



Electricity Regional Initiative Central-South Europe Region

18th Implementation Group meeting

25 September 2012 from 10:30 to 17:00
AEEG premises – Piazza Cavour, 5 – 20121 Milano



DAY AHEAD (DA)

- Draft CACM network code: actions for CSE region (focus on pre coupling and post coupling arrangements)
- Definition of a detailed work schedule for 2013

INTRADAY (ID):

- Draft CACM network code: update on the current status, next steps from the interim towards the enduring solution
- Definition of a detailed work schedule for 2013



TSOs at the Italian Borders proposed to work together with Power Exchanges in order to progress towards the target models for Market Coupling and Intraday

TSOs at the Italian borders invited PXs to establish a joint working table. The kick off meeting was held in Rome on 25th July.

The objective of the meeting was to focus the targets, the steps and the organization for the implementation of Day Ahead and Intraday mechanisms.

During the meeting a preliminary high level roadmap has been discussed.



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Presentation of the high level roadmap for Market Coupling

Main assumptions and list of activities

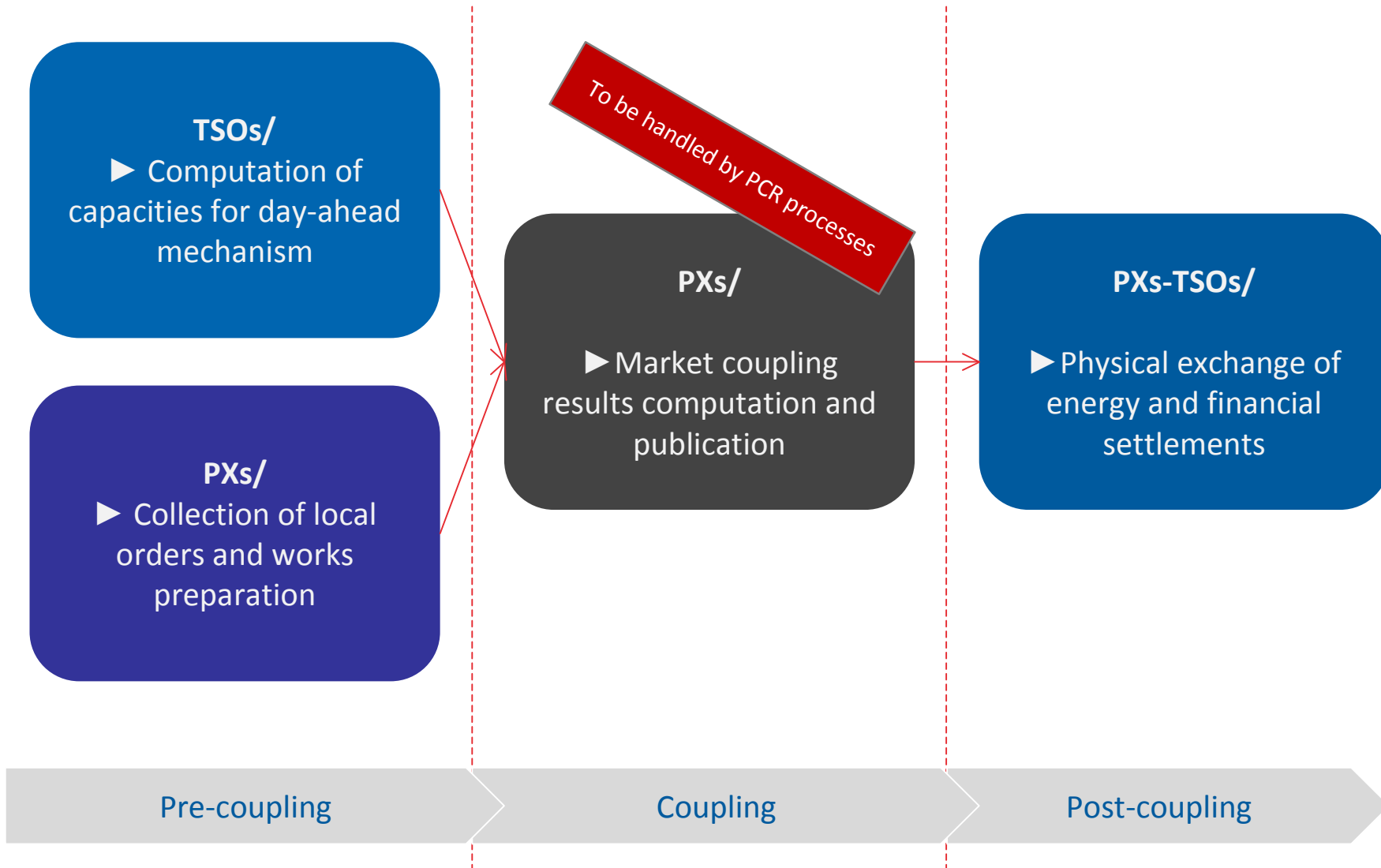


- **Market Coupling on the Italian Borders will be based, for start, on ATC capacity calculation methodology.**
- **Market Coupling on the Italian Borders will be possible only following the usability of the PCR algorithm.**
- **Key principles of the roadmap**
 - A preliminary roadmap in order to launch the market coupling activities on the Italian Borders
 - The willingness to capitalize on existing initiatives: CWE, NWE/PCR, CEE...
 - A proposal which includes the following:
 - Delivery and testing of the PCR algorithm
 - Designation of “Nominated Electricity Market Operator(s)” for market coupling in each participating country
 - Harmonization of the day ahead energy market gate closure time at 12.00 on Italian borders
 - Agreement on cross-borders financial settlement arrangements on involved exchanges
 - Setting up of the national and European regulatory and legal frameworks

Objective: launch of the activities and assessments in Q4 2012 in order comply with the 2014 target

Presentation of the high level roadmap for Market Coupling

Market Coupling high level macro process



Presentation of the high level roadmap for Market Coupling

Pre-Coupling activities TSOs

TSOs/
