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REGIONAL INITIATIVES STATUS REVIEW REPORT 2013

FINAL STEPS TOWARDS THE 2014 DEADLINE

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FINAL STEPS
TOWARDS THE
2014 DEADLINE

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FOREWORD

I am pleased to present this third annual Regional Initiatives Status Review Report, covering developments in the Electricity and Gas Regional Initiatives during 2013.

Since 2006, when the process started, the Regional Initiatives have supported voluntary regional market integration projects and, more recently, the early implementation of some of the provisions (e.g. on cross-border capacity allocation) included in the Network Codes which, once these enter into force, will apply across the EU.

As the 2014 deadline set by the Council of the European Union for the completion of the internal markets in electricity and gas approaches, the importance of the Regional Initiatives increases, as the challenge will be met only if, in addition to the adoption of the internal market rules, significant progress in the market integration process is achieved on the ground.

During 2013 the Agency for the Cooperation of Energy Regulators ('the Agency') and many other stakeholders, including national regulatory authorities, invested their efforts in promoting and supporting the many regional and cross-regional market integration projects. I would, in particular, like to thank the Coordinators for the Electricity and Gas Regional Initiatives - Christophe Gence-Creux and Clara Poletti, respectively - and the many other colleagues in the national regulatory authorities who have led or contributed to this effort at regional level. The proactive and constructive engagement of many other stakeholders should also be commended, in particular the role of ENTSOG in co-leading the work on the Capacity Allocation Mechanism (CAM) Roadmap in gas.

In the period covered by this report, advances have been recorded in a number of market integration projects, both in electricity and gas. However, due to mostly, but not exclusively, unexpected complexity of the projects, some projects have experienced and are still experiencing extended delays with respect to the original roadmaps. Notwithstanding this, several crucial accomplishments are still within reach and could be secured during 2014, however only if all involved parties remain fully committed to the projects and devote their utmost attention and effort to them.

In the electricity sector, the integration - through market coupling - of the day-ahead markets in the North-West Europe (NWE), the South-West Europe (SWE) and the Central-South Europe (CSE) regions, the merging of the regional long-term auction platforms and the harmonisation of allocation rules across the Central-West Europe (CWE), the CSE and the Central-East Europe (CEE) regions, the development of the EU intra-day platform and the implementation of flow-based capacity calculation in the CWE region are all ambitious, but attainable goals for 2014. They require renewed efforts from transmission system operators (in particular for the long-term timeframe and the capacity calculation project) and from power exchanges (in particular for the day-ahead and intra-day timeframes).

In gas, the extension of the coordinated allocation of cross-border capacity to most interconnection points across the EU should also be feasible by the end of the year.

If these goals were to be attained, they would represent decisive steps towards the completion of the internal electricity and gas markets.

Therefore, I call on all parties to work committedly together to ensure that such goals are achieved, so that well-functioning internal electricity and gas markets can deliver the tangible benefits that the European energy consumers and citizens deserve.

Alberto Pototschnig
Director



Alberto Pototschnig
Director

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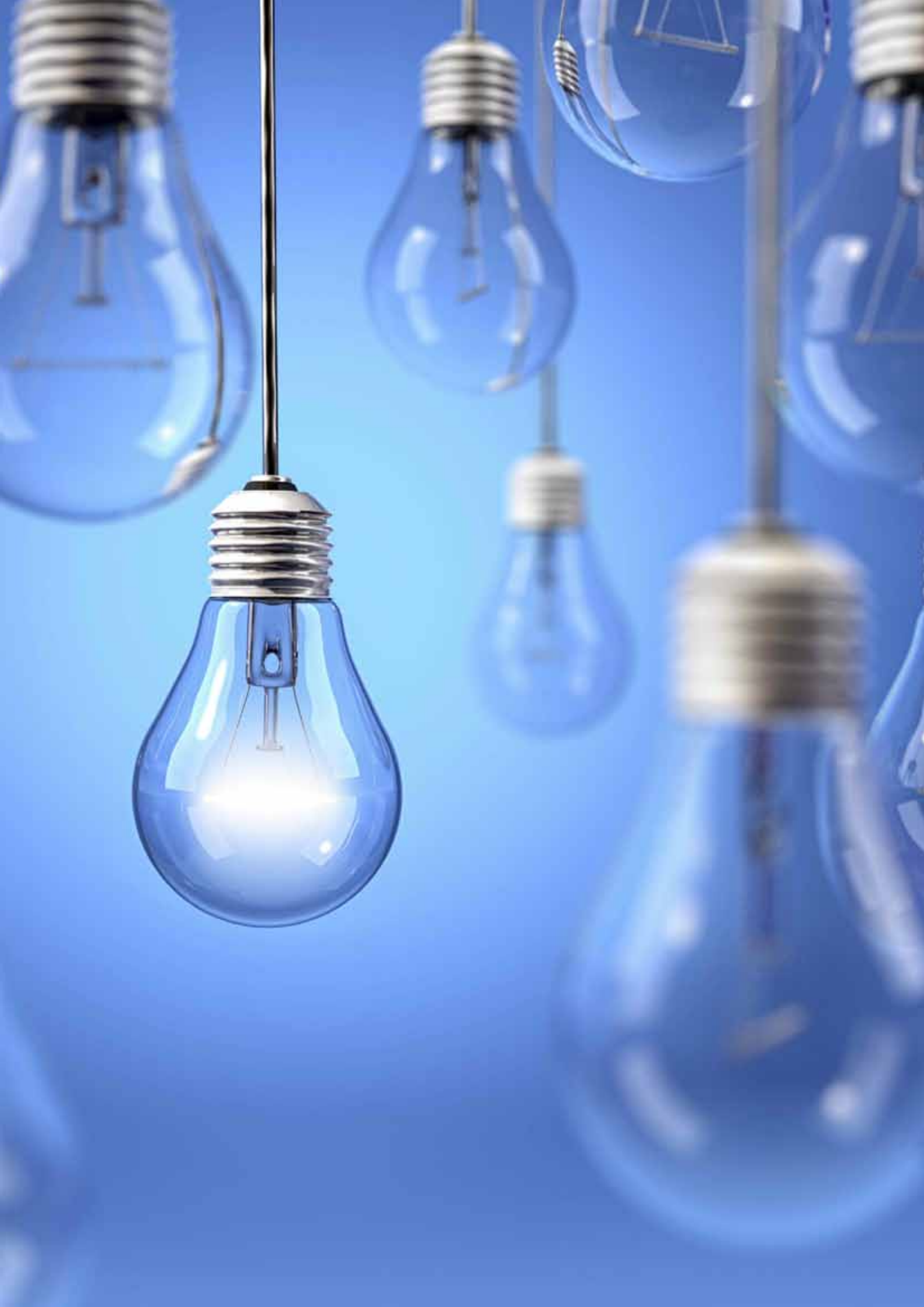
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EXECUTIVE SUMMARY





1. THE ELECTRICITY REGIONAL INITIATIVE (ERI)

Despite the new postponement of the go-live for the NWE pilot project, day-ahead market coupling should become a reality for most European markets at the end of 2014

The NWE¹ pilot project for day-ahead market coupling reached important milestones during 2013 such as the finalisation of the back-up, special and fall-back procedures, or the signing of the All Party Cooperation Agreement (APCA) for Operations, which deals with the roles and responsibilities for the operational, governance and decision-making procedures and, as such, provides for the required flexibility to extend the pilot project to the non-NWE regions. Unfortunately, the go-live date was once more postponed, from November 2013 to 4 February 2014, due to the need to run additional tests. In parallel, the implementation of market coupling progressed in the non-NWE regions such as the Baltic region, where the whole region has been coupled to the Nordic market since 3 June 2013, or the SWE region, where the Gate Closure Time for day-ahead nomination has changed to noon.

A timely launch of the NWE pilot project in early 2014 is the pre-requisite for the extension to the SWE and the CSE regions expected before the end of the year.

