



**Publishing date:** 12/07/2013

**Document title:** 6th ERI Quarterly Report - Q2 2013

**We appreciate your feedback**



Please click on the icon to take a 5' online survey  
and provide your feedback about this document

**Share this document**



## **ACER Coordination Group for Electricity Regional Initiatives**

### **ERI Quarterly Report #6**

**April 2013 – June 2013**

**A13-ERI-02**

## Table of contents

1	Context .....	4
2	Objective of the Quarterly Report .....	4
3	Main insights from the 4 <sup>th</sup> Quarterly report .....	5
4	Review of progress with implementation in each of the cross-regional projects .....	6
4.1	Implementation of a single European price market coupling model .....	6
4.1.1	Description of the project .....	6
4.1.2	Key milestones and accountabilities .....	7
4.1.3	Review of progress during this quarter .....	8
4.1.4	Action needed to overcome the identified constraint(s) or to address the potential divergence(s) from the FG on CACM .....	12
4.2	Implementation of a cross-border continuous intraday trading system across Europe .....	13
4.2.1	Description of the project .....	13
4.2.2	Key milestones and accountabilities .....	13
4.2.3	Review of progress during this quarter .....	14
4.2.3.1	Progress against milestones .....	14
4.2.3.2	Progress in the NWE Pilot Project .....	15
a)	Background .....	15
b)	Project objectives .....	15
c)	NWE progress in this quarter .....	16
4.2.4	Action needed to overcome the identified constraint(s) or to address the potential divergence(s) from the FG on CACM .....	17
4.3	Improvement and harmonisation of the allocation and nomination rules for long and medium-term transmission rights .....	18
4.3.1	Description of the project .....	18
4.3.2	Key milestones and accountabilities .....	18
4.3.3	Review of progress during this quarter .....	20
4.3.4	Action needed to overcome the identified constraint(s) or to address the potential divergence(s) from the FG on CACM .....	22
4.4	Implementation of fully coordinated capacity calculation methodologies and particularly the flow-based allocation method in highly meshed networks .....	23
4.4.1	Description of the project .....	23
4.4.2	Key milestones and accountabilities .....	23

4.4.3	Review of progress during this quarter .....	24
4.4.4	Action needed to overcome the identified constraint(s) or to address the potential divergence(s) from the FG on CACM .....	25
5	Review of progress with implementation in other important areas.....	26
5.1	Transmission development plans.....	26
5.2	Development of cross-border balancing.....	26
 <u>ANNEX 1: 8<sup>th</sup> Region Quarterly Report.....</u>		<u>27</u>

## 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 20<sup>th</sup> 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 6<sup>th</sup> Quarterly report

#### ***An IT system provider has finally been selected for the Intraday pilot project***

Following the second failure notice sent by PXs to reach a consensus on the IT provider to develop the future EU-wide cross-border intraday solution, the Agency informed PXs, on June 17, about its preferred IT system provider. The selection of the IT provider should facilitate the restarting of a pilot project whose geographical scope should be as ambitious as possible.

#### ***The Agency still expects concrete actions towards the single auction rules or the single allocation platform by 2014***

Within the conclusions of its 24<sup>th</sup> edition held in May, “The Forum invites ENTSO-E to report on behalf of the concerned TSOs at the next Florence Forum on progress made towards a single EU allocation platform and a single EU set of long-term auction rules”. Although a few improvements have been noticed on some borders like the extension of the allocation platform CASC.EU to the France-Spain border which has finally been confirmed, the observed delay and the planned steps are not likely to help reaching these objectives.

#### ***The European Price Coupling is still on track to go-live in November on an area comprising NWE, Baltic and SWE regions (i.e. more than 4 regions out of 7)***

On the 14<sup>th</sup> of June 2013 the TSOs and PXs of the NWE region invited market participants to the North-Western Europe Price Coupling Stakeholder Forum. At this forum the project partners informed market participants on the latest developments with regard to the project, the NWE algorithm as well as on foreseen procedures and timings.

#### ***According to the project partners, the CWE Flow-Based Market Coupling is still expected to go-live three months after the European Price Coupling implementation***

A stakeholder group meeting on FBMC was organised on 15 April 2013 where the recent results of the external parallel runs were presented by the CWE FBMC project parties. Further, market players elaborated on their expectations and asked for clarifications regarding FBMC features. Finally, NRAs presented the current technical challenges they are closely monitoring as well as perceived future challenges.

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

### 4.1 Implementation of a single European price market coupling model<sup>1</sup>

#### 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)<sup>2</sup> price coupling implementation by the end of 2012;
- ⇒ Adjacent borders may adopt the Price Coupling of Regions (PCR)<sup>3</sup> 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.

---

<sup>1</sup> 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](http://www.acer.europa.eu/Electricity/Regional_initiatives/Cross_Regional_Roadmaps/Pages/1.-Market-Coupling.aspx)

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

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

<sup>4</sup> 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**

With regard to NWE pilot project, on June 26 TSOs and PXs of the NWE region presented the latest stage of the NWE project and informed NRAs that no delay of the go-live in November is expected. However, it was highlighted that in case more time for testing would be necessary, this would have an impact on the overall timing as there is no room for contingency measures.

Regarding the issues of Backup, Special and Fallback procedures, the project parties presented the results of the stakeholder consultation and subsequent bilateral talks which helped developing a solution. It was finally agreed that in case of decoupling, order books would be reopened for 20 minutes and in particular cases, the extension of the 15:30 TSO deadline would move to 15:45 and beyond.. On June 14<sup>th</sup>, during the North-Western Europe Price Coupling Stakeholder Forum, the TSOs of the NWE region presented in detail their operational planning processes after the notification deadline.

Regarding the possibility of harmonising the floor and ceiling prices, a consensus around the values + 3000 and -500 is emerging among stakeholders. This harmonisation is likely to be implemented when the project goes live in November.

In line with the January announcement where the involved companies renewed their will to include the Baltic region from the go-live in November, the Nordic power exchange, NordPool Spot, announced the successful launch of a new bidding area covering Latvia on 3 June. With this, all Baltic power markets are connected to the Nordic region through market coupling. The Baltic region is therefore included in the scope of the project go-live in November.