(common?) system
► Computation of
capacities for day-
ahead mechanism



Detailed Process	existing or planned process on Italian borders	process to be developed on Italian Borders based on foreseen NWE process	PXs Involvement (operation and design)	TSOs involvement (operation and design)	CASC involvement (operation and design)
Definition of the grid model	D-2 NTC Process ongoing			X	
NTC calculation	D-2 NTC Process ongoing			X	
NTC communication to Market participants	D-2 NTC Process (to be launched)			X	X
LT nominations > LT program collection	as today			X	
ATC computation and publication	To be launched			X	X
Flow based cases	<i>not foreseen for the moment</i>	<i>not foreseen for the moment</i>		X	
Sending of coordinated ATC to PXs system		to be defined	X	X	

The development/usage of a common TSO system for pre-coupling activities will be assessed by the TSOs within the current D-2 coordinated calculation process

Presentation of the high level roadmap for Market Coupling

Pre-Coupling activities PXs

PXs/
 ► Collection of local orders and works preparation



Detailed Process	existing or planned process on Italian borders	process to be developed on Italian Borders based on foreseen NWE process	PXs Involvement (operation and design)	TSOs involvement (operation and design)	CASC involvement (operation and design)
Collection of local orders		mainly based on PCR	X		
Aggregation of local data		mainly based on PCR	X		
Sending of local data to PXs common system		mainly based on PCR	X		

The activities on the PXs side are estimated as being limited as mostly tackled by the PCR project. Each PX will nevertheless have to evolve to comply with the PCR architecture. This will be done on a local PX level

Presentation of the high level roadmap for Market Coupling

Coupling activities

PXs/
(common?) system
▶ Market coupling
results computation
and publication



Detailed Process	existing or planned process on Italian borders	process to be developed on Italian Borders	PXs Involvement (operation and design)	TSOs involvement (operation and design)	CASC involvement (operation and design)
Results computation (price and net position of each PXs)		Based on foreseen PCR process	X		
Publication of results		To be defined	X		
Sending of Results		To be defined	X	X	

The coupling activities will be handled by the Power Exchanges in the framework of the PCR project. Tight coordination between the 2 projects will be implemented.

