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ACER Coordination Group for Electricity Regional Initiatives

ERI Quarterly Report #8

October 2013 – December 2013

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Contents

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:

New postponement of the Go-Live to February 2014. In November, NWE project parties announced a new delay. They explained that the delay was due to technical issues as all operational criteria (system stability and operational readiness) could not be validated with the time left to the November deadline. They confirmed 4th February 2014 as the new deadline on December 18th 2013.

Regions	Progress achieved	Pending issues
NWE	Further preparation for go-live: - New software release for the price coupling; positively tested - Acceptance criteria for go-live fulfilled - Training of operations teams ongoing - **Confirmation of go-live date – February 4th 2014** Technical and operational testing now complete. On course for go live in February 2014.	Final preparations of launch to go as planned Staff training has to be completed
SWE	**Shift of day-ahead gate closure time from 10:00 CET to 12:00 CET in MIBEL.** Since 15th October 2013, the MIBEL GCT is aligned on the NWE one. The realisation of this shift implied many changes in operational procedures, schedules and MIBEL market rules. **Joint integration tests with the NWE**	A few regulatory elements are still to be amended in Spain for a successful launch of '"the start-up'" solution (with zero capacity allocated through the implicit auction on the France-Spain border) in February 2014.

	pilot project. The performance of the tests validated the ability of the Price Coupling of Regions (PCR) solution to cope with integration of MIBEL.	
CSE	**Finalisation of the letter of comfort**. Following the evaluation of arrangements submitted by the Pre and Post Coupling (PPC) project parties in August, in November 2013 CSE NRAs sent the comfort letter endorsing the project and asked project parties to enter into the implementation phase as soon as possible. At the end of 2013, PPC project parties confirmed the submitted planning and **December 2014 as the target date for coupling of CSE with NWE regions**.	Many important challenges ahead to deliver the coupling with NWE by the end of 2014 amongst which: - Geographical scope: uncertainty remains on Greece and Switzerland - changes in local regulation, in bilateral technical and financial procedures… as for Italy and Slovenia where the day-ahead gate closure time must change to 12.00 CET.
CEE (the whole region)	See update for the Capacity Calculation	
CEE (the 4 Market Coupling Project)	**High Level Market Design agreed** - No major changes on TSO side: same capacity calculation method and procedure, TSOs continue acting as shipper, central TSO function operated by SEPS remains, some extra interfaces needed due to PCR solution - Contractual framework agreed : based on CZ-SK-HU MC agreements, only minimal changes expected - PX side: PCR solution to be used (Euphemia, PMB and Procedures) - New fall-back solution on CZ-SK border: explicit shadow auction operated by CEPS (also from 01 March 2014 in CZ-SK-HU MC) - On RO-HU border also explicit shadow auction operated by MAVIR will be implemented similar to SK-HU border	High-Level Roadmap: Go-Live date expected to be defined in the early March after detailed design phase
Croatia	HOPS (Croatian TSO) and HROTE (Croatian Market Operator) have signed a MoU regarding business cooperation in establishing a PX in Croatia	No implementation roadmap
Bulgaria		No implementation roadmap
Ireland[9]	The SEM Market Integration Project has made significant progress in this quarter. A consultation paper on new market	

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

	design is to be published by NRAs (CER and UR) in Q1 2014.	

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:

Completion of Early Start Agreement (ESA) at the end of December. Board approvals are on-going.

Regions	Progress achieved	Pending issues
NWE	Early Start Agreement (ESA) completed at the end of December, pending board approvals. This document is one of the two needed by the NRAs before comfort for cost recovery can be provided. The second document is the PCA (see pending issues) Please note that the agreement of the ESA does not mean that the contract will definitely go ahead. The ESA is split in 2 phases: Step 1 (5 weeks) should see the resolution of all issues and step 2 (8 weeks) is the development of the platform blueprint – final deadline of the ESA is not set yet.	Power Exchange Cooperation Agreement (PCA) on track to be completed early January, pending board approvals and legal competition review. In parallel with the Vendor negotiations, the participating North-West Europe Region as well as Austria, Switzerland, Spain and Portugal creating an extended North-West Europe region (NWE+) for the intraday project, are working upon providing cost recovery comfort for the participating Power Exchanges[10].
SWE		No implementation roadmap
CSE		No implementation roadmap
CEE		No implementation roadmap
Croatia	HOPS (Croatian TSO) and EMS (Serbian TSO) started common intraday CB allocation based on ATC method.	No implementation roadmap

[10] Owing to concerns over the cost-sharing methodology, the Czech Republic suspended its participation in the Intraday Pilot Project in December. However, the Czech Republic Power Exchange, OTE, continues to support the XBID project and XBID solution and remain ready to rejoin as soon as cost recovery comfort can be provided by their National Regulator.

