Electricity Trading in South East Europe - conclusions and priorities
(AF Day1 summary)

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Energy Community developments

- Local Market implementation to be completed
  - Third Package - transposition / implementation, development of secondary legislation
  - TSO / DSO – unbundling and functional independence (certification / compliance)
  - Price deregulation – generation and supply prices, support schemes, cross-subsidies, VAT and public procurements laws
Energy Community developments

- Alignment with the EU is required both for the EU and Energy Community countries
  - **New acquis** – Network Codes, REMIT
  - **Reciprocity** – borders between EU-MS and EnC-CP, treatment of interconnectors
  - **Legal gaps** – cross border cost allocation, dispute settlements, TPA exemptions, treatment of priority projects (PECI - PCI)

- CACM can hardly be implemented in EU if not implemented in the EnC as well
energy Community developments

- Methods to overcome discrepancies suggested by ECS
  - "Switch-On clause" to be applied – for Network Codes, REMIT (or Treaty - Title III / IV)
  - "Third Country" reference to be excluded (in the context of EnC-CPs reciprocity)
  - ACER Regulation to be amended – compensating the regulatory / legal gaps
  - Treaty to be amended – NC direct applicability, reciprocity, dispute settlement
  - Trading region – to be re-established (including EnC-CPs)
Trading region proposed by ECS

FROM MC DECISION 2008/02

TO TITLE III ENERGY COMMUNITY TREATY
## WB6 process – soft measures

### Energy Soft Measures Implementation

<table>
<thead>
<tr>
<th>Measure</th>
<th>Albania</th>
<th>Bosnia and Herzegovina</th>
<th>Kosovo*</th>
<th>FYR of Macedonia</th>
<th>Montenegro</th>
<th>Serbia</th>
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<tbody>
<tr>
<td>Primary Law(s)</td>
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<td>National Balancing Market</td>
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<td>Regional Capacity Allocation</td>
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<td>TSO Unbundling</td>
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<td>NRA Independence</td>
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<td>⬤</td>
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<tr>
<td>Implementation of Inter-TSO Agreements</td>
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- ⬤ Critical
- ⬤ Significant delay
- ⬤ Insufficient progress
- ⬤ Pending
- ⬤ Progress on track
- ⬤ Significant progress
- ⬤ Accomplished
Challenges (local)

- **TSO unbundling** – provisions not transposed in the energy laws of Bosnia and Herzegovina, Kosovo*, and FYR of Macedonia

- **DSO unbundling** – Legal provisions exist however implementation is missing

- **Price deregulation** – cross-subsidies prevent fast deregulation in Albania, Bosnia and Herzegovina, Kosovo*, FYR of Macedonia

- **Spot markets** – legal and institutional framework is missing in all countries (except in Serbia)

- Progress in implementation of the WB6 “soft measures” is lagging behind expectations
WB6 process – MoU on regional market initiatives

- **Challenges (regional)**

- **Tasks (focus):**
  - Day-ahead market coupling
    - Market Coupled with at least one neighbouring (WB6 or EU) country >> July 2018
    - Implementation agreements >> Nov 2016
  - Cross-border balancing
    - Balancing mechanism in place >> Dec 2018

- **Obstacles:**
  - Fragmented legal / regulatory environment
  - Multiple authorities (NRA, Min, TSO, PX)
  - Uneven / delayed national market reforms
  - Voluntary approach / complex objectives
  - Stringent deadlines
Implementation methodology

- Program management (top-down priority program objectives) – WB6 Annex
- Project management (voluntary bottom-up project execution)

Program management is doing the right projects …

Regional actions:

- Preparatory phase – identify the activities, draft the plans
- Decision phase – gap analysis, FS, consultations (e.g. SEEPEX-4MMC project)
- Implementation phase – establish a WB6 PX (initiative for MC, working procedures)
- Timing – signatories to respond to the call for nominations in SC by 17.6. 2016

Take into account the work and solutions adopted in EU
WB6 process – MoU on regional market initiatives

Milestones

- MoU signature
- DAM Call for nominations
- CBB Call for nominations
- DAM & CBB Program Launching

Establishment of strategy execution framework

Intermediate milestones

Final achievements

- Jul 2016
- Nov 2016
- Dec 2016
- Jul 2018
- Dec 2018
**EU Target Model**

- **Flow based approach (FB)**
- **Coordinated available transmission capacity (ATC)**

**Capacity calculation**

- Physical and/or Financial Transmission Rights
  - FCA NC
- Implicit allocation
  - Price coupling
  - CACM NC
- Continuous Implicit allocation
  - CACM NC
- Balancing TSO-TSO with CMO
  - EB NC

**Time frame**

- Long-term
- Day-ahead
- Intraday
- Real Time

**Governance**

- CACM NC
Capacity calculation concept of the CACM Regulation

- European target model applies cross-zonal intraday capacity allocation and energy trading based on implicit continuous allocation
- Each Bidding Zone border is attributed to only one Capacity Calculation Region (CCR)
- There are 10 basic CCRs in EU – 11th is the SEE (now only RO, BU and GR, the rest will be included upon implementation of CACM Regulation)
Day-ahead market Integration in the EU

