

Contents

1	Main Insights	2
2	The 8th Region	3
3	Context	3
4	Review of progress with implementation in each of the cross-regional projects	4
4.1	Implementation of a single price market coupling model	4
4.1.1	Description of the project	4
4.1.2	Key milestones and accountabilities	4
4.1.3	Review of progress during this quarter	4
4.1.4	Action needed to overcome the identified constraint(s)	4
4.2	Implementation of a cross-border continuous intraday trading system across the 8th Region	5
4.3	Improvement and harmonisation of the allocation and nomination rules for long and medium-term transmission rights	5
4.3.1	Description of the project	5
4.3.2	Key milestones and accountabilities	5
4.3.3	Review of progress (during this quarter)	5
4.3.4	Action needed to overcome the identified constraint(s)	6
4.4	Implementation of fully coordinated capacity calculation methodologies and particularly the flow-based allocation method in highly meshed networks	6
4.4.1	Description of the project	6
4.4.2	Key milestones and accountabilities foreseen in the initial cross-regional roadmap	7
4.4.3	Review of progress during this quarter	7
4.4.4	Action needed to overcome the identified constraint(s)	7
5	Review of progress with implementation in other important areas	7
5.1	Development of cross-border balancing	7
5.2	Transparency	7
5.3	Management and use of interconnections	8
5.4	Joint auctions	8

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. Structural challenges in some of the jurisdictions of the region relate to governance issues like a lack of independence of regulators, non-existence of power exchanges, or ineffective unbundling of TSOs. 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)¹. 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, too², 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 and is likely to be finalised in July 2014. Additional emphasis on regional cooperation in capacity allocation was placed by the 19th Athens Forum, taking place on 2 and 3 June 2014.

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 ³
Capacity Calculation	Partly	unclear	Grid Model updated & LT Coordinated Capacity Calculation in place
Forward Markets	No	Very likely for some bidding zones	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. First allocations are expected in the end of 2014.
Day-ahead Market	No	unclear	In many countries of the region, Day-ahead market exists, and in most EU countries power exchanges are established. Market Coupling as target for this timeframe is still not implemented in the 8 th region. The establishment of power exchanges as precondition for the market coupling was announced for Bulgaria, Croatia, Macedonia and Serbia. Still, regional cooperation remains unclear.
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.

¹ <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.

² 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.

³ 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**⁴ covers the Energy Community⁵ Contracting Parties⁶ and the seven neighbouring EU Member States⁷.

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 2011⁸ with a transposition deadline by 1 January 2015. This also includes adopting the **European Network Codes**, once legally binding on European level⁹, 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.

⁴ 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.

⁵ www.energy-community.org

⁶ 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]

⁷ Bulgaria, Croatia, Greece, Italy (limited to its interconnections with Contracting Parties), Hungary, Romania and Slovenia.

⁸ 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.

⁹ 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 Moldova¹⁰, 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.

4.3.3 Review of progress (during this quarter)

SEE Coordinated Auction Office

¹⁰ 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.

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)¹¹ has been officially registered in Montenegro on 4 July 2012 with the scope of preparing the effective operation of the SEE CAO¹². 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 annual capacities starting 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**. The Athens Forum taking place on 2 and 3 April highlighted the need for system operators of Bulgaria, Macedonia and Serbia, which so far have not participated in the CAO, to come up with concrete plans and timelines regarding their participation in a regional capacity allocation body by 1 July 2014. The Romanian stakeholders indicated clear commitment, once the neighbouring bidding zones' TSOs are cooperating within SEE CAO.

4.4 Implementation of fully coordinated capacity calculation methodologies and particularly the flow-based allocation method in highly meshed networks¹³

4.4.1 Description of the project

Following the implementation of a coordinated NTC allocation mechanism, the implementation of a flow-based (FB) capacity calculation and allocation method within the SEE CAO remains the final target with a view to improve:

- Economic signals: for planning transmission network expansions (TSOs) and location of the new power plants/large consumption units (market participants),
- System security: the better identification of critical transmission network conditions on the regional level.

Prior to switching to the FB method, the following requirements are to be fulfilled:

- Full coordination of principles and data;

¹¹ www.seecao.com

¹² 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.

¹³ 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.

- 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

5.1 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.

5.2 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.

5.3 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.