Regarding the handling of losses on DC cables in market coupling, TSOs from NWE had been asked to prepare an Impact Assessment. This assessment is intended to serve as an input to a common NRA position on this issue. The TSOs sent the final study on the introduction of loss factors on interconnector capacities in NWE Market Coupling to NRAs in April. During a NWE Day Ahead IG meeting in Copenhagen on April 25<sup>th</sup> the consultants who worked out the study presented their results in detail. There are still issues regarding the potential impacts of implementing such a loss factor like for example on intraday and long-term timeframes. No common harmonised approach has been agreed by NRAs so far and decisions could be taken on a case by case basis for the NWE go-live. Progress on this issue is expected for next quarter.

.

At the same IG meeting project parties discussed the possibility of non-compliance of the shipping arrangements with the draft CACM Network Code. In the draft Network Code it is stated that Shipping Agents shall not be subject to fees nor be required to provide collateral. As no clarification on this point has been provided by the EC so far, all parties must go on with the project taking as an assumption that the intended shipping solutions are not likely to breach the Network Code.

NWE regulators received the Final Regulatory Report in May/June 2013. This report includes among other issues a description of the organizational structure and the project deliverables, of the high level functional architecture, the local shipping arrangements and the PCR algorithm. There are still questions on the way local constraints will be handled and how liabilities between PXs and TSOs are shared.

With regard to the participation of the SWE region, the SWE (South West Europe) coupling project is on track. The design of pre and post coupling procedures has been closed in the last quarter and their implementation has started. Besides, IT developments have been launched. On 7th May, the SWE and NWE coupling projects issued a joint declaration announcing the start of end-to-end testing across their combined regions, using the Price Coupling of Regions (PCR) system solution. The joint integration tests started in June. The objective is to enable the SWE coupling project to go-live with the NWE one but with zero capacity on the France-Spain border to avoid a “big bang” approach and build up on a common base. The only pending point for moving the day-ahead GCT in MIBEL is its publication on the Spanish Official Journal by the Spanish Ministry. Other regulatory changes and contracts related to the implementation phase are being prepared. Furthermore, the contract with the Project Management Office (PMO) has now been signed by all parties.

With regard to CSE (Central South Europe) region a first Project Status Report has been delivered by the Italian Border Working Table (IBWT) in June 2013. This was requested by the NRAs. The main achievements until May 2013 are:

- 1) Decision on ATC forwarding/sending principles
- 2) Initialization of the Project Implementation Plan
- 3) Decision not to have a central shipping agent and CCP for the region but to manage the shipping and the financial settlement per border

Three deliverables are expected after the end of the design phase (presumably in July):

- 1) High Level Business Process
- 2) Contractual framework
- 3) Project Implementation Plan

In the CEE region, the partners of the project to extend the already existing trilateral Czech, Slovak, and Hungarian market coupling to Poland and Romania have entered into the signature phase of a MoU. Discussions are also ongoing on the possibility of incorporating the interconnector between Poland and Sweden. There are still numerous open questions starting with the IT solution to be used for this project.

In the FUI region, in acknowledgement of the challenges in adapting the Single Electricity Market between Ireland and Northern Ireland to the Electricity Target Model, the deadline to implement the target model was at the day ahead and intraday day stage in the Irish electricity wholesale market (‘SEM’) is postponed to 31 December 2016. In the NC CACM, the current Article 96 states the list of conditions to be fulfilled under such a postponement. In particular, the NC CACM provides that:

“these transitional arrangements shall include a detailed roadmap approved by the regulatory authorities for Ireland, Northern Ireland and Great Britain, setting out milestones for achieving full implementation of and compliance with this Network Code”.

In this context, a Roadmap on Implementation of the European Electricity Target Model in the Single Electricity Market in Ireland and Northern Ireland<sup>5</sup> drafted by the Commission for Energy Regulation ('CER'), the Utility Regulator of Northern Ireland ('UR') and Ofgem was sent to the Agency on 23 May.

Progress on this Roadmap will be reported in the ERI Quarterly Report.

---

<sup>5</sup> Further information on this Roadmap is available following these links:

<http://www.allislandproject.org/GetAttachment.aspx?id=c23bdd02-bc49-4e21-af67-16bc0b30d994>

<http://www.allislandproject.org/GetAttachment.aspx?id=6b446994-90e3-41c1-bd73-c4920c545382>

<http://www.allislandproject.org/GetAttachment.aspx?id=ec8eecd6-0e41-4659-8a1e-85c5efb0fe80>

Significant achievements during this quarter	<p><b>12 April</b> TSOs sent the final study on the introduction of loss factors on interconnector capacities in NWE Market Coupling to NRAs.</p> <p><b>24 April</b> Regulators of the NWE region discussed at a CRCC meeting in Copenhagen the Algorithm assessment process as well as the different possibilities with regard to the introduction of loss factors on DC cables in NWE price coupling.</p> <p><b>25 April</b> NWE TSOs presented the results on their study on the introduction of loss factors on interconnector capacities in NWE Market Coupling. NWE project parties presented the results of the stakeholder consultation.</p> <p><b>7 May</b> The SWE and NWE coupling projects announced the start of end-to-end testing across their combined regions, using the Price Coupling of Regions (PCR) system solution.</p> <p><b>23 May</b> The Roadmap on Implementation of the European Electricity Target Model between Great Britain and the Single Electricity Market in Ireland and Northern Ireland was sent to ACER by the Commission for Energy Regulation ('CER'), the Utility Regulator of Northern Ireland ('UR') and Ofgem</p> <p><b>14 June</b> TSOs and PXs of the NWE region invited market participants to the North-Western Europe Price Coupling Stakeholder Forum and informed market participants on the latest developments with regard to the project, the NWE algorithm as well as on foreseen procedures and timings.</p> <p><b>June</b> The first Project Status Report of the Italian Border Market Coupling Project has been delivered</p> <p><b>25 June</b> Regulators of the NWE region discussed at a CRCC meeting in London whether a harmonized approach with regard to the activation of loss factors on DC links is possible.</p> <p><b>26 June</b> TSOs and PXs presented the latest stage of the NWE project and informed NRAs that no delay of the go-live in November is expected</p>
	Obstacles or delays in implementation
	Potential divergences from the FG on CACM
	Comments
	The NWE project parties need to run a lot of test activities partly also test activity in parallel. These tasks generally bear the risk for potential delays.
	Possibility of non-compliance of the bilateral shipping arrangement with the future CACM NC

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

The potential non-compliance of the bilateral shipping arrangement to the future CACM NC has been reported to the European Commission which should take care of this issue during the Comitology process.

