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REGIONAL
INITIATIVES
STATUS REVIEW
REPORT 2011

“Getting to 2014: The Role of Regional Initiatives”

FOREWORD



Alberto Pototschnig
Director

This is the first edition of the Regional Initiatives' Status Review Report published by the Agency for the Cooperation of Energy Regulators (ACER). This report and its future editions are meant as transparency tools for all stakeholders, and energy consumers in primis, allowing them to follow developments in the integration of energy markets at regional level as a step towards the completion of a single European Internal Energy Market (IEM).

This report focuses on 2011 which was an important year for the energy sector in Europe. The 3rd Energy Package came into force, creating a new institutional framework for European market integration, with ACER as one of its central elements. In February 2011, the European Council set the ambitious target of 2014 for the completion of the IEM. ACER is of course fully committed to contribute to meeting this target. This is why it has so shortly after its official launch in March 2011 picked up on its role of coordination of the Regional Initiatives (RIs).

Indeed, ACER strongly believes that having a “bottom-up” approach based on the RIs to complement the “top-down” process of framework guidelines and network codes (FGs/NCs) is greatly beneficial. The advantages of moving the two processes forward in parallel are at least twofold. On the one hand, this is likely to be the only feasible way of meeting the 2014 IEM objective. The first NC is not expected to be adopted before 2013. If the implementation of the NCs were to be launched only after their adoption, it would be too close to the target date of 2014 to deliver tangible results. On the other hand, implementing projects while still developing the NCs may also provide useful practical insights which may be taken into account in the rulemaking process.

As this report shows, during this first year of coordinating the RIs, ACER has placed great effort not only in supporting RIs but also in promoting a more project-oriented and pan-European approach, with notably the development of cross-regional roadmaps, as a way to guarantee that RIs will deliver progress towards the IEM.

In the electricity sector this new approach to the RIs, and foremost the sustained efforts of NRAs and other stakeholders, has resulted in an agreement on ambitious, but realistic, roadmaps in four critical areas related to cross-border capacity allocation and congestion management. With the continuous commitment and engagement of all stakeholders, including Member States when necessary, in the implementation of these cross-regional roadmaps, the 2014 objective for the IEM should be attainable.

In the gas sector significant engagement, including by NRAs, is still needed in order to move the focus from the national and sub-regional level to the regional and pan-European dimension. Progress in this direction seems to have been very slow over the last year and a step-change in pace – and in attitude by many stakeholders - is urgently required if the 2014 IEM objective is to be met. ACER stands ready to support and work towards this change.

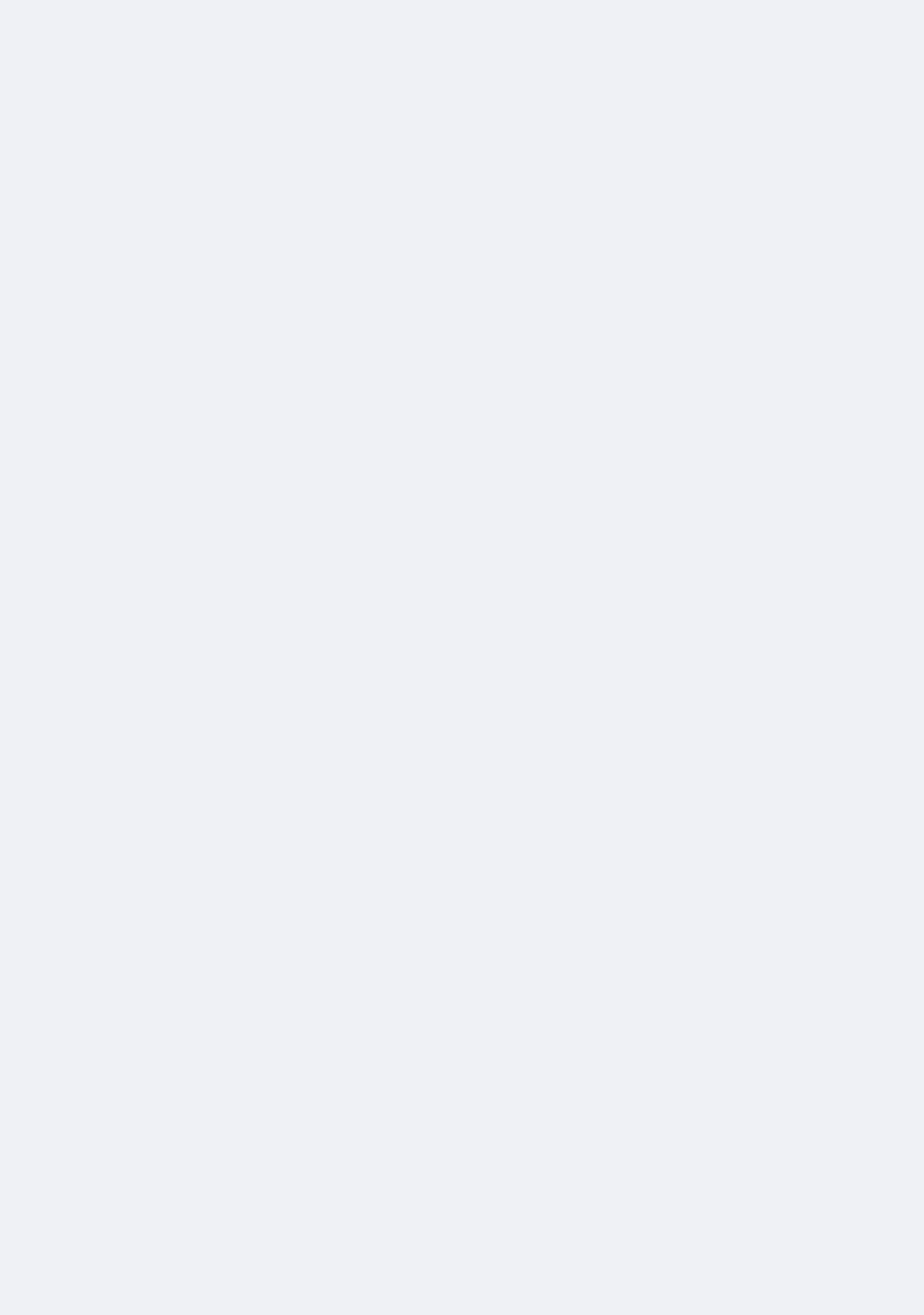
We indeed believe that we now have the tools - provided by the 3rd Energy Package -, the political support and sufficient experience to move convincingly and speedily towards the completion of the IEM.

We hope that this annual Regional Initiatives' Status Review Report, complemented by online quarterly reports allowing for a timelier picture of developments, as well as progress reports at the Florence and Madrid European Regulatory Fora, will help all parties involved in the RIs to maintain or strengthen their engagement.

ACER is determined that a well-functioning, competitive, secure and sustainable IEM is achieved by 2014, both in electricity and gas. It will support the liberalisation and increased competition in the retail segment, delivering tangible benefits to European consumers. More than fifteen years down the line from the beginning of this process, with the first electricity and gas Directives, they deserve this.