Presentation of the high level roadmap for Market Coupling

Post-Coupling activities

PXs-TSOs/
 ▶ Physical exchange of energy and financial settlements



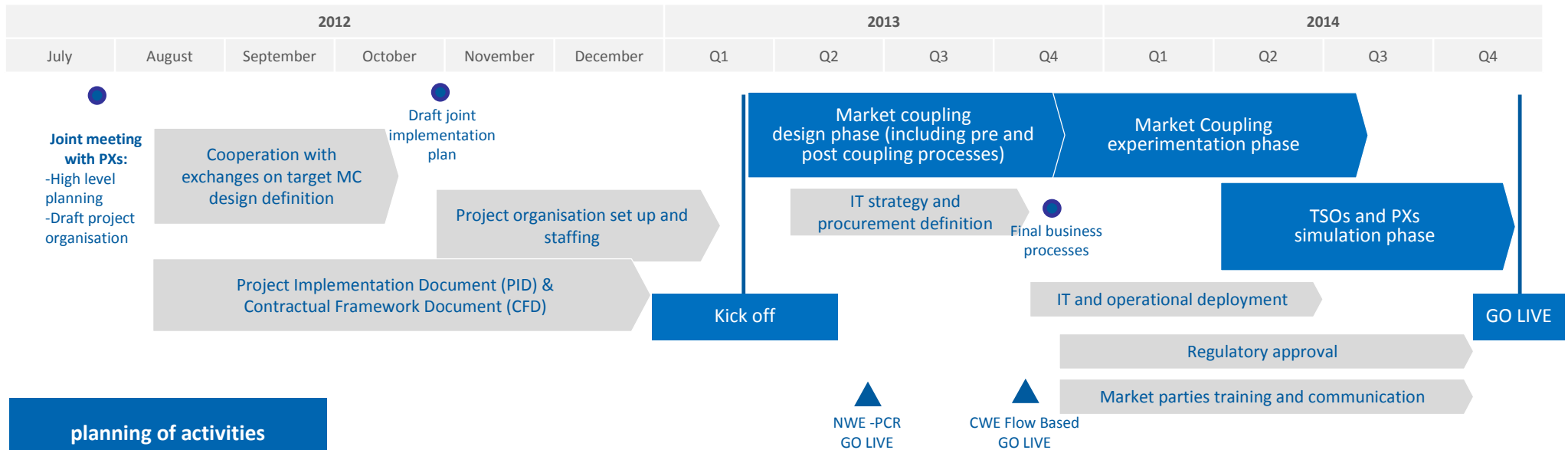
Detailed Process	existing or planned process on Italian borders	process to be developed on Italian Borders based on foreseen NWE process	PXs Involvement (operation and design)	TSOs involvement (operation and design)	CASC involvement (operation and design)
Net position validation		To be defined	X	X	
Definition of bilateral exchanges based on net positions		To be defined	X	X	
Publication of bilateral exchanges		To be defined		X	X
Collection of incomes		To be defined	X	X	X
Sharing of incomes		To be defined		X	X

Collection of income and shipping clearing process is a new process. It entails complex issues to be tackled such as the harmonization of settlement timings or the management of cash flows and associated risk-handling.

To be investigated if the CWE shipping design involving CCPs and CASC is the option supported by some PXs although it does not need to apply on all Italian borders.

Presentation of the high level roadmap for Market Coupling

High level target planning



The 2012 6 remaining months should be used to:

- Define a target Market Coupling design in cooperation with the Power Exchanges
- Set up the project organization, planning and resources allocation

2013 is a design and project year during which the following activities will have to be performed:

- Design of the Market coupling process
- Launch of the IT and experimentation activities
- Start the experimentation phase

2014 will be dedicated to deployment and simulation with PXs as well as a more intense relationship with stakeholders : regulators and market parties in the first place

Resources

Can be handed by the CTF members and PXs representatives

Need for the allocation of additional project resources (PXs, IT, operations, legal, regulatory...)

Next steps for Market coupling



- **The working group is drafting a cooperation agreement focused on the terms of the cooperation**
 - A dedicated joint group has been created to work on these documents
 - Target delivery of the contract end of October 2012

- **Setting up a light joint project organization for 2012 in charge of:**
 - Approving the joint documents and the roadmap
 - Define the needed project organization for the next year
 - Monitor the joint action plan under construction



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Intraday solution

Interim solution improvements under study



- **Two main factors of improvement of the solution currently in place for the allocation of intraday cross border capacity based on explicit auction:**
 - the **allocation mechanism**: continuous trading could be implemented, taking into account the feasibility study for the compatibility between the continuous trading mechanism on the borders and the Italian implicit ID auction developed by IT-FR working table
 - the **allocation closer to real time**