## **4.2 Implementation of a cross-border continuous intraday trading system across Europe<sup>6</sup>**

### **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 accountabilities<sup>7</sup>**

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.

---

<sup>6</sup> 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](http://www.acer.europa.eu/Electricity/Regional_initiatives/Cross_Regional_Roadmaps/Pages/2.-Cross-border-Intraday.aspx)

<sup>7</sup> So far, no project has been agreed upon for the Baltic Cable.

<b>2011</b>	<b>Q3</b>	1. The NWE TSOs, in cooperation with the NWE PXs, develop a detailed project proposal for implementation of an interim solution.
	<b>Q4</b>	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.
<b>2012</b>	<b>Q1</b>	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.
	<b>Q2</b>	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.
	<b>Q3</b>	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
	<b>Q4</b>	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.
<b>2013</b>		17. The NWE region PXs, in cooperation with the TSOs, to consult on options and specifications for sophisticated products.
	<b>Q3</b>	18. The CEE region will implement an intraday solution in line with the CACM FG and the NWE project.
	<b>Q4</b>	19. The NWE region to implement the intraday capacity recalculation. 20. The Baltic region to implement intraday trading based on the ELBAS model.
<b>2014</b>	<b>Q1</b>	21. The NWE region to implement capacity pricing.
	<b>Q4</b>	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.



#### **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.

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**

In April, there was still an expectation that the power exchanges will agree among themselves on a vendor to provide the European cross-border intraday (XBID) solution. However, the Power exchanges wrote to ACER on 26 April to provide notice that they had been unable to achieve consensus on the selection of the vendor. In parallel, the NWE regulators' recommendation was sent to the Agency to help providing an informal opinion.

At the Florence Forum (15 May), the Agency recalled that it agreed to provide an informal opinion on the preferred IT solution, on the condition that all involved PXs accepted to be bound by such an opinion. As further delays in the process would be detrimental, the Florence Forum recalled the importance of an EU-wide intra-day market coupling and invited ACER to provide its opinion before the end of June.

ACER sent a letter on 15 May asking the PXs to acquire further information from the two vendors and to feed back the Agency within 3 weeks of the letter (5 June). On 5 June 2013, the involved PXs provided the Agency with additional elements and feedback obtained from the prospective vendors, as well as their individual assessment of these additional elements and feedback.

As it seemed that further discussions would not bring additional information, the Agency issued its informal opinion on 17 June. It informed about its views about the IT system provider to be considered as the one to develop the solution for implementing the intra-day market coupling in the NWE region. The Agency also reminded the involved PXs of their commitment to implement the informal opinion provided by ACER as agreed, so the Agency expects the involved PXs to finalise the negotiations with the vendor of the preferred IT system as soon as possible.

Regarding the next steps, before the contract is signed, PXs and TSOs must agree on scope and a draft budget (at least for the design and development phase). NRAs have then to provide comfort letter regarding cost recovery. These elements are expected to be provided before the end of the third quarter.

<b>Significant achievements during this quarter</b>	17 June: The Agency issues its informal opinion  25/26 June: NWE CRCC and IG meeting (TSOs and NRAs), with main focus on scope, critical pathway and initial discussion on cost recovery and sharing
<b>Obstacles or delays in implementation</b>	Lack of clarity on scope of participating PXs/TSOs and costs associated for the project
<b>Potential divergences from the FG on CACM</b>	
<b>Comments</b>	

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

Regarding the scope of the project, it was decided during the IG meeting on June 26 that ENTSO-E would ask which TSOs are ready to join the pilot project. On the PXs side, the interested PXs have already been identified. Once more information on the interested parties and the budget are known, NRAs will also give their view.

### 4.3 Improvement and harmonisation of the allocation and nomination rules for long and medium-term transmission rights<sup>8</sup>

#### 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

<b>2011</b>	<b>Q3</b>	1. Drafting of rules by the TSOs following NRA guidance (CWE+CSE+Switzerland).
	<b>Q4</b>	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.

<sup>8</sup> 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](http://www.acer.europa.eu/Electricity/Regional_initiatives/Cross_Regional_Roadmaps/Pages/3.-Long-Term-Transmission-Rights.aspx)

<b>2012</b>	<b>Q1</b>	<p>4. The NRAs' to decide on the possibility of implementing Transmission 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).</p> <p>5. Depending on that decision, NE, NE – Continent, Baltic, IPE to join CASC.</p>
	<b>Q1-Q2</b>	<p>6. Benchmark for the current LT nomination procedures (ENTSO-E).</p> <p>7. Impact assessment of the implementation of FTRs → ENTSO-E in co-operation with ACER.</p>
	<b>Q1-Q3</b>	<p>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.</p>
	<b>Q3-Q4</b>	<p>9. Definition of a wish list for the harmonisation of nomination rules based on the decision to move towards FTRs (ACER+ENTSO-E).</p> <p>10. Agreement on an implementation schedule for this harmonisation (ACER+ENTSO-E).</p> <p>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.</p>
	<b>Q4</b>	<p>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.</p>
<b>2014</b>	<b>Q3-Q4</b>	<p>13. NRA approval of new allocation rules for entry in force at the beginning of 2014.</p>

#### **4.3.3 Review of progress during this quarter**

In May, the Florence Forum invited ENTSO-E to report on behalf of the concerned TSOs at the next Forum in November 2013 on progress made towards a single EU allocation platform and a single EU set of long-term auction rules. Unfortunately, although some progress are recorded and detailed below, the observed delay and the coming planned steps are not likely to help reaching these objectives.

