

8th Region Quarterly Report

01.01.2013 - 31.03.2013

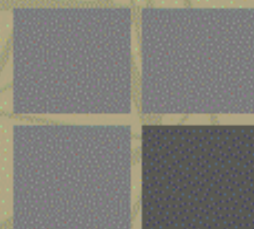


Table of contents

1	Context	3
2	Objective of the Quarterly report	4
2.1	Implementation of a cross-border continuous intraday trading system across South East Europe.....	4
2.1.1	Description of the project	4
2.1.2	Key Milestones	4
2.1.3	Progress review during this quarter	4
2.1.4	Actions needed to overcome the identified constraint(s) or to address the potential divergence(s) with the FG on CACM	4
2.2	Improvement and harmonisation of the allocation and nomination rules for long and medium term transmission rights	4
2.2.1	Description of the project	4
2.2.2	Key Milestones	Error! Bookmark not defined.
2.2.3	Progress review during this quarter	6
2.2.4	Actions needed to overcome the identified constraint(s) or to address the potential divergence(s) with the FG on CACM	Error! Bookmark not defined.
2.3	Implementation of a flow-based allocation method in highly meshed networks	8
2.3.1	Description of the project	8
2.3.2	Key Milestones	8
2.3.3	Progress review during this quarter	8
2.3.4	Actions needed to overcome the identified constraint(s) or to address the potential divergence(s) with the FG on CACM	8
3	Progress Review in the implementation of other important areas	Error! Bookmark not defined.
3.1	Transmission development plans.....	8
3.2	Development of cross-border balancing	9
3.3	Transparency	9
3.4	Management and use of interconnections	9

1 Context

On EU level 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.

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.¹

To this end, national regulatory authorities (NRAs) have elaborated, at the European Commission's request and under the coordination of ACER, an EU Energy Work Plan for 2011-2014 based on clear, commonly agreed objectives and milestones. This EU Energy Work Plan for 2011-2014 in Electricity is constituted from four cross-regional roadmaps focusing on the development of

- Market Coupling
- Continuous Mechanisms for implicit cross border intraday trading
- LT Transmission Rights
- Capacity Calculation

and

- **seven regional roadmaps** focusing on other important dimensions for the completion of the Internal Electricity Market.²

¹ see also http://ec.europa.eu/commission_2010-2014/oettinger/headlines/speeches/2012/01/doc/20120119.pdf

² i.e. open discussion items in the individual 7 regions but not part of the 4 cross-regional roadmaps. http://www.acer.europa.eu/Electricity/Regional_initiatives/Pages/Work-Programmes-2011-2014.aspx

The **8th electricity region**³ 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 Plan which has been approved by ECRB and ENTSO-E RG SEE and supported by the Ministerial Council of the Energy Community.⁴



³ 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 and 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.

⁴ <http://www.energy-community.org/pls/portal/docs/1810178.PDF>

2 Objective of the Quarterly Report

The objective of this Quarterly Report is to monitor progress in the 8th Region and to ensure that any obstacle is well identified and tackled in the most effective and efficient way.

A main focus of the Quarterly Report is on the implementation of the target models for CACM across the region. However, a dedicated part will also review progress at regional level in other important areas of the market integration process.

The structure of the report follows the example of the ACER ERI Quarterly Report⁵ but adds some information going beyond.

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

2.1.1 Description of the project

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.

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 harmonization of the allocation and nomination rules for long and medium term transmission rights

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.

2.2.1 Description of the project

SEE Coordinated Auction Office

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 Moldova⁶ and Ukraine, 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 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.

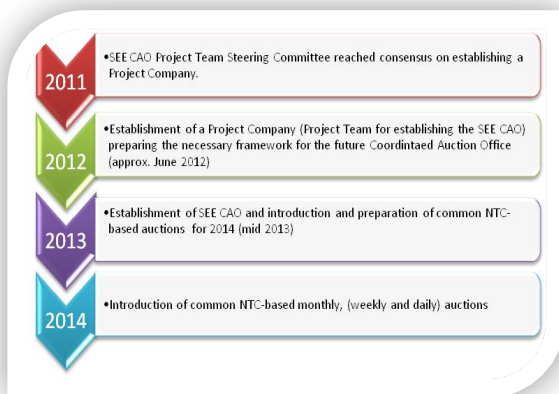
⁵ The 8th Region is part of the ACER Quarterly Reporting.

⁶ 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 Montenegro, 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

Furthermore it is envisaged to implement a load flow based mechanism for cross border capacity allocation at a later stage and in compliance with the European target model.



In order to facilitate the establishment of a CAO for the SEE region, a project company, tasked to prepare all necessary prerequisites for the future CAO, has been established in June 2012. Currently experts hired by the Project Company are working on all documents required for the future CAO.

Other Developments

In parallel the TSOs of Serbia, Hungary and Croatia previously implemented joint auctions with their neighbouring TSOs which improved the situation as regards the harmonization of auctioning systems, and the first yearly common auctions between EMS and Transelectrica were organized in December 2012. Moreover Croatia started concrete cooperation with the CEE Auction Office aiming to allocate the CB capacities to the CEE TSOs via the CEE Auction Office at the last quarter of 2012. As an element of novelty, starting with January 2013, Serbia and Romania jointly organize transparent and coordinated auctions for long and short term allocation of their CB capacities.

As Romania has declared its interest in 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.

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 has been established in June 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 declaring the common willingness for cooperation and mutual approach in this respect of all involved parties.

