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ACER Coordination Group for Electricity Regional Initiatives

ERI Quarterly Report #7

July 2013 – September 2013

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1 Context

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

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

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

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

The EU Energy Work Plan for 2011-2014 in Electricity **is constituted from four cross-regional roadmaps focusing on the implementation of the target models for CACM** across Europe and seven regional roadmaps[1] complementing and detailing the cross-regional roadmaps and focusing on other important dimensions for the completion of the Internal Electricity Market. Each cross-regional roadmap is **dedicated to one particular timeframe or topic**:

- Implementation of a **single European price market coupling** model[2];
- Implementation of a **cross-border continuous intraday trading system across Europe**[3];
- Implementation of **a single European set of rules and a single European allocation platform for long and medium-term transmission rights**[4];

[1] The seven regional roadmaps are available on: http://www.acer.europa.eu/Electricity/Regional_initiatives/Pages/Work-Programmes-2011-2014.aspx
[2] 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
[3] 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

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

Since the endorsement of the four Cross-Regional Roadmaps by the Florence Forum in December 2011, obstacles have delayed the different projects. Previous ERI Quarterly Reports and Regional Initiatives Status Review Reports[6] provide further information on these obstacles and their impact on the different projects.

As an exception, 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 at the day ahead and intraday day stage in the Irish electricity wholesale market ('SEM') has been postponed to 31 December 2016. In this context, a Roadmap on Implementation of the European Electricity Target Model in the SEM[7] drafted by the Commission for Energy Regulation, the Utility Regulator of Northern Ireland and Ofgem was sent to the Agency on 23 May 2013. Since then the CER and UR, along with government ministries, have established a project to design new market arrangements for the island of Ireland that meet the requirements of the Target Model[8].

2 Objective of the Quarterly Report

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

The second objective of the Quarterly Report is to assess progress against the 2014 deadline and for markets which won't be able to meet this deadline to make sure that the delay will be as limited as possible.

[4] 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

[5] 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

[6] Previous ERI QR reports and RISRR are available here: http://www.acer.europa.eu/Official_documents/Publications/Pages/Publication.aspx

[7] The Roadmap on Implementation of the European Electricity Target Model in the SEM is available at: http://www.allislandproject.org/GetAttachment.aspx?id=ec8eecd6-0e41-4659-8a1e-85c5efb0fe80

[8] For more information on this project see: http://www.allislandproject.org/en/TS_Current_Consultations.aspx?article=dac49400-fed7-41e7-ad9c-17c8ea4c65f4

3 Implementation of a single European price market coupling model

3.1 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 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 focusing first on the implementation of the North-West Europe (NWE) price coupling which, once in place, will be joined by other markets or regions as soon as ready.

3.2 Review of the progress during this quarter

Overall assessment:

NWE, CSE and SWE regions are still expected to meet the 2014 deadline.
The Agency will pay attention that the lack of agreement between REE and CASC does not induce any further delay to the coupling of MIBEL to NWE. The Agency urges the SWE region to find a solution as soon as possible.

Regions	Progress achieved	Pending issues
NWE	At a NWE IG meeting on October 30, project parties presented the current status of the project. • Simulation Testing phase has been extended until end of October. • The member test description, invitation as well as the member test scenarios and timings have been finalized and sent out. • The technical and contractual arrangements with EMCC with regard to the roll back solution are finalized and approved The Go or No Go decision to launch in November will be taken early November.	Whether the expected go-live in November can be hold depends on the following issues: • Successful completion of the Simulation Test phase; • Successful completion of the Member Test phase • Signing of all contracts and agreements; • Regulatory approval
SWE	• Change in market rules and operational procedures (New GCT 12 as for 15 oct) done. • Some other regulation such as IFE and IPE rules are being amended and must be approved by the Ministry. • Euphemia algorithm to be approved in the next few weeks.	• Minimise impact on coupling of delayed integration of REE in CASC
CSE	The Parties of the Italian Borders Pre and Post Coupling (PPC) project presented on	On August 28 the PPC project submitted to CSE NRAs a request of comfort letter(s)

