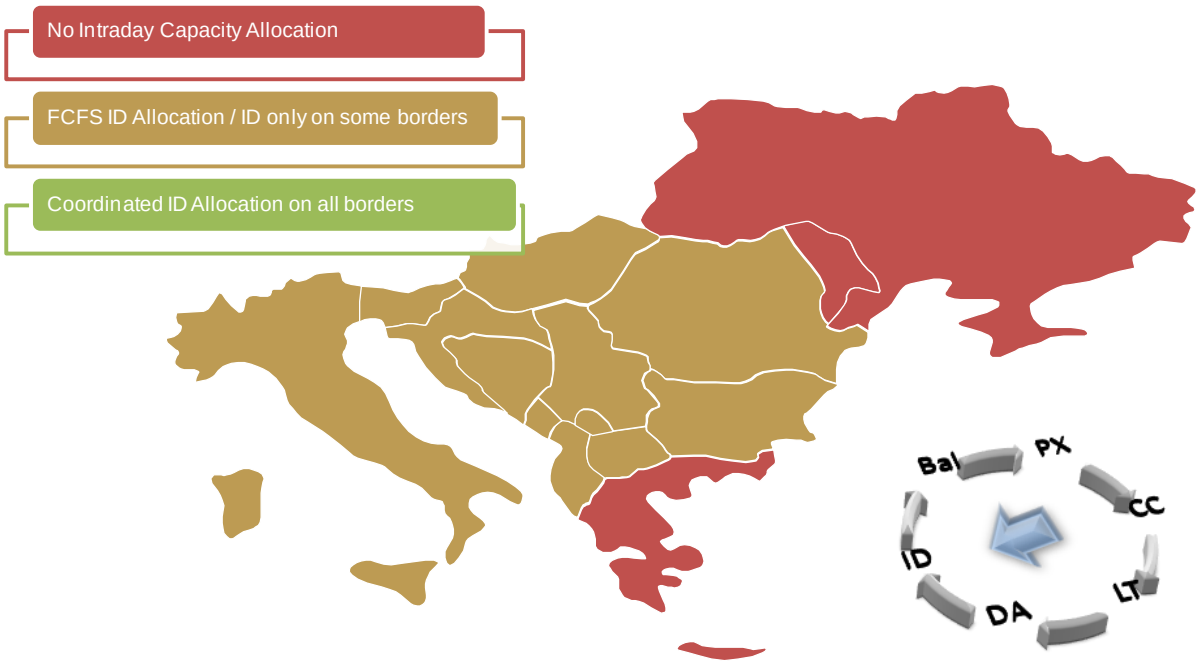
The establishment and existence of operational organised market structures are prerequisites for the SEE RAP Targets for the day-ahead timeframe, implying the nomination and/or establishment of electricity market operators (i.e. power exchanges) in one or the other way. This process is foreseen in the CACM Regulation which entered into force in the EU on 14 August 2015. Putting in place harmonised cross border markets in timeframes closer to real-time (spot markets) will lead to a more efficient matching of demand and supply, promote the long-term sustainability of the industry and consequently benefit customers. For that it is important to avoid the creation of barriers to the establishment of a Single European Price Coupling. The rules contained in the CACM Regulation will have to provide the basis for the implementation of a single energy market across the Energy Community spanning the EU and the Energy Community's Contracting Parties. Its main provisions foresee the establishment of implicit trading mechanisms (market coupling) and more efficient inter-TSO processes, allowing for the optimisation of traders' and suppliers' portfolios with reduced uncertainties and electricity wholesale market price convergence on the entire continent. Any delay in implementing its provisions due to a potentially staggered inclusion into the Energy Community acquis must be avoided. Positive developments with regard to the establishment of organised market and the related governance structures where they have not existed yet come mainly from Croatia (CROPEX) and Serbia (SEEPEX). In both countries, power exchanges were established. They are based on cooperation with different EU partner exchanges and communicate go-live of day-ahead operation in Q4/2015. The establishment of intraday markets are planned for a later stage. Another initiative was launched in Albania, where structures for the creation of a power exchange in cooperation an EU partner are about to be realised and the development of secondary legislation allowing for its implementation was kicked off.