Following the update of the cross-regional roadmap early February 2013, TSOs have started the tasks to harmonise Long Term Capacity Allocation Rules.

- Some discussions have already taken place between ACER/NRAs and ENTSO-E/TSOs at regional and European levels.
- However, the outcome of ENTSO-E study to identify “quick wins” and technical and legal obstacles to further harmonization has not been delivered yet. ACER expects feedback from ENTSO-E early July, so that the can start the drafting phase of the harmonized set of auction rules by September.
- The draft of harmonised auction rules should be well-advanced by March 2014, to align with national consultation and approval procedures that may take up to six months in some countries, and be ready and approved for application to capacity allocated for the year 2015.

Due to the repeated postponements of feedbacks from ENTSO-E, the probability to have a harmonised auction rules for next year has decreased.

Moreover, the Agency and NRAs have asked ENTSO-E to take the updated “wish list” requirements (also published early February) into account this year on the borders / regions where rules are required to evolve. This shall concern the France-Spain interconnection, the France-England interconnection and the Central-East Europe region (see details below).

In the SWE region, the project of establishing CASC as the long-term capacity allocation platform has been unblocked, as in April REE commit themselves again to move forward towards the implementation of European target models. Thus,

- For the France-Spain interconnection:
  - The signature of the Memorandum of Understanding to enable the Transmission Rights allocation for France-Spain border through CASC has been signed by all parties beginning of April
  - The new versions of CASC’s Harmonised Auctions Rules including France-Spain border have been submitted to public consultation from 3 June to 21 June. As only part of the “wish list” has been considered in the new set of rules applying to the France-Spain border, there is still room for progress on some issues such as firmness.
  - IT developments have been launched by REE; RTE had already started to perform IT developments in the past months.
  - The go-live date for the project shall take place in November 2013 and ready for allocating the 2014 yearly product.
- For the Portugal-Spain Interconnection :
  - OMI group sent letters to the Council of Regulators of the MIBEL, between February and April 2013, which showed its willingness to manage harmonized

long-term auctions for the Spain-Portugal interconnection in a transitory period.

- MIBEL Technical Committee welcomed this proposal and maintained a first meeting (“kick-off meeting”) in June. The final goal is to have a harmonized auction in December with financial products with delivery in 2014.
- Next steps would be: by OMI the launch of a public consultation on certain elements of the project and the development of systems and documents, by the MIBEL Technical Committee the development of the necessary regulations and the approval of the rules.

In the NWE region, the market coupling project requires access rules for England-France Interconnector (IFA) to evolve.

- The public consultation has been launched from 8 May to 5 June to receive market participants’ feedback on TSOs’ proposal for the rules.
- Two issues are still under discussion: the firmness for capacity allocated in explicit auctions and the impact of losses.

In the CEE region, the Hungarian NRA, HEA, compared the current CAO rules with the “wish-list” and set a list of recommendations. At the end of June, NRAs agreed to ask TSOs to change the CAO rules to be applied next year on the following points:

- Reimbursement in case of Force Majeure using the "Initial Price Paid" principle;
- Introduction of the resale yearly capacity at monthly auctions option.

TSOs have been informed and the discussion on these changes will take place during the IG meeting on July 2.

Regarding the project to implement FTRs option on the Germany-Denmark border, Danish and German TSOs and NRAs have been discussing further. Nevertheless, an introduction of FTR options already for 2014 seems difficult as some open question with regard to financial market regulation could not be solved so far.

<b>Significant achievements during this quarter</b>	Memorandum of Understanding to enable the Transmission Rights allocation for France-Spain border through CASC signed by all parties  Public consultations launched for the evolution of <ul style="list-style-type: none"> <li>- CASC’s Harmonised Auctions Rules</li> <li>- IFA Allocation Rules</li> </ul>
<b>Obstacles or delays in implementation</b>	Wish list only partly taken into account for the France-Spain border, in the HAR rules submitted to public consultation  Extension of CASC platform to the France-Spain interconnection delayed to November 2013  Changes in IFA rules in preparation for NWE market coupling: issues regarding firmness and losses  Observed delay and coming steps not in line with the set objectives
<b>Potential divergences from the FG on CACM</b>	

<b>Comments</b>	
-----------------	--

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

The Agency, NRAs and ENTSO-E are to set clear steps towards the set objectives. Feedbacks from market participants could also be requested.

## 4.4 Implementation of fully coordinated capacity calculation methodologies and particularly the flow-based allocation method in highly meshed networks<sup>9</sup>

### 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.
	Q2	2. CEE MC decision and compatibility with the CWE (cf. price market coupling, 4.1). 3. Study of the impact of bidding zones by the CWE TSOs and PXs, in cooperation with the CWE NRAs.

<sup>9</sup> 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](http://www.acer.europa.eu/Electricity/Regional_initiatives/Cross_Regional_Roadmaps/Pages/Capacity-Calculation.aspx).



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

#### 4.4.3 Review of progress during this quarter

At the meeting on 2<sup>nd</sup> May, ACER, CEE NRAs and CEE TSOs discussed the way forward in elaborating a technical solution for a FBMC system. CEE TSOs reported about two solution proposals with the aim to overcome the existing development obstacles. A decision on this is expected in early June 2013. Additionally, TSOs presented the first rough version of a revised roadmap, which was welcomed by CEE NRAs; but once more, NRAs remarked that the a go live 27 month from now as foreseen by the roadmap is not in line with the Joint Declaration and the Target Model 2014. CEE NRAs requested CEE TSOs to use everything possible to do in parallel and shorten the duration of the project to meet the target.

Regarding the activities in the early implementation of the bidding zone provisions of the CACM NC, NRAs and ACER agree that all CEE TSOs should utilize their knowledge and resources to contribute efficiently and in a coordinated way to this task under the ENTSO-E umbrella.