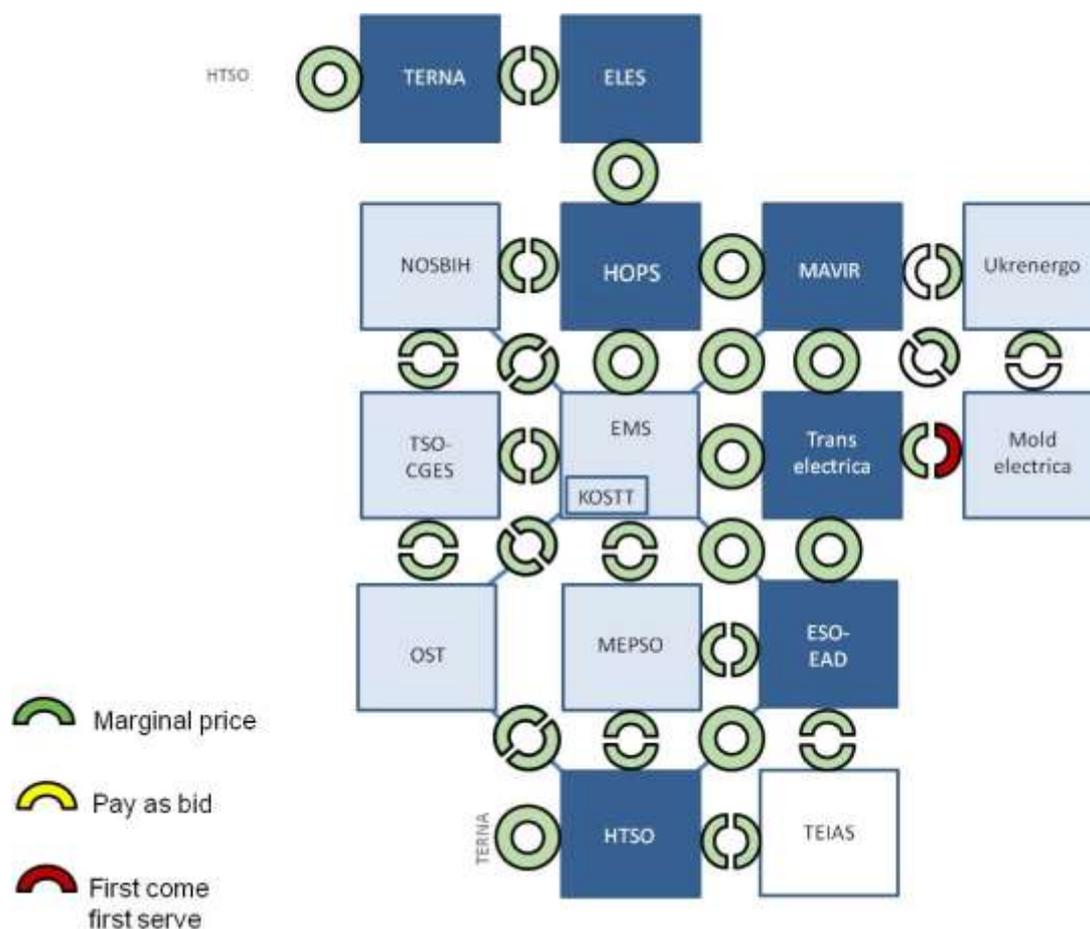


Figure 1: Mechanisms for Capacity Price determination in the 8th Region ^{14, 15}

5.4 Joint auctions

All Contracting Parties' TSOs, except the TSO of Moldova¹⁶, 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).

¹⁴ Please note that according to current Ukrainian Electricity Law only unilateral auctions (for export) are allowed.

¹⁵ Currently, auctions for interconnection capacity allocation between Ukraine and Republic of Moldova are organized only by Ukrainian TSO.

¹⁶ 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.

Besides the EU member states in the 8th Region also several Contracting Parties TSOs have started to implement joint auctions (see figure 2): the TSOs of Serbia and Croatia started implementing joint auctions with their neighbouring TSOs.¹⁷

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. The market design was agreed and published in May 2014. EPEX-Spot was selected as Service Provider by OPCOM/OKTE/HUPX and the implementation phase is on-going. The planned go-live is 11 November 2014, date to be confirmed in August.

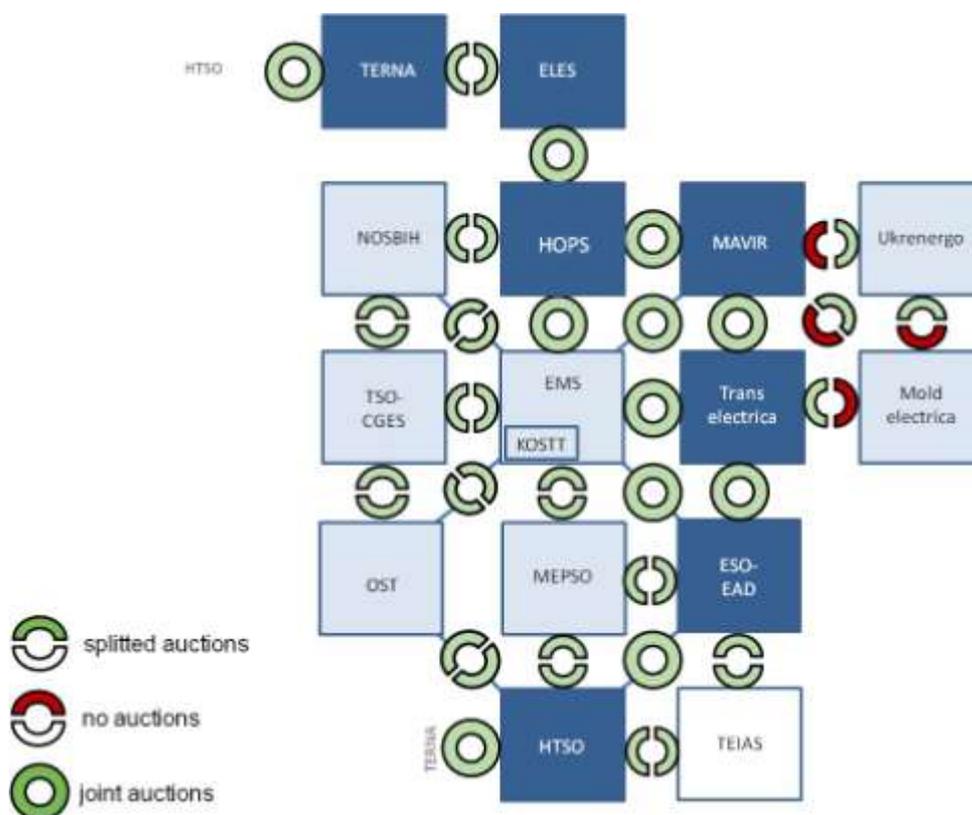


Figure 2: Cross Border Capacity Allocation Mechanisms in the 8th Region¹⁸

¹⁷ 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.

¹⁸ Currently, auctions for interconnection capacity allocation between Ukraine and Republic of Moldova are organised only by the Ukrainian TSO.