Continuous delays have led the European Commission to step into the Intraday project

In early 2013, the Intraday project saw strong stakeholder support to the call for tender organised by the power exchanges (PXs) for selecting an IT provider to deliver the European Intraday platform. Unfortunately, no consensus could be reached among PXs on the best offer to be selected and the Agency was called on to give guidance. Following the call for tender and the Agency's guidance, the PXs and the selected vendor started negotiating without reaching an agreement by the expected time. On this basis, at the end of 2013, the European Commission decided to take the lead and provide the guidance on the way forward.

The stepping in of the European Commission highlighted the difficulties project parties may face to agree on such complex projects without a clear and robust governance framework for the decision-making process. The Agency believes the new guidance should help progress in intraday before the end of 2014.

National Regulatory Authorities' (NRA) decisions regarding long-term hedging products and the emergence of a pilot project were important milestones in 2013, although some difficulties appeared on the way towards harmonised European auction rules.

On some borders, where no long-term transmission rights were available, the concerned NRAs took positions in favour of their allocation. This represents an important progress towards market participants being able to hedge their exposure to day-ahead price spread. In parallel, the Central Auction Office (CAO) and the Capacity Allocation Service Company (CASC), the two regional allocation platform operators, signed a Memorandum of Understanding (MoU) for creating a single platform for the allocation of long-term transmission rights. On the contrary, obstacles arose on the path towards harmonisation of the existing auction rules as European Network of Transmission System Operators for Electricity's (ENTSO-E) ambition significantly diverges from the one expressed by the Agency and NRAs.

¹ The North-West Europe region is composed of the Central-West and North regions plus Great Britain.

In 2014, the Agency expects the last NRAs' decisions on long-term hedging instruments and CAO and CASC to deliver a single allocation platform and common auction rules as compliant as possible with the 'wish list' issued by the Agency early in 2013. Financial Transmission Rights (FTRs) option may also be introduced during the year on some borders.

In February, the CWE project for implementing the flow-based (FB) capacity calculation method started the so-called parallel run, i.e. publishing day-ahead market coupling results simulated with this new method. In the CEE region, the issue of the unscheduled flows slowed progress. Still, the Agency and the CEE NRAs sent a draft MoU to Transmission System Operators (TSOs) and PXs at the end of the year for final agreement.

In 2014, the Agency expects the CWE FB project to deliver an increasingly accurate and reliable method which should be ready for implementation during the year. For the CEE region, the Agency expects the MoU to be signed at the beginning of 2014 and to create a new impulse towards the implementation of FB day-ahead market coupling.

The CWE project for the flow-based capacity calculation method started publishing simulations while discussions slowly progress in the CEE region.

2. THE GAS REGIONAL INITIATIVE (GRI)

The Agency's vision for the GRI is that it should focus on the activities that most contribute to the completion of the Internal Energy Market (IEM) or are best undertaken at regional level. The GRI should remain focused on three main priorities:

Reinforced priorities for the GRI in the current context

- contribute, as the top priority, to the early implementation of the Network Codes, identifying potential pilot projects and facilitating their implementation – in cooperation with ENTSOG – through dedicated processes and working arrangements, as started in the area of capacity allocation mechanisms (CAM);
- help to implement other EU regulatory developments at national and regional level in line with the activities planned in the regional Work Plans 2011-2014, and
- develop projects that are suitable to be carried out at regional level and contribute to the IEM, in areas such as the integration of markets through the implementation of the Gas Target Model (GTM).

Apart from these priorities, the Agency believes that the GRI should preserve its acknowledged value as a regional forum for sharing experience and best practices, exchanging information and discussing topics of interest for the respective regions.

Continuing work on early implementing the Network Code on CAM and potentially on other coming areas

The early implementation of Network Codes is considered to be a crucial task for achieving effective and timely market integration towards the IEM and its added value is widely recognised. Although this is a task that eventually will exceed a regional scope, the GRI has allowed identifying potential pilot projects for this early implementation of the Network Codes (initially on CAM). Once projects surpass the regional level, it seems appropriate to set up a specific process at European level, with ad-hoc working structures that include all relevant parties involved. This has been the case for the early implementation of the CAM Network Code, which is facilitated by the CAM Roadmap developed by ENTSOG and the Agency.

Work will continue in 2014 on the early implementation of the CAM Network Code, facilitated where necessary by the Agency and ENTSOG. In addition to this on-going work, building on the positive experience in CAM further work might be undertaken in other areas where Network Codes have already been developed or are expected soon (e.g. balancing and interoperability), in cooperation with ENTSOG where appropriate. The Agency encourages TSOs and NRAs to further explore potential pilot projects for the early implementation of the Network Codes developed in the aforementioned areas.

Completing regional projects as scheduled in the regional Work Plans 2011-2014

In addition to promoting the early implementation of Network Codes, the focus of work in the three gas regions in 2014 should be determined by the regional Work Plans 2011-2014. The Agency recommends that these Work Plans are updated again for 2014 before the next Madrid Forum, including through the consultation of stakeholders in the regions, so that the plans reflect the updated status of on-going work in the region and any changes made regarding priorities and planned projects since the last update in March 2013.

Rethinking the geographical scope of the GRI and the composition of the South South-East (SSE) region

After more than seven years with the same geographical configuration for the GRI, it can be questioned whether this configuration is still the best possible one. The composition of the regions has already been a matter of debate in the past, but no decision was taken and the composition of the regions remained unchanged. At present, and in light of the new approach adopted by the Agency for the regional initiatives and of the reinforced priorities identified for the GRI, it is worth reassessing the optimal extension and composition of the GRI and its membership.

In particular, the Agency would welcome input on the possible reorganisation of the South South-East (SSE) region. The debate about the optimal geographical configuration of this region and the opportunity to split into several regions should take place at regional level in 2014, involving all relevant parties and authorities and including the consultation of stakeholders.

The Agency believes that it is also worth considering the benefits of extending the GRI to EU Member States which are currently not participating in the GRI, such as the Baltic States and Finland, as well as to new countries in the EU neighbourhood, such as the most advanced contracting parties of the Energy Community.

3. REGIONAL INITIATIVES BEYOND 2014

The Regional Initiatives are now close to completing the first three years under the coordination of the Agency. Considerable progress has been achieved over this period, both in electricity and gas. The ERI and the GRI have proven to be a useful tool to foster the implementation of EU rules, complementing the development of framework guidelines and promoting the early implementation of Network Codes, while remaining a widely appreciated framework for cooperation among NRAs, TSOs and other stakeholders at both regional and EU level.

By the end of 2013, the first Network Codes have been already developed and, in the case of gas, the first one (on CAM) has been adopted and published. The early implementation of these Network Codes has already started through a number of pilot projects in different areas in electricity and gas, but it still remains a voluntary exercise until their implementation will become fully binding. Once the Network Codes become binding, the work on those areas will progressively shift to be coordinated and monitored under dedicated processes.

When the first Network Codes enter their implementation stage, the Agency, the European Commission, NRAs, TSOs and other stakeholders involved in the ERI and the GRI might revisit the Regional Initiatives concept to adapt it to the new binding implementation process. This will also be an opportunity to take stock of the progress achieved and to feed the best practices observed in the regional initiatives framework into the new binding process.

1.

INTRODUCTION





1.1 The Regional initiatives in a nutshell

NRAs set up the Regional Initiatives (RIs) in spring 2006, with the support of the European Commission, with the goal of speeding up the integration of national energy markets in Europe towards the completion of the IEM. The RIs follow a bottom-up approach, and bring together NRAs, the European Commission, Member States, TSOs, PXs, gas and electricity companies and other relevant stakeholders around seven electricity² and three gas³ regions.

The RIs have delivered so far valuable results both in electricity and gas, mainly through the (early) implementation of Network Codes and other EU rules via pilot projects and through the exchange of information and good practice. They have also helped in developing a common vision – a Target Model for the IEM.

The RIs acquired a new dimension after the entry into force of the Third Energy Legislative Package (3rd Package)⁴ in September 2009 and especially with the creation of the Agency in March 2011. The Agency now plays a central role in the new formal, ‘top-down’ regulatory approach represented by the Framework Guidelines and Network Codes process and is also in charge of promoting cooperation and the early implementation of rules at regional and cross-regional level.

