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ACER Coordination Group for Electricity Regional Initiatives

ERI Quarterly Report #9

January 2014 – March 2014

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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 roadmaps¹ 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** model²;
- 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 networks⁵.

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 Reports⁶ 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 SEM⁷ 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 Model⁸.

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:

Go-Live of the North-West Europe day-ahead market coupling on 4 February 2014. Following the intensive work done by power exchanges, transmission system operators, regulators and the Agency, the NWE project went finally live on 4 February 2014. This represents a very important milestone towards the completion of the Internal Energy Market. The main focus from now on is on extending further the European solution to other regions, first being the South-West Europe region.

Regions	Progress achieved	Pending issues
NWE	Running since 4 February 2014	3.3 The following topics are to be monitored: <ul style="list-style-type: none"> - transparency of the coupling performances (reproducibility...) - update on loss factors - results of NWE MC - planning for the future expansions
SWE	Start-up solution launched successfully on 4th Feb. <ul style="list-style-type: none"> - Integration tests finalized successfully. - Simulation tests showed successful results. - NWE/SWE tests started beginning of April. - Member tests scheduled on 22 April. Terms of References of the NWE-SWE Day Ahead Operational Agreement	Full coupling to be launched by mid May 2014. <p>Regulatory approvals pending in Spain and France.</p> <p>Signature of DAOA pending.</p>

	(DAOA) approved by NWE JSC (25 th March) and by SWE SC (26 th March). Drafting of the DAOA to be finalised by mid-April.	
CSE	<p>Implementation phase on-going.</p> <p>Main issues at stake:</p> <ul style="list-style-type: none"> - Shift to GCT at 12:00 CET for Italy, Slovenia and Switzerland - Designation of PX, CCP and shipping agent in Austria - Market evolution in Greece <p>Go-live window foreseen mid-December 2014</p>	<p>Some potential blocking issues have already been identified:</p> <ul style="list-style-type: none"> - the financial impact of moving the GCT at 12:00 in Italy still to be solved - the choice of a PX in Austria still to be concluded <p>Market coupling may be activated only where possible</p> <p>Greece market will not be ready for the expected go-live window but still a contributor to the Italian Border PPC project.</p>
CEE (the whole region)	See update for the Capacity Calculation	
CEE (the 4 Market Coupling Project)	<p>In January 2014, start of the implementation phase of the Price Coupling of Regions (PCR) solution into the 4M MC PXs IT infrastructure⁹</p> <p>Selection of a service provider, EPEX, for OPCOM/OKTE/HUPX</p> <p>On May 6, publication of an overview of the project and of a description of the planned future operation.¹⁰</p> <p>Go-live foreseen for 11 November 2014</p> <p>Confirmation of the Go-live date in August</p>	
Croatia	<p>HOPS (TSO) and HROTE¹¹ (Market operator) further progress towards the establishment of a Croatian power exchange for the end of 2014.</p> <p>The two future co-owners aim at setting</p>	Lack of precise timing and sequence of market coupling with EU neighbours (Slovenia and Hungary).

⁹ For more information, please see: http://www.ote-cr.cz/about-ote/OTE_news/Czech-Slovak-Hungarian-Romanian-Market-Coupling-go-live-in-Q4-2014

¹⁰ For more information, please see: http://www.ote-cr.cz/about-ote/OTE_news/Introducing-4M-Market-Coupling-Project-and-planned-operational-market-design

¹¹ HROTE organises the only one electricity market in Croatia. In the initial phase of the market opening, the model of bilateral market has been chosen and the electricity trading has been carried out through bilateral contracts.

	up a PX with PCR capability to facilitate market coupling.	
Bulgaria		
Ireland ¹²	A consultation paper on new market design was published by NRAs (CER and UR) in February with a review of responses and a draft decision paper expected Q2 2014.	