	July 22nd to all involved Regulators three deliverables of the PPC Design project: • The High Level Business Process (HLBP) • The Contractual Framework Architecture • The Project Implementation Plan (PIP) The expected go-live date is December 2014. Initially the ATC approach will be used as the capacity calculation method. The project status is on time. An IG meeting was set on October 2nd by CSE NRAs to jointly evaluate the outcome of the design phase and carry out the approval phase for launching the implementation phase by November 2013.	acknowledging the support to all the Parties for starting the implementation phase and for related cost recovery process.
CEE (the whole region)	ACER and CEE NRAs agreed on the draft of Memorandum of Understanding and distributed it to CEE TSOs and PXs.	Discussions are still on-going on the MoU for the implementation of the Flow-Based Market Coupling within the whole region. The main concerns are about bidding-zones, cost recovery, the need for a binding agreement and acceptance criteria.
CEE (the 4 Market Coupling Project)	Following the 5M MC MoU mid of July and a survey among the five market's market parties, the market coupling project will proceed with involvement of the day-ahead electricity markets of the Czech Republic, Slovakia, Hungary, and Romania and GCT at 11:00. Polish market area will be implemented later in the context of the CEE FBMC (Central East Europe Flow-Based Market Coupling) initiative The parties agreed to implement the PCR material.	The Polish market area will join this initiative later in the context of the CEE FBMC (Central East Europe Flow-Based Market Coupling) initiative
Croatia		Still no roadmap to implement the Target solution
Bulgaria		Still no roadmap to implement the Target solution
Ireland[9]	SEM Market Integration Project formally established and market design consultants Poyry Management Consulting appointed in September 2013 to advise the NRAs in Ireland and Northern Ireland on new market high level design and implementation of the European Electricity Target Model. Work has focussed on developing market design options (3 or 4 options) to be included	Consultation on new market design to be published by NRAs (CER and UR) in Q1 2014 Detailed progress on the specific timeframes will be reported in greater detail when the project moves to implementation phase in Q3 2014.

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

	in the consultation paper to be published in Q1 2014. The options being developed for the new market design cover the key timeframes for the Target Model – day ahead, intra day, forward and balancing. There has been a high level of stakeholder engagement including the establishment of an High Level Design Group of stakeholders (representing generators, suppliers, TSOs and consumers) to advise the NRAs on market design issues	

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

4.1 The project in a nutshell

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. Due to several issues, the project has been delayed. The implementation of the Intraday European target model follows a phased approach starting with implicit continuous trading covering at least the NWE (plus Austria and Switzerland) region which will evolve to meet the requirements of the target model while being implemented at European level.

4.2 Review of the progress during this quarter

Overall assessment:

In spite of the ACER letter sent 17 June, involved PXs have still not reached an agreement with the selected IT provider. Discussions are on-going and PXs elaborate further their requirements.

Regions	Progress achieved	Pending issues
NWE	No concrete progress for this period	At the end of September, a number of details were still to be bottomed out (geographical scope, budget, proposals on cost sharing and cost recovery and timings of the project)
SWE		No implementation roadmap
CSE		No implementation roadmap
CEE		No implementation roadmap
Croatia		No implementation roadmap
Romania		No implementation roadmap
Bulgaria		No implementation roadmap
Ireland[10]	See update for Day Ahead Market Coupling	

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

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

5.1 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. Harmonisation of the allocation platform;
3. Harmonisation of nomination procedures;
4. A potential move to Financial Transmission Rights (FTRs).

5.2 Review of the progress during this quarter

Overall assessment:

Progress on the harmonisation of the Auction Rules is lagging behind schedule and endangers the objective of a common European set of rules for 2015 auctions.
The joint initiative between CASC and CAO might be an opportunity to achieve significant progress towards a common allocation platform.
German and Danish NRAs have taken decisions on forward hedging products. .

Regions	Progress achieved	Pending issues
Baltic		Still decisions about TRs to be taken
Northern	Decision on PTR to be allocated by CASC: ▪ On DE-DK1 and DE-DK2 by the end of this year ▪ On DK1-DK2 next year	Still decisions about TRs to be taken for NorNed, the Baltic cable and the SwePol link
CWE	MoU between CASC and CAO Approval process of the Harmonised Auction rules version 1.1 (applying to CASC for 2014 onwards) on-going	Roadmap with CAO to be defined
SWE		Agreement between CASC and REE to be found HAR rules including the FR-ES border to be submitted by REE to CNMC Still no roadmap for IPE to join CASC or a set of harmonised rules. MIBEL regulators' Council is working on the allocation rules for the implementation of a Regional