	HOPS and ELES (Slovenian TSO) continued intraday common intraday CB allocation based on ATC. For the border with Bosnia and Herzegovina, HOPS conducts intraday cross-border allocation based on ATC for its part of NTC. For border between Croatia and Hungary there is no intraday CB allocation.	
Romania		No implementation roadmap
Bulgaria		No implementation roadmap
Ireland[11]	See update for Day Ahead Market Coupling	

[11] 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: In the Baltic region, NRAs and TSOs quickly reacted on the need to allocate transmission rights on the Estonia-Latvia border expressed by market participants. The first yearly and monthly auctions took place in December. In the SWE region, REE, RTE and CASC eventually found an agreement with CASC acting as a service provider for both RTE and REE from April 2014 onwards and applying specific France-Spain auction rules only as a transitory solution before applying Harmonised Auction Rules.

At the European level, the Agency and NRAs were disappointed with the timeline proposed by ENTSO-E to harmonise the allocation rules at EU level (applicable from early 2016 onwards) and they therefore requested CAO and CASC TSOs to develop common auction rules applicable from early 2015 onwards. They should reply to the request early 2014.

Regions	Progress achieved	Pending issues
Baltic	**On the Estonia-Latvia border, concerned NRAs' request to TSOs to issue Long-Term PTRs:** On December 13, the first auctions for yearly and monthly PTRs took place and offered part of the transmission capacity on the Estonia-Latvia border.	According to Baltic NRAs, the issuance of PTRs is a temporary solution before the introduction of financial products by Nasdaq-OMX. Decisions about TRs still to be taken for the Latvian-Lithuanian border.
Northern	**On the East and West sides of the Danish-German border, concerned NRAs' approbation on allocation of Long-Term PTRs:** In November 2013, the Danish and German NRAs approved new auction rules applying to both West (DE-DK1) and East (DE-DK2 through the Kontek cable) sides of the Germany-Denmark border in order to allocate long-term PTRs under the platform	Decisions about TRs still to be taken for NorNed, the Baltic cable and the SwePol link Introduction of PTRs between the two bidding Danish zones planned early 2014. Shift from PTRs to FTRs on Danish borders to be studied

	CASC.	
CWE	Harmonised Auction rules version 1.1 (applying to CASC for 2014 onwards) approved/endorsed by all relevant NRAs in Q4 2013	Roadmap to harmonise auction rules and IT platforms with CAO still to be defined
SWE	**Agreement found between RTE, REE and CASC:** Drafting of specific IFE rules (to apply in order to allocate capacity on the FR-ES border under CASC from April 2014 onwards) on-going. **On the Spain-Portugal border, Iberian NRAs' approbation on allocating Long-Term FTRs Options:** Spanish and Portuguese NRAs agreed on the general regulatory framework of the coordinated mechanism for issuing FTRs option (from Q1 2014 onwards).	CASC's HAR rules including the FR-ES border still to be submitted by TSOs to their NRAs Still no roadmap for IPE to join CASC or a set of harmonised rules.
CSE		Roadmap to harmonise auction rules and IT platforms with CAO still to be defined
CEE		Roadmap to harmonise auction rules and IT platforms with CASC still to be defined Sill no roadmap to include the Northern Croatian borders into the CAO rules (currently two separate sets of rules)
Croatia	Since January 2013, HOPS participates in CEE CAO with the borders to Slovenia and Hungary. In December 2013, HERA approved the separate auction rules regarding above mentioned borders, but all the principles remained the same as for other CEE CAO participants.	Still no roadmap to join a platform or a harmonised set of rules.
FUI	IFA rules version 1.1 (applying to CASC for 2014 onwards) approved by CRE and Ofgem in October 2013	Still no roadmap to join a platform or a harmonised set of rules
Romania		Still no roadmap to join a platform or to harmonise set of rules
Bulgaria		Still no roadmap to join a platform or to harmonise set of rules

Ireland[12]	See Update for Day Ahead Market Coupling	Still no roadmap to join a platform or to harmonise set of rules

[12] The Single Electricity Market has been granted an exemption to comply with the CACM NC by 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 announced a new postponement of the go-live to September 2014 at the earliest. A robust planning should be presented by the project to the NRAs in January 2014.