¹² The Single Electricity Market has been granted an exemption to comply with the CACM NC in 2016

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:

Ongoing delays with pre contractual negotiations with the selected IT provider having a huge impact on project deliverables

Regions	Progress achieved	Pending issues
NWE	<p>PXs and the selected IT provider entered into an Early Start Agreement (ESA) December 2013.</p> <p>The Power Exchange Cooperation Agreement (PCA) in the process of being signed by all participants, including GME who have now joined the project.</p> <p>As a reminder, the purpose of the PCA is to set forth the main terms and conditions of the cooperation between the power exchanges with regards to the design, development and implementation of the XBID solution, as well as the operation of the joint power exchange components once live.</p> <p>The two documents above being agreed; the Regulators from NWE + Austria and Switzerland formally approved the Letter of Comfort (LoC), covering the design and development phase of the project.</p> <p>The LoC was addressed to Transmission System Operators (TSOs) in mid-January 2014, with Spain providing comfort directly to its Power Exchange.</p>	<p>The agreement of the ESA does not mean that the contract will definitely go ahead as the ESA is supposed to lay the foundations for a contract between the parties.</p> <p>The ESA is split in 2 phases: Step 1 should see the resolution of all outstanding major issues and step 2 is the development of the platform blueprint – final deadline of the ESA is not set yet.</p> <p>Current negotiations between PXs and the selected IT provider are on-going since last October. A number of technical issues around the chosen solution are causing delays in the completion of ESA step 1.</p>

SWE	CNMC approved and submitted the Letter of Comfort to OMIE in January (as regards its participation in the NWE+ XBID project).	No implementation roadmap
CSE		No implementation roadmap
CEE		No implementation roadmap
Croatia	Intraday rules and technical implementation are in preparation with Hungarian TSO (MAVIR) - target Q3 HROTE and HOPS are planning to organize intraday (and join cross-border ID) market in Croatian PX after implementation and coupling of its day-ahead market. This is not expected to happen before the second half of 2015.	Only unilateral intraday allocation at the border with Bosnia-Herzegovina will remain by Q4 and implementation of coordinated daily auctions in SEE CAO.
Romania		No implementation roadmap
Bulgaria		No implementation roadmap
Ireland ¹³	See update for Day Ahead Market Coupling	

¹³ 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 SWE region, CASC run its first monthly auction for France-Spain border on 24 March following CRE and CMNC approvals of specific France-Spain auction rules. On the Portugal-Spain border, the first coordinated auction of FTRs option took place on 25 March.

At the European level, ENTSO-E presented in January its plan for drafting a harmonised set of rules applicable from early 2016 onwards. Developing CAO and CASC specific rules applicable from early 2015 onwards appeared conflicting with ENTSO-E's work and the objective of an EU set of rules by 2016 set in the draft recommendation for the Forward Capacity Allocation Network. The Agency and NRAs will monitor ENTSO-E progress and provide any needed guidance.

Regions	Progress achieved	Pending issues
Baltic	On the Estonia-Latvia border, following auctions run in December 2013, market participants have had access to yearly and monthly PTRs.	On the Estonia-Latvia border, compliance of the auction features with the EU regulation is being checked. 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		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
CWE		Roadmap to harmonise auction rules and IT platforms with CAO still to be defined
SWE	<p>Approval of IFE rules version 3.1 in mid-March by CRE and CNMC CRE and CNMC both approved the specific France-Spain rules (to apply in order to allocate capacity on the FR-ES border under CASC from April 2014 onwards) mid-March. The first monthly auction of IFE in CASC successfully took place on 24th March.</p> <p>The first joint auction of capacity between Spain and Portugal took place on 25th March. 300 MW in each direction were allocated for the 2nd Quarter 2014 under a mechanism established in the MIBEL Council of Regulators, following the December auction organised under the same harmonized rules but only for the Portuguese system.</p>	<p>5.3 The public consultation on the new version of CASC's HAR rules (including the FR-ES border) shall be launched in June and the rules shall be submitted to CASC's NRAs by the end of July.</p> <p>This new version will consider two specific go-lives: December 2014, for long term products with physical delivery from the 1st January 2015 onwards, and March 2015 for the implementation of the shadow auctions as fallback solution for the FR-ES border in case of decoupling of the SWE region. A third target date may be considered for the evolution of the UIOSI requirements in the context of the FR-IT day-ahead coupling (which will also require an evolution of HAR rules) as of today the UIOSI payment is linked to explicit DA auction results.</p> <p>Still no roadmap for IPE to join CASC (need to be in a position to issue FTRs) or a set of harmonised rules.</p>
CSE		<p>See SWE paragraph on evolution of CASC's HAR.</p> <p>Roadmap to harmonise auction rules and IT platforms with CAO still to be defined</p>
CEE		<p>Roadmap to harmonise auction rules and IT platforms with CASC still to be defined</p> <p>Still no roadmap to include the Northern Croatian borders into the CAO rules (currently two separate sets of rules)</p>
Croatia	For borders with Slovenia and Hungary, the situation is similar than for CEE region	