		Solution (FTR options) in a transitory phase, till integration of IPE in CASC (when CASC complies with all the requirements to issue FTRs, and REE and CASC reach an agreement).
CSE	MoU between CASC and CAO	Roadmap with CAO to be defined
CEE	MoU between CASC and CAO	Roadmap with CASC to be defined Sill no roadmap to include the Northern Croatian borders into the CAO rules (currently two separate sets of rules)
Croatia	Since 2012, capacity on borders with Slovenia and Hungary are allocated by CEE CAO. There are separate auction rules regarding these 2 borders, but all the principles remained the same as for other CEE CAO borders. CAO shareholders are discussing with HOPS (Croatian TSO) to become a new shareholder. They expect an agreement before the end of the year	
FUI	Approval process of the new IFA access rules on-going (rules submitted to Ofgem and CRE on 2 July)	Still no roadmap to join a platform or a harmonised set of rules
Romania		Still no roadmap to join a platform or a harmonised set of rules
Bulgaria		Still no roadmap to join a platform or a harmonised set of rules
Ireland[11]	See Update for Day Ahead Market Coupling	Still no roadmap to join a platform or a harmonised set of rules

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

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

6.1 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 Northern, South-West, CSE and FUI regions have decided to go on applying the ATC method.

6.2 Review of the progress during this quarter

Overall assessment:

CWE Flow-Based Market Coupling project parties postponed the go-live to June 2014. The Agency urges CWE TSOs to finalise the testing phase and to sort out the remaining issues in order to go-live in June 2014
The Agency and CEE NRAs have reached an agreement on the draft MoU. TSO and PXs should provide their feedbacks in October.

Regions	Progress achieved	Pending issues
Baltic		Still decisions about capacity calculation to be taken
CWE	CWE FBMC project parties organised a Market Forum on 10 October 2013 in Brussels On 3 July, CWE NRAs agree on the following elements: the market consultation process, transparency (data publication), monitoring, FBMC parameters (such as GSKs), intuitiveness (FB intuitive vs. plain), congestion income allocation and the approval package. The results of the external parallel runs are available (http://www.casc.eu/en/Resource-center/CWE-Flow-Based-MC/General-Information),	End of September 2013 CWE FBMC project parties announced a further delay for the launch of the FBMC due to issues with the industrialised platform for FB (IT tools and operators). It is now foreseen end of June 2014 Parallel runs ongoing. • Testing of the IT and operational side of FBMC • Still days without results Approval packages sent to NRAs and under scrutiny Discussions (TSO-PX-NRA) on market consultation, transparency and monitoring, FBMC parameters and intuitiveness Discussions (TSO-NRA) on congestion income allocation

CEE	The Agency and CEE NRAs agreed on the draft of Memorandum of Understanding and distributed it to CEE TSOs and PXs. A feedback is expected in early October. In the meanwhile, CEE TSOs are further elaborating possible technical solutions for a FBMC system	Still no roadmap to move to the FB method The enhancement must not negatively influence CEE TSOs or PXs resources which are needed to develop and handle the FBMC project for the entire region
Croatia		Still decisions about capacity calculation to be taken
Bulgaria		Still decisions about capacity calculation to be taken

7 Integration of Electricity Balancing markets

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

The target model for Electricity Balancing can be described two-fold.

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.

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 (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.

7.2 Review of the progress achieved by pilot projects during this quarter

Following the call for tender organised during the first half of the year, ENTSO-E has accepted the nine proposed projects.

Stakeholders have raised several concerns:

- The high number of projects;
- The absence of project considering the Intraday (ID) Single Order book under development for real time operations;
- The lack of information regarding the projects;
- The absence of harmonisation/merger principles between projects;
- The lack of recognition of the large differences between national balancing arrangements;
- The low level of reporting planned by ENTSO-E.

ENTSO-E agreed to provide more information about the projects at the September AESAG meeting and feedbacks on the harmonisation of ID and balancing operations at the October AESAG meeting.

