SETSO TF REPORT

ON THE ESTABLISHMENT OF A COORDINATED AUCTION OFFICE IN SOUTH EAST EUROPE

(at the Occasion of the 5th Meeting of the Ministerial Council of the Energy Community)

I. BACKGROUND AND SCOPE

This report summarises current situation, developments and the next steps, related to the establishment of a Coordinated Auction Office in South East Europe (SEE).

The Ministerial Council of the Energy Community has expressed its clear support and guidance towards such developments – thus, e.g. in its Conclusions from the 4th Energy Community Ministerial Council Meeting (Brussels, June 27, 2008), the Council reiterates its request to the electricity transmission system operators\(^1\) to swiftly proceed with the establishment of the Coordinated Auction Office.

Further to the political guidance, there is a clear technical and economic rationale for proceedings towards this goal. The Coordinated Auction Office will lead to transparent allocation of the interconnection capacity and non-discriminatory congestion management, based on competitive principles, across all borders within the SEE regional electricity market. This will allow efficient utilization of cross-border electricity transmission infrastructure and should foster electricity trade while respecting security of supply, with the aim of a liberalized regional electricity market with effective competition and transparency.

From a legal perspective, Regulation 1228/2003 and the amended Congestion Management Guidelines, as part of the acquis under the Treaty, give solid support towards concrete activities. This process was further facilitated by the explicit decision of the Ministerial Council of the Energy Community, endorsing the implementation of Commission Decision of 9 November 2006 amending the Annex to Regulation (EC) No 1228/2003 on conditions for access to the network for cross-border exchanges in electricity (June 2008).

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\(^1\) Transmission system operator means any subject responsible for system operation, no matter if this subject is Transmission System Operator (TSO) or Independent System Operator (ISO).
II. UNDERTAKEN STEPS FOR THE DEVELOPMENT OF THE COORDINATED AUCTION OFFICE

Although most of the Contracting Parties have already implemented market-based cross border capacity allocation mechanisms, the existence of a large number of different allocation systems and auction products bears a challenge to international electricity trading. In this respect the Coordinated Auction Office for cross border capacity allocation should lead to several important advantages concerning international exchanges as well as energy supply in SEE region, able to contribute to remove trade barriers. This was well understood already some years ago and concrete activities were launched since 2006.

THE DRY RUN IMPLEMENTATION OF A REGIONAL AUCTION SYSTEM

The high number of borders in the region, together with an assortment of different transmission capacity allocation schemes, hinder the free flow of energy throughout the region. Therefore, SETSO TF initiated in 2006 a Dry-Run implementation project, simulating a system of coordinated flow-based auctions on a monthly basis without actual clearing nor payments. Within this first phase of Dry Run SEE TSOs also performed as traders. A successive phase of Dry Run operation has been operated from 2007 till today, with direct inclusions of Traders, which has provided more realistic results. The dry-run experience, still under operation by SEE TSOs, provides valuable procedural and methodological experience over Congestion Management issues as well as over optimal handling of network congestion and their proper valuation.

SEE TSOs’ INTEGRATION IN EU INTER-TSO COMPENSATION MECHANISM

As a pre-requisite for the SEE electricity market operation, SETSO TF has successfully achieved the integration of SEE TSOs in the Inter-TSO Compensation (ITC) mechanism operated by EU TSOs and administrated by ETSO, which remunerates in a fair and transparent way the costs determined by international trading on transmission grids\(^2\). The pan-European ITC mechanism is under operation since April 2007 and has put initial basis for the concept of SEE regional trade.

LEGAL FRAMEWORK FOR SEE AUCTION OFFICE

The legal framework for SEE electricity regional market is the definition of an 8\(^{th}\) congestion management region following the approach of the EU Congestion Management Guidelines. The 8\(^{th}\) region was defined by the Ministerial Council in June 2008 and is composed of the seven Contracting Parties and the neighbouring EU countries Bulgaria, Greece, Hungary, Romania, Slovenia and Italy, with regard to its interconnections with the Contracting Parties\(^3\).