On 4 February 2011, the European Council gave a strong message and increased legitimacy to the move towards the IEM through its ‘Conclusions on Energy’⁵: ‘The internal market should be completed by 2014 so as to allow gas and electricity to flow freely’. In this context, the Agency has promoted a new approach to the RIs in order to reinforce their ability to serve as a complementing ‘bottom-up’ tool to the newly created ‘top-down’ Framework Guidelines and Network Codes process.

2 http://www.energy-regulators.eu/portal/page/portal/EER_HOME/EER_ACTIVITIES/EER_INITIATIVES/ERI

3 http://www.energy-regulators.eu/portal/page/portal/EER_HOME/EER_ACTIVITIES/EER_INITIATIVES/GRI

4 [Regulation \(EC\) No 713/2009](#) of the European Parliament and of the Council of 13 July 2009 establishing an Agency for the Cooperation of Energy Regulators (Text with EEA relevance).
[Directive 2009/73/EC](#) of the European Parliament and of the Council of 13 July 2009 concerning common rules for the internal market in natural gas and repealing [Directive 2003/55/EC](#).
[Directive 2009/72/EC](#) of the European Parliament and of the Council of 13 July 2009 concerning common rules for the internal market in electricity and repealing [Directive 2003/54/EC](#)
[Regulation \(EC\) No 715/2009](#) of the European Parliament and of the Council of 13 July 2009 on conditions for access to the natural gas transmission networks and repealing [Regulation \(EC\) No 1775/2005](#)
[Regulation \(EC\) No 714/2009](#) of the European Parliament and of the Council of 13 July 2009 on conditions for access to the network for cross-border exchanges in electricity and repealing [Regulation \(EC\) No 1228/2003](#)

5 <http://register.consilium.europa.eu/doc/srv?l=EN&t=PDF&gc=true&sc=false&f=ST%202%202011%20REV%201&r=http%3A%2F%2Fregister.consilium.europa.eu%2Fpd%2Fen%2F11%2Fst00%2Fst00002-re01.en11.pdf>

1.2 Implementing the new vision for regional initiatives

Since its creation in March 2011, the Agency has enhanced its role of coordinating and promoting a new vision for the RIs, based on the four following principles:

- **a more project-oriented approach** to help focus the limited resources of stakeholders on a few specific and common projects, deemed to be most instrumental for the completion of the IEM;
- **a more pan-European dimension** to ensure the involvement of all Member States and the allocation of resources to achieve the common overarching objective of completing the IEM by 2014;
- **enhanced stakeholder involvement and engagement** to maintain the strong momentum and confidence throughout the implementation phase, and
- **a more adequate governance structure** to improve the decision-making process.

In addition, in order to improve the visibility of the work undertaken and to maintain the commitment of all parties, the Agency has put significant effort in reporting progress, difficulties and challenges in the implementation process, through:

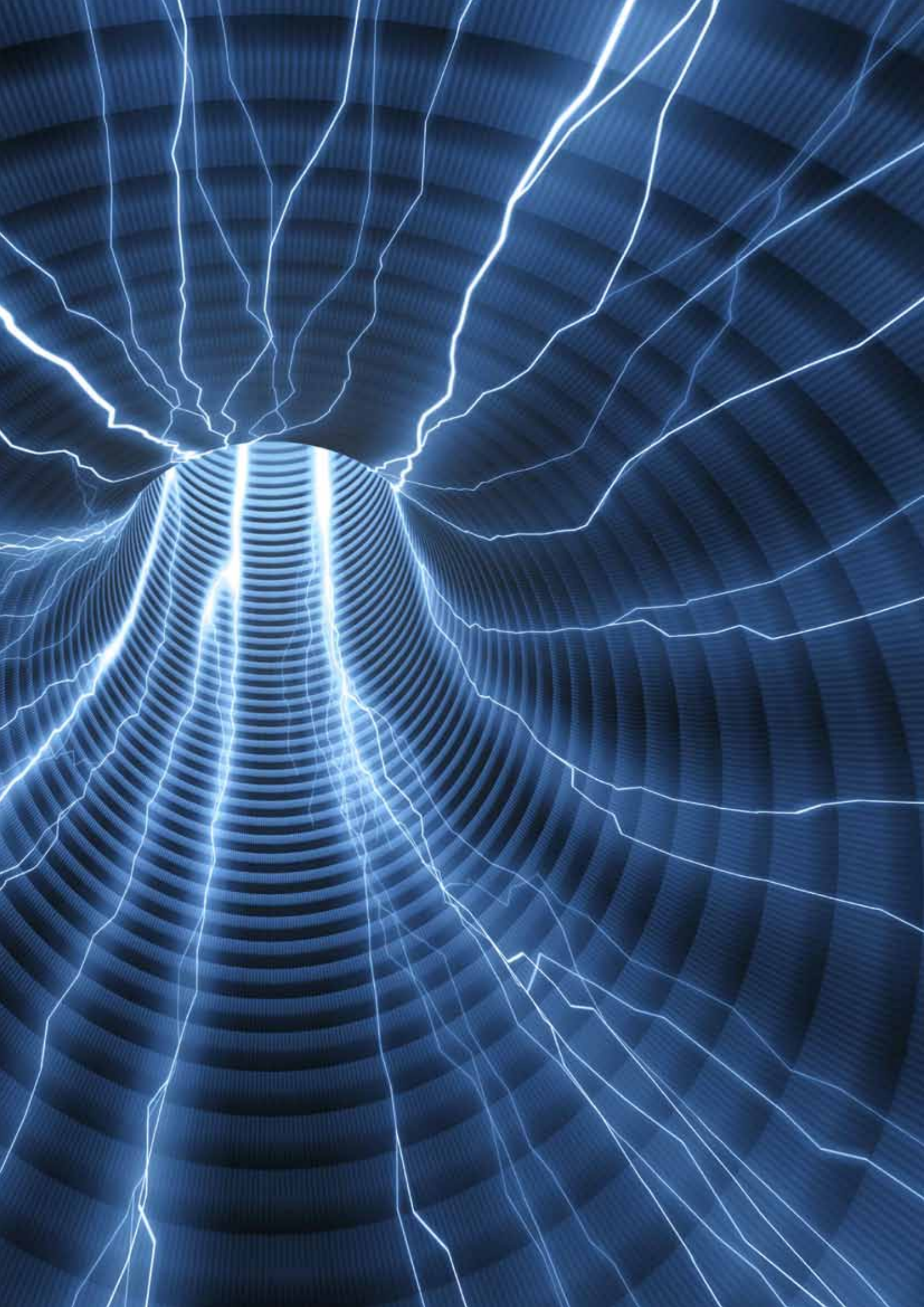
- the publication of detailed Quarterly Reports prepared in close cooperation with NRAs for both gas and electricity;
- dedicated presentations at the Florence and Madrid European Regulatory Fora, and
- specific meetings with stakeholders in electricity (through the Agency Electricity Stakeholders Advisory Group (AESAG)) and in gas (on the early implementation of the CAM Network Code through the EU Stakeholders group).

During 2013, this project-oriented approach helped the Agency and all concerned stakeholders to reach milestones defined in the Cross-Regional Roadmaps for electricity and for gas (in cooperation with ENTSOG). This Report illustrates in detail the progress achieved during 2013 in these and other projects, reflecting also the differences in the organisation and working structures between electricity and gas and the remaining challenges and obstacles towards the goal of achieving the IEM in 2014.

2.

THE ELECTRICITY REGIONAL INITIATIVE





2.1 Review of the progress made to date in the ERI

The Target Model developed through the ERI has gained further credibility and strength through its transposition into the Framework Guidelines on Capacity Calculation (CACM Framework Guidelines) for electricity adopted by the Agency in July 2011. In line with the new vision for RIs promoted by the Agency, the Target Model has been later transposed into four Cross-Regional Roadmaps applicable to the whole Europe⁶, each of them devoted to one particular aspect of the common vision. The adoption of the Framework Guidelines on Electricity Balancing (EB Framework Guidelines) in September 2012 triggered in 2013 the selection of pilot projects for implementing the described vision. Through the ERI and AESAG framework, the Agency ensures further coordination.