8 Progress report from the 8th Region prepared by ERCB

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1 Main Insights

The 8th ERI Region is characterised by significant heterogeneity in both its market and regulatory set-up. The largest obstacle for the integration of electricity markets in this region is that its legal basis lacks harmonisation and implementation. 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, 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. The differing timelines for implementation of the respective requirements[12] add to the challenges necessary to be overcome in order to promote market opening, integration and functioning in large parts of the region. A central element for promoting the creation of a regional market, together with the final prospect of forming part of the IEM in a consecutive step, is the *Regional Action Plan for Wholesale Market Opening in South East Europe* ((SEE RAP)[13]. The SEE RAP has been developed in line with the elements of the European Electricity Target Model. Table 1 provides an overview of the progress made in the elements of the RAP, in line with the descriptions of the respective chapters below. As compared to the 2014 target of finalising the EU´s IEM, the target for the 8th Region is 2015.

RAP element	Meeting the intermediary RAP deadlines	Prospects of meeting the 2015 deadline	Progress achieved / pending issues[14]
Capacity Calculation	Partly	unclear	Grid Model updated & LT Coordinated Capacity Calculation in place
Forward Markets	No	likely	With the establishment of the SEE CAO progressing, and more willingness to cooperate, it becomes likely that coordinated LT allocations can take place in the near future; still, the relations between SEE CAO participating and non participating TSOs in the region Need further discussions
Day-ahead Market	No	announced	The establishment of Power Exchanges was announced for Serbia and Croatia, but real progress was not achieved. The Serbian power exchange was announced to become operational in the third quarter of 2014.
Intraday Market	No	unlikely	No measurable progress achieved
Abandoning of Barriers in National Legislation	To be abolished as part of the legislative reviews to implement the Third Energy Package with deadline of 1 January 2015		In the Region's EU member states and some of the Energy Community's Contracting Parties appropriate measures and market rules have been transposed to a large extent. Regarding the implementation more detailed setting and application of rules in a coordinated manner is required.

Table 1: Overview of the developments regarding the elements of the 8th Region´s Regional Action Plan

[12] The countries forming the region are Contracting Parties of the Energy Community and Member States of the European Union. This results in a two-speed market development, due to the additional time for transposition, and hence implementation, granted to the formerly mentioned.

[13] 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. Ukraine has postponed the decision on approval of the RAP till the Study on Ukraine and Moldova energy systems synchronizing conditions with ENTSO-E is finished. It is expected that the Study could be finished not earlier than 2015.

[14] For reasons of readability, the pending issues are not displayed here. Please consult the RAP for a detailed overview of the activities and deadlines foreseen, here: http://www.energy-community.org/pls/portal/docs/1114181.PDF

2 The 8th Region

The 8th Region[15] covers the Energy Community[16] Contracting Parties[17] and the seven neighbouring EU Member States[18].

3 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[19] with a transposition deadline by 1 January 2015 the latest. This also includes adopting the European Network Codes, once legally binding on European level[20], 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[21]:

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

The 8th Region participates in ACER's coordination activity. The SEE RAP defines the steps for regional market integration in the 8th 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.

[15] 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.
[16] www.energy-community.org
[17] 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*]
[18] Bulgaria, Croatia, Greece, Italy (limited to its interconnections with Contracting Parties), Hungary, Romania and Slovenia.
[19] **Decision 2011/02/MC-EnC of the Ministerial Council of 6 October 2011.** Ukraine has abstained from approval of the decision until the internal state procedures of ratification are performed.
[20] 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).
[21] According to the **EU Energy Work Plan for 2011-2014 in Electricity.**

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

4.1 Implementation of a single price market coupling model

4.1.1 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 optimises the value of admissible wholesale market trades both within and across bidding zones. At the same time TSOs' requirements in terms of operational network constraints have to be taken into account in order to ensure efficient and feasible allocation results.

4.1.2 Key milestones and accountabilities

The SEE RAP foresaw enhancing the common grid model for SEE and harmonising of the methodologies and procedures for the calculation of yearly, monthly, and day-ahead capacities by the end of 2011. Responsibility for these tasks rested with the region´s TSOs via the ENTSO-E Regional Group SEE.

Implementation of PC in the 8th Region entails a step-wise approach. Initially, the starting point for PC was foreseen to establish bilateral or trilateral market coupling by mid 2013 following a nucleus approach. Alternatively different initiatives merging into a single regional PC model by end of 2014 were envisaged. The RAP´s scope was then the integration of the then regional PC with the European PC zone by mid 2015. Delays in terms of implementation in the 8th region, but also within other ERI regions, outdated these prospects. The European Commission´s delay in developing the Governance Guidelines and the consequent delay in tabling a consolidated proposal for the CACM Network Code exacerbate the outlook for implementing a European Single Price Coupling solution by the end of 2014.