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1.

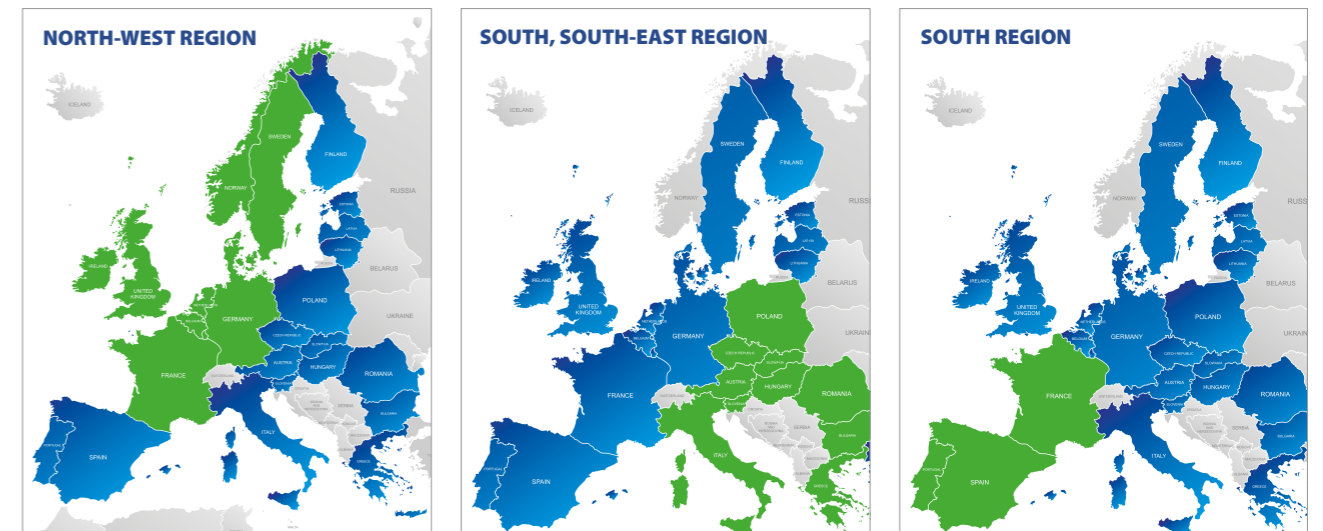
INTRODUCTION

1.1

A strong legacy: The ERGEG Regional Initiatives

The European energy regulators have been working together for many years to promote regional cooperation and the integration of energy markets. The Regional Initiatives (RIs), launched by the European Regulators Group for Electricity and Gas (ERGEG¹) in 2006, aimed at bringing together national regulatory authorities (NRAs), transmission system operators (TSOs) and other stakeholders in a voluntary process to advance integration at the regional level as a step towards the creation of a well-functioning Internal Energy Market (IEM). The RIs represent a bottom up approach to the completion of the IEM, in the sense that they bring all market participants together to notably test solutions for cross-border issues, carry out early implementation of the EU acquis and come up with pilot-projects which can be exported from one region to the others.

ERGEG's
Electricity
Regions



ERGEG's Gas
Regions

The ERGEG's RIs and other regional initiatives have delivered encouraging results in the electricity sector, with the creation of several regional wholesale markets (in the Nordic area, in Central-Western Europe, in the Iberian Peninsula, in Ireland, between Italy and Slovenia, between the Czech Republic and Slovakia). The commitment of all stakeholders and the engagement of Member States have proved critical in determining the success of these developments. The existence of a common vision – a Target Model – for the internal electricity market also served as a reference for the different regional initiatives.

In the first few years of their existence, considerable work was done under the ERGEG's GRI umbrella, and important achievements* were made in a number of areas. The relevant information on the status of European gas markets has been collected and assessed, allowing for the identification of practical barriers to cross-border trade in various areas. Fundamental issues have been successfully tackled in areas such as network development, capacity allocation and congestion management, transparency and security and availability of gas sources. Other aspects such as communication and transaction arrangements, compatibility of cross-border regulatory regimes in areas such as balancing and access to cross-border capacity have also been explored.

But nevertheless, progress with regard to market integration in the gas sector has been much slower than in electricity. Partly because of the heavy dependence of many EU regions on supplies from third countries and of the greater degree of concentration of many national sectors, no significant development in the direction of the establishment of real regional markets has occurred so far.

¹ www.energyregulators.eu

1.2 A new regulatory framework: The 3rd Energy Package

The third EU legislative energy package (3rd Package)³, which entered into force in 2011, gave increased powers to NRAs and reinforced their independence. This was complemented by the creation of the Agency for the Cooperation of Energy Regulators (ACER).

The “bottom/up” approach to market integration and “top/down” approach were given a new momentum, with ACER playing in each case a central role.

Under the 3rd Package Member States, as well as NRAs, are required to cooperate with each other and to promote the cooperation among TSOs, both at regional and EU level, for the purpose of integrating national markets towards the creation of a fully liberalised IEM⁴. ACER is tasked with coordinating the so-called RIs.

Mandatory elements were introduced in the framework guidelines/network codes (FGs/NCs) process, again with ACER as a central institutional player.

This allows ACER to have a unique and overall view of the integration of European gas and electricity markets.

³ Regulation (EC) No 713/2009 of the European Parliament and of the Council of 13 July 2009 establishing an Agency for the Cooperation of Energy Regulators (Text with EEA relevance). Directive 2009/73/EC of the European Parliament and of the Council of 13 July 2009 concerning common rules for the internal market in natural gas and repealing Directive 2003/55/EC. Directive 2009/72/EC of the European Parliament and of the Council of 13 July 2009 concerning common rules for the internal market in electricity and repealing Directive 2003/54/EC Regulation (EC) No 715/2009 of the European Parliament and of the Council of 13 July 2009 on conditions for access to the natural gas transmission networks and repealing Regulation (EC) No 1775/2005 Regulation (EC) No 714/2009 of the European Parliament and of the Council of 13 July 2009 on conditions for access to the network for cross-border exchanges in electricity and repealing Regulation (EC) No 1228/2003

1.3 A strong political momentum: The 4 February 2011 European Council

On 4 February 2011, the European Council gave a new impetus and increased legitimacy to the move towards the IEM. In its Conclusions on energy, the European Council stated that: ‘The internal market should be completed by 2014 so as to allow gas and electricity to flow freely’.

Following this, the European Commission invited on 18 April 2011 each existing gas and electricity Region to develop a regional action plan and to contribute to the elaboration of a “European Energy Work Plan 2011/2014”.

This European Energy Work Plan should identify each step required to achieve a Pan-European IEM by 2014 and clarify the expected contribution of each region in this process.

In this context, ACER started to promote a new approach to the RIs in order to reinforce their ability to serve as a complementing “bottom-up” tool to the newly created “top-down” FGs/NCs process.

⁴ Article 6.1 of Directive 2009/72/EC and Article 7.1 of Directive 2009/73/EC.