- **The design of a solution which improves the current solution in place could be based on one of the two or on both the factors mentioned.**

CONCLUSION

- **Investing on the implementation of continuous trading today, not waiting for the final target IT and design seems unrealistic as the planning for NWE solution targets a decision for the end of the year.**
- **The realistic improvements could be done on the explicit auctions moving the gate closure of MI2 but faces market design issues. The shifting will be investigated in terms of Italian market design and in terms of the impact on the neighbouring markets**

Intraday solution

Status of Intraday enduring solution



- **A tender for integrated CMM SOB is under preparation by EUROPEX, in cooperation with NWE TSOs and ENTSOe (with the support of ACER)**
- **This is monitored by ACER (weekly report also received by TSOs) and AESAG (monthly report)**
- **The implementation process is not yet finalized. TSOs and PXs will have to define the scope of local (bilateral) projects and common (NWE) project.**
- **The Italian borders gap analysis toward target model will be launched consistently with the progress of NWE intraday project.**



1. CACM network code – Market Coupling

The target model for Day Ahead

Target model is a single European Price Coupling by 2014.

Market Coupling is the capacity allocation method chosen by ACER with the aim of enabling an efficient European wide price formation and an efficient use of the transmission grid.

The Day Ahead chapter of the CACM network code aims at establishing a **common set of rules** which can be applied across Europe in order to promote market coupling.

Under the Target Model **one single matching algorithm** is able to:

- process **bids and offers** from market participants within local markets
- deal with the **constraints** specified by TSOs
- establish clearing **prices** and **net positions** for all bidding zones and
- select **cleared orders** which are the orders accepted by the Price Coupling Algorithm



1. CACM network code – Market Coupling

Common key issues

Pre-coupling phase

- Implementation of centralized European and Regional functions such as merging of the Common Grid Model (European wide function) and capacity calculation (regional function).
- Definition of a regional capacity calculation methodology (ATC, FB).

Coupling phase

- Usability of the Price Coupling Algorithm.
- Harmonization of GCT.

Post-coupling phase

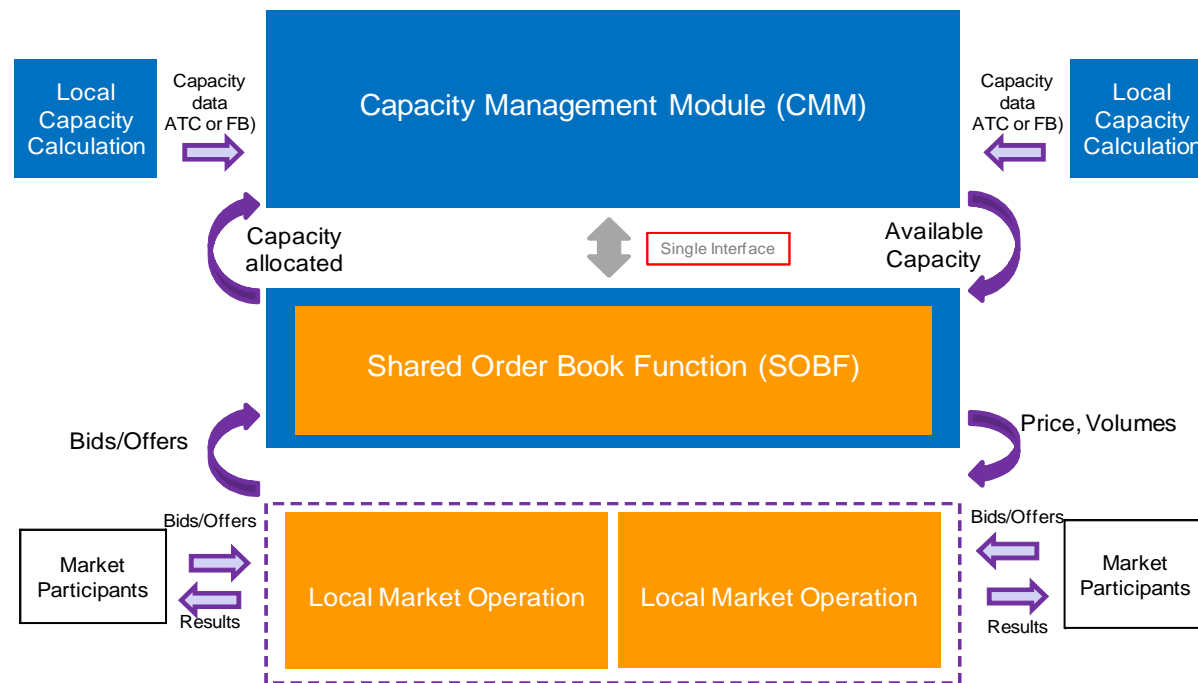
- Harmonization of settlement cycles.