2.1.1 The Cross-Regional Roadmap on Day-Ahead Market Coupling

The Target Model for the day-ahead timeframe is a European Price Coupling (EPC) model which simultaneously determines volumes and prices in all relevant zones, based on the marginal pricing principle. This solution implies common arrangements between TSOs and PXs on pre-coupling aspects (such as the capacity calculation), the coupling solution (such as the algorithm and its constraints) and post-coupling aspects (such as the financial settlement between PXs and between PXs and TSOs).

Progress to Date

In 2012, significant progress on different aspects such as the algorithm starting point selection and finalisation of cooperation contracts were achieved towards the implementation of the NWE project, identified as the pilot project for the day-ahead timeframe. In 2013, progress focused more on technical and operational issues but finally the go-live was again delayed.

In 2013, the NWE pilot project achieved new important milestones:

- **Finalisation of the back-up, special and fall-back procedures.** NWE TSOs and PXs experienced initial difficulties in agreeing on timing for the different procedures in case of decoupling. After discussions, they presented a set of options to market participants before launching a public consultation to receive market's feedbacks. Following the consultation and additional bilateral talks, NWE TSOs and PXs agreed and informed market participants in June that in case of decoupling, PXs would reopen their order books for 20 minutes and, in particular cases, TSOs would accept to move the 15:30 day-ahead cross-border nomination deadline to 15:45 and beyond.

6 As an exception, in acknowledgement of the challenges in adapting the Single Electricity Market between Ireland and Northern Ireland to the Electricity Target Model, concerned parties were given to 31 December 2016 to implement the Target Model and agreed on a dedicated roadmap sent to the Agency on 23 May 2013. More information on this project is available here: http://www.allislandproject.org/en/TS_Current_Consultations.aspx?article=dac49400-fed7-41e7-ad9c-17c8ea4c65f4

- **Signing of the All Party Cooperation Agreement (APCA) for Operations.** Following the signature of the APCA for the Design and Implementation Phases in 2012, NWE PXs and TSOs agreed on the APCA for the Operational Phase in October. This contract deals with the roles and responsibilities of the operational, governance and decision-making procedures and offers the needed flexibility to extend the pilot project to non-NWE regions. Along with the Operational APCA, regional and local agreements on operational issue, such as shipping, were finalised as well.
- **Harmonisation of floor and ceiling prices.** In parallel to the discussion on procedures in case of decoupling, NWE TSOs, PXs and NRAs investigated the impact of the current floor and ceiling prices and the options for harmonisation. The public consultation dealing with procedure in case of decoupling also contained questions related to the floor and ceiling price harmonisation. A consensus emerged around the values + 3000 € and - 500 € and this range is to be implemented with the NWE market coupling go-live.
- **Lack of coordination regarding the handling of losses on DC cables.** In 2013, upon request of NWE NRAs, TSOs prepared an impact assessment of the inclusion of a loss factor for Direct Current (DC) cables within the market coupling algorithm. According to the study, such inclusion could lead to a higher social welfare as the algorithm would exclude trade which generate more costs than added value. However, not all NWE parties could agree on the study's conclusions as some parties claimed that elements, such as the impact on the electricity flows and the consistency between the different timeframes, were overlooked. NRAs renewed their goal of agreeing on a harmonised approach on this question, but that, in the meantime, decisions would be taken on a case-by-case basis for the NWE go-live. So far, the inclusion of a loss factor concerns IFA⁷ and Britned⁸ from the go-live and NorNed⁹ subsequently. An evaluation is ongoing for the Baltic Cable¹⁰ and is planned later in 2014 for Kontek¹¹ and possibly Skagerak.¹²
- **New postponement of the go-live to February 2014.** In November, the NWE project parties announced a new delay. They explained that the delay was due to technical issues as all operational criteria (system stability and operational readiness) could not be validated within the time left to the November deadline. On 18 December 2013 they confirmed 4 February 2014 as the new deadline.

...but stalled on some topics...

...and finally had to delay the go-live again.

7 IFA stands for 'Interconnexion France-Angleterre' which is the sub-sea cable between France and England.

8 BritNed is the name given to the sub-sea cable between Great Britain and the Netherlands.

9 NorNed is the name given to the sub-sea cable between Norway and the Netherlands.

10 Baltic cable is the name given to the sub-sea cable between Germany and Sweden.

11 Kontek is the name given to the sub-sea cable between Germany and Eastern Denmark.

12 Skagerak is the name given to the sub-sea cable between Denmark and Norway.

In the meantime, in the non-NWE regions, the Baltic region coupled with the Nordic region...

- **Market Coupling in place within the whole Baltic region.** In November 2012, Nord Pool Spot, the Nordic PX, announced plans to launch a bidding area in Latvia on 3 June 2013. Final commitment to this introduction depended on the approval of the Latvian system operator, Augstsprieguma tīkls (AST), as an Independent System Operator by the EU Commission. This milestone was achieved on 4 April making Nord Pool Spot the market operator of the new Latvian bidding area. As Nord Pool Spot already operates bidding areas in Lithuania (since 18 June 2012) and Estonia (since 2010), the Baltic region was fully coupled on 3 June 2013 and also coupled with the Nordic area through the Estlink cable.

... and the other regions progressed towards the implementation of the Day-ahead Target Model.

In the SWE region, two major steps were achieved towards the coupling of MIBEL, the Iberian electricity market, with the NWE pilot project.

- **Shift of day-ahead Gate Closure Time (GCT) from 10:00 CET to 12:00 CET in MIBEL.** Since 15 October 2013, the MIBEL GCT is aligned on the NWE one. The realisation of this shift implied many changes in operational procedures, schedules and MIBEL market rules.
- **Joint integration tests with the NWE pilot project.** The performance of the tests validated the ability of the Price Coupling of Regions (PCR) solution to cope with integration of MIBEL.

These achievements are part of the SWE preparation for the simultaneous go-live between NWE and SWE with the 'start-up solution': common synchronised operations with the common PCR algorithm, PCR Matcher and Broker (PMB) and data, but considering a zero capacity value for the interconnection between France and Spain. During this 'start-up solution', TSOs maintain daily explicit auctions on this interconnection until full coupling with NWE, expected to take place a few months after the simultaneous go-live.

In the CSE region, TSOs and PXs, organised in the dedicated Pre- and Post-Coupling (IBPPC – Italian Borders Pre- and Post-Coupling) project, delivered:

- **Cooperation agreement and a detailed roadmap.** Following the finalisation of their cooperation agreement in January, TSOs and PXs presented, in March 2013, the roadmap for the day-ahead market coupling on the Northern Italian borders. This detailed roadmap defines three main stages: (1) design phase (pre-coupling, coupling and post-coupling arrangements); (2) NRAs evaluation phase; and (3) implementation phase.
- **Finalisation of the letter of comfort.** Following the evaluation of arrangements submitted by the IBPPC parties in August, in November 2013 the CSE NRAs sent the comfort letter endorsing the project and asked project parties to enter into the implementation phase as soon as possible.

At the end of 2013, IBPPC parties confirmed the submitted planning and December 2014 as the target date for coupling of CSE with NWE region.

In the CEE region, some countries have decided to progress on market coupling in parallel to the Flow-Based Market Coupling project (FBMC).

- **MoU for extending the Available Transfer Capacity (ATC) market coupling between Czech Republic, Slovakia and Hungary to Romania using the PCR solution.** In early 2013, five countries - Czech Republic, Slovakia, Hungary, Romania and Poland - started discussing the possibility to couple their markets using the ATC calculation method. Concerned parties materialised this will with a MoU in July and launched a public consultation on the five markets, regarding different topics. Based on the conclusions of the consultation and further discussions, project parties decided to proceed with the coupling of Czech Republic, Slovakia, Hungary, and Romania day-ahead electricity markets based on the PCR solution and with the deadline for submitting bids at 11:00 GCT. The Polish market will join later in the context of the CEE FBMC initiative (see the Capacity calculation chapter for more information). This ATC market coupling project is expected to be an intermediate step towards the implementation of the FBMC project within the entire region.