During the CEEE Forum on 19 June, the Agency, CEE NRAs, TSOs and PXs updated the European Commission and the Ministries about the state of play. When the discussion touched the extension of the existing coupling initiative between Czech Republic, Slovakia and Hungary to Poland and Romania, the Agency and the European Commission recalled that this initiative is welcome as long as it allows there is clear and ambitious plan to adopt the PCR material asap and does not have a negative impact on the development of the FBMC project. Clarifications on the way the issue of the Gate Closure Time is to be handled in Poland are also needed.

CWE TSOs, PXs and NRAs had several FBMC technical meetings dealing with the results of the external parallel runs (<http://www.casc.eu/en/Resource-center/CWE-Flow-Based-MC/General-Information>), the market consultation, discussions on FBMC parameters such as GSKs, the fall-back principles and congestion income allocation.

On 15 April 2013, the CWE NRAs organized a stakeholder group meeting on FBMC in Brussels. An overview was given of the history of FBMC followed by the recent results of the external parallel runs presented by the CWE FBMC project parties. Further, market players elaborated on their expectations while NRAs presented the current technical challenges they are closely monitoring as well as perceived future challenges. Market parties received the opportunity to ask for clarifications regarding these FBMC aspects.

<b>Significant achievements during this quarter</b>	9 <sup>th</sup> April: CWE FBMC technical meetings focussing mainly on follow-up on the external parallel runs, the market consultation and congestion income allocation
---	--

	<p>15<sup>th</sup> April: CWE Stakeholders Group meeting on FBMC.</p> <p>2<sup>nd</sup> May: CWE FBMC technical meeting on congestion income allocation.</p> <p>2<sup>nd</sup> May: CEE IG meeting (TSOs and NRAs), with main focus on CEE FBMC, the way forward for the implementation of target model at the Day-ahead timeframe.</p> <p>4<sup>th</sup> June: CWE FBMC technical meetings focussing mainly on follow-up on the external parallel runs, the market consultation status, further GSK insight, status on Fall-back principles and congestion income allocation</p> <p>19<sup>th</sup> June: CEEE Forum</p>
Obstacles or delays in implementation	
Potential divergences from the FG on CACM	
Comments	

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

The launch of CWE FBMC will be dependent of the availability of NWE Day-Ahead Market Coupling (NWE DA MC). Delay in the NWE DA MC project needs to be avoided since it will bring about delays in the CWE FBMC project.

CEE NRAs, ACER, CEE TSOs and PXs plan the next IG meeting for 2nd July. An agreement among the project parties on the principles of the methodology and cornerstones of technical solution is still the most important issue for overcoming the constraints and forthcoming the development.

## 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

ENTSO-E continued the preparation of the Ten Year Network Development Plan 2014 and of the accompanying Regional Investment Plans. After the pan-European market simulation phase, the ENTSO-E system development Regional Groups started the regional market simulations, which constitute the first step in assessing the investment projects.

The four electricity Regional Groups set up according to the Regulation 347/2013 of 17 April 2013 on guidelines for trans-European energy infrastructure continued their activities for the selection of projects of common interest. The last round of group meetings took place on 9, 10, 15 and 19 April. On 14 June 2013, the Agency received the draft regional lists of proposed projects of common interest, on which it is now preparing an opinion.

### 5.2 Development of cross-border balancing

ENTSO-E received on 1<sup>st</sup> April 2013 several proposals for pilot projects nominations, which aim at gaining bottom-up experience for the implementation of the different stages of the European Balancing Market established in the *ACER Framework Guidelines* roadmap. Nine pilot projects have been approved in June 2013 as they comply with the objectives set by ENTSO-E. These projects cover a wide range of balancing products, notably:

- Cross-border market for Frequency Containment Reserves based on a TSO-TSO model (which involves *APG* and *SwissGrid*);
- Imbalance netting of balancing energy from Frequency Restoration Reserves (*I-GCC* project which involves *MAVIR*, *CEPS* and *SEPS*, and *E-GCC* project which involves German TSOs, *CEPS*, *Elia*, *Energinet.dk*, *Tennet TSO B.V.* and *SwissGrid*);
- Common Merit Orders for manual and automatic Frequency Restoration Reserves with real time flow based congestion management (German TSOs);
- Exchange of balancing from Frequency Restoration Reserves (Nordic market which involves Statnett, Fingrid, Svenska Kraftnät, Energinet.dk & Baltic TSOs);
- Exchange of balancing from Replacement Reserves (the *TERRE* Trans-European Replacement Reserve exchange project which involves RTE, NG, Terna, REN and REE).

The Agency has requested ENTSO-E to report on the issue of coordinating these projects and on their compatibility and ability to merge. In addition, it was requested more detailed information; timeline, expected outcomes for each pilot project. Also the issue of monitoring and timing for reporting should be agreed. Finally, ENTSO-E should further investigate the question of the interaction between the development of cross-border balancing and the ongoing development of an intraday solution.

# ANNEX 1: 8<sup>th</sup> Region Quarterly Report

This annex has been prepared by



## Contents

1	The 8 <sup>th</sup> Region	29
2	Context	29
3	Review of progress with implementation in each of the cross-regional projects	30
3.1	Implementation of a single price market coupling model	30
3.1.1	Description of the project	30
3.1.2	Key milestones and accountabilities	30
3.1.3	Review of progress during this quarter	30
3.1.4	Action needed to overcome the identified constraint(s)	30
3.2	Implementation of a cross-border continuous intraday trading system across the 8 <sup>th</sup> Region	31
3.3	Improvement and harmonisation of the allocation and nomination rules for long and medium-term transmission rights	31
3.3.1	Description of the project	31
3.3.2	Key milestones and accountabilities	31
3.3.3	Review of progress (during this quarter)	32
3.3.4	Action needed to overcome the identified constraint(s)	32
3.4	Implementation of fully coordinated capacity calculation methodologies and particularly the flow-based allocation method in highly meshed networks	33
3.4.1	Description of the project	33
3.4.2	Key milestones and accountabilities foreseen in the initial cross-regional roadmap	33
3.4.3	Review of progress during this quarter	33
3.4.4	Action needed to overcome the identified constraint(s)	33
4	Review of progress with implementation in other important areas	34
4.1	Transmission development plans	34
4.2	Development of cross-border balancing	34
4.3	Transparency	34
4.4	Management and use of interconnections	34
	Figure 1: Mechanisms for Capacity Price determination in the 8 <sup>th</sup> Region	35
	Figure 2: Cross Border Capacity Allocation Mechanisms in the 8 <sup>th</sup> Region	36

## 1 The 8<sup>th</sup> Region

The 8th Region<sup>10</sup> covers the Energy Community<sup>11</sup> Contracting Parties<sup>12</sup> and the six neighbouring EU Member States<sup>13</sup>.