	For the borders with Serbia and Bosnia-Herzegovina, see the ECRB report below.	
FUI	IFA rules version 9.0 have applied to the FR-GB interconnector since the go-live of NWE market coupling (4 February 2014).	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 ¹⁴	See update for Day Ahead Market Coupling	Still no roadmap to join a platform or to harmonise set of rules

¹⁴ 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 presented the updated planning with go live now foreseen at the end of November 2014. This is subject to a launch of the market consultation by the CWE NRAs in June 2014. For the CWE NRAs to be confident to launch the market consultation and to start the final approval process hereafter, enough confidence in the parallel runs needs to be established.

CEE TSOs and PXs as the FB MC Project parties managed to solve the main challenge of reaching a common agreement on the path towards the set goal, i.e. the FBMC target model for the whole region. Memorandum of Understanding has been signed. CEE TSOs and PXs agreed on two ToR documents and established JSC (Joint Steering Committee). One IG meeting and first JSC meeting were held. TSOs are on one side working on FB options and on the other – together with PXs - on planning, organization and first tasks of the common project.

Regions	Progress achieved	Pending issues
Baltic		Still no decision about capacity calculation to be taken
CWE	<p>Successful launch of daily parallel run publication on 24 February 2014</p> <p>Bilateral meetings have been organized by the CWE Project Parties with MPs to discuss their needs in terms of transparency and data publication</p> <p>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</p>	<p>The launch of the FBMC is now foreseen end of November 2014, subject to proven technical readiness of the system. NRAs will assess the readiness in Q2 2014.</p> <p>Parallel runs ongoing.</p> <ul style="list-style-type: none"> • Testing of the IT and operational side of FBMC • Still days without results • Fallback mechanism for FBMC under development (available by Q2 2014) <p>Approval packages sent to NRAs and under scrutiny</p>

	The external parallel runs are ongoing. Results are available (http://www.casc.eu/en/Resource-center/CWE-Flow-Based-MC/General-Information),	Discussions (TSO-PX-NRA) on market consultation, transparency and monitoring, FBMC parameters and intuitiveness Discussions (TSO-NRA) on congestion income allocation
CEE	Memorandum of Understanding has been signed. TSOs and PXs agreed on two ToR documents and established JSC (Joint Steering Committee). First JSC meeting was held.	Roadmap to move to the FB method has to be reviewed and updated
Croatia		
Bulgaria		Still no decision about capacity calculation to be taken
Ireland	See update for Day Ahead Market Coupling	

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

To turn these ambitious requirements into concrete projects, the Agency invited ENTSO-E to select pilot projects¹⁵.

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

A Stakeholder Group following the progress of the pilots is to be established and lead by ENTSO-E and the Terms of Reference for the Balancing Pilot Stakeholder Group are being discussed. One main elements of discussion is whether this group should only focus on progress of the different balancing projects or also participate on further development of a balancing target model.

Below is a summary of the main progress observed in the different pilot-projects:

- Pilot 1 (German TSOs for IN,A&mFRR) has started feasibility studies with 5 (Nordic TSOs/mFRR) and/or 7 (NL/BE A&mFRR)
- Pilot 2 (FCR SG& APG) – no merging possibility reported although German, Dutch and Swiss TSOs use a common platform for the procurement of FCR currently procuring 25 (SG) and 33 (NL) MW from Germany.
- Pilot 3 (IN CZ/HU/SL) is not planning to merge with 9 (IN based on IGCC) due to other contractual and IT arrangements.