The main challenges ahead for the implementation of the day-ahead market coupling in 2014 are:

The 2014 deadline: the Agency's expectation

The launch of the NWE pilot project in February 2014. After several delays, contractual and regulatory aspects have now been settled and technical developments and testing are at a very advanced stage. The Agency expects the new go-live date to be met.

- **The simultaneous launch of the coupling between MIBEL and the NWE pilot project.** As REE, the Spanish TSO, and CASC, the allocation platform and the CWE service provider for pre- and post-coupling processes, eventually reached an agreement in December (see the long-term section for more information), just a few regulatory elements are still to be amended in Spain for a successful launch of 'the start-up' solution (with zero capacity allocated through the implicit auction on the France-Spain border) in February 2014. The Agency expects MIBEL to be coupled with NWE at the go-live date and the 'start-up' solution to be replaced by the full market coupling by May 2014.
- **A successful implementation phase in the CSE region.** Following the comfort letter granted by NRAs, IBPPC parties have entered into the implementation phase. According to the planning, the implementation phase, which includes changes in the technical procedure and testing, should allow joining NWE at the end of 2014. The CSE region will face important challenges for achieving this goal. The geographical scope may change

due to these difficulties. Indeed, uncertainty remains regarding the ability to couple in due time either because of political reasons or due to a need of adjustment at local level. The implementation phase requires precise changes, for example in local regulation or in bilateral technical and financial procedures, which may be difficult or time-consuming to change:

- For Greece, there are organisational issues, as the country is currently changing its market design.
- For Italy, the Italian NRA and the Ministry have to find a way to accommodate the coupling financial arrangements with the local financial arrangements such as the settlement date. The Italian TSO and PX also need to change their operational procedures for shifting the day-ahead GCT to 12:00 CET.
- For Slovenia, which is already coupled with Italy, TSO and PX also need to change their operational procedures for shifting the day-ahead GCT to 12:00 CET.
- For Austria, the choice of the PX in charge of the market coupling is still pending.
- For Switzerland, as a non-European Union member and not having adopted the 3rd Package, it is important for market coupling to ensure that coupling is carried out on the basis of the harmonised rules, with the same rules applying to EU and Swiss actors. This should be ensured via an electricity agreement with the EU.¹³

13 This electricity agreement should also cover the historical supply contracts between France and Switzerland offering a privileged access to interconnection capacity. This issue is subject to advanced discussions between the contract holders, French and Swiss NRAs and TSOs, the Swiss Ministry and the European Commission.

2.1.2 Cross-Regional Roadmap on Continuous Intraday Trading

The overall objective of the Intraday Cross-Regional Roadmap is to implement the Intraday Target Model on all borders in Europe by the end of 2014. The Intraday Cross-Regional Roadmap envisages a phased approach to implementation, starting with implicit continuous trading which will then evolve to include intraday capacity recalculation, capacity pricing and the ability to trade sophisticated products.

This section presents the progress and obstacles experienced during 2013 towards the development of capacity allocation in Intraday and in particular towards the implementation of the implicit continuous trading defined as the Target Model.

On 18 October 2012, the PXs published a Request for Information (RFI); a high level description of the service being procured. This generated seven responses of which four met the pre-qualification requirements. The four pre-qualified vendors received the Technical Requirements on 5 December and the Request for Offers (RfO) on 21 December. Two of the four potential vendors submitted offers by 18 January 2013. PXs extended the time for the Technical Evaluation to allow for additional clarification with respect to the offers. An overview of the service being tendered for by the six PXs and more information can be found in the RFI.¹⁴

In the meanwhile, in November 2012, the European Electricity Regulatory Forum, the so-called 'Florence Forum' welcomed the PXs' initiative of an open and fast tender to select an interim cross-border intraday (XBID) solution and called for a robust and timely dispute-resolution procedure to be put in place with the involvement of the Agency¹⁵. The Agency wrote to the six PXs¹⁶ on 7 December to confirm its assistance if PXs were unable to agree on a common solution.

On 26 April, the six PXs wrote to the Agency to provide notice that they had been unable to achieve consensus on the selection of the vendor and to ask for the Agency's assistance. At the Florence Forum on 15 May, the Agency presented its view about the deadlock situation and requested additional information to provide an informal opinion. The Florence Forum urged the involved parties to provide the required clarifications rapidly in order to allow the Agency to finalise its opinion before the end of June¹⁷.

On 5 June, this information was provided along with the PXs' individual assessment of these additional elements and feedback. On this basis, as well as the input from all involved NRAs, on 17 June the Agency informed PXs about the preferred platform and reminded the involved PXs of their commitment to imple-

Progress to date

The year 2013 started with a new impulse given to the pilot project to implement the EU Intraday Platform by the end of 2014, through the unanimous support to the PXs' call for tender...

...However, the whole process did not go smoothly as later PXs needed the Agency's assistance for selecting the IT provider.

14 http://static.epexspot.com/document/20429/RFI%20_final.pdf

15 http://ec.europa.eu/energy/gas_electricity/doc/forum_florence_electricity/meeting_023_conclusions.pdf

16 The six PXs are APX, Belpex, EPEX Spot, OMIE, OTE and NordPool Spot

17 http://ec.europa.eu/energy/gas_electricity/doc/forum_florence_electricity/meeting_024_conclusions.pdf

ment the Agency's decision and finalise the negotiations with the chosen vendor as soon as possible.

Over the summer, the PXs agreed among themselves in details what their requirements were before starting the negotiations with the selected provider. As a consequence the negotiations only started in October. The initial contract negotiation framework changed to a two-step process which includes an Early Start Agreement (ESA) allowing the successful vendor to begin work on the design of the XBID platform while the full contract is finalised, thus saving time. The completion of the signed ESA was expected for the Florence Forum in November.

...and finally could not agree on a contract in time.

In parallel with the vendor negotiations, the participating NWE Member States were joined by Austria, Switzerland, the Czech Republic¹⁸, Spain and Portugal creating an extended NWE region (NWE+) for the Intraday project.

The ESA was not concluded in time for the Florence Forum on 12/13 November. The conclusions stated that "the Forum now asks the EC to intervene and develop an alternative solution...the EC should inter alia explore the possibility of TSOs to take over the early implementation process and take a decision on the way forward by the end of the year"¹⁹.

The PXs are still discussing with the chosen provider to agree on an ESA. To that end, the provider has extended its offer's validity from 29 November to 14 January.

Despite the overall lack of progress to implement the EU Intraday Platform, 2013 experienced a few positive developments on some regions.

- **In Latvia and Lithuania**, NordPool Spot, in cooperation with AST and Litgrid (the Lithuanian TSO) launched, on 10 December, the ELBAS electricity trading platform. In addition to the Estonian market where ELBAS already operates, implicit continuous trading is now in place within the whole Baltic region which is connected to the Nordic region through the Estlink cable linking Estonia and Finland.
- **On the France-Switzerland and on the Germany-Switzerland border**, a harmonised mechanism for implicit cross-border capacity allocation was put in place on 26 June, consistent with the pre-existing mechanism on the France-Germany border.
- **In the CSE region**, NRAs sent a common letter to require TSOs and PXs to improve existing mechanisms at the time of the CSE day-ahead market coupling go-live and to prepare a roadmap for implementing the intraday Target Model. TSOs and PXs should present the planned improvements and the roadmap to NRAs at the beginning of 2014.

18 Owing to concerns over the cost-sharing methodology, the Czech Republic suspended its participation in the Intraday Pilot Project in December. However, the Czech Republic PX, OTE, continues to support the XBID project and remains ready to rejoin as soon as cost recovery comfort can be provided by their NRA.