## 2 Context

On EU level the entry into force of the Third Energy Package together with the target of completing the internal energy market by 2014 form the framework for electricity market development. The Third Energy Package was incorporated in the Energy Community in October 2011<sup>14</sup> with a transposition deadline by 1 January 2015 the latest. This also includes adopting the European Network Codes, once legally binding on European level<sup>15</sup>, in the Energy Community.

The goal of integrating the seven European electricity regions into a single market area is addressed through the *Regional Initiatives* process which falls under ACER's responsibility and focuses on four cross-regional roadmaps<sup>16</sup>:

- Capacity calculation
- Long term capacity allocation
- DA capacity allocation (Market coupling)
- Continuous mechanisms for implicit cross border intraday trading

The 8<sup>th</sup> Region participates in ACER's coordination activity. The Regional Action Plan for Wholesale Market Opening in South East Europe (SEE RAP)<sup>17</sup> defines the steps for regional market integration in the 8<sup>th</sup> Region streamlined with the milestones and actions of the European electricity target model and the four cross-regional roadmaps. The objective of this Quarterly Report is to monitor progress in the implementation of the different roadmaps and to ensure that any obstacle is well identified and tackled in the most effective and efficient way.

---

<sup>10</sup> The 8th Region was established following a [decision by the Ministerial Council](#) of the Energy Community on 27 June 2008 with a view to implement a common procedure for electricity congestion management and transmission capacity allocation on regional level.

<sup>11</sup> [www.energy-community.org](http://www.energy-community.org).

<sup>12</sup> Albania, Bosnia and Herzegovina, Croatia, Former Yugoslav Republic of Macedonia, Kosovo\*, Moldova, Montenegro, Serbia and Ukraine. [\* *This designation is without prejudice to positions on status, and is in line with UNSCR 1244 and the ICJ Opinion on the Kosovo declaration of independence*]. Croatia became a member of the European Union and thereby changed its Contracting Party status to the status of a Participant.

<sup>13</sup> Bulgaria, Greece, Italy (limited to its interconnections with Contracting Parties), Hungary, Romania and Slovenia.

<sup>14</sup> **Decision 2011/02/MC-EnC of the Ministerial Council of 6 October 2011.**

<sup>15</sup> Network Codes will, finally, have the form of a directly binding Regulation. Different from the European Union, European Regulations do not develop direct applicability in the Energy Community but need to be transposed into national legislation. The Energy Community Council by Decision 2011/02/MC-EnC empowered the Energy Community Permanent High Level Group (PHLG) to decide on the applicability of the European Network Codes and Guidelines in the Energy Community. The PHLG has defined its procedures by Procedural Act 2012/01-EnC (<http://www.energy-community.org/pls/portal/docs/1636177.PDF>).

<sup>16</sup> According to the **EU Energy Work Plan for 2011-2014 in Electricity**.

<sup>17</sup> "<http://www.energy-community.org/pls/portal/docs/1810178.PDF>. The SEE RAP has been jointly developed by the Energy Community Regulatory Board and ENTSO-E RG SEE and received support of the Ministerial Council of the Energy Community.

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

#### 3.1 Implementation of a single price market coupling model

##### 3.1.1 Description of the project

Mirroring the European approach, the target model for the day-ahead timeframe in the Energy Community is a single Price Coupling (PC) model which simultaneously determines volumes and prices in all relevant zones, based on the marginal pricing principle. Among the different elements of PC, one of the most important is the choice of a single algorithm that meets the TSOs' requirements in terms of efficient allocation.

##### 3.1.2 Key milestones and accountabilities

The SEE RAP foresees enhancing a common grid model for SEE and harmonization of the methodologies and procedures for calculation of yearly / monthly / day ahead capacity by end of 2011, putting responsibility on TSOs via the ENTSO-E Regional Group SEE.

Implementation of PC in the 8<sup>th</sup> Region entails a step-wise approach, starting from bilateral/ trilateral market coupling by mid 2013 following a nucleus approach or based on different regional initiatives and achieving a single regional PC model by end of 2014 with the scope of integrating with the European PC zone by mid 2015.

As crucial element of this process, the SEE RAP foresees the establishment of power exchanges (PX) or contracting services from existing PXs by end of 2012.

##### 3.1.3 Review of progress during this quarter

Concrete progress has not been made; neither related to the development of a single capacity calculation algorithm, nor in relation the introduction of PC and the establishment of PXs or contracting services from existing PXs.

However, developments have been announced in the course of the 18<sup>th</sup> Energy Community Electricity Forum (June 2013):

- TSOs reported that progress has been made within the ENTSO-E Regional Group SEE on discussing a harmonised capacity calculation algorithm
- **The Forum** supported the Serbian SEEPEX as possible pilot project for development of market coupling across the Region that can be extended to other Contracting Parties<sup>18</sup> on a step by step basis. Another comparable initiatives has been started in Croatia with the aim of establishing a PX or entering into joint venture agreements by end of 2013 / early 2014.

##### 3.1.4 Action needed to overcome the identified constraint(s)

It has to be underlined that all elements of the SEE RAP can be implemented within the legal framework of the 2<sup>nd</sup> Energy Package. Necessary adjustments in national legislation, preparing the ground for regional implementation, have already been made. Lack of *concrete* progress is even more

---

<sup>18</sup> Specific arrangements may need to be found for Moldova and Ukraine.

disappointing in this context. Certainly, stronger political support, promotion and commitment are necessary to proceed.

Effective market opening is also hindered by a number of legislative provisions in the Contracting Parties that need to be abolished, in particular related to public supply, single buyer models, regulated energy prices, market based procurement and trade of electricity and monopoly positions in electricity generation and supply.

