Energy Community Regulatory Board

8th Region Quarterly Report

1.10.2011 – 1.1.2012
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1 Context

The entry into force of the third energy package and the strong commitment of the Member States to complete the internal energy market by 2014 sets a firm regulatory, institutional and political background to achieve this goal.

Nevertheless, 2014 remains an ambitious target date, which requires genuine commitment to the goal of integrating the regions into a single market area and the actual mobilisation of stakeholders through the Regional Initiatives process which now falls under ACER’s responsibility.

To this end, national regulatory authorities (NRAs) have elaborated, at the European Commission’s request and under the coordination of ACER, a EU Energy Work Plan for 2011-2014 based on clear, commonly agreed objectives and milestones. This EU Energy Work Plan for 2011-2014 has been drafted on the basis of three important inputs:

- The AESAG (ACER Electricity Stakeholder Advisory Group) input prepared for the XXth Florence Forum in May 2011;
- The contributions of the seven electricity regions defined in the Regulation 714/2009;
- The draft Framework Guidelines on Capacity Allocation and Congestion Management (CACM).

The EU Energy Work Plan for 2011-2014 in Electricity is constituted from four cross-regional roadmaps focusing on the implementation of the target models for CACM across Europe and seven regional roadmaps focusing on other important dimensions for the completion of the Internal Electricity Market.

The 8th electricity region1 participates in ACER’s coordination activity. Streamlining milestones and actions with the European target model, the 8th region’s wholesale electricity market opening follows the South East European Regional Action Plan2.

2 Objective of the Quarterly report

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.

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1 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. The 8th Region groups together the Energy Community (www.energy-community.org) Contracting Parties (Albania, Bosnia & Herzegovina, Croatia, former Yugoslav Republic of Macedonia, Moldova, Montenegro, Serbia, UNMIK and Ukraine) and the six neighbouring EU Member States Bulgaria, Greece, Italy (limited to its interconnections with Contracting Parties), Hungary, Romania and Slovenia.

While the main focus of the Quarterly reports will be on the implementation of the target models for CACM across Europe, a dedicated part will also review progress at regional level in other important areas of the market integration process.

2.1 Implementation of a cross-border continuous intraday trading system across South East Europe

2.1.1 Description of the project

The introduction of a specific cross-border continuous intraday trading system across the 8th region is so far not foreseen.

2.1.2 Key Milestones

Once a decision for implementing a cross-border intraday system in the 8th Region will be taken, the key milestones will be defined accordingly.

2.1.3 Progress review during this quarter

See section 2.1.1

2.1.4 Actions needed to overcome the identified constraint(s) or to address the potential divergence(s) with the FG on CACM

See section 2.1.1

2.2 Improvement and harmonisation of the allocation and nomination rules for long and medium term transmission rights

2.2.1 Description of the project

The still existing lack of a regionally coordinated capacity allocation mechanism remains a key concern, both in terms of market liquidity as well as it concerns the compliance with the acquis communautaire. Un-harmonized congestion management schemes create a barrier for cross-border electricity trade and the establishment of a regional electricity market. Although the TSOs of all Energy Community Contracting Parties, except Moldova and Ukraine, have already introduced market-based capacity allocation mechanisms (based on NTC auctions) for congestion management at their borders, there is insufficient harmonization in the region. In particular inconsistent gate closure times and auction products create a barrier to international energy trading. Thus it was decided to work on the establishment of a SEE Coordinated Auction Office (SEE CAO) performing coordinated NTC-based capacity allocation in the starting phase of work and to switch to flow based capacity auctioning at a later stage.

3 With regard to the Republic of Moldova, the draft of regulation transposing EU Regulation No 1228/2003, with further amendments, has been finalized but pending approval till primary legislation will be modified.
The expected advantages of coordinated allocation, which will be performed by SEE CAO in are:

- Higher degree of market harmonization due to coordinated capacity allocation in the SEE region,
- Simplicity in handling for market participants ("one-stop-shop" solution with common set of Auction Rules and one IT system) and transparency increase

It is envisaged to implement a load flow based mechanism for cross border capacity allocation at a later stage.

In parallel the TSOs of Serbia, Hungary and Croatia started to implement joint auctions with their neighboring TSOs which improved the situation as regards the harmonization of auctioning systems.

### 2.2.2 Key Milestones

It is envisaged that the establishment of the SEE CAO will be realized in two steps. In a first step a project company (Project Team for establishing SEE CAO), owned by the participating transmission system operators will be established in Montenegro by mid 2012. Experts working for this project company on a full time basis will prepare the necessary legal, financial and technical framework for the future SEE CAO.

- **2011**
  - SEE CAO Project Team Steering Committee reached consensus on establishing a Project Company.