19 http://ec.europa.eu/energy/gas_electricity/doc/forum_florence_electricity/meeting_025_conclusions.pdf

As announced at the Florence Forum in November 2013, the European Commission has now taken the lead to make this process move ahead and may explore alternative solutions in case the on-going process fails. Whichever decision the European Commission may take, this process reveals the importance, beyond the commitment of all involved parties, of a strong and robust governance framework for the decision-making process.

**The 2014 deadline:
the Agency's
expectation**

The European Commission's involvement underlines the governance issue PXs had reported several times: although being competitors, using different systems and having different interests, PXs are expected to develop a common solution which is unanimously approved. In parallel, TSOs, which are responsible for the allocation of interconnection capacity, may also have diverging interests regarding the implementation of the Target Model, as they have already implemented different systems. This difficulty for reaching a common position at PXs or TSOs level is also influencing the discussion at regulatory level. However, the Agency and NRAs have been in a position to support the process and make decisions when needed. But in such conditions, the voluntary process which requires consensus has repeatedly failed to deliver progress although all parties are still intensively working for reaching a solution.

The entry into force of the Governance Guidelines along with the Capacity Allocation and Congestion Management Network Code should improve the decision-making process as the unanimity rule among PXs and TSOs should not apply anymore. According to the latest version, an operational group composed by a representative number of PXs and TSOs would accept a proposal when the qualified majority of PXs and of TSOs agrees. While this proposal may need some clarifications with regards, for example to the way it could be implemented at regional level, it definitely represents a step into the right direction to improve the decision-making process.

In the meantime, the Agency urges all parties to ensure that the on-going process delivers tangible progress in 2014 and would highly welcome an agreement between PXs and the selected vendor to quickly progress in the development of the future EU Intraday solution in 2014.

2.1.3 The Cross-Regional Roadmap on Long-Term Transmission Rights

The objective of this Cross-Regional Roadmap is to give market participants an opportunity to hedge themselves against congestion costs and day-ahead congestion pricing, 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. In order to achieve this objective, four areas of work have been identified:

1. Harmonisation of the allocation rules;
2. Harmonisation of the allocation platform;
3. Harmonisation of nomination procedures;
4. A potential move to Financial Transmission Rights (FTRs).

Progress to date

This section presents the progress and obstacles experienced during 2013 towards the implementation of the different targets identified in the CACM Framework Guidelines and in the Cross-Regional Roadmap for long-term products. This section focuses in particular on the type of long-term hedging instruments made available to the market²⁰, the level of harmonisation of auction rules and of the IT platforms to allocate transmission rights.

The year 2013 has recorded a few NRAs' decisions regarding the type of long-term cross-border hedging instruments to be made available to the market:

- **On the Spain-Portugal border, the Iberian NRAs approved the allocation of long-term FTRs Options.** Under the MIBEL Council of Regulators context, the Spanish and Portuguese NRAs, CNMC and ERSE, agreed on the general regulatory framework of the coordinated mechanism for issuing FTR Options. Following the needed legislative amendments for the implementation of such mechanism, the first coordinated auction of FTR Options are to take place during the first quarter of 2014.
- **On the Estonia-Latvia border, the concerned NRAs' requested TSOs to issue long-term Physical Transmission Rights (PTRs).** In December 2013, the Baltic NRAs requested Baltic TSOs to issue PTRs in response to the lack of long-term risk hedging instruments in the Baltic states' electricity markets. On 13 December, the first auctions took place and offered part of the transmission capacity on the Estonia-Latvia border. The auctioned products were for the year 2014 and the month of Janu-

²⁰ According to the Cross-Regional Roadmap, NRAs were supposed to take a decision regarding the type of long-term hedging instruments to be made available to the market. Indeed, the CACM Framework Guidelines require TSOs to issue FTRs or Physical Transmission Rights with Use-It-Or-Sell-It (UIOSI), unless appropriate cross-border financial hedging is offered in liquid financial markets on both sides of an interconnector.

ary 2014. Nevertheless, the Baltic NRAs consider the issuance of PTRs as a temporary solution before the introduction of financial products by Nasdaq-OMX, the Nordic market place for commodities.

- **On the East and West sides of the Denmark-Germany border, the concerned NRAs approved the allocation of long-term PTRs.** In November 2013, the Danish and German NRAs, DERA and BNetzA, approved the new auction rules applying to both West (DE-DK1) and East (DE-DK2 through the Kontek cable) sides of the Denmark-Germany border in order to allocate long-term PTRs under the CASC platform. Previously, these products were only available for the Denmark-Germany West side.

In parallel to these new decisions regarding the allocation of long-term transmission rights, a few improvements in line with the 'wish-list' drafted by the Agency and NRAs following the public consultation launched on long-term products issues²¹ were introduced in the Harmonised Auction Rules managed by CASC (the allocation platform for the CWE, CSE regions and Switzerland), in the CAO rules (CAO being the allocation platform for the CEE region) and in the IFA auction rules.

In October 2013, the Agency reminded the concerned NRAs of the importance to take a decision regarding the appropriate instruments for hedging cross-border price difference risk at the long-term timeframe. This reminder followed up on the positions expressed by concerned NRAs in June 2012²². Details of NRAs' replies and the way forward are presented in the challenges for 2014.

Following the publication of the evaluation of responses to the public consultation on forward risk hedging products issues in early 2013, the 'wish-list' of the Agency's and the NRAs' requirements for further harmonization of the auction rules, as well as the Cross-Regional Roadmap, were updated. The Agency thus required TSOs to draft the single European set of rules complying with the 'wish-list' requirements to entry into force by 2015.

ENTSO-E nominated a group of experts, the 'Single Point Of Contact' (SPOC) group, aimed at drafting these harmonised auction rules by identifying the 'quick wins' and at performing a detailed assessment on technical and legal obstacles to further harmonisation. The outcome of the work performed by this group contradicted the objectives of the revised Cross-Regional Roadmap: ENTSO-E claimed that they would not be able to draft the common auction rules at EU level applicable from 2015 onwards and that only a very few 'quick-wins' could be drawn. ENTSO-E considered a step-wise approach harmonising first the high-level principles before drafting the concrete auction rules. In 2013, the harmonisation work by ENTSO-E was focused on legal principles, accession

...But a NRAs' decision is still awaited on the Baltic, Norned and Swepol cables

A disagreement emerged between the Agency and ENTSO-E on the timeline regarding the harmonisation of the auction rules and of the IT platforms to allocate the long-term transmission rights

21 http://www.acer.europa.eu/Official_documents/Public_consultations/PC_2012_E_131/2013_02_01_LTRTF_Evaluation_Of_Responses.pdf

22 More information about the positions expressed by concerned NRAs is available in the RI Status Review Report 2012: http://www.acer.europa.eu/Official_documents/Acts_of_the_Agency/Publication/ACER%20Regional%20Initiatives%20Status%20Review%20Report%202012.pdf

principles, capacity products and auction process.

The Agency considers that ENTSO-E has dismissed progress and work previously achieved under the ERI such as the gap analysis carried out by the Agency and NRAs. While the Agency and NRAs pushed for ambitious but reachable targets based on the on-going progress, ENTSO-E and TSOs rather considered starting with a brand new lengthy process.

The Agency welcomes the joint initiative of CASC's and CAO's shareholders

In September 2013, the shareholders of CASC and CAO, the two regional allocation platforms, announced they had signed a MoU and they were committed to starting a project to create a single platform for the allocation of long-term transmission rights. This initiative has been welcomed by the Agency and NRAs since it paves the way for establishing a single point of contact for capacity allocation as requested by the Target Model.

... and calls for an ambitious pilot project to make significant progress before the end of 2014

Taking note of the difficulties to achieve timely progress with ENTSO-E, the Agency expressed the need for a concrete pilot project for the long-term time-frame. Supported by the recent signature of the MoU, the Agency invited the two existing regional allocation platforms, CASC and CAO, to develop a common set of auction rules, as compliant as possible with the Agency's 'wish-list' and applicable from 2015 onwards. The fulfillment of such a project would constitute a concrete step forward in the upcoming months and would enable TSOs to deliver tangible progress by 2014. The Agency underlined the need for consistency with the inputs provided by ENTSO-E's SPOC group and for flexibility to further accommodate other regions' specificities. This invitation was later supported by the Florence Forum²³.