1. CACM network code – Intraday

The target model for Intraday

The target model for intraday is continuous trading with implicit allocation of capacities with reliable pricing of intraday transmission capacity reflecting congestion.





1. ACER Regional Roadmaps

*NRAs in CSE issue the Regional Road Map towards the Day Ahead Target Model
(Information presented at Florence Forum, May 2011)*

DELIVERABLE I.2 Day-ahead: Single European price market coupling		
ACTION	RESPONSIBLE	DEADLINE
Time-table for a regional implementation of PCR algorithm – once validated by the NRAs - by TSOs and PXs, to be reviewed and approved by NRAs	TSO,PX, NRA	Q1 2012
Based on the governance guidelines to be issued by the European Commission and relevant contractual arrangements between TSOs and PXs, a roadmap will be issued for the extension of existing interregional market coupling project (CWE-Nordic MC) to the CSE region.	TSO, PX, NRA	End of 2012
Gradual adoption of the PCR algorithm for solving day ahead markets of the region according to the time-table approved by the region; adaptation of existing day ahead markets features in order to comply with the coupling needs.	NTA, PX, TSO	2012-2013
Implementation of price coupling within the CSE region.	TSO, PX	Beginning 2014
Single price coupling go-live on all Member States	TSO, PX	End of 2014



1. CACM network code – Intraday

Common key issues

Complementary regional auctions

- Some prerequisites and conditions have to be fulfilled to ensure full compatibility with the wider EU solution .

Explicit access to intraday capacity

- Possibility to trade cross-border intraday electricity on OTC markets, until sophisticated products will be tradable via the continuous implicit trading platform. The removal of the explicit access will have to be preceded by a consultation of market stakeholders, however the deadline of 2016 is prescribed by CACM FWGL.

Pricing of capacity

- Two main cases have been so far identified where capacity may be priced: at gate opening when orders are already accumulated in the SOB before capacity is made available, and when orders have accumulated in the SOB due to the absence of cross-zonal capacity and new capacity is made available. We have refrained from proposing a concrete methodology in the network code, since on the one hand it is actually premature to precisely consent to one methodology and on the other hand a precise definition in the code may hamper further developments.

1. ACER Regional Roadmaps



NRAs in CSE issue the Regional Road Map towards the Intra-Day Target Model (Information presented at Florence Forum, May 2011)

DELIVERABLE I.3 Intraday		
ACTION	RESPONSIBLE	DEADLINE
Presentation of a roadmap for interim (explicit auction based) cross-border intraday trade on Italian borders by the CSE TSOs.	TSO, PX	November 2011
CSE regulators' position on interim intraday model and roadmap.	NRA	November 2011
Interim allocation procedures in place	TSOs	April 2012
Presentation of a roadmap for implementing the target model on cross-border intraday trade on the regional borders by the CSE TSOs; this roadmap should be realised by taking into consideration the developments of the NWE pilot project on intraday	TSO, PX, NRA	Q2 2012
CSE regulators' position on intraday target model implementation and roadmap for CSE region. Coherence with other ongoing projects on this issue will be checked. Options and a roadmap will be submitted to public consultation.	NRA	4 th quarter 2012
Decision by the NRA on the first stage of implementation of a continuous trading scheme for cross border intraday capacity allocation. For this first stage of development potential preliminary and interim solutions may be tested with particular reference to a Capacity management module and the opening to OTC trading/balancing exchange. For the second step, additional solutions should focus on capacity pricing and the potential integration with implicit auctions.	NRA	End of 2012
Implementation of the Capacity Management module, as first stage of the continuous trading target model.	TSOs, PXs	Mid 2013
Go live of the second stage of development of the regional intraday market. Integration with other regional intraday projects.	TSOs, PXs	December 2014