### **3.2 Implementation of a cross-border continuous intraday trading system across the 8<sup>th</sup> Region**

Although being already required under the 2<sup>nd</sup> EU Energy Package, the introduction of a specific cross-border continuous intraday trading system at all borders of the 8<sup>th</sup> region has not started yet.

### **3.3 Improvement and harmonisation of the allocation and nomination rules for long and medium-term transmission rights**

#### **3.3.1 Description of the project**

The SEE RAP provisions on the harmonisation of the allocation and nomination rules for long and medium-term transmission rights is streamlined with the related European cross-regional roadmap. The objective is to give market participants an opportunity to hedge themselves against day-ahead price differences, 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.

The still existing lack of a regionally coordinated capacity allocation mechanism remains a key concern, both in terms of market liquidity as well as it concerns the compliance with the Energy Community *acquis communautaire*. Insufficient transmission interconnection capacity with neighbouring systems remains a key barrier for limited cross-border trading and the establishment of a regional electricity market. Coordinated capacity allocation and congestion management schemes are therefore essential. Although the TSOs of all Energy Community Contracting Parties, except Moldova<sup>19</sup>, have already introduced market-based capacity allocation mechanisms (based on NTC auctions) for congestion management at their borders, there is still insufficient harmonization in the 8<sup>th</sup> Region.

#### **3.3.2 Key milestones and accountabilities**

The SEE RAP foresees a step-wise approach starting from centralized and multilaterally coordinated (NTC based in a first step but flow based remaining the final concept) auctions on relevant SEE borders performed by a Coordinated Auction Office as single point of contact in SEE by end of 2012. The SEE RAP schedules the final target of multilateral coordinated auctions on all SEE borders as regional one-stop-solution for end of 2014.

---

<sup>19</sup> With regard to the Republic of Moldova, the draft regulation transposing Regulation (EC) 1223/2008 has been finalised with further amendments; approval is, however, pending and subject to adjustments in primary legislation.



### 3.3.3 Review of progress (during this quarter)

#### *SEE Coordinated Auction Office*

The establishment of a SEE Coordinated Auction Office (SEE CAO) targets harmonization of the allocation and nomination rules for long and medium term transmission rights in the 8<sup>th</sup> Region. The SEE CAO is envisaged to perform coordinated NTC-based capacity allocation as first step and, finally, switch to flow based capacity auctioning. The Energy Community Ministerial Council in December 2008 supported the location of the Coordinated Auction Office in Montenegro.

A so-called *Project Team Company in Charge of Establishing a SEE CAO* (PTC)<sup>20</sup> has been officially registered in Montenegro on 4 July 2013 with the scope of preparing the effective operation of the SEE CAO. The network operators of Albania, Bosnia and Herzegovina, Croatia, FYR of Macedonia, Greece, Kosovo\*<sup>21</sup>, Montenegro, Romania, Slovenia and Turkey are shareholders of the PTC. The Company is co-funded by the individual shareholders and significant contributions from International Financing Institutions<sup>22</sup>.

The PTC targets preparing the SEE CAO for executing auction of annual capacities for 2014 by end of 2013. According to the information provided at the 18<sup>th</sup> Energy Community Electricity Forum<sup>23</sup> this deadline will not be met. Instead, the SEE CAO is expected to be functional no later than 1 July 2014, starting with monthly allocation periods as initial step for centrally coordinated forward capacity allocation and complementary to market coupling.

### 3.3.4 Action needed to overcome the identified constraint(s)

It has to be underlined that all elements of the SEE RAP can be implemented within the legal framework of the 2nd Energy Package. The establishment of a regionally coordinated congestion management is even explicitly required by Regulation (EC) 1228/2003. However, stronger political support, promotion and commitment are necessary to proceed.

At the 18th Energy Community Electricity Forum the Serbian TSO, EMS, declared readiness to enter into joint bilateral auctions, as a first step, with the SEE CAO. Commitment by the Bulgarian network operator is still missing.

---

<sup>20</sup> [www.seecao.com](http://www.seecao.com).

<sup>21</sup> This designation is without prejudice to positions on status, and is in line with UNSCR 1244 and the ICJ Opinion on the Kosovo declaration of independence.

<sup>22</sup> EBRD, KfD and USAID.

<sup>23</sup> [http://www.energy-community.org/portal/page/portal/ENC\\_HOME/INST\\_AND\\_MEETINGS?event\\_reg.category=E13241](http://www.energy-community.org/portal/page/portal/ENC_HOME/INST_AND_MEETINGS?event_reg.category=E13241)

### **3.4 Implementation of fully coordinated capacity calculation methodologies and particularly the flow-based allocation method in highly meshed networks<sup>24</sup>**

#### **3.4.1 Description of the project**

Following the implementation of a coordinated NTC allocation mechanism, the implementation of a flow-based (FB) capacity calculation and allocation method within the SEE CAO remains the final target with a view to improve:

- Economic signals: for planning transmission network expansions (TSOs) and location of the new power plants/large consumption units (market participants),
- System security: the better identification of critical transmission network conditions on the regional level.

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.

#### **3.4.2 Key milestones and accountabilities foreseen in the initial cross-regional roadmap**

No concrete milestones for the implementation of the flow-based allocation have been defined so far. Still, the implementation of a flow based mechanism has been identified as final target.

#### **3.4.3 Review of progress during this quarter**

No concrete steps have been taken.

#### **3.4.4 Action needed to overcome the identified constraint(s)**

Concrete milestones for the implementation of FB allocations need to be defined.

---

<sup>24</sup> 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](http://www.acer.europa.eu/Electricity/Regional_initiatives/Cross_Regional_Roadmaps/Pages/Capacity-Calculation.aspx).

## **4 Review of progress with implementation in other important areas**

### **4.1 Transmission development plans**

Since the 8<sup>th</sup> Region's national transmission grids are relatively small, regional transmission network planning is of utmost importance. Thus SEE TSOs are actively participating in the relevant ENTSO-E working groups. In addition, the SECI transmission planning project provides a platform for the TSOs exchanging information about ongoing transmission projects. SEE TSOs are actively contributing to the development of the ENTSO-E Ten Years Network Development Plan, thus involving SEE transmission grid in the pan-European context.