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. This initial implementation date was not fulfilled. An update of the SEE RAP is envisaged.

4.1.3 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 18th 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[22] 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.

4.1.4 Action needed to overcome the identified constraint(s)

[22] Specific arrangements may need to be found for Moldova and Ukraine.

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

Other requirements for the implementation of a PC in the 8th region are the establishment of PX functionalities in each bidding zone, the determination of Coordinated Capacity Calculator responsibilities and the development of attached methodologies, amongst other things for the distribution of congestion income or capacity calculation.

4.2 Implementation of a cross-border continuous intraday trading system across the 8th Region

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

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

4.3.1 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 mechanisms remains a key concern, both in terms of market liquidity as well as 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[23], 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 8th Region.

4.3.2 Key milestones and accountabilities

The SEE RAP foresaw 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

[23] 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.

performed by a Coordinated Auction Office as single point of contact in SEE by end of 2012. This initial implementation date was not fulfilled. An update of the SEE RAP is envisaged. The SEE RAP schedules the final target of multilateral coordinated auctions on all SEE borders as regional one-stop-solution for end of 2014.

4.3.3 Review of progress (during this quarter)

SEE Coordinated Auction Office

The establishment of a SEE Coordinated Auction Office (SEE CAO) targets harmonisation of the allocation and nomination rules for long and medium term transmission rights in the 8th 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.

The so-called *Project Team Company in Charge of Establishing a SEE CAO* (PTC)[24] has been officially registered in Montenegro on 4 July 2012 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*[25], 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[26].

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 18th Energy Community Electricity Forum[27] this deadline will not be met. Instead, the SEE CAO is expected to be in operation 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.

Progress towards the completion of the PTC's tasks has been made by publication of the SEE CAO draft auction rules for public consultation (16-27 September 2013) and the finalisation of the process for procurement of a software and hardware solution for the Auction Platform supporting the auction process, risk management, secondary market and accounting, invoicing and settlement. The IT solution will be financed by the European Bank for Reconstruction and Development.

4.3.4 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 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; concrete steps in this direction have not been accomplished yet and also the detailed rules for such agreement are not discussed so far. Commitment by the Bulgarian system operator is still missing.

[24] www.seecao.com.
[25] 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.
[26] EBRD, KfD and USAID.
[27] http://www.energy-community.org/portal/page/portal/ENC_HOME/INST_AND_MEETINGS?event_reg.category=E13241

4.4 Implementation of fully coordinated capacity calculation methodologies and particularly the flow-based allocation method in highly meshed networks[28]

4.4.1 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.

4.4.2 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.

4.4.3 Review of progress during this quarter

No concrete steps have been taken.

4.4.4 Action needed to overcome the identified constraint(s)

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

[28] 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 .

5 Review of progress with implementation in other important areas

Transmission development plans

Since the 8th 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. In line with the EU's new guidelines for trans-European energy networks, a process has been launched to identify, coordinate and facilitate Projects of Energy Community Interest (PECI)[29]. In this context, a milestone was reached with the Energy Community Permanent High Level Group's (PHLG) endorsement of those projects eligible for assistance and those of high priority amongst these. A list of regulatory investment incentives relevant for these projects was additionally recommended for adoption by the upcoming Ministerial Council. The PECI process contributes to the efficient development of the 8th region's transmission grid in a coordinated manner.

In October 2012, Energy Community Ministerial Council adopted Renewable Energy Directive 2009/28/EC and agreed to binding RES targets for the Contracting Parties in 2020. By 30 June 2013, the Contracting Parties had the obligation to submit National Renewable Action Plans describing the RES policy objectives on how o reach the 2020 RES targets. Part of the requirements for implementation of the RES Directive is also the development of the transmission and distribution grids to increase the uptake of renewable energy and within the TYNDP the 2020 RES objectives for the Contracting Parties will have to be reflected adequately.

Until 30 June 2013, only Serbia submitted the NREAP adopted by the Government and in the upcoming period more Contracting Parties will have it adopted and submitted for publication providing the scope for TYNDP reviewing.

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.

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.

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.

