Coordinated Auction Office for South East Europe

– STATUS REPORT –

I. BACKGROUND

The Energy Community acquis includes Regulation (EC) No 1228/2003 on the conditions for access to the network for cross-border exchanges of electricity and the Congestion Management Guidelines. The Regulation is setting the framework for the management and allocation of available transfer capacity of interconnections between national systems.

The Ministerial Council (MC) of the Energy Community on 27 June 2008 decided to implement a common procedure for congestion management and transmission capacity allocation on SEE regional level and thereby effectively establishing the so-called 8th region. The Athens Forum urged the need for establishing of Auction Office to be set-up by the TSOs in the Energy Community (Coordinated Auction Office for South East Europe, SEE CAO).

II. PROGRESS MADE

With a view to setting up a SEE CAO the following progress has been made since June 2008:

- A SEE CAO Implementation Group (IG) – involving regulators, Transmission System operators (TSOs)/Independent System Operators (ISOs) and users – has been set up within the Energy Community Regulatory Board (ECRB) providing a forum for discussions related to the setting up of the SEE CAO.

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3 The 8th region includes the following territories: Albania, Bosnia & Herzegovina, Croatia, the former Yugoslav Republic of Macedonia, Montenegro, Serbia, the territory under administration by the United Nations Interim Administration Mission in Kosovo (pursuant to United Nations Security Council Resolution 1244), Bulgaria, Greece, Hungary, Romania, Slovenia and Italy.
4 Conclusions of the 10th Athens Forum
5 Represented by the ECRB Electricity Working Group.
6 Represented by the Task Force of South Eastern European Transmission System Operators (SETSO).
7 Represented by the European Federation of Energy Traders (EFET).
TSOs/ISOs expressed their wish to go on co-operating for establishing a SEE CAO by signing a "Memorandum of Understanding" (MoU). The MoU was signed by all TSOs of the 8th Region except EMS (Serbia) and ESO EAD (Bulgaria). By signing the MoU the signatory TSOs/ISOs expressed their common wish for defining in implementation phase the duties, business plan, shareholder structure and financing of this project.

According to the conclusions of the 5th EnC Ministerial Council on 11 December 2008 in Tirana, the location of the SEE-CAO will be in Montenegro.

A first version of a Business Plan for the formation of the SEE Auction Office has been prepared by SETSO and presented at the 13th Athens Forum on 3 December 2008.

For definition of the tasks and time requirements for setting up the SEE CAO a draft Action Plan has been developed by the TSOs. While the task allocation has been agreed by the SEE CAO IG, the time schedule still needs some re-adjustments for final agreement.

III. RECENT DEVELOPMENTS

For the TSO related tasks during the implementation phase of the SEE CAO, the Action Plan foresees the setting up of a Project Team (PT).

- Its tasks will involve a broad range of activities necessary for setting up the SEE CAO – starting from legal aspects such as setting up the CAO, via aspects of company accounting and tenders for IT infrastructure to technical questions such as preparing auction rules and decision on revenue distribution. It is important to underline that the Project Team will not be or automatically turn into the SEE CAO but will exclusively be responsible for setting up the SEE CAO and prepare its operation.

The PT will be crucial for ensuring the setting up the SEE CAO and achieving its operation. It is assumed, that by signature of the MoU, the signatory TSOs/ISOs expressed their wish to support the SEE CAO establishment and co-finance the PT. However, lack of resources and need for financial support has been expressed. International Financing Institutes (IFIs) preliminary indicated potential interest to provide such financial support.

A number of relevant questions for setting up the PT have already been agreed:

- The Project Company shall be set up for the duration of one year.

- The composition of the Project Team has been agreed: there shall be 4 experts (one Legal Expert, one Economic Expert, 2 Grid Experts) and a Project Team Manager leading the team and reporting to the Steering Committee.

- The geographic origin of Project Team members has been agreed - PT members shall be (1) seconded by TSOs/ISOs (2) from the 8th region. It is understood that the employment of the PT members will not automatically pass into employment with the SEE CAO but the selection process for the latter will be undertaken separately.