1.4 Implementing the new vision for Regional Initiatives: ACER's contribution

There are several reasons why ACER started shortly after its launch to put significant effort into the RIs.

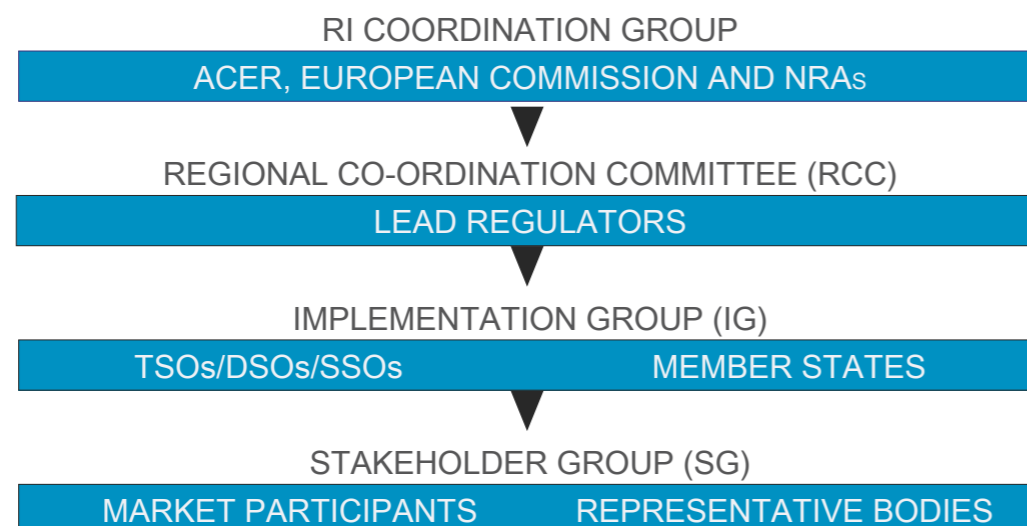
Firstly, relying solely on the formal FG/NC process - with its defined rules for interaction between the European Commission, ACER and the ENTSOs and the participation of stakeholders through public consultations - will not be sufficient to meet the 2014 target for market integration⁵.

Secondly, the RIs have the advantage of bringing the interaction between market participants to a different level, taking into account the regional dimension.

Thirdly, independently from the nature of the process for integration, the very ambitious 2014 deadline requires the full commitment and support of all stakeholders, both at the EU and at regional level. In order to maintain the involvement of stakeholders, there is significant added value in using already established governance and working arrangements at regional level which stakeholders are familiar with, such as Regulators Coordination Committees (RCCs), Implementation Groups (IGs) and Stakeholders Groups (SGs).

Finally, the RIs provide opportunities to work on more concrete projects which should ideally aim at rapidly implementing existing legislation and, pilot testing the provisions included in the FGs/NCs.

ACER
Governance of
the RIs



⁵ The first Network Codes will indeed only be adopted in the course of 2013.



In view of all this, ACER has quickly picked up on his role of coordination of RIs but also promoted a new vision for them, based on the four following principles:

- A more project-oriented approach to help focus the understandably limited stakeholders' resources on one single concrete and common project deemed to be most instrumental for the completion of the IEM;
- A more pan-European dimension to ensure the involvement of all Members States and the dedication of resources to achieve the common overarching objective of completing the IEM by 2014;
- A stronger stakeholders' involvement and engagement to maintain the momentum and confidence throughout the implementation phase;
- A more adequate governance structure to improve the decision-making process.

ACER hopes that this new vision will help the RIs to make yet a stronger contribution to the move from national or regional markets to an integrated IEM. This first⁶ Regional Initiatives Status Review Report illustrates the progress achieved in this direction during 2011 and what remains to be done.

2. THE ELECTRICITY REGIONAL INITIATIVE

2.1 A common vision

As mentioned before, substantial progress in the Electricity Regional Initiatives (ERI) had already been achieved at the time of ERGEG⁶. Thanks to this strong legacy and the continuous efforts of NRAs and stakeholders, as well as ACER's commitment to adopt a new approach to the RIs, significant progress in market integration has been achieved in electricity in 2011.

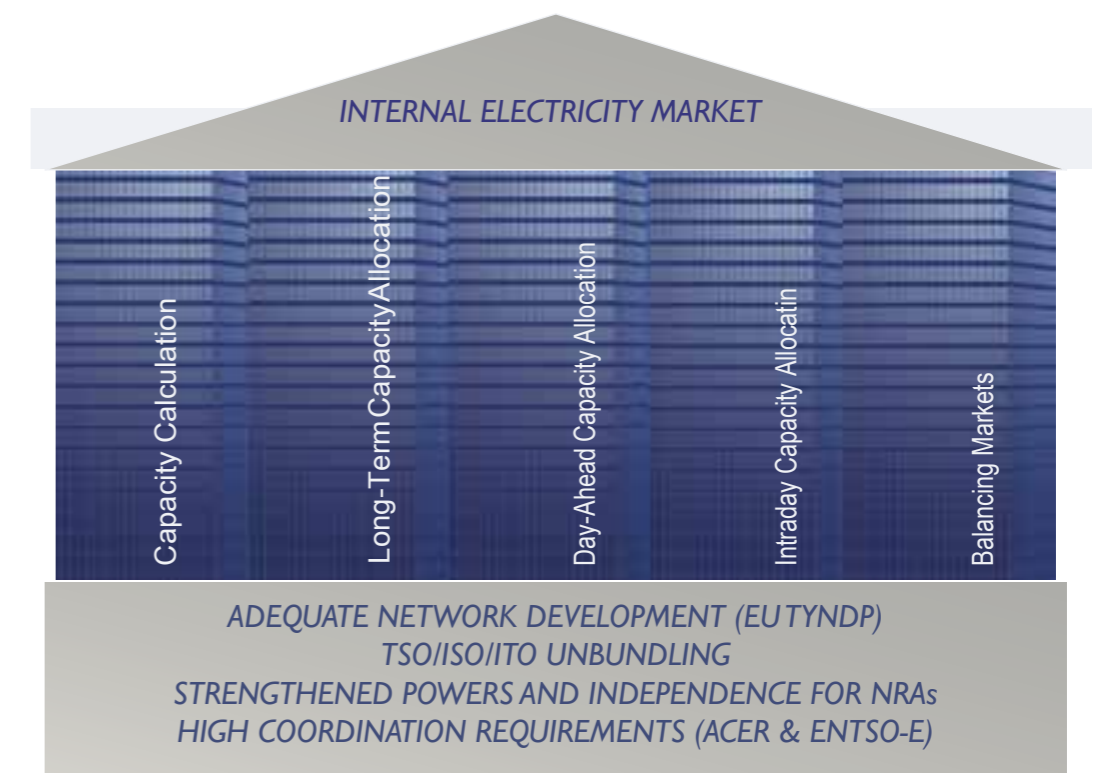
There is now a common vision for the completion of the IEM in electricity by 2014: electricity markets across Europe must share a set of common features and be linked by efficient management of interconnection capacities. In order to achieve this, Capacity Allocation

and Congestion Management (CACM) and Balancing have been identified as priority areas. Four clear Target Models exist for electricity market integration: three relate to CACM and one to Balancing.