CEE TSOs and PXs, as the FB MC project parties eventually reached a common agreement described in a Memorandum of Understanding on the path towards the set goal, i.e. the FBMC target model for the whole region. Document finalization is ongoing, signing is foreseen for early 2014.

Regions	Progress achieved	Pending issues
Baltic		Decisions about capacity calculation still to be taken
CWE	CWE FBMC project parties organised a Market Forum on 10 October 2013 in Brussels An additional NRA-lead market consultation will take place as close as possible to the Go-live, to get the most representative feedback of market players' view The external parallel runs are ongoing. Results are available (http://www.casc.eu/en/Resource-center/CWE-Flow-Based-MC/General-Information),	Early December 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). The Go-Live date is now foreseen end of September 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	CEE TSOs and PXs have delivered their feedback on the draft of Memorandum of Understanding; finalization of the document is ongoing. In the meanwhile, CEE TSOs are further elaborating possible technical solutions for a FBMC system.	Still no roadmap to move to the FB method Slow progress with many discussions.
Croatia		Decisions about capacity calculation still to be taken
Bulgaria		Decisions about capacity calculation still 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

A proper fine-tuning of the pilot projects took place in the last quarter of the year. The projects should take into account ambitious requirements from the Network Code on Electricity Balancing. The Agency emphasised the need for transparency and coordination in order to maximise the results of the pilots and foster the integration of balancing markets in Europe in a timely manner. The Agency eventually discussed with ENTSO-E a clear structure based on coordination groups for coordinating and monitoring the development of each project.

8 Progress report from the 8th Region prepared by ERCB

Contents

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[13] 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)[14]. 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[15]
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

[13] 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.

[14] 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.

[15] 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[16] covers the Energy Community[17] Contracting Parties[18] and the seven neighbouring EU Member States[19].

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[20] with a transposition deadline by 1 January 2015 the latest. This also includes adopting the European Network Codes, once legally binding on European level[21], 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[22]:

- 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.

[16] 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.
[17] www.energy-community.org
[18] 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*]
[19] Bulgaria, Croatia, Greece, Italy (limited to its interconnections with Contracting Parties), Hungary, Romania and Slovenia.
[20] **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.
[21] 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).
[22] 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 2013:

- TSOs reported that progress has been made within the ENTSO-E Regional Group SEE on discussing a harmonised capacity calculation algorithm
- The 18th Energy Community Electricity Forum supported the announcement of a Serbian SEEPEX as possible pilot project for development of market coupling across the Region that can be extended to other Contracting Parties[23] on a step by step basis. Other comparable initiatives have been started in Croatia and Macedonia with the aim of establishing a PX or entering into joint venture agreements.

- The latest endeavours to establish power exchanges in some countries provide a move into the right direction towards the development of spot markets and the provision of a condition for future implicit allocations.

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

4.1.4 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 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[24], 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.

[24] 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.

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 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. The development of the Draft Auction Rules of the SEE CAO and the coordinated approach regarding their future approval give promising signals for the successful harmonisation of the largest parts of the Region's allocation of forward capacities, if not for the entire Region.

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) 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* , 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 .

The work of the PTC is considered to be finalised by the 10 December 2013. The Board of Directors of the SEE CAO agreed on the termination of the PTC and set the course for the establishment of the factual SEE CAO with the call for applications for an executive director. The SEE CAO is expected to take up its work in the first quarter of 2014, aiming to perform auctions of monthly and daily capacities for the second half of 2014. This constitutes an initial step towards centrally coordinated forward capacity allocation for the entire 8th Region. The SEE CAO is expected to start operation in early 2014.

A significant step forward has been made by the submission of the SEE CAO Auction Rules of the participating TSOs to their NRAs for approval. The Region's NRAs have coordinated their approach in approving the Auction Rules through the ECRB by adopting a common position on the procedure and conditions for approval.

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.

4.4 Implementation of fully coordinated capacity calculation methodologies and particularly the flow-based allocation method in highly meshed networks[25]

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.

[25] 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)[26]. 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

During a Joint ENTSO-E & Energy Community Workshop on 3rd Package Network Codes , held in Vienna on 4 November 2013, representatives of the Energy Community Regulatory Board's (ECRB) Electricity Working Group (EWG), ENTSO-E's Regional Group Southeast Europe (RG SEE), and the Energy Community Secretariat endorsed the launching of an Initiative aiming to develop a Regional Balancing Concept for the establishing of a Balancing Market in the 8th Region. In the beginning of 2014, the Terms of Reference of this project will be discussed, and with it a timeframe and the work packages it will contain.