With the involvement of the Agency, the concerned NRAs and the Spanish Ministry, REE and CASC finally agreed on a service provider contract.

In 2012, the SWE TSOs officially supported the extension of CASC to the France-Spain border and committed to follow milestones aiming at a go-live in May 2013. The concerned NRAs and the Spanish Ministry expressed their support to the project in their respective letter of comfort issued late in 2012. However, a first disagreement between CASC and REE emerged during the first quarter of 2013 and the go-live date was then postponed to November 2013. In April, the signature of a MoU rewarded the negotiations held by all concerned parties. However, no further progress was made until December. Indeed, REE and CASC could not agree on the terms for REE to become a CASC's shareholder. Following negotiations involving the Agency and the concerned NRAs, all parties agreed in December on the alternative proposal with CASC acting as a service provider for both RTE and REE and applying specific France-Spain auction rules. This solution should evolve as soon as possible towards the inclusion of the France-Spain border into the so-called Harmonised Auction Rules applied on the CWE and CSE and Switzerland borders, pursuant to the objectives set forth by the Cross-Regional Roadmap. A plan will be provided by RTE and REE to CRE and CNMC as soon as possible.

²³ http://ec.europa.eu/energy/gas_electricity/doc/forum_florence_electricity/meeting_025_conclusions.pdf

This section recaps the main challenges for the coming year in order to comply as much as possible with the expectations of the Cross-Regional Roadmap for long-term transmission rights.

ACM, BNetzA, EI, NVE and URE must finally decide on the sea-cables linking the Continental and Nordic markets:

- ACM and NVE received the commissioned study on long-term cross-border hedging needs over the NorNed cable²⁴. The study detected a lack of interest from the market for hedging opportunities. ACM and NVE are closely monitoring the relevant discussions on the Forward Capacity Allocation Network Code (FCA NC) and are still discussing the possibility for the implementation of a cross border hedging instrument for NorNed.
- BNetzA and EI have diverging views regarding the hedging instruments to be introduced, i.e. financial products versus transmission rights. They expressed the need to study the impact of the introduction of PTRs on both sides of the Denmark-Germany border before taking a decision.
- EI and URE are discussing with the Polish and the Swedish TSOs and PXs the possible launch of financial hedging products such as Contracts for Difference (CfDs) in 2014 on the SwePol link.

DERA is in the process of approving the introduction of PTRs between the two Danish bidding-zones (DK1 and DK2) in early 2014. In addition to CfDs already available for the two Danish bidding zones, PTRs will be issued.

In a second step, DERA and the CWE NRAs could agree to shift from PTRs to FTRs. The main concerns relate to the compliance with the financial regulation MIFiD. The concerned NRAs and TSOs have exchanged with the financial regulators to validate all needed developments.

Within the Baltic region, NRAs see PTRs as an interim step towards a full reliance on financial markets offered by the Nasdaq-OMX. The Baltic NRAs and TSOs, NordPool Spot and Nasdaq-OMX have already started discussing the shift from PTRs to financial products. A clear roadmap is expected to be communicated in 2014.

The Agency will look at all these developments closely to ensure consistency with the Target Model and the harmonisation process.

The 2014 deadline: the Agency's expectation

The Agency calls on the concerned NRAs to take a decision regarding the type of long-term cross-border hedging instruments to be made available to the market

The Agency expects a few achievements regarding the type of long-term hedging tools to be made available to the market

24 http://www.baringa.com/sites/default/files/Redpoint_Long%20Term%20Cross%20Border%20Hedging_A%20Report%20for%20NMA%20and%20NVE_Final.pdf

The Agency invites shareholders of CASC and CAO to harmonise the auction rules by the end of 2014, under the coordination of ENTSO-E, and to harmonise the necessary IT tools

The joint initiative by the CASC's and CAO's shareholders pave the way towards the single European platform requested in the Target Model. To fully benefit from the creation of one single cross-regional allocation platform, the TSOs in question should draft the associated auction rules. This double objective is supported by the conclusions of the 25th Florence Forum and expected to be completed by the end of 2014. The Agency believes that these two important goals are achievable and only depend on the concerned parties' good will. The Agency expects the TSOs to present a roadmap and to identify the needed regulatory guidance for achieving these goals as soon as possible.

The Agency expects the finalisation of the on-going extensions of the existing platforms.

In parallel to their merging project, CASC's and CAO's shareholders have entered into discussions with the TSOs interested in joining the allocation platforms:

- The Croatian TSO, HOPS, has entered into negotiation with CAO for becoming a shareholder. This appears as a natural evolution as CAO is the current service provider for the Slovenia-Croatia and Hungary-Croatia borders. The finalisation of the negotiations is expected for early 2014.
- As REE and CASC have agreed on a service provider contract, the Portuguese TSO will enter into negotiation with CASC when all the requirements for issuing FTRs are met. The SWE NRAs, TSOs and CASC will ensure full compliance with MIFiD for keeping on allocating FTRs on the Portugal-Spain border.

The Agency supports the extension of the existing platforms and highlights the necessity to offer fair and transparent terms to all candidates.

2.1.4 The Cross-Regional Roadmap on Capacity Calculation method

The Target Model, as defined by the CACM Framework Guidelines, specifies that TSOs need to apply an ATC or a FB method. The FB allocation method is preferable for short-term capacity calculation in highly meshed and highly interdependent grids. Whatever the method chosen, a common grid model must be used.

Several issues occurred along the implementation paths for both the CWE and CEE regions. Some milestones were achieved within the CWE region as described below.

Launch of the external parallel runs. On 21 February 2013, the external parallel runs were launched for the CWE region. This represents an important milestone as parallel runs allow market participants, TSOs and NRAs to realise the concrete impact of the application of the FB method on the day-ahead market coupling results. The results for days with successful simulations have been available since 1 January 2013²⁵.

As preliminary conclusions, the external parallel runs show on average an increase in social welfare compared to the ATC-based capacity calculations. These results demonstrate that the FB method allows a better use of the grid. They also highlight the possibility of reaching higher price convergence without developing additional infrastructures. However, there are also days with lower welfare than with the ATC method and there are missing days as the simulation sometimes fails to deliver the results. The missing results are mainly explained by IT platform issues, lack of operators' experience and remaining bugs to be fixed. The last months of 2013 showed an improvement in the ability of the project to provide FB results, which were available almost every day.

The discussions between the CWE TSOs, PXs and NRAs continued on the topic of the FBMC parameters (such as Generation Shift Keys, remedial actions, Flow Reliability Margin), the fall-back principles, intuitiveness, transparency, monitoring and the approval package.

On the FBMC parameters, the discussions are mainly related to a need for harmonisation and for compliance with Regulation (EC) No 714/2009.

On intuitiveness, the CWE TSOs and NRAs are still discussing the advantages and disadvantages of the two options (the FBMC with intuitiveness or without it) and will use the latest available information in the parallel runs and from market consultation to take a decision.

Regarding the congestion income allocation, the CWE TSOs have progressed in the study of possible allocation methods and have agreed on the principles that

Progress to Date

In 2013, the CWE region progressed further towards the implementation of the FB allocation method...

²⁵ More information can be found on: <http://www.casc.eu/en/Resource-center/CWE-Flow-Based-MC/Documentation>

the sharing key should respect. The congestion income allocation proposal is part of the approval package submitted to the NRAs.

On 1 August, the CWE NRAs received the first approval package from the CWE FB Project partners. Further clarifications and amendments (in the form of an addendum to the approval package if needed) are however necessary to proceed with the final approval process. The coordinated NRA approval is expected before the go-live of the FBMC after receipt of all necessary clarifications and a successful testing of the final CWE FBMC platform.