Figure 3 exemplifies the process of completing the IEM in electricity. The foundations have been laid by the 3rd Package and the instruments it contains. On these foundations, four pillars (priority areas) need to be erected to support the IEM. Without the foundations or the pillars, the completion of the IEM will not be possible.

⁶ http://www.energy-regulators.eu/portal/page/portal/EER_HOME/EER_ACTIVITIES/EER_INITIATIVES

How to build
the IEM
in electricity



2.2 ACER's vision applied to the Electricity Regional Initiative

2.2.1 A more project-oriented approach

In order to implement the CACM Target Models⁷ for electricity across Europe, four priority projects have been identified:

1. The Single European Price Coupling aims at optimising the use of existing day-ahead cross-border capacities at European level, reducing the day-ahead price volatility and improving confidence in organised price references.
2. The Single European Continuous Implicit Mechanism for cross-border Intraday trade aims at facilitating balancing before the closure of the market and, possibly, short-term arbitrage. This simplification is becoming increasingly important in the context of growing penetration of intermittent generation.
3. The European Allocation Platform for the allocation of Long-Term Transmission Rights aims at delivering one single point of contact for the allocation of harmonised long-term transmission rights across Europe.
4. The Flow-Based Allocation Method for short-term capacity allocation in highly meshed networks aims at improving the network security and the level of capacity made available to the market, by taking into account the influence of cross-border flows on the congested lines in a more transparent and effective way.

In 2011, the seven electricity Regions elaborated their action plans following this project-oriented approach, using a common template and having in mind a common objective: the implementation of the CACM Target Models. These regional action plans also foresee additional monitoring-related activities, including the monitoring of market transparency, of the use and management of interconnections and of the development of cross-border transmission infrastructures.

2.2.2 A more pan-European dimension

During 2011, four cross-regional roadmaps were adopted. These were essential not only for the identification of the key EU- and regional-level milestones to successful project implementation, but also for identification of the stakeholders' "accountabilities" ("who should do what and when"). The cross-regional roadmaps are detailed in section 2.3 of this report.

Development of interconnections and available transmission capacity

Summary of work ongoing and planned in the Work Plans 2011-2014

Implementation of the CACM target model

Transparency monitoring

Monitoring of the use and management of interconnections

Removing market entry barriers and addressing regulatory ap

	Central West Europe	Centrale East Europe	Northern	France /UK / Italy	Central South Europe	South West Europe	Baltic
Implementation of the CACM target model	Dark Blue	Dark Blue	Dark Blue	Dark Blue	Dark Blue	Dark Blue	Dark Blue
Transparency monitoring	Dark Blue	Dark Blue	Dark Blue	Dark Blue	Light Grey	Dark Blue	Dark Blue
Monitoring of the use and management of interconnections	Dark Blue	Dark Blue	Light Grey	Dark Blue	Dark Blue	Dark Blue	Dark Blue
Removing market entry barriers and addressing regulatory ap	Light Grey	Dark Blue	Light Grey	Light Grey	Light Grey	Light Grey	Light Grey

AESAG brings together the European Commission, the Council of European Energy Regulators (CEER), ENTSO-E (the European network of TSOs for electricity) and other relevant stakeholder organisations in the European electricity sector (Eurelectric, CEDEC, GEODE, EuroPEX, EFET, IFIEC, CEFIC) representing electricity companies, distributors, power exchanges, traders and consumers.

According to its Terms of Reference, AESAG's main task in 2011 has been to assist ACER in elaborating concrete, ambitious but realistic cross-regional roadmaps in the CACM areas. In 2012, this group will support ACER in the follow-up of the implementation of these roadmaps.

AESAG, which meets every two months, can be seen as a platform:

- To support the implementation of concrete projects, paving the way to the IEM;
- To ensure consistency of these projects with the Framework Guidelines on CACM and the related Network Codes that will be developed by ENTSO-E;
- To take stock of and to assess progress against the roadmaps;
- To discuss the main features of the projects with all stakeholders involved from a European perspective and where relevant, to give guidance on these projects.

As in 2011, AESAG will continue in the future to share information with all stakeholders, raise and address any concern about the implementation of projects and provide relevant feedback, which may also be beneficial for the on-going work led by the ENTSO-E on the related Network Codes.

2.2.4 A more adequate governance structure

⁷ For further information on the CACM target models, please refer to the ACER Framework Guidelines for Capacity Allocation and Congestion Management available from [http://www.acer.europa.eu/portal/page/portal/ACER_HOME/Public_Docs/Acts%20of%20the%20Agency/Framework%20Guideline/Framework_Guidelines_on_Capacity_Allocation_and_Congestion_M/FG-2011-E-002%20\(Final\).pdf](http://www.acer.europa.eu/portal/page/portal/ACER_HOME/Public_Docs/Acts%20of%20the%20Agency/Framework%20Guideline/Framework_Guidelines_on_Capacity_Allocation_and_Congestion_M/FG-2011-E-002%20(Final).pdf)

⁸ The former ERGEG Project Coordination Group (PCG) and Ad Hoc Advisory Group of stakeholders (AHAG) have indeed been instrumental to facilitate the emergence of target models for CACM.

⁹ www.energy-regulators.eu

2.3 Review of progress made to date in the ERI

The creation of a dedicated ERI Coordination Group and the designation of specific lead NRA for each key project are important elements towards a more adequate governance structure for the ERIs.

According to the 3rd Package¹⁰, ACER “shall provide a framework within which national regulatory authorities can cooperate. It shall promote cooperation between regulatory authorities at a regional level and EU level, and shall take due account of the outcome of such cooperation when formulating its opinions, recommendations and decisions.”

The ERI Coordination Group is an internal group to ACER. It not only makes sure that actions taken by NRAs are consistent, but it also collects feedback from the Regions and prepares regular progress reports. This group has played a key role in gathering regional contributions in order to elaborate the four cross-regional roadmaps for the implementation of the Target Models for CACM.

This group usually meets on a monthly basis and reports regularly to the Director of ACER and to the ACER Board of Regulators.

Alongside the ERI Coordination Group, lead regulators have been appointed for each priority project:

- BnetzA (DE) and AEEG (IT) are co-leading the Market Coupling project;
- Ofgem (UK) is leading the Intraday project;
- CRE (FR) and EI (SE) are co-leading the Long-Term Transmission Rights project;
- CREG (BE) and E-Control (AT) are co-leading the Capacity Calculation project.

The main tasks assigned of lead regulators are:

- To ensure effective implementation of the agreed cross-regional roadmap, in particular to ensure effective contribution to the agreed cross-regional roadmap implementation;
- To promote, whenever appropriate, the involvement of Member States;
- To anticipate any complexity and, to the extent possible, handle it in the most effective way;
- To report in a transparent way on the progress made and on the obstacles met.

¹⁰ Article 7(3) of Regulation (EC) No 713/2009.