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8 Memorandum of Understanding on the implementation of common procedures for congestion management methods and the establishment of a South East European Auction Office for coordinated auction of transmission capacities.
It has been agreed that Project Team members shall work on a secondment basis. Secondment would involve the continuation of contract with the seconding TSO, however, Project Team members shall work independently and exclusively for the goals of the Project Team secondment. Salary payments and insurance including extra insurance for working abroad would be covered by the seconding employers (TSOs). In addition Project Team members will receive an additional salary to be paid from the Project Team budget that should cover extra costs linked to the expat status (accommodation, flight costs) plus a certain level of additional payment.

It has been agreed that a Project Company will be set up for acting as beneficiary for the funding of the Project Team. The company will operate under Montenegrin law and is discussed to be based on equal shares of the TSOs participating in the SEE CAO.

For the nomination of the PT members the deadline of 25 October 2009 has been defined.

The cost split for financing the Project Team has been discussed - IFIs re-confirmed their principle readiness to co-finance and a cost split was agreed in principle but subject to confirmation of TSO contributions at the next STC meeting: 70% of the overall project costs will be covered by IFIs. 30% of the project budget will be financed by TSOs based on equal contributions.

For detailed discussion of the overall expenditures, funding requirements and cost split a Project Team Steering Committee has been set up in early 2009. The Steering Committee is responsible for taking decisions on milestones necessary for the establishment of the SEE CAO, namely: election of the PT members and PT Manager; monitoring the PT and approval of PT deliverables; initiation of the practical start up for SEE CAO settling; approval of company registration documents; assignment of external experts.

The Steering Committee is composed by a representative of each TSO/ISO involved and a representative of IFIs co-financing the PT. Delegates to the Steering Committee are high level representatives and mandated to taking decisions on behalf of their companies/authorities as members.

The Chair of the CAO Implementation Group, as mandated by ECRB, a representative of the Energy Community Secretariat, the Chair of the ENTSO-E SEE subgroup, a representative of the European Commission and a representative from TSOs/ISOs not involved in the co-financing of the PROJECT TEAM are invited to participate in the Steering Committee as observers.

The Steering Committee among its representatives elected Mr. Aleksandar Mijuskovic (Montenegrin TSO PRENOS) as Chairman. The Chairman is responsible for convening of the Steering Committee including invitations, agenda proposals and follow up of work. The Energy Community Secretariat assists to this task on administrative level.

The Steering Committee meets regularly (so far: 11 May, 9 June, 17-18 September, 28 October 2009).
IV. OPEN ISSUES

A number of relevant practical steps for setting up the SEE CAO Project Team have been successfully taken and agreed already. However, still some issues are to be discussed that will lead to the very practical operation of the Project Team. Among these the most relevant challenges are:

- Preparation of Project Company set up (Rules of Association, decision making process (voting rights) of the Steering Committee.
- Final agreement on financial commitments.

What is needed for achieving these final steps is clear commitment and ownership of the involved TSOs in leading the project.

Governments and ministries play a key role in urging their national TSOs to actively contribute to the process. It has to be clear that the setting up of a SEE CAO is not a stand-alone project but simply stems from the legal obligations of the Energy Community acquis, more precisely Electricity Regulation (EC) 1228/2003 requiring TSOs to establish capacity allocation and congestion management procedures which are coordinated across borders. Setting up a SEE CAO therefore means nothing more than following the legal requirements of the Energy Community Treaty. In addition the same obligation for following a regionally coordinated approach has been confirmed by the Ministerial Council's decision for establishing the 8th Region. The need for governmental support for making progress with the setting up of the SEE CAO and meet the legal requirements of the Energy Community acquis has been recently underlined by letter of EU Commissioner Piebalgs to the last meeting of the Ministerial Council. In his letter, Commissioner Piebalgs called Contracting Parties to report about the progress made and initiatives taken for pushing the establishment of the SEE CAO.