

**ACER Coordination Group for Electricity Regional
Initiatives**

ERI Quarterly Report

April 2013 – June 2013



ANNEX 1: 8th Region Quarterly Report

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1 The 8th Region

The 8th Region¹ covers the Energy Community² Contracting Parties³ and the six neighbouring EU Member States⁴.

2 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 2011⁵ with a transposition deadline by 1 January 2015 the latest. This also includes adopting the European Network Codes, once legally binding on European level⁶, 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 roadmaps⁷:

- 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 coordination activity. The Regional Action Plan for Wholesale Market Opening in South East Europe (SEE RAP)⁸ 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.

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.

² www.energy-community.org.

³ Albania, Bosnia and Herzegovina, Croatia, 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*]. Croatia became a member of the European Union and thereby changed its Contracting Party status to the status of a Participant.

⁴ Bulgaria, Greece, Italy (limited to its interconnections with Contracting Parties), Hungary, Romania and Slovenia.

⁵ 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.

⁶ 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>).

⁷ According to the EU Energy Work Plan for 2011-2014 in Electricity.

⁸ <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.

3 Review of progress with implementation in each of the cross-regional projects

3.1 Implementation of a single price market coupling model

3.1.1 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 meets the TSOs' requirements in terms of efficient allocation.

3.1.2 Key milestones and accountabilities

The SEE RAP foresees enhancing a common grid model for SEE and harmonization of the methodologies and procedures for calculation of yearly / monthly / day ahead capacity by end of 2011, putting responsibility on TSOs via the ENTSO-E Regional Group SEE.

Implementation of PC in the 8th Region entails a step-wise approach, starting from bilateral/ trilateral market coupling by mid 2013 following a nucleus approach or based on different regional initiatives and achieving a single regional PC model by end of 2014 with the scope of integrating with the European PC zone by mid 2015.

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.

3.1.3 Review of progress during this quarter

Concrete progress has not been made; neither related to the development of a single capacity calculation algorithm, nor in relation the introduction of PC and the establishment of PXs or contracting services from existing PXs.

However, developments have been announced in the course of the 18th Energy Community Electricity Forum (June 2013):

- TSOs reported that progress has been made within the ENTSO-E Regional Group SEE on discussing a harmonised capacity calculation algorithm
- The Forum supported the Serbian SEEPEX as possible pilot project for development of market coupling across the Region that can be extended to other Contracting Parties⁹ on a step by step basis. Another comparable initiatives has been started in Croatia with the aim of establishing a PX or entering into joint venture agreements by end of 2013 / early 2014.

3.1.4 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. 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

⁹ Specific arrangements may need to be found for Moldova and Ukraine.

energy prices, market based procurement and trade of electricity and monopoly positions in electricity generation and supply.

3.2 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.

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

3.3.1 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 mechanism remains a key concern, both in terms of market liquidity as well as it concerns the 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.

3.3.2 Key milestones and accountabilities

The SEE RAP foresees a step-wise approach starting from centralized 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. The SEE RAP schedules the final target of multilateral coordinated auctions on all SEE borders as regional one-stop-solution for end of 2014.

3.3.3 Review of progress (during this quarter)

SEE Coordinated Auction Office

The establishment of a SEE Coordinated Auction Office (SEE CAO) targets harmonization of the allocation and nomination rules for long and medium 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.

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.

A so-called *Project Team Company in Charge of Establishing a SEE CAO* (PTC)¹¹ has been officially registered in Montenegro on 4 July 2013 with the scope of preparing the effective operation of the SEE CAO. The network operators of Albania, Bosnia and Herzegovina, Croatia, FYR of Macedonia, Greece, Kosovo*¹², Montenegro, Romania, Slovenia and Turkey are shareholders of the PTC. The Company is co-funded by the individual shareholders and significant contributions from International Financing Institutions¹³.

The PTC targets preparing the SEE CAO for executing auction of annual capacities for 2014 by end of 2013. According to the information provided at the 18th Energy Community Electricity Forum¹⁴ this deadline will not be met. Instead, the SEE CAO is expected to be functional no later than 1 July 2014, starting with monthly allocation periods as initial step for centrally coordinated forward capacity allocation and complementary to market coupling.

3.3.4 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 even explicitly required by Regulation (EC) 1228/2003. However, stronger political support, promotion and commitment are necessary to proceed.

At the 18th Energy Community Electricity Forum the Serbian TSO, EMS, declared readiness to enter into joint bilateral auctions, as a first step, with the SEE CAO. Commitment by the Bulgarian network operator is still missing.