¹⁵ The list of selected pilot projects can be found here:

[http://acernet.acer.europa.eu/portal/page/portal/ACER_HOME/Stakeholder_involvement/AESAG/3rd_AESAG_Mee ting/3.1%20ENTSO-E%20\(Kekkonen\)%20Balancing%20NC.pdf](http://acernet.acer.europa.eu/portal/page/portal/ACER_HOME/Stakeholder_involvement/AESAG/3rd_AESAG_Mee ting/3.1%20ENTSO-E%20(Kekkonen)%20Balancing%20NC.pdf)

- Pilot 4 (TERRE/RR) with 8 (BritNed/RR) – possible merge but pilot 8 first needs to deal with the differences in market design between NL en GB.
- Pilot 6 will continue as a non-pilot project
- Pilot 9 is reporting to cooperate with on the usage of the same optimization function 1 but this not reported by pilot 1 – Pilot 1 and 9 seem artificially separated working within Germany (between German TSOs) and on the borders.
- 8th regional pilot – Energy Community has taken the initiative to work on a balancing market for the SSE-region. This could be a “10th” pilot.

8 Progress report from the 8th Region prepared by ERCB



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1 Main Insights

The 8th 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. 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)¹⁶. 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. As compared to the 2014 target of finalising the EU's IEM, the target for the 8th Region is 2015. Due to the fact that most intermediary deadlines of the SEE RAP were missed, and that the EU's implementation targets were adapted, too¹⁷, the Electricity Working Group of the ECRB identified a need to update the SEE RAP. This common endeavour between the TSOs and the NRAs was kicked-off.

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

RAP element	Meeting the intermediary RAP deadlines	Prospects of meeting the 2015 deadline	Progress achieved / pending issues ¹⁸
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, 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 clarification.
Day-ahead Market	No	unclear	In many countries of the region, Day-ahead market exists, and in most EU countries power exchanges are established. The establishment of SEEPEX, a Serbia-based power exchanged for the day-ahead market coupling on a regional level was announced. Participation of other TSOs and PXs is unclear at the moment. In Macedonia and Croatia, discussions on the possibilities for establishing a power exchange started, too.
Intraday Market	No	unlikely	No measurable progress achieved
Abandoning of barriers in national Legislation	Abolishment of barriers as part of the legislative reviews to implement the Third Energy Package with deadline of 1 January 2015 likely		In the Region's EU member states and some of the Energy Community's Contracting Parties appropriate measures and market rules have been transposed. Regarding the implementation more detailed setting and application of rules in a coordinated manner is required.

¹⁶ <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.

¹⁷ See the conclusions of the last Florence Forum, here:

http://ec.europa.eu/energy/gas_electricity/doc/forum_florence_electricity/meeting_025_conclusions.pdf, as of 25 March 2014.

¹⁸ 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**¹⁹ covers the Energy Community²⁰ Contracting Parties²¹ and the seven neighbouring EU Member States²².

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 2011²³ with a transposition deadline by 1 January 2015. This also includes adopting the **European Network Codes**, once legally binding on European level²⁴, 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**:

- 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 coordinated monitoring 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.

¹⁹ 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.

²⁰ www.energy-community.org

²¹ Albania, Bosnia and Herzegovina, 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*]

²² Bulgaria, Croatia, Greece, Italy (limited to its interconnections with Contracting Parties), Hungary, Romania and Slovenia.

²³ **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.

²⁴ 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>).

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

The latest endeavours to establish power exchanges constitute a move into the right direction towards the development of spot markets and the provision of a condition for future implicit allocations. The announced **establishment of a power exchange in Serbia by EMS and EPEX SPOT** is the front-runner in these developments in the Contracting Parties of the Energy Community. More details on how other bidding zones will be involved in this project are expected. Most EU countries of the 8th region have established trading hubs on a day-ahead level, namely in Greece, Italy, Slovenia, Romania and Hungary.