- **Market Coupling**
  - As many as 19 countries in the EU are coupled under Multi-Regional Coupling (MRC), standing for 85% of the EU electricity consumption.
  - Another 4 countries belong to 4MMC area (RS has expressed interest to join the 4MMC).
  - Benefits (maximizing social welfare) – every GW of cross-border capacity allocated provides annual social welfare gain of 12.5 Million EUR.
  - ENTSO-E draft indicative plan for extension of MRC to the neighbouring region (including SEE) by 2022.
# Day-ahead market Integration in the EU

<table>
<thead>
<tr>
<th>Borders</th>
<th>Target time</th>
<th>Remarks</th>
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<tbody>
<tr>
<td>ELES – APG, ELES – Terna</td>
<td>July 2016</td>
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<tr>
<td>Eirgrid – NG/SONI – NG</td>
<td>Oct. 2017</td>
<td>Part of I-SEM project</td>
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<td>50 Hertz – PSE, CEPS – PSE, SEPS – PSE, swissgrid – APG/DE-TSOs/RTE/Terna</td>
<td>July 2018</td>
<td>Flow-based coupling with merger CWE and CEE CCRs, s.t. development+testing going well; swissgrid coupling s.t. EU political agreement, could also be earlier with NTC once politically solved</td>
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<tr>
<td>EMS – HOPS, EMS – Mavir, EMS – NOS BiH, EMS – Transelectrica, HOPS – NOS BiH</td>
<td>July 2020</td>
<td>Possibly faster if fewer new PXs are founded (see above)</td>
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EU proposal

- Problem of establishment an EU-EnC region and coupling across the borders between EU and EnC
- Legal solution is proposed for implementation of CACM (as alternative to WB6 MoU initiative) and mandate to a decision-body
Creating EU – EnC SEE trading region

- EU proposal
  - Integrated coupling in SEE is considered as the only reasonable approach after the successful integration of 85% of the market
  - Simple implementation of CACM cannot solve everything – methodology proposed
Creating EU – EnC SEE trading region

- **EU methodology**
  - Iteration of technical and political meetings (CESEC model) to prepare CACM implementation
  - Identification of key problems on technical level and solution
  - Solution of selected problems on political level
  - Early implementation – extensive coordination is required (integrated roadmap)
Creating EU – EnC SEE trading region

- **ECS methodology**

  - **De facto reciprocity** - Involvement of WB6 stakeholders in ongoing EU CACM implementation discussions
    - “early implementation” ensuring *de facto* reciprocity on CP-MS IPs

  - **De jure reciprocity and legal bindingness**
    - Formal adoption of CACM Regulation in the EnC
    - Formal reciprocity on CP-MS IPs
    - No duplication of CACM Regulation methodologies
Creating EU – EnC SEE trading region

- **ENTSO-E methodology**
  
  - TSOs are currently facing multiple workflows that address similar topics under different conditions (legal, geographical…)
  
  - ENTSO-E and the TSOs are generally welcoming engagements of EC and ECS to support the coordination of other actors – there is a need to gain better understanding of what the EC and EnC SEE trading region initiatives actually cover (CACM and its early implementation is only a part)
  
  - Need to keep all workflows consistent and simple – work on synergies
  
  - ENTSO-E pan-European DAM coupling plan is the way forward for the MRC extension
Advantages of Market coupling

- Market coupling is advanced, efficient form of day-ahead electricity trade

- Instead of two steps (buying first the capacity and then trading via the exchange or otherwise), parties are able to trade in one step in an automatically coupled international market

- Market coupling will soon be a single pan-European day-ahead solution

- For the SEE region…
  - On short term horizon, the goal is to establish the liquid DAM with market coupling mechanism in place
  - On mid term horizon, the aim should be to examine bidding zones configurations as well as potentials for implementing FB solution in order to increase benefits and maximize social welfare
Market reforms
- The Electricity Market Law – today (02-06-2016) in the Verkhovna Rada
- Electricity TSO restructuring (OU model of unbundling)
- Market model (concept design approved by NEURC), transitional provisions
- Secondary legislation
**Market integration**

- Double coupling principle is proposed for market integration of Ukraine
- Synchronization with ENTSO-E – additional studies are needed, technical requirements to be fulfilled
Electricity trading in SEE (breakout session)

- **TSO response (1)**
  - Optimal use of Interconnection capacities:
    - there is regulatory framework
    - no optimal calculation (NTC, bilateral harmonization)
    - no optimal allocation (e.g. explicit auctions on DA level)
  - Improvement potential:
    - CACM, FCA and SO NCs full implementation
  - TSOs as traders in the electricity markets (for network losses) – contribution to liquidity vs. conflict of interest
    - Conflict of interest:
      - TSOs do have better insight in potentially commercially sensitive information (system state)
      - minimise losses vs. maximize trade
      - Obvious contribution to liquidity
Electricity trading in SEE (breakout session)

- TSO response (2)
  - RSS will contribute to the more efficient utilization of the capacities – considered as a big step
  - Introducing flow-based capacity calculation for a day-ahead market time-frame will increase the offered capacity
  - Number of bidding zones shall be reviewed in the SEE region:
    - Once we have clear price signals and harmonised conditions
    - Data transparency and sufficient info level
    - It is a high level political question in SEE at the moment
Energy Community Secretariat

Electricity trading in SEE (breakout session)

PX response (1)

- Increase liquidity and trust in the **price signals** from the SEE local and regional markets

- Introducing flow-based capacity calculation for a day-ahead market time-frame will increase the offered capacity

- Number of bidding zones shall be reviewed in the SEE region:
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