3.4 Implementation of fully coordinated capacity calculation methodologies and particularly the flow-based allocation method in highly meshed networks¹⁵

3.4.1 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;
- 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.

¹¹ www.seecao.com.

¹² 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.

¹³ EBRD, KfD and USAID.

¹⁴ http://www.energy-community.org/portal/page/portal/ENC_HOME/INST_AND_MEETINGS?event_reg.category=E13241

¹⁵ 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.

3.4.2 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.

3.4.3 Review of progress during this quarter

No concrete steps have been taken.

3.4.4 Action needed to overcome the identified constraint(s)

Concrete milestones for the implementation of FB allocations need to be defined.

4 Review of progress with implementation in other important areas

4.1 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.

4.2 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 2013 Work Program of the ECRB Electricity Working Group.

4.3 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.

4.4 Management and use of interconnections

As regards the management and use of interconnections, harmonization of the applied cross border capacity allocation mechanisms has been reached; the marginal price mechanism prevails in the region.

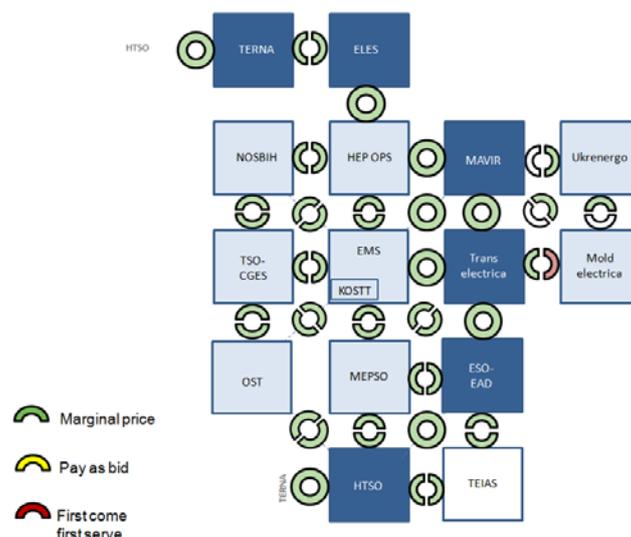


Figure 1: Mechanisms for Capacity Price determination in the 8th Region¹⁶¹⁷

Joint auctions

All Contracting Parties' TSOs, except the TSO of Moldova¹⁸, 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 already in 2009 which Energy Community 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).

Besides the EU member states in the 8th Region also several Contracting Parties TSOs have started to implement joint auctions (see figure 3): the TSOs of Serbia¹⁹ and Croatia²⁰ started implementing joint auctions with their neighbouring TSOs. As of January 2013, Serbia and Romania jointly organize coordinated auctions for long and short term allocation of their cross border capacities.

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.

¹⁶ Please note that according to current Ukrainian Electricity Law only unilateral auctions (for export) are allowed.

¹⁷ Currently, auctions for interconnection capacity allocation between Ukraine and Republic of Moldova are organized only by Ukrainian TSO.

¹⁸ 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.

¹⁹ Serbia started joint auctions with Transelectrica on 1. January 2013. Joint auctions between Serbia and Hungary started for 2012 in Dec 2011 on yearly, monthly, daily and intra-day level.

²⁰ 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).

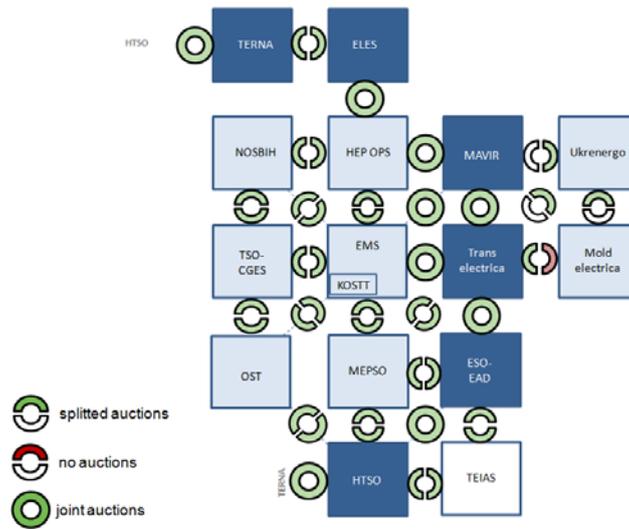


Figure 2: Cross Border Capacity Allocation Mechanisms in the 8th Region²¹

²¹ Currently, auctions for interconnection capacity allocation between Ukraine and Republic of Moldova are organized only by Ukrainian TSO.