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. The **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 Moldova²⁵, 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 centralised 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.

²⁵ 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.

4.3.3 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 short 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)²⁶ has been officially registered in Montenegro on 4 July 2012 with the scope of preparing the effective operation of the SEE CAO²⁷. The finalisation of the preparatory activities of the PTC end of 2013 set the ground for effective start of the SEE CAO activities and signature of the SEE CAO Company shareholder agreement by the TSOs of Albania, Bosnia and Herzegovina, Croatia, Greece, Kosovo, Montenegro and Turkey in February 2014. Mr Aleksandar Mijuskovic has been appointed Executive Director of the SEE CAO. The **SEE CAO is expected to perform auctions of monthly and daily capacities starting at the end of the 2nd quarter of 2014 and execute auctions for yearly 2015 capacities by end of 2014.** This constitutes an initial step towards centrally coordinated forward capacity allocation.

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.

While the signature of the SEE CAO shareholder agreement represents important progress, **a fully regionally coordinated allocation process for the entire 8th Region still lacks participation of Bulgaria FYR of Macedonia, Romania and Serbia.** 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 for such agreement are still expected. Commitment by the Bulgarian system operator is still missing; participation of the network operator of FYR of Macedonia is challenged by VAT related questions still under discussion.

4.4 Implementation of fully coordinated capacity calculation methodologies and particularly the flow-based allocation method in highly meshed networks²⁸

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:

²⁶ www.seecao.com

²⁷ The PTC was co-funded by the network operators of Albania, Bosnia and Herzegovina, Croatia, FYR of Macedonia, Greece, Kosovo* [throughout the whole document reference to "Kosovo*" shall be understood with the following statement: "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."] Montenegro, Romania, Slovenia and Turkey as shareholders and significant contributions from the International Financing Institutions EBRD, KfW and USAID.

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.

- 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.

5 Review of progress with implementation in other important areas

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 8th Region**. In the beginning of 2014, the Terms of Reference of this project were under discussion. The time horizon for realisation of the project is expected to take place between mid 2014 and 2015. The "negative" opinion of ACER on the Electricity Balancing Network Code could cause delay in defining the projects work packages that should be based on the Code's requirements.

In January 2014, the three TSOs of the SHB Control Block, ELES, HOPS and NOS BiH, concluded an agreement on the common procurement of balancing reserves. This announced cooperation aims at reducing the overall amounts of procured balancing capacity. It constitutes a good starting point for further initiatives that widen and deepen this cooperation.

Negotiations between the TSOs of the SMM Control Block, regarding the common procurement and sharing of balancing reserves have started and were reported during the last quarter.

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.

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.

The Permanent High Level Group of the Energy Community discussed in its 32nd meeting the potential expansion of its *acquis* through the adoption of Regulation (EC) 543/2013.

The Regional Group South East Europe of ENTSO-E is currently drafting a report on the status quo of the compliance with the present publication requirements.