2.2.3 Significant achievements in the reporting period

<p>Significant achievements in the period</p>	<ul style="list-style-type: none"> - All Contracting Parties' TSOs, except the TSOs of Moldova⁷ and Ukraine, have introduced market-based mechanisms for cross-border auctions, namely explicit NTC-based auctions. Although Auction Rules for cross border capacity allocation for the Borders of Ukraine have been adopted by NERC in already 2009 EnC Secretariat assessed these Auction Rules in 2012 as being 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). Intraday allocations are also available at several borders, but on non-market based solution (first come, first served). - Besides the EU member states in the 8th Region also several CP TSOs have started to implement joint auctions (figure 2), and more common auctions are expected to be implemented during 2013. This will facilitate electricity trading in the 8th Region. Croatia has joint auctions with Hungary and Slovenia. Joint auctions with Hungary started already in 2010 (yearly, monthly and daily auctions). The Joint auctions with Slovenia started in 2011 (yearly, monthly and daily auctions). For 2013 the borders with Slovenia and Hungary are for the first time involved in CEE CAO (yearly, monthly and daily auctions). Slovenian TSO (ELES) is still doing intraday allocations of capacities on both directions. The Serbian TSO EMS started joint auctions with Hungary on yearly, monthly, daily and intraday level in December 2011 and to have joint auctions with Romania-Transelectrica on 1. January 2013. - 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 (IFIs). A Project Company, owned by the TSOs, started its operation in June 2012 with the target to complete all tasks, including elaboration of the Action Plan, Business Plan and Auction Rules within one year. NRAs whose TSOs are participating in the Project Team Company 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.
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<p>Obstacles or delays in the implementation</p>	<p>Since Moldova and Ukraine are not part of the ENTSO-E synchronous area they are due to technical reasons not able to fulfil all relevant obligations. An on-going study on ENTSO-E level is analyzing the feasibility of full integration of UA and Moldova into the common Congestion management mechanism based on synchronization with the ENTSO-E grid.</p>
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<p>Potential divergences with the FG on CACM</p>	<p>Not applicable yet</p>
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⁷ See fn 6.

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

Although no concrete milestones for the implementation of the flow-based allocation have been defined so far, the implementation of a flow based mechanism has been identified as final target.

2.3.3 Progress review during this quarter

☞ Not applicable yet. *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 yet⁸.

3 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

⁸ The EU Network Codes – once made binding via Comitology on EU level - can be made applicable to the Energy Community Contracting Parties even before the Contracting Parties implement the 3rd package, subject to a related adoption by the Energy Community Permanent High Level Group.

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. Due to its importance the development of a regional balancing model is reflected in the ECRB Work Program 2013.

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.

Although, the quality of the SEE TSOs websites has increased, none of the CPs TSOs is in full compliance with the obligations stemming from the CM Guidelines.

This concerns in particular information about outages of critical facilities as well as information concerning cross border capacity allocation.

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.

3.4.1 Mechanisms for Capacity Price determination in the 8th Region

Several TSOs started to implement joint auctions with their neighbouring TSOs which can be seen as another step towards harmonization (figure 2).

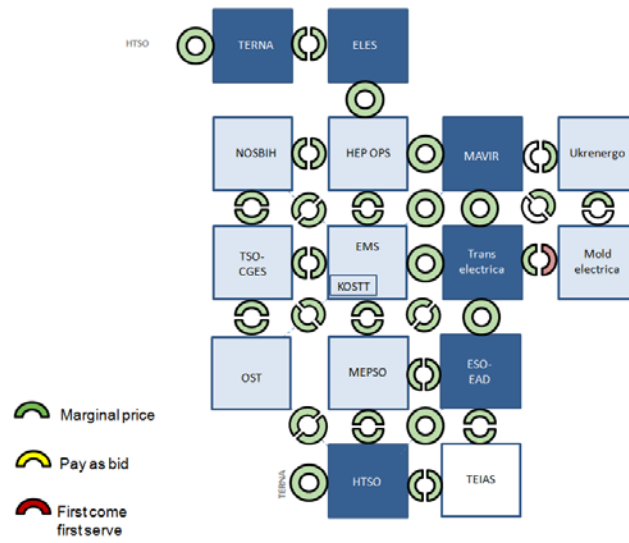


Figure 1: Mechanisms for Price Determination in the 8th Region^{9, 10}

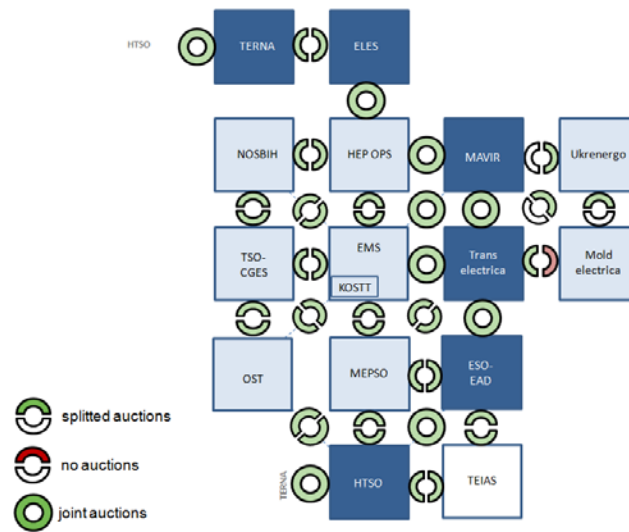


Figure 2: Cross Border Capacity Allocation Mechanisms in the 8th Region¹¹

⁹ According to current Ukrainian Electricity Law only unilateral auctions (for export) are allowed.

¹⁰ Currently, auctions for interconnection capacity allocation between Ukraine and Republic of Moldova are organized only by Ukrainian TSO.

¹¹ See footnote 10