[29] For details on the PECI process, please consult:
http://www.energy-community.org/portal/page/portal/ENC_HOME/AREAS_OF_WORK/Regional_Energy_Strategy/PECIs

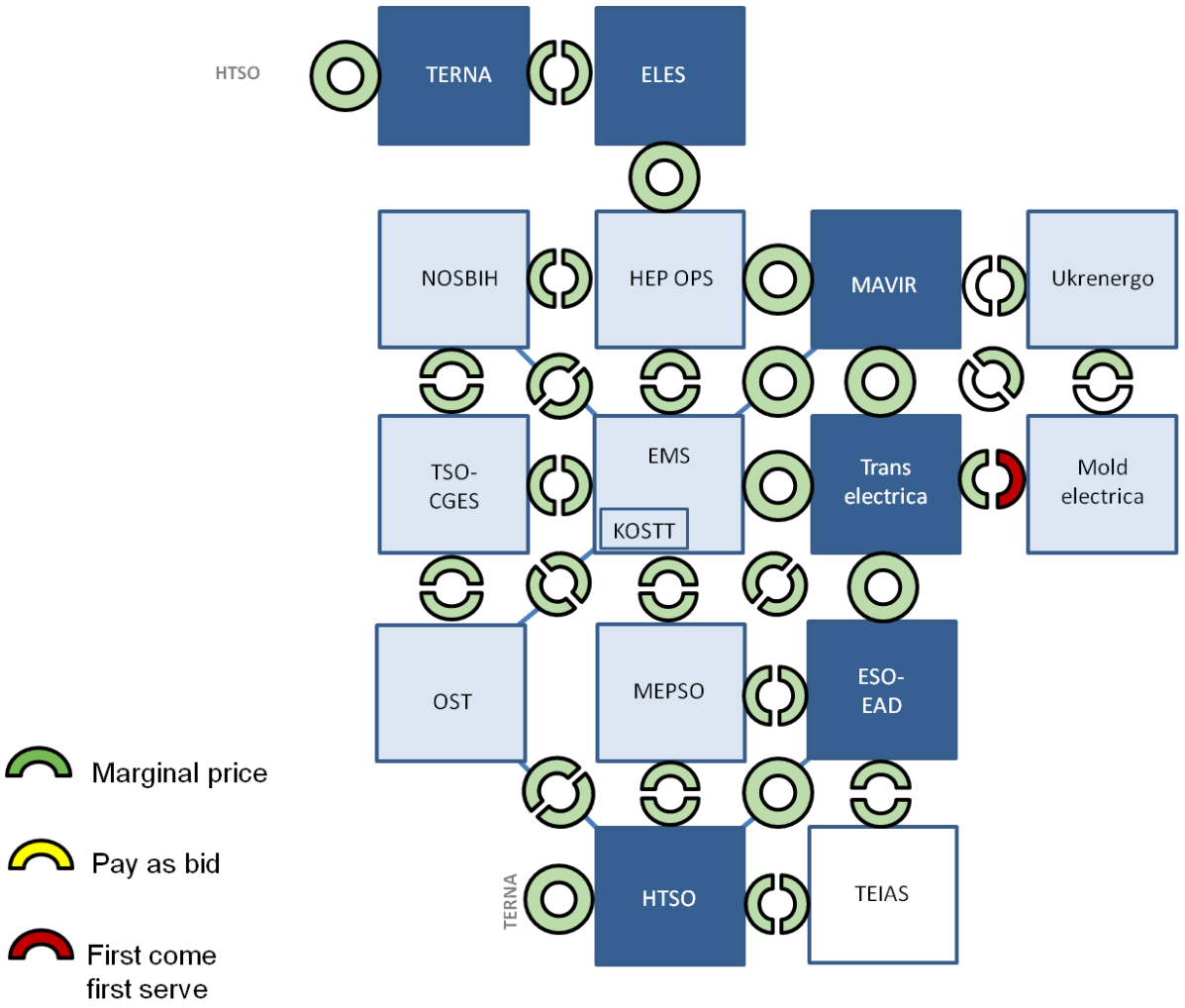

Figure 1: Mechanisms for Capacity Price determination in the 8th Region [30,31]

Joint auctions

All Contracting Parties' TSOs, except the TSO of Moldova[32], 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).

[30] Please note that according to current Ukrainian Electricity Law only unilateral auctions (for export) are allowed.
[31] Currently, auctions for interconnection capacity allocation between Ukraine and Republic of Moldova are organized only by Ukrainian TSO.
[32] 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.