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.

[26] 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

The ECRB has adopted a recommendation on the adoption of Regulation 543/2013 on submission and publication of data in electricity markets in the Energy Community. Such recommendation is not binding, but endorses the endeavours of the 8th Region's TSOs and market participants to promote transparency and market development.

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.

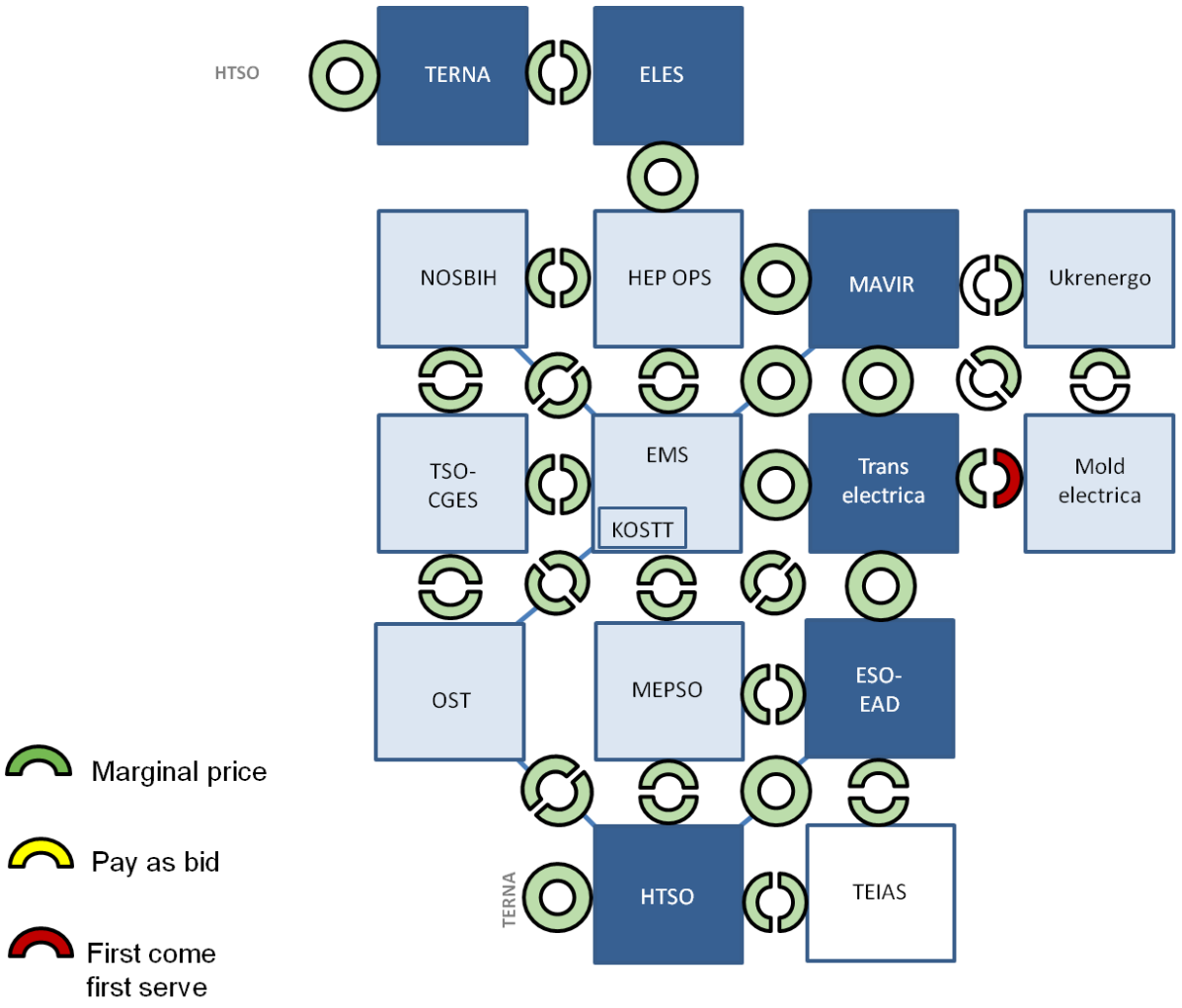

Figure 1: Mechanisms for Capacity Price determination in the 8th Region [27,28]

Joint auctions

All Contracting Parties' TSOs, except the TSO of Moldova[29], have introduced market-based mechanisms for cross-border auctions, namely explicit NTC-based auctions. Auction rules for cross border capacity

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

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[30] and Croatia[31] 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.