After seven months of intense and fruitful collaboration with the NRAs and other stakeholders, the final versions of the four cross-regional roadmaps were endorsed by the XXI Florence Forum held on the 5 and 6 December 2011. They are available, together with the complementary regional action plans, on ACER’s website¹¹. The following chapter reports on progress made on each of these cross-regional roadmaps.

These roadmaps will be used as the main reference for the ERI market integration process for the period 2011-2014, complementing the FGs/NCs process. They will play a key role in ensuring consistency and coherency between and within the regions.

2.3.1 The Cross-Regional Roadmap on Day-Ahead Market Coupling

Progress to Date

In 2011, ENTSO-E and EuroPEX renewed their commitment towards the implementation of a Pan-European Market Coupling solution. Both organisations have established internal structures (Price Coupling of Regions (PCR)¹²; North-West Europe (NWE)¹³ TSOs) to facilitate progress along the lines of the Cross-Regional Roadmap for Day-Ahead Market Coupling. A concrete and detailed implementation project for the North-West Europe price coupling by the end of 2012 is in progress with documents under negotiation.

The North-West Europe NRAs have established a Cross-Regional Coordination Committee (CRCC), led by DERA (DK) and BNetzA (GE), to coordinate the North-West Europe day-ahead and intraday projects from the regulators’ side. Lead regulators of all other Regions¹⁴, ACER and one NRA per additional market coupling project (e.g. CZ-SK-HU) participate in the CRCC as observers. The North-West Europe NRAs have started to work on a common approval/review process for the single price-based market-coupling algorithm.

In the Central and Eastern Europe Region a trilateral project started in 2011 in order to implement market coupling for the Czech, Slovak and the Hungarian markets. The objective of that project is to establish the common electricity market of the parties up to the end of the second quarter of 2012 and ready to couple with the North-West Europe Region.

¹¹ http://www.acer.europa.eu/portal/page/portal/ACER_HOME/Activities/Regional_Initiatives/Electricity_Regional_Initiatives/PROJECTS

¹² The PCR initiative, supported by EuroPEX, is focused on the delivery of a common European price coupling solution (with associated algorithms, systems, procedures and inter-PX co-operation arrangements), where this solution can potentially be implemented in a variety of local regulatory/governance settings. Its philosophy is to build on the existing contractual, regulatory and operational solutions, setting at the European level the needed harmonization and governance principles.

¹³ North West Europe (NWE) comprises the Central-West Europe Region, the Nordic Europe Region and UK.

¹⁴ In the South-West region, the MIBEL Regulators’ Council has formally confirmed to the ACER BoR the commitment to couple with North-West Europe by the end of 2012.

¹⁵ <http://www.apxindex.com/index.php?id=186>

EuroPEX has selected the COSMOS algorithm that has already been in use in the Central West European (CWE) Market Coupling, as the starting point for the PCR algorithm. In June 2011 ACER requested ENTSO-E to validate this PCR algorithm starting point and to agree with EuroPEX on one single algorithm. ENTSO-E delivered its validation report in January 2012. The PXs of the Czech Republic, Slovakia and Hungary approved the selection of the COSMOS as the algorithm for market coupling in order to ensure compatibility with the solution implemented in the Central West/North West Europe (CWE/NWE) region.

Main Challenges to Come

The main challenges in the coming months concern the selection and implementation of the PXs' IT system interface to operate the market-coupling algorithm and the overall process of endorsement by the NRAs. This process of endorsement, coordinated by ACER, will particularly focus on the starting point algorithm, the cost sharing principles between the North-West Europe and the non-North-West Europe countries for costs associated with the development of the PCR algorithm, the recovery of North-West Europe costs and governance arrangements.

2.3.2 The Cross-Regional Roadmap on Continuous Intraday Trading

Progress to Date

The Cross-Regional Coordination Committee (CRCC) gave Ofgem (UK) a mandate to coordinate the NRAs' work on the intraday project.

In March 2011, the CRCC agreed on a common position about the implementation of the European Target Model for intraday cross-border trade. The CRCC proposed implementation of a basic intraday solution for cross-border trade in the NWE Region by the end of 2012. It was envisaged that the basic intraday solution would then evolve toward the Target Model, with inclusion of capacity pricing reflecting congestion and sophisticated products, by the end of 2014

In September 2011, EuroPEX and ENTSO-E presented a joint position on the way forward for cross-border intraday trading. The position confirmed that EuroPEX and ENTSO-E are committed to the implementation of a pan-European cross-border intraday mechanism consisting of a Shared Order Book (SOB), performing continuous cross-border implicit intraday matching, and a Capacity Management Module (CMM) allocating the cross-border intraday capacity in a continuous manner. The joint approach was described as having the potential to provide an Interim Model and a clear path for a smooth transition towards the Target Model.

For the Interim Model, ENTSO-E and EuroPEX proposed ELBAS¹⁶ as the starting point for the technical solution to be implemented on a border-by-border basis during 2012. The technical solution would allow continuous cross-border trading of standardised hourly products on a hub-to-hub basis. The technical solution would also allow for over-the-counter (OTC) access to cross-border capacity on some borders. ENTSO-E and EuroPEX stated that the aim was to cover at least the North-West Europe region by the end of 2012.

To implement the Target Model ENTSO-E and EuroPEX proposed to work jointly on the design of

¹⁶ Electricity Balance Adjustment Systems

the technical solution from the second half of 2012 to the first half of 2014, with the end of 2014 as the target date for launching the technical solution on a European level. The governance structure will be based on results of the public consultation concerning the governance Guidelines being developed by the European Commission and on the experience gained on the governance structure used during the interim phase.

Main Challenges to Come

The specific border-by-border projects to implement the technical solution developed by ENTSO-E and EuroPEX will have to be defined in early 2012, together with the establishment of an appropriate governance framework for coordinating progress and facilitating appropriate stakeholder engagement.

2.3.3 The Cross-Regional Roadmap on Long-Term Transmission Rights

Progress to Date

The Capacity Allocating Service Company¹⁷ (CASC) is now allocating long-term transmission rights through a harmonised set of auctions for cross-border capacity within and between the Central West Europe (CWE) and the Central South Electricity (CSE) Regions, as well as with Switzerland.

The South Western Europe Region shall also join the CASC allocation platform in the course of 2012 (the French-Spanish interconnection shall join by mid-2012 and the Portuguese-Spanish interconnection by the end of 2012). In the case of the Portuguese-Spanish border, the preferred option is to allocate long-term Financial Transmission Rights (FTRs). This could be a pilot project for implementing FTRs in Europe, and CASC has declared availability and interest, offering the possibility to start auctioning FTRs (understood as Physical Transmission Rights - PTRs - without nomination) for the Portuguese-Spanish interconnection.

Main Challenges to Come

Two dedicated Task Forces, one for ACER and the other one for ENTSO-E, will be in charge of benchmarking the existing sets of auction rules and of elaborating a single set of auction rules across Europe where transmission rights (TRs) have to be used.