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[33] and Croatia[34] 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.

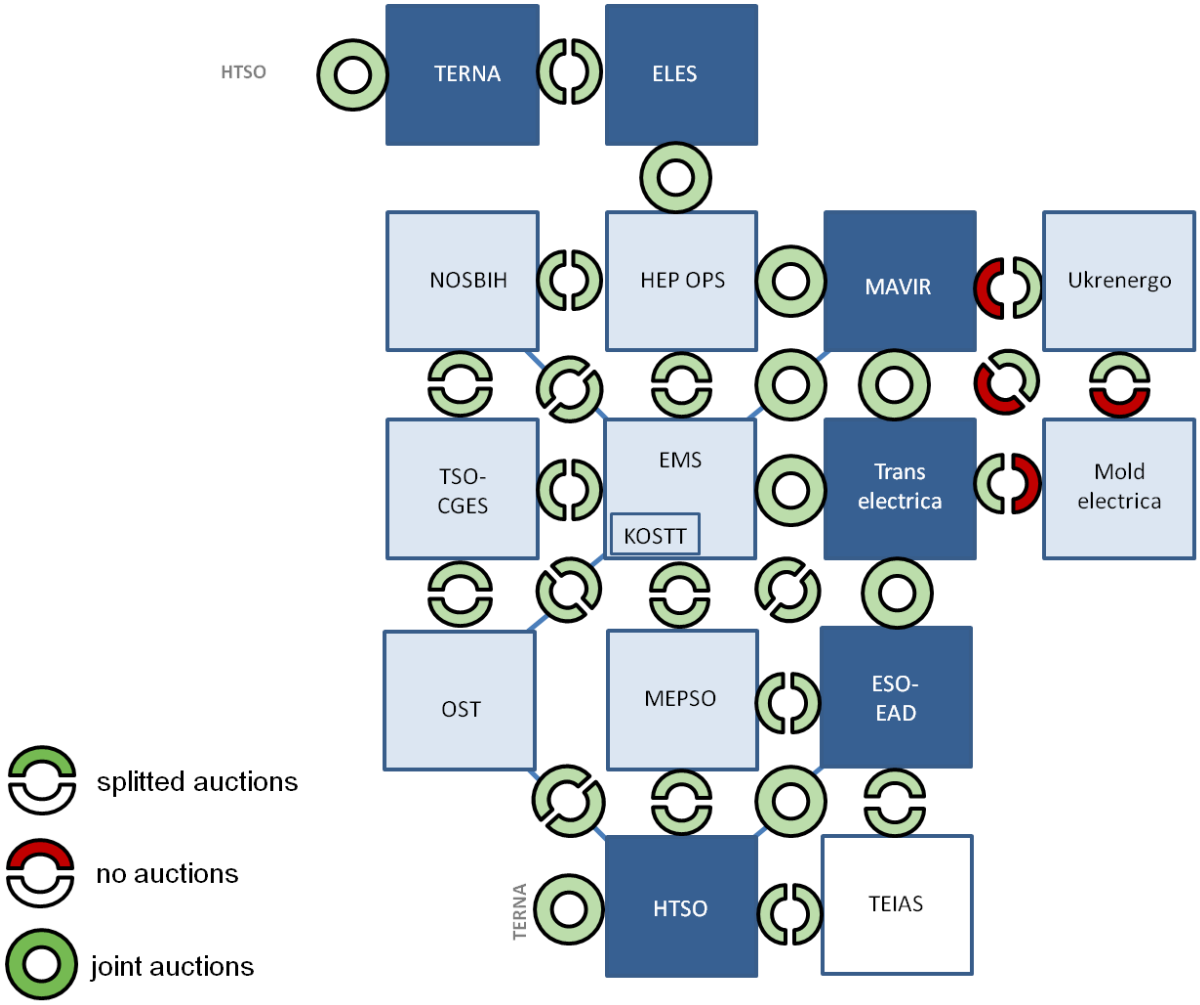

Figure 2: Cross Border Capacity Allocation Mechanisms in the 8th Region [35]

[33] 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.
[34] 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).
[35] Currently, auctions for interconnection capacity allocation between Ukraine and Republic of Moldova are organized only by the Ukrainian TSO.

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