- **2012**
  - Establishment of a Project Company (Project Team for establishing the SEE CAO) preparing the necessary framework for the future Coordinated Auction Office (approx. June 2012)

- **2013**
  - Establishment of SEE CAO and introduction and preparation of common NTC-based auctions for 2014 (mid 2013)

- **2014**
  - Introduction of common NTC-based monthly, (weekly and daily) auctions
### 2.2.3 Progress review during this quarter

<table>
<thead>
<tr>
<th>Significant achievements in the period</th>
<th>- All Contracting Parties’ TSOs, except the TSOs of Moldova(^4) and Ukraine, have introduced market-based mechanisms for cross-border auctions, namely explicit NTC-based auctions.</th>
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<td>- Yearly and monthly allocations are introduced at all electricity borders while weekly and daily allocations are introduced only at several borders.</td>
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<td>- Intraday allocations are also available at several borders, but on non-market based solution (first come, first served).</td>
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<td>- Several TSOs have started to implement joint auctions in 2011 (see Fig. 2), and more common auctions are expected to be implemented during 2012. This will facilitate electricity trading in the 8th region till the end of 2012.</td>
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<td></td>
<td>- Although the SEE CAO project faced some delay in the past, remarkable progress has been made in the recent months by the involved transmission system operators in close cooperation with International Financing Institutions (IFI). There is now well-founded expectation that a TSO-founded company responsible for preparing the operational kick-off of the SEE CAO can start activities by mid of 2012. The company's tasks are supposed to be completed within one year, including elaboration of the Action Plan, Business Plan and Auction Rules. SEE NRAs will be responsible to approve the SEE CAO Auction Rules and other relevant documents, but respecting the recommendation of the ECRB at the regional level. It is also realistic to expect that the SEE CAO operation could start within one year.</td>
</tr>
</tbody>
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| Obstacles or delays in the implementation | |
|------------------------------------------| |
| Potential divergences with the FG on CACM | |
| Comments | |

### 2.2.4 Actions needed to overcome the identified constraint(s) or to address the potential divergence(s) with the FG on CACM

Not applicable

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\(^4\) See fn 3.
2.3 Implementation of a flow-based allocation method in highly meshed networks

2.3.1 Description of the project

Following the implementation of a coordinated NTC allocation mechanism, the implementation of a flow-based capacity calculation and allocation method within the SEE Coordinated Auction Office should be considered as a next step, after the decision of the interested SEE TSOs upon approval of the SEE NRAs and 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.

2.3.2 Key Milestones

So far no milestones for the implementation of the flow-based allocation have been defined.

2.3.3 Progress review during this quarter

Not applicable. See also section 2.3.2

2.3.4 Actions needed to overcome the identified constraint(s) or to address the potential divergence(s) with the FG on CACM

Not applicable. See also section 2.3.2
3 Progress Review in the implementation of other important areas

In this section, NRAs review achievements and obstacles, at regional level, in other important dimensions/areas for the completion of the Internal Electricity Market.

3.1 Transmission development plans

Since the 8th region's national transmission grids are relatively small, regional transmission network planning is of utmost importance. Thus SEE TSOs are actively participating in the relevant ENTSO-E working groups. In addition, the SECI transmission planning project provides a platform for the TSOs exchanging information about ongoing transmission projects. SEE TSOs are actively contributing to the development of the ENTSO-E Ten Years Network Development Plan, thus involving SEE transmission grid in the pan-European context.

3.2 Development of cross-border balancing

Although the importance of cross-border/regional balancing for the 8th Region has been recognised by all stakeholders and investigation of feasible approaches took place in the past, further development of a regional balancing mechanism is currently put on hold, until the day-ahead cross-border auctions are introduced within the whole region.

3.3 Transparency

A minimum common level of fundamental data transparency is a precondition for the efficient functioning of wholesale electricity markets. As soon as the Transparency Comitology Guidelines are approved, NRAs will report progress in the implementation of the new transparency requirements at regional level.

In order to increase Market Transparency most of the SEE TSOs are participating in the ENTSO-E transparency web platform. Also, the quality of the SEE TSOs websites has been increased. However, none of the TSOs is in full compliance with the obligations stemming from the CM Guidelines.

3.4 Management and use of interconnections

This section aims at reporting progress in the elaboration of the annual regional reports on the management and use of interconnections. These reports aim at assessing in detail the economic efficiency of capacity allocation and congestion management methods implemented at a regional level. They should help NRAs to reach not only a common understanding about the functioning of capacity allocation and congestion management methods, but also a common view about the best way to further improve their functioning.
The situation as regards the management and use of interconnections further improved recently. Due to the implementation of the marginal price mechanism on all Serbian borders, further harmonization of the applied cross border capacity allocation mechanisms has been reached.

Fig 1: Mechanisms for Capacity Price determination in the 8th Region

Besides, several TSOs started to implement joint auctions with their neighboring TSOs which could be seen as another step towards harmonization. (See Fig. 2)
Fig 2: Cross Border Capacity Allocation Mechanisms in the 8th Region