Based on experience from the Central West Europe (CWE) and Central South Europe (CSE) Regions, a single allocation platform could significantly contribute to the market convergence and harmonisation process. Regions like Northern Europe and Baltic will face an additional challenge, as they will have to decide on the nature of long-term transmission rights to be allocated on their borders. In both cases, this decision is expected in the course of 2012.

2.3.4 The Cross-Regional Roadmap on Capacity Calculation Method

Progress to Date

In the Central West Europe Region, market coupling is already in place. This offers an opportunity for the testing of flow-based implementation. Simulations of flow-based implicit auctions have already been conducted using data from the Available Transmission Capacity (ATC)-based Central West Europe market coupling.

¹⁷ <http://www.casc.eu/en>

2.4 The ERI: The way forward

The Central West Europe TSOs have published two reports on the testing of a flow-based capacity calculation and allocation in the Region:

- CWE Enhanced Flow-Based MC feasibility report, 15 March 2011;
- CWE Enhanced Flow-Based MC feasibility report, 19 October 2011.

The Central West Europe NRAs have been following up on the results of these reports with technical TSO-NRA meetings on several occasions.

Despite many positive developments since 2006 when the project was initiated (in particular the creation of a Central Allocation Office (CAO) as a jointly-owned auction office in 2008), the flow-based allocation has not yet been implemented in the region.

The TSOs of the Central West Europe and the Central and Eastern Europe Regions have established an expert group following a joint TSO-NRA implementation group meeting on 9 March 2011. The purpose of this group is to enhance the cooperation between the TSOs of both regions and the coordination of the two Flow-Based projects. So far the group has looked into the approaches in the regions in detail in order to identify similarities and differences with the aim to ensure the required compatibility.

In the Central and Eastern Europe Region, the TSOs and, subsequently, the NRAs were unable to achieve a consensus on the implementation of flow-based capacity allocation (in particular with regard to the question of whether the region should implement explicit FBA or ATC-based market-coupling first).

Due to diverging views on further steps to be taken, several bilateral and multilateral consultations with high-level Central and Eastern Europe TSO and NRAs' representatives took place since November 2011. ACER and the European Commission representatives were also involved. The common goal was to provide clarifications with regard to the next steps and to ensure that there is a reliable implementation plan towards the Target Model.

Main Challenges to Come

The final decision in the Central and Eastern Europe Region on further implementation steps towards the 2014 European Target Model will be one of the main challenges to come with regard to capacity calculation. Independently from this final decision, the compatibility between the Central and Eastern Europe and Central West Europe Flow-based approaches will have to be ensured. The Central West Europe - Central and Eastern Europe TSOs coordination group will play an important role in that respect.

Another challenge is the necessary coordination on the ATC-based and flow-based borders. For a border where one zone is ATC-based and the other zone is flow-based, several ways to incorporate the border in the capacity allocation and calculation process can be adopted. Other issues relating to the allocation of congestion revenues, the treatment of non-intuitive price structures, the assessment of reliability margin on critical infrastructure, the choice of generation shift keys¹⁸, and the most appropriate zonal structure still need to be solved.

Finally, information disclosure between regions will be of key importance to the successful project implementation. The extent to which available experiences in capacity calculation can be effectively shared will drive progress. Regions that are further along in the process of implementing flow-based capacity calculation can help other regions with their experience.

¹⁸ The Generation Shift Key (GSK) is needed in order to model the usage of critical branches prior to the actual market result / dispatch, which determines the real usage. This is a sequential problem.

The development of the four cross-regional roadmaps proved to be a great success for the ERI in 2011. In the future, particular attention will have to be paid to the following aspects as they are key factors for a successful implementation of the roadmaps:

- Strong commitment from the key stakeholders (NRAs, TSOs, Power Exchanges and Member States if necessary) throughout the implementation phase, both at the EU and regional level, to contribute to the targets and ambitious deadlines in the cross-regional roadmaps (through the regional action plans).
- Close follow-up of the implementation process. In addition to progress reports at the Florence Fora, ACER is to publish, on its website, quarterly reports, identifying any obstacles/delays in project implementation. These quarterly reports will also highlight any potential divergences with the drafting of the CACM Network Codes led in parallel by the ENTSO-E.
- Effective and efficient decision-making process in case of delays, obstacles or disputes in the implementation process. In line with Article 8 of the Regulation (EC) No 713/2009, ACER will not hesitate to exercise its "residual" power to decide on cross-border issues.
- Continuous involvement of all stakeholders in the follow-up to implementation of the cross-regional roadmaps, both through the AESAG process and the regional fora.





3. THE GAS REGIONAL INITIATIVE

3.1 Gas Target Model: need for a step-change in pace?

The European gas market is at a different stage of development compared to the electricity sector. This is the result of a number of factors, including the different nature of the commodity, the greater dependency on external supplies and the sheer heterogeneity of gas market structures in the different Member States.

This explains to a large extent why work on a Gas Target Model only started late 2010. A vision paper on a possible Gas Target Model was published by CEER in December 2011. It may be adopted at the Madrid Forum in March 2012.

Moreover, no cross-regional roadmap has been developed so far, as the Gas Regional Initiative (GRI) is still in the process of defining and implementing projects at bilateral or regional level¹⁹.

CEER's vision paper recommends that the GasTarget Model be based on the following pillars:

- well-functioning wholesale markets in all EU jurisdictions;
- connection of these functioning wholesale markets across the whole of Europe;
- secure supply patterns that ensure gas flowing to Europe;
- securing economic investments in infrastructure.²⁰

ACER believes that organising the work around these pillars or key principles should deliver progress towards the achievement of the 2014 IEM target and benefit all parties in the long term.

In 2011, efforts in the context of the GRI have already been made in that direction through:

- the work on security of supply in the South-South East Region;
- the promotion of investments in infrastructure in the South Region;
- the work related to transparency and the Gas Regional Investment Plans (GRIPs) in the North-West Region; and
- studies and analyses carried out in the three regions exploring the possible application to each of the regions of the Gas Target Model proposed by CEER.

¹⁹ Note however the exception of the GATRAC project, which offers a first example of cross-regional cooperation (see section 3.1).

²⁰ These are the pillars of CEERs Target Model, published in their December paper

3.2 ACER's new vision applied to the Gas Regional Initiative

ACER is committed to continue apply its new vision of RIs to the gas sector even if significant progress is still needed.

A more adequate governance structure was nevertheless put in place with the creation of an ACER GRI Coordination Group in addition to the existing structures common to the three regions.

Initiatives have also been taken to increase the level of engagement of stakeholders²¹.

Focus in 2011 has been put on projects which offer synergies with the formal process of FGs/NCs.

For example, all three gas regions are already working on monitoring the compliance of the transparency guidelines set out in Regulation (EC) No 715/2009 (art. 18, and Chapter 3 in Annex 1).

The North West Region asked TSOs to provide their assessment of this compliance, and the results have been submitted to stakeholders for consultation.

The South Region is following a similar process, and is including also LNG-terminal System Operators and Storage System Operators in this analysis.