[29] 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.
[30] 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.
[31] 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).

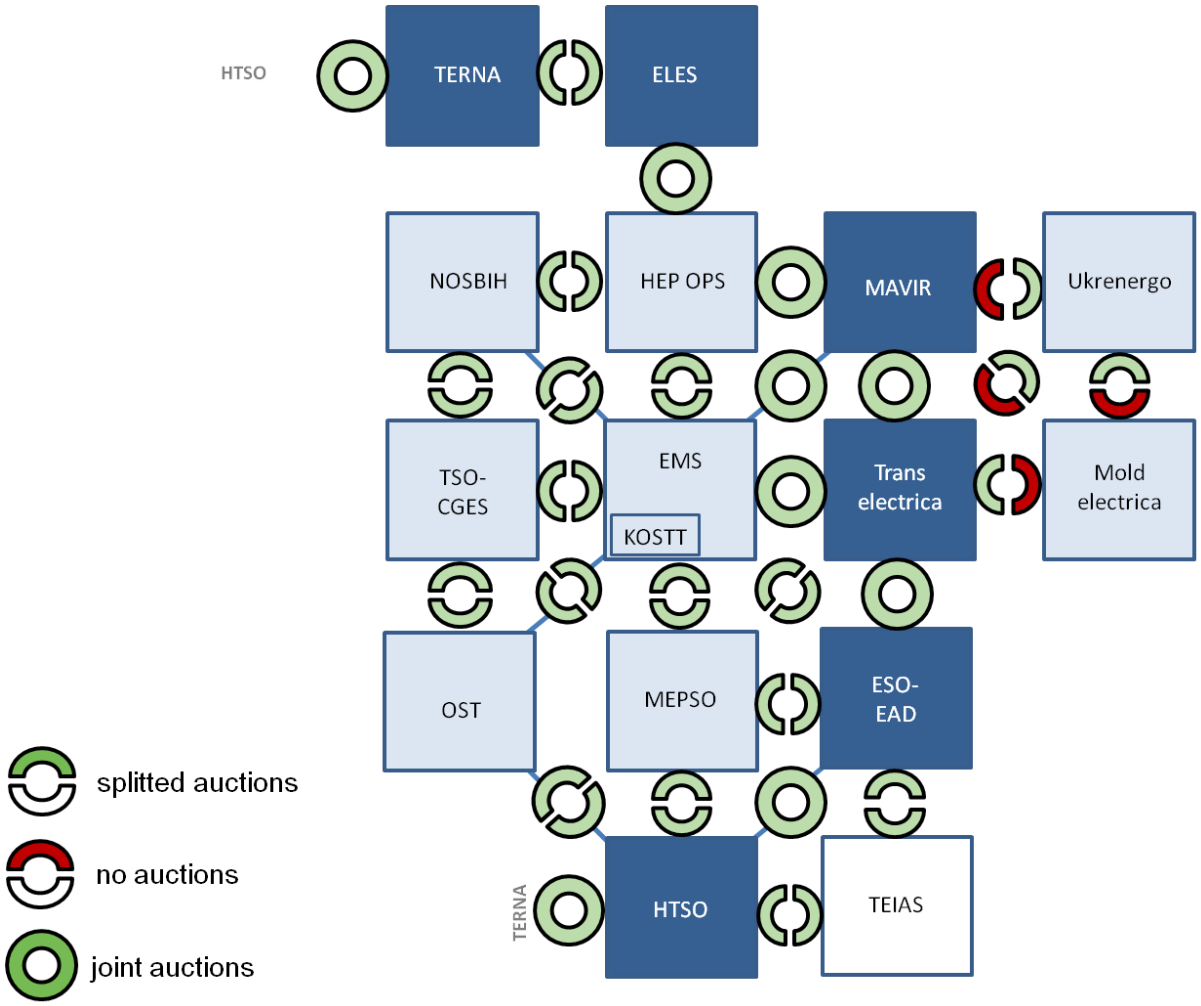

Figure 2: Cross Border Capacity Allocation Mechanisms in the 8th Region [32]

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

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