REPORT ON THE DEVELOPMENT OF THE COORDINATED AUCTION OFFICE

I. BACKGROUND

Efficient cross border trading is an essential precondition to facilitate and foster sound development of electricity markets but also natural gas markets.

Currently the national electricity markets in SEE are characterized by a foreseeable lack of generation capacity and by a high level of concentration in generation. It is therefore unlikely that a sufficient level of competition would arise on a national level in the near future.

Due to the strong import dependence and not sufficiently developed national markets (which in some cases are completely missing), the overall situation in gas within SEE differs in comparison to electricity.

In electricity, in view of the implementation of a regional electricity market in the SEE region, the establishment of a Coordinated Auction Office for the allocation of cross border transmission capacities is being considered to be the first promising approach towards overcoming existing barriers for international electricity trade.

Within the Energy Community, concrete discussions in relation to establishing of a market based cross border capacity allocation scheme (e.g. coordinated auctioning) several studies have been produced within the last several years within whole Europe.

However, recently the major steps have been undertaken within the framework of ECRB.

II. CONCRETE STEPS – SUMMARY

1. Concrete Institutional framework

In order to provide a coordination platform for facilitating the implementation of the necessary steps towards the establishment of the SEE Coordinated Auction Office (SEE CAO), an Implementation Group consisting of representatives from TSOs (beside SETSO TF), Regulators (beside the ECRB EWG) and the European Commission, under the chairmanship of the Croatian regulator, Dr. Milan Puharic, was established.
2. Concrete development framework

Based on the decision of this Implementation Group, an Action Plan was elaborated which describes in detail the necessary steps towards the establishment of the Auction Office and provides also an indicative time schedule for the necessary actions. This Action Plan was presented during the 11th Athens Forum where it was welcomed by the Forum stakeholders. In the Athens Forum Conclusions it was highlighted that this project was of utmost importance for regional market development and the tasks foreseen describes in the Action Plan needed to be executed as soon as possible.

Furthermore, the Ministerial Council explicitly supported the establishment of a Coordinated Auction Office in its conclusions at the meeting in Belgrade in December 2007.

In order to follow the request of the Athens Forum and the wish of the Ministerial Council implementation of actions is now the order of the day.

Most recently a consultation on the Action Plan which in general was perceived positively showed clearly that the actual will of stakeholders to implement the plan (reach common understanding about the establishment procedure and location) would much depend on a firm definition of the congestion management area in the region of South East Europe. The principles of this Action Plan were approved by ECRB on 7 February 2008.

3. Concrete major tasks - summary

Upon the principle agreement on the Action Plan and within its framework, there are still several major issues to be discussed and finalized.

One of the necessary actions is to reach a common understanding among the TSOs about the establishment procedure and especially about the location of the Office. There are already some concrete proposals in this direction.

Further, formal self commitment of the TSOs willing to participate in such a project is key. Such self commitment could be expressed e.g. by a Memorandum of Understanding signed by the TSOs in the coming months.

In all of the aspects it is essential that the Implementation Group is considered to be a high level platform where binding commitments between stakeholders can be reached in order to avoid deadlocks during the project due to missing mandates/competencies. In this respect it is considered necessary to increase and strengthen the coordination and communication among the SEE TSOs as well as between TSO and regulators – thus, introducing Single Points of Contact (SPOCs) in order to reach better progress during the implementation phase may be used. This certainly will contribute for better and easier preparation of key documentation e.g. Memorandum of Understanding on and a Business plan for the future CAO.

As most of the tasks have to be performed by the TSOs, a clear and committed driving force within the rows of the TSOs along with the relevant corresponding human resources needs to be defined.
III. **CONCLUSIONS**

The Ministerial Council in December 2007 noted that “in the light of the regional electricity market development and integration with the EU internal market, the establishment of a Coordinated Auction Office in the regions is considered by the Ministerial Council as being of utmost importance. Therefore, the Ministerial Council encourages all stakeholders to enable a timely and smoothly implementation of the CAO by February 2009 and requests the Commission to report on the progress achieved by the actors involved at the next Ministerial Council meeting”.

It is on the ground of this strong political support and commitment as well as on the work done so far that the Secretariat considers the development of the Coordinated Auction Office to be successful as planned.