In the South-South East Region some work has been already undertaken by NRAs at country level. In 2012, ACER would like to explore the possibility of using the GRI to facilitate the sharing best practice in terms of reporting on this issue of transparency guidelines amongst the different gas regions.

Until now, the regions have worked mainly on bilateral or sub-regional projects. ACER also noted that , in some cases, the 2011-2014 work plans remain to a great extent based on the areas of work already planned prior to 2011.

The greatest challenge for gas is thus to give the GRI a pan-European dimension. This was stressed by gas market participants at the Madrid Forum in September 2011.

²¹ See Section 3.2 below on GRI: The Way Forward.

3.3 Review of Progress to date in the GRI

3.3.1 North-West Region

In 2011, work in the North West Region focused on the following projects and areas of work, as reflected in their Work Plan 2011-2014:

- Given the importance of transparency and following a request by stakeholders at the 8th Stakeholder Group meeting (November 2010), the North West Region initiated a project monitoring the compliance of TSOs against the 3rd Package transparency requirements²². In this process, the 25 TSOs of the North West region were asked to provide their evaluation on their own state of compliance against the transparency requirements. In November 2011, a public consultation was launched on whether market participants feel that TSOs are publishing data in an appropriate manner, in terms of quality, consistency, frequency, accessibility and timeliness. The consultation closed on 20 January 2012 and its conclusions will be published.
- TSOs within the North West Region have elaborated the first GRIP for the region and this document was presented during the 9th Stakeholder Group meeting of the region in November 2011.



The GRIP is now under consultation and, in 2012, the results of this consultation will be evaluated to ensure that the GRIP delivers the best added value for all stakeholders. The possible improvements of the GRIP will be discussed in an open dialogue between the NRAs and the TSOs within the region.

- The Open Season between France and Luxembourg aims at increasing firm capacity from France to Luxembourg. The process is coordinated between the two TSOs (GRTgaz and CREOS) and NRAs (CRE and ILR) involved. Two possible scenarios are considered: one based on developing new capacity up to 9 GWh/d; and another one offering 40 GWh/d of new capacity.

The non-binding phase was launched at the 9th Stakeholders Group meeting of November 2010 and ended on 31 January 2011. After analysis of the results by the TSOs, the binding phase, which has been postponed to May 2012, will be adjusted according to shippers needs. In 2011, the North West Region was used as a platform for discussing on the process.

In 2012, the outcome of this discussion will be used to share the lessons learnt in terms of coordination and transparency, feeding the revision of the Guidelines for Good Practice of Open Seasons Procedures (GGPOS) by CEER.

- Finally, in the pre-Comitology meetings the Member States, NRAs and TSOs of the North West Region have discussed in an open dialogue the FGs and NCs twice in 2011 and these meetings have already led to a better understanding by Member States of the FGs and the NCs that are now being developed, which should ultimately result in a more efficient comitology process.

3.3.2 South-South East Region

Following a stakeholders consultation carried out in the region in October 2011, several key priorities were identified:

- Security of supply remains a priority for the region. The gas supply crisis of 2009 had significant impact on the South-South East Region.
In view of an early implementation of the provisions from Regulation (EC) No 994/2010, Member States are sharing their Preventative Action Plans (PAPs) and Emergency Plans (EPs), as well as other security of supply instruments – risk assessments, infrastructure and supply standards – and continue to progress work in this area.
- In terms of pilot projects, the Gas Transport Cooperation (GATRAC) platform, a cross-border partnership of several gas TSOs in the Region, offering different capacity products for cross-border gas transportation between Germany and the Czech Republic, is being extended to other Member States.

The GATRAC project contributes to the efforts to establish a single European market. Notably, through this project, TSO cooperation has reached a cross-regional dimension, as TSOs belonging to different regions bridge regional differences and support the way towards a competitive and coherent market.

- With regard to cross-regional balancing, from 2013 the Central-European Gas Hub (CEGH) will be the Virtual Trading Point (VTP) for Austria. In the future CEGH is expecting to become a market-based balancing platform and subject to regional agreement, it may extend its geographical scope in the South South East Region. This may represent the first step for the establishment of a cross-regional platform.

In the first half of 2012, two studies will be carried out in the region by E-Control (AT). One will focus on the macro-economic and welfare benefits of further market integration along the lines of the GTM, analysing more closely two geographic zones.

A second study bringing together NRA, TSOs and stakeholders will take a closer look on institutional prerequisites for the implementation of the GTM in the region.

The studies are open to all stakeholders, NRAs and TSOs of the region and some of them already confirmed their strong interest to participate in this project.

Furthermore, AEGG (IT) installed technical analysis work-streams to study:

- the degree of competition in the European gas market, to be expected in different time horizons starting from the implementation of the Target Model;
- the availability of transitory measures the implementation of which could contribute to a smooth transition of the current and future organisation of the European gas market. The results will be shared with all the participants in the region.

- In the area of capacity allocation, TAG GmbH and Snam Rete Gas are finalising the procedure to offer Day-Ahead transportation capacity on an interruptible basis as a pilot project, creating an internet-based platform for Day-Ahead capacity at the Austrian - Italian border. This project is expected to be implemented in 2012. Resolving differences in the nomination and re-nomination regime on the two sides of the interconnector ports (IPs) in order to allow full implementation of the project will also be a focus of the South South East Region's work.

3.3.3 South Region

The main progress in the South Region during 2011 occurred in the Capacity Allocation Mechanisms (CAM), Congestion Management Procedures (CMP) and infrastructure development areas.

- At the beginning of 2011, the Portuguese and Spanish TSOs started to work on a common allocation procedure for available interconnection capacity at the Portuguese-Spanish border. Following CAM FGs and ENTSO-G draft NCs, the TSOs made important efforts and before summer 2011 proposed to the NRAs a joint allocation method, based on a coordinated auction of bundled interconnection capacity, for the period from 1 October 2012 to 30 September 2013. This mechanism is expected to be launched in June 2012. Some specific details of the mechanism still remain to be defined among NRAs and TSOs. The South Region presented the procedure to Stakeholders in early February 2012.
- On the other hand, in November 2011 the annual Open Season Procedure (OSP) to allocate short-term interconnection capacity between France and Spain was launched. The procedure allocated all the capacity offered in the direction Spain to France to six different shippers. No capacity was requested in the flow direction from Spain to France.
- A detailed analysis of the different Congestion Management mechanisms applied at the French-Spanish and Portuguese-Spanish borders was completed at the beginning of 2011. Subsequently, and taking into account the proposal of comitology guidelines for CMP by the European Commission, the TSOs prepared an initial proposal for CMP harmonisation between France and Spain, based on the application of long-term Use-It-Or-Lose-It principles. The TSOs are currently developing the final version of the proposal for the next steps of the project, accordingly to the result of CAM and CMP guidelines.
- In the infrastructure area, regular information on the developments associated with the new inter connection capacity between France and Spain, sold via the OSP in 2009 and 2010, was published on the TSOs' and CEER/ACER website. In November 2011, TSOs finalised the GRIP required by the Regulation (EC) No 715/2009. The GRIP, based on the TSOs' previous work, was presented to the Implementation Group (IG) in December 2011 and to stakeholders in early February 2012, when the Public Consultation was launched. NRAs are currently preparing their comments on this plan.
- Additionally, at end of 2011 the Spanish and Portuguese NRAs finalised a study on cross border transmission tariffs affecting both countries. The document has been submitted to public consultation in January 2012.
- Progress on transparency was also made at the end of 2011. The Region sent questionnaires to Transmission, Storage and Distribution System Operators in the three countries, in order to check compliance with transparency requirements of Regulation (EC) No 715/2009. The responses received are being analysed, following which NRAs will decide on actions to take.