### **4.2 Development of cross-border balancing**

Although the importance of cross-border/regional balancing for the 8th Region has been recognised by all stakeholders and investigation of feasible approaches took place in the past, further development of a regional balancing mechanism is currently put on hold until the day-ahead cross-border auctions are introduced within the whole region. Due to its importance the development of a regional balancing model is reflected in the 2013 Work Program of the ECRB Electricity Working Group.

### **4.3 Transparency**

In order to increase market transparency most of the SEE TSOs are participating in the ENTSO-E transparency web platform.

Although, the quality of the SEE TSOs websites has increased, none of the CPs TSOs is in full compliance with the legal transparency obligations.

### **4.4 Management and use of interconnections**

As regards the management and use of interconnections, harmonization of the applied cross border capacity allocation mechanisms has been reached; the marginal price mechanism prevails in the region.

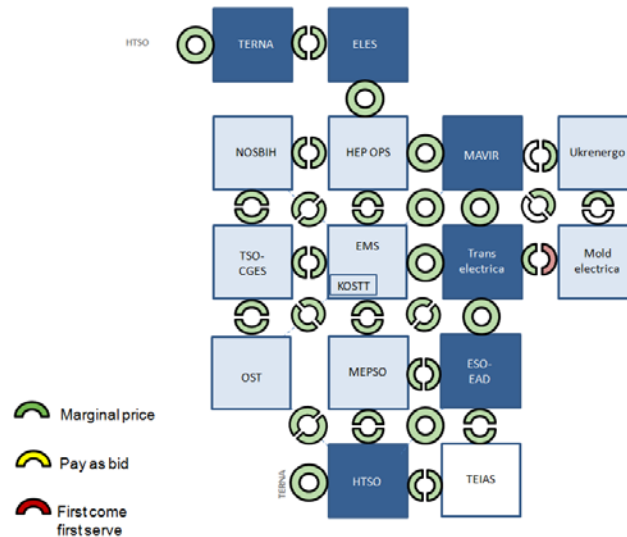


Figure 1: Mechanisms for Capacity Price determination in the 8<sup>th</sup> Region<sup>2526</sup>

### Joint auctions

All Contracting Parties' TSOs, except the TSO of Moldova<sup>27</sup>, have introduced market-based mechanisms for cross-border auctions, namely explicit NTC-based auctions. Auction rules for cross border capacity allocation for the borders of Ukraine have been adopted by the national regulator already in 2009 which Energy Community Secretariat assessed these Auction Rules in 2012 as being not in compliance with the Energy Community acquis. Yearly and monthly allocations are introduced at all electricity borders while weekly and daily allocations are introduced only at several borders. Intraday allocations are also available at several borders, but on non-market based solution (first come, first served).

Besides the EU member states in the 8th Region also several Contracting Parties TSOs have started to implement joint auctions (see figure 3): the TSOs of Serbia<sup>28</sup> and Croatia<sup>29</sup> started implementing joint auctions with their neighbouring TSOs. As of January 2013, Serbia and Romania jointly organize coordinated auctions for long and short term allocation of their cross border capacities.

For 2013 the Croatian borders to Slovenia and Hungary are for the first time involved in CEE Coordinated Auction Office (yearly, monthly and daily auctions).

Romania has declared interest on joining the market coupling mechanism between Czech Republic, Slovakia and Hungary; steps have been made in declaring the common willingness for cooperation and mutual approach in this respect of all involved parties.

<sup>25</sup> Please note that according to current Ukrainian Electricity Law only unilateral auctions (for export) are allowed.

<sup>26</sup> Currently, auctions for interconnection capacity allocation between Ukraine and Republic of Moldova are organized only by Ukrainian TSO.

<sup>27</sup> With regard to the Republic of Moldova, the draft regulation transposing Regulation (EC) 1223/2008 has been finalised with further amendments; approval is, however, pending and subject to adjustments in primary legislation.

<sup>28</sup> Serbia started joint auctions with Transelectrica on 1. January 2013. Joint auctions between Serbia and Hungary started for 2012 in Dec 2011 on yearly, monthly, daily and intra-day level.

<sup>29</sup> Joint auctions with Hungary started already in 2010 (yearly, monthly and daily auctions). The Joint auctions with Slovenia started in 2011 (yearly, monthly and daily auctions).

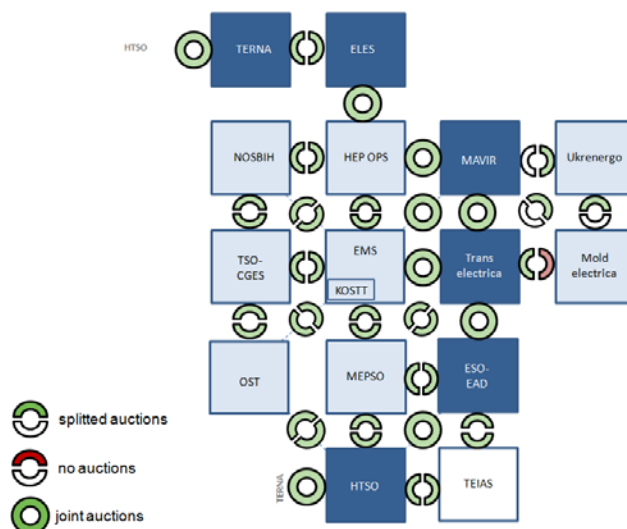


Figure 2: Cross Border Capacity Allocation Mechanisms in the 8<sup>th</sup> Region<sup>30</sup>

<sup>30</sup> Currently, auctions for interconnection capacity allocation between Ukraine and Republic of Moldova are organized only by Ukrainian TSO.



**Publishing date:** 12/07/2013

**Document title:** 6th ERI Quarterly Report - Q2 2013

**We appreciate your feedback**



Please click on the icon to take a 5' online survey  
and provide your feedback about this document

**Share this document**