Management and use of interconnections

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

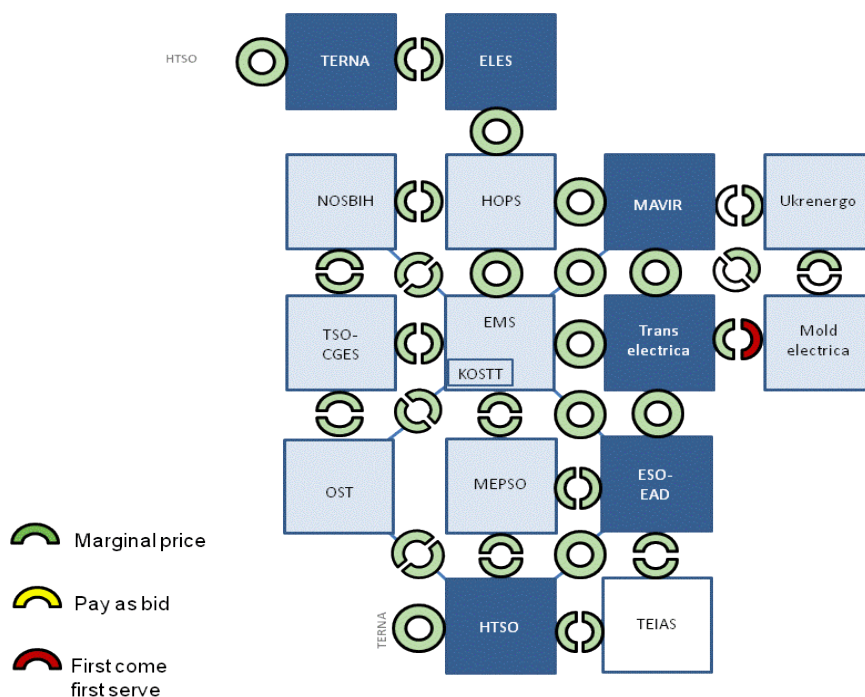


Figure 1: Mechanisms for Capacity Price determination in the 8th Region^{29,30}

²⁹ Please note that according to current Ukrainian Electricity Law only unilateral auctions (for export) are allowed.

Joint auctions

All Contracting Parties' TSOs, except the TSO of Moldova³¹, 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; these Auction Rules are, however, 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 and Croatia started implementing joint auctions with their neighbouring TSOs.³²

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.

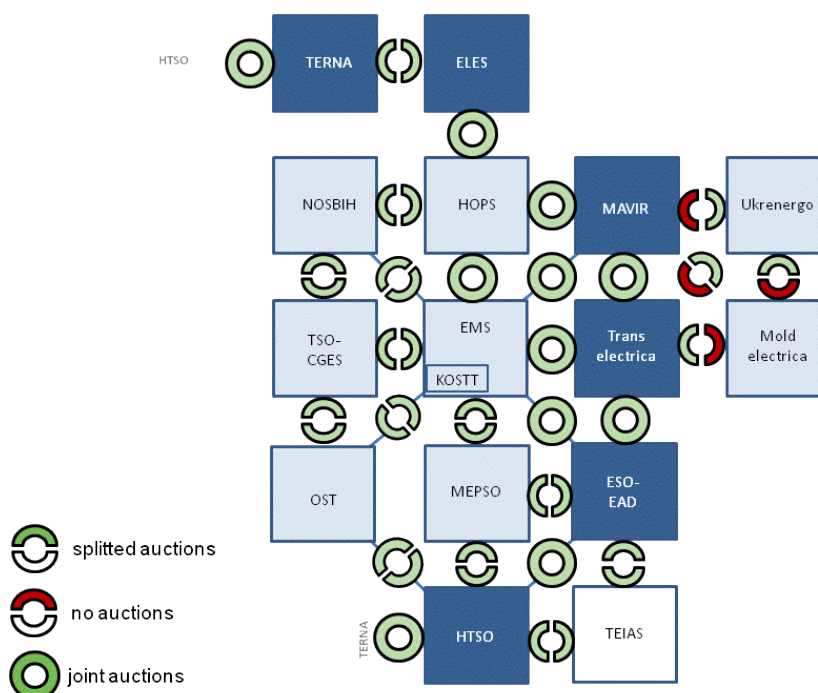


Figure 2: Cross Border Capacity Allocation Mechanisms in the 8th Region³³

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

³¹ 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.

³² Joint auctions with between Croatia and Hungary started already in 2010 (yearly, monthly and daily auctions). The joint auctions between Croatia and Slovenia started in 2011 (yearly, monthly and daily auctions). EMS (Serbia) started joint auctions with Transelectrica (Romania) on 1 January 2013. Joint auctions between Serbia and Hungary started for 2012 in Dec 2011 on yearly, monthly, daily and intra-day level. Joint Auctions between Serbia and Bulgaria and between Croatia and Serbia are held from 2014.

³³ Currently, auctions for interconnection capacity allocation between Ukraine and Republic of Moldova are organised only by the Ukrainian TSO.



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