Summary of work ongoing and planned in the Work Plans 2011-2014

Priority areas	North-West	South	South-South East
CAM of bundled products	Possible analysis for future common CAM and booking platform	Open Subscription Period (OSP) France - Spain CAM harmonisation Spain - Portugal CAM harmonisation with France Common TSO Allocation Platform	Coordinated short-term capacity services in IP Austria-Italy GATRAC extension to SK and other IPs
CMP		Congestion Management (CMP) harmonisation Spain - France Congestion Management (CMP) harmonisation Spain - Portugal	
Infrastructure and investment	Work and monitoring of GRIPs 2012 & 2014 Open Season (OS) France-Luxembourg	GRIPs 2012 & 2014 Input to ENTSOG on GRIP & Ten Year Network Development Plan Implementation of Regulation 994/2010	Check investments against future market design and consultation of GRIPs 2012 & 2014
Balancing		Explore use of the gas markets for balancing Analyse configuration of balancing zones Common balancing platform in the three countries	Implementation of a cross-regional balancing platform Cost-benefit analysis of models for balancing and trading zones and definition of the final model
Tariffs		Study on tariffs in Spain and Portugal	
Interoperability		Analyse IO aspects to be harmonised (e.g. gas day, IT communication, quality, programming and nomination, etc.)	EASEE-gas rules adoption Sub-regional integration & harmonization of procedures (SK-CZ-D)
Market integration and hub development	Explore implicit allocation (market coupling)	Hub development Hub-to-hub trading	Studies on institutional prerequisites & macroeconomic benefits of further market integration (GTM)
Supervision of 3rd Package implementation - Transparency	Supervision of compliance with Annex 1.3 of Regulation (EC) No 715/2009 (TSOs)	Supervision of compliance with Annex 1.3 of Regulation (EC) No 715/2009 (TSOs, LSOs, SSOs)	
Input to FGs-NCs process and early implementation of NCs	Permanent discussion and feedback to the FG-NC development process	Permanent discussion and feedback to the FG-NC development process	Permanent discussion and feedback to the FG-NC development process
Pre-comitology meetings	Meetings between NRAs, TSOs and Member States to clarify aspects of the FGs and NCs ahead of the Comitology process		

3.4 The GRI: The Way Forward

3.4.1 Enhancing and Improving the Work Plans

As illustrated in Section 3.1, the Regional Work Plans will continue to be the main instrument for the achievement of the GRI objectives before the process can be moved to a more pan-European approach. ACER has identified the following areas where improvement is needed as far as the Regional Work Plans are concerned:

- The Work Plans need to reflect more explicitly the 2014 target for the completion of the IEM.
- More effort is needed in order to improve the convergence of the different Regional Work Plans.
- Greater focus should be given to projects in those areas which are most instrumental for the completion of the IEM, and in particular to capacity allocation and infrastructure development.
- The Regional Work Plans should be continually reviewed and updated, so that they can accurately depict at all times the state of play in the different areas, take account of the work done and identify the issues that may arise along the way.



3.4.2 Wider Stakeholder Participation

Increased engagement of stakeholders, but also of Member States, is central and should be further encouraged for the success of the GRI in achieving its overarching 2014 goal. ACER is committed to create conditions for this enhanced involvement.

Work has also aimed at meeting Stakeholders' requests and at promoting their participation in the GRI. Being a voluntary platform for the development of pilot projects and the introduction of new project areas, the highest possible attendance at GRI meetings from a representative number of participants in the various stakeholder categories should be encouraged.

The compliance with the requirements of the existing legislation within each region is currently being investigated and this work will continue. Surveys will also be undertaken to identify the key issues for each stakeholders group, and to assess their perspectives on how attainable they believe the 2014 deadline to be, and on where the perceived obstacles are. This can be used to develop plans to achieve market integration.

3.4.3 Cross-Regional and Pan-European Projects

The Madrid Forum in September 2011 recommended further coordination the Work Plans between Regions. The plans should therefore also aim in the future at offering opportunities for cross-regional integration to the extent possible. Convergence should also be a clear objective in the GRI's work, as future integration will only be possible if the three regions look ahead in the same way, and there is the possibility to build upon the work done in regional projects for achieving the IEM.

The requirement for work in the GRIs to translate to pan-European working arrangements is paramount. Pilot projects and platforms being tested need to be applicable in the wider context. There is no doubt that certain types of projects or investigations can be extended to all three regions.

For example, the detailed work on the implementation of Security of Supply provisions undertaken in the South-South East Region may also be replicated in the other regions. Another example is the monitoring of the compliance of the transparency requirements²³, which is already being performed at regional level in two of the three regions and should be carried out also in the third one. Testing of Capacity Allocation platforms and arrangements can also be uniform across the regions. New projects identified by the GRI Coordination Group should be made applicable across the three regions.

2012 is the year in which the GRI has to move from studies and work arrangements being tested within each region to establishing cross-regional projects.

²³ Chapter 3 of Annex 1 in Regulation (EC) No 715/2009

4. CONCLUSION

This first ACER Regional Initiatives' Status Review Report shows that during 2011, NRAs, the European Commission, Member States, TSOs, the industry, network users and other market participants, as well as ACER itself, devoted significant efforts in adopting a new vision for the RIs in order to make them an even more effective tool for market integration.

This effort has achieved more conspicuous results in the electricity sector, where project-based, cross-regional roadmaps were developed and agreed among all stakeholders, and endorsed by the Florence Forum, in four critical CACM areas. From now on, the focus should be on implementing these roadmaps (which also include the definition of a number of final elements of the Target Model for the IEM in electricity). But continuous involvement of all stakeholders will be needed in order for these roadmaps to deliver on time to meet the 2014 target.

In the gas sector, the definition of regional work plans has proved already difficult, with most identified projects still reaching only a sub-regional dimension. Therefore, 2012 should see the regional dimension reached and a determined move forward towards greater cross-regional integration.

Both sectors share nevertheless one element; the fact that, in order to make the RIs deliver, the involvement of all parties is central.

Achieving the 2014 target for the completion of the IEM will not be possible through the formal process of FGs/NCs alone. The RIs are a necessary, complementary and voluntary process for bringing forward parallel early implementation of the IEM Target Model.

ACER will thus continue its effort to ensure that the RIs contribute most effectively to market integration by fostering cooperation, the sharing of information and the early implementation of project in a cross-regional and pan-European dimension.





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