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\(^2\) A “Complaint concerning failure of an Energy Community contracting party to comply with the Energy Community Law” has been forwarded by KOSTT to the Energy Community Secretariat.

\(^3\) ESO EAD does not consider the current perimeter of the 8\(^{th}\) CM Region appropriate for allowing fair trading for Bulgarian market participants and considers that no effective and transparent competition could be achieved if there is discrimination towards the traders in Bulgaria.
THE IMPLEMENTATION GROUP FOR COORDINATED AUCTION OFFICE

The Coordinated Auction Office (CAO) in South East Europe represents the implementation phase of regional approach towards congestion.

To work on the implementation phase of the Coordinated Auction Office, the South East European Coordinated Auction Office Implementation Group (IG) was established, following the Conclusions of the 10th Athens Forum in April 2007. The Implementation Group comprises on one hand the Regulators, represented by the ECRB, and on the other hand the SEE TSOs, represented by SETSO Task Force, in line with the adopted structure of IGs in EU. In order to bring forward the process of the CAO implementation, the Implementation group meets indicatively bi-monthly.

The IG has elaborated an Action Plan for establishing the SEE CAO. The Action Plan was approved by the IG and defines a road-map towards SEE Coordinated Auction Office creation. The Plan assigns to the stakeholders the responsibilities for each of the necessary technical, organizational and legal tasks. Furthermore, the Action Plan evaluates a possible timeline for the CAO establishment, scheduled on January 2010.

A significant activity regards to table a concrete discussion on CAO location in such a way to enable TSOs and the whole IG to concretely progress as regards the new structure creation and operation.

As a further element, co-operation with stakeholders of Auction offices from other regions of EU will be pursued. In this respect, the first interregional workshop on cross border capacity allocation took place on October 21st 2008, as an excellent platform to exchange experience between all EU Congestion Management regions. Studies and programs of consultancies supporting CAO creation are under way, thanks to support of ECS and IFIs.

The next relevant challenges for SEE TSOs on the way to the establishment of a Coordinated Auction Office in SEE are the signature of the MoU over the CAO establishment and the elaboration of the CAO Business Plan. The Business Plan document regarding technical and organizational features has been worked out by SEE TSOs and expected to be agreed upon and presented at the next 13th Athens Forum. The financial part of the document will be completed once more information will be available over the actual TSOs’ participation in CAO.

III. THE MEMORANDUM OF UNDERSTANDING ON THE ESTABLISHMENT OF THE COORDINATED AUCTION OFFICE

Following the political support to the initiative and pursuant to Article 28 of the Treaty Establishing the Energy Community, the implementation of common procedures for congestion management methods and the establishment of a Coordinated Auction Office among SEE transmission/independent system operators has been prepared and approved by SETSO TF.
The Memorandum shall be officially opened for signature by the TSOs during the Ministerial Council meeting on 11th December 2008 in Tirana4.

The Signature of the Memorandum is deemed to represent the first sign of SEE TSOs’ wish to proceed towards CAO establishment and important milestone of the process. The MoU signature will send a signal to all stakeholders, and particularly to present and potential investors in the region, of boosting confidence in future functioning, liquid and transparent SEE electricity market.

IV. CONCLUSIONS

There is no doubt that the establishment of a Coordinated Auction Office in South East Europe is an important step towards better electricity trading in the region, in the respect of supply security. Moreover, it is fully in line with the objectives of the Energy Community and the actual process of implementation of the relevant acquis under the Energy Community Treaty.

Based on the technical and procedural experience matured within SETSO TF and in line with practices carried out in other parts of EU, SEE TSOs are confident that steps undertaken so far and the activities planned for the future could provide positive results and benefits for involved parties and should ensure better co-operation within the regional electricity market.

4 ESO EAD, the Bulgarian Transmission System Operator, has clearly expressed its unavailability to sign the MoU, since ESO EAD does not consider the current perimeter of the 8th CM Region appropriate for allowing fair trading for Bulgarian market participants.