The 8th Region – Progress Map – Day-Ahead Market Development



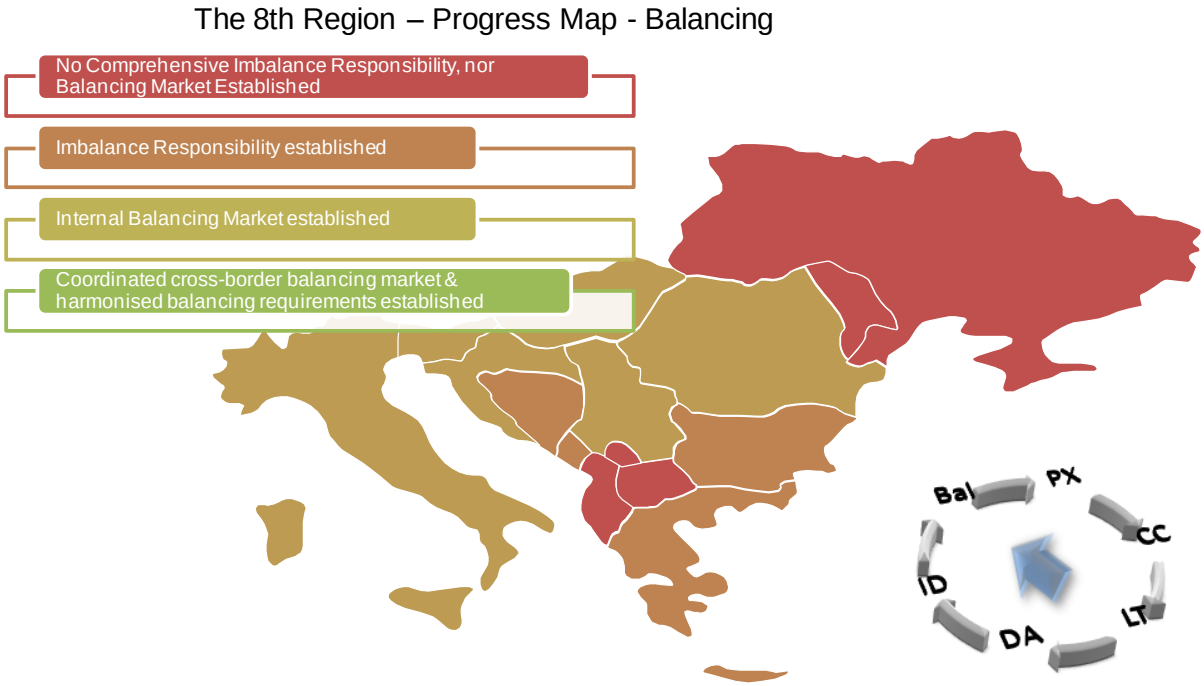
2.4 Intraday Market

The 8th Region – Progress Map - Intraday



Cross-Border Intraday Trading is largely of bilateral nature and based on a first-come-first-serve allocation principle. It is possible in the SEE Regions' interconnectors between the bidding zones operated by the following TSOs: CGES, HOPS, EMS/KOSTT, NOSBIH.

2.5 Cross-border Balancing



The development of the electricity balancing market in the SEE Region is in an early phase, characterised by the nationally-oriented approach to balancing in the Energy Community Contracting Parties, but also in some EU Member States. In the Contracting Parties, the implementation of the 2nd Energy Package requirements for market-based, non-discriminatory and transparent system balancing and imbalance settlement so far has been the exception rather than the rule. The obligation for establishing well-functioning balancing markets and their regional integration is strengthened by the 3rd Package which was to be implemented in the Contracting Parties as of 1 January 2015. At the drafting of this report, Albania and Serbia have adopted a new electricity law based on the 3rd package. Besides that, negotiations between the TSOs of the Control Blocks comprising the SEE Region are ongoing regarding the common procurement and sharing of balancing reserves.

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