The CWE TSOs, PXs and NRAs have ensured the market participants' involvement through regular meetings²⁶ (market forums organised either by the project leaders or by the NRAs) and public consultation²⁷. The main concerns raised from market consultation related to the lack of transparency regarding the operation and the results of the FBMC as well as to the short testing period scheduled with the final IT platform. A new consultation based on the latest information is already planned for 2014. This consultation led by NRAs will take place as close as possible from the go-live, to get the most representative feedback of market players' view.

At the end of September and early December, the CWE FBMC project parties delayed the launch of the FBMC, currently foreseen after the end of September 2014, due to the complex finalisation of the IT platform. A robust planning should be presented by the project to the NRAs in January.

...while in the CEE region the protracted discussions on the unscheduled flows kept influencing progress towards the FB allocation method.

Within the CEE region, the NRAs and the Agency focused their efforts first, on smoothening out disagreements surrounding the CEE FBMC project and second, on agreeing on a development plan specifying further activities and priorities.

The CEE TSOs committed to the elaboration of an adjusted FB technical solution for the CEE region. The solution should be based on the current bidding zones and take into account the influence arising from unscheduled flows, particularly on the network security. Moreover, experience from the CWE region should be shared through the Central East and West Europe FB Working Group (CEWE FB WG). For implementation purposes, the CEE TSOs are investigating the effects of the implementation of FBMC with the current bidding zones and the possible options to alleviate the observed risks through security and/or financial counterparts.

Following the test run of virtual Phase Shift Transformer (vPST) during several weeks at the beginning of 2013, the Polish and the German TSOs agreed that the usage of vPST was a very valuable measure but which had also some

²⁶ <http://www.casc.eu/en/Resource-center/CWE-Flow-Based-MC/Flow-Based-Users-Group-Meetings>
<http://www.casc.eu/en/Resource-center/CWE-Flow-Based-MC/Documentation>

²⁷ <http://www.casc.eu/en/Resource-center/CWE-Flow-Based-MC/Public-Consultation>

drawbacks. Both TSOs set forth their efforts for improving the vPST agreement as well as for finding longer-term solutions for that border. At the end of the year, they agreed on a coordinated installation and operation of pPSTs (physical Phase Shift Transformers) on the relevant interconnectors and on further operation of the virtual Phase Shifting Transformers in between.

In parallel, another agreement with regard to the operation of pPSTs was reached between the Czech and German parties.

At the end of 2013, the Agency, the CEE NRAs, TSOs and PXs finalised the text of the MoU which had been discussed during the year. With this step, the project parties eventually agreed on the path towards the set goal, i.e. the FBMC target model for the whole region. Following the signing of this agreement expected to take place early 2014, a TSOs-PXs joint Project Management and Project Structure will have to be established. These two elements should frame the organisation of the steering and working groups and establish clear project and management responsibilities as already outlined in the CEE Implementation Group in mid-2012. Once the project development roadmap is established, the development towards the Target Model will hopefully continue within a more formalised framework, accompanied by further intensification of cooperation with the parties from the CWE/NWE region.

In other regions, the decision to adhere to the ATC-based capacity calculation method has already been taken except for Romania and Bulgaria. In the CSE region, an ATC coordinated calculation is under development. Nevertheless, the go-live planning still has to be elaborated by the project parties and the NRAs. The Nordic TSOs have launched a study investigating the impact of the FBMC in their area. Possible implementation would therefore only be possible after 2016.

The main goals towards the implementation of the FB allocation method in 2014 are as follows:

- **Go-live of the FBMC in the CWE region.** Following the launch of the external parallel runs and the agreements on some of the keys issues, important areas of concern are still to be resolved by the CWE FB project parties, for example the reliability of the IT platform and the necessary acceptance of the market participants. Nevertheless, their resolution still appears feasible during 2014.
- **Creation of a CEE Project Management and of a CEE Project Structure.** Following the signature of the MoU expected in early 2014, the Agency urges first, project parties to facilitate the creation of the necessary project management structures in order to speed up the progress towards the implementation of the FBMC and second, the concerned NRAs to give further boost to this development.

**The 2014 deadline:
the Agency's
expectations**

2.1.5 Integration of Electricity Balancing markets

The Target Model for Electricity Balancing requires strong coordination between TSOs to optimise activation of balancing energy as well as the sizing and exchange of balancing reserves. According to the provisions of the EB Framework Guidelines, the activation will be based on a multilateral TSO-TSO Common Merit Order (CMO) for the manually-activated frequency restoration and replacement reserves, and on an equivalent concept for the automatically-activated frequency restoration reserves.

Well-designed market incentives for market participants will support the development of a well-functioning balancing market and contribute to limiting residual balancing volumes. They will affect:

- Balance Service Providers (BSPs), firstly through the harmonisation of the pricing method to procure the balancing energy (pay-as-cleared-based) and secondly through the requirements of terms and conditions to facilitate the participation of the RES and the demand response, and
- Balance Responsible Parties (BRPs), through the definition of common features for an efficient settlement of energy imbalances.

To turn these ambitious requirements into concrete projects, in 2012 the Agency invited ENTSO-E to select pilot projects.

Progress to date

As mentioned above, the identification of cross border pilot projects on balancing has been the core activity of 2013.

The goal of the pilot projects on balancing is to gain bottom-up experience for the implementation of the European Balancing Market established in the Agency's Framework Guidelines. In particular, this approach aims at investigating the net benefits and feasibility of the different milestones. Besides, the pilot projects will allow drawing lessons to feed in the Target Model by collecting specific feedback from the field. In conclusion, pilot projects will prepare the entry into force of the Network Code on Electricity Balancing in line with the ambitious deadlines proposed by the Agency.

According to the call for tender organised by ENTSO-E, the project proposals were required to satisfy the following prerequisites:

- a commitment to transparent and regular reporting to relevant fora;
- the goal of the project should be in line with the scope of the Agency's Framework Guidelines;
- the support from the relevant NRAs to the respective TSOs involved in the pilot project;

- the feasibility to extend the pilot project initiatives to other TSOs at regional level (mid-term model) and later to the rest of the TSOs (long term model), and
- a roadmap for implementation of the relevant targets ahead of the European roadmap.

ENTSO-E received many proposals for pilot project nominations. Among them, nine were approved by ENTSO-E in June 2013 to be in line with the above-mentioned prerequisites. These approved projects cover a wide range of balancing products, notably:

- cross-border market for Frequency Containment Reserves based on a TSO-TSO model involving the Austrian and Swiss TSOs;
- imbalance netting of balancing energy from Frequency Restoration Reserves (the E-GCC project which involves the Czech, Hungarian and Slovak TSOs and the I-GCC project which involves the Belgian, Czech, Danish, Dutch, German and Swiss TSOs);
- common Merit Orders for manual and automatic Frequency Restoration Reserves involving the Belgian, Dutch and German TSOs;
- exchange of balancing from manual Frequency Restoration Reserves, involving the Danish, Finnish, Norwegian and Swedish TSOs, and
- exchange of balancing from Replacement Reserves (the TERRE Trans-European Replacement Reserve exchange project), which involves the British, French, Portuguese and Spanish TSOs).

Many pilot projects, representing the diversity of balancing mechanisms across Europe, were received and approved by ENTSO-E...

...underlying the importance for ENTSO-E to implement a solid framework for ensuring efficient and converging project developments.

The Agency underlined that every project respecting the following prerequisites could provide very valuable insight and should therefore be promoted:

- compatibility with the EB Framework Guidelines;
- developing cross border balancing markets;
- respecting both mid-term and long term deadlines, and
- potential for expansion from initial Coordinating Balancing Areas, as defined in the Network Code on Electricity Balancing elaborated by ENTSO-E in 2013.

The initial discussion with the Agency and the stakeholders raised several concerns regarding ENTSO-E's proposal, in particular:

- the too high number of projects;
- the lack of detailed information on each project, in particular with regard to its added-value and compatibility with the target and deadline of the EB Framework Guidelines;
- the absence of harmonisation/merger principles between projects, and the low level of reporting planned by ENTSO-E.

Based on this feedback, ENTSO-E agreed to provide more information about the projects, to ensure strong coordination of the different projects, together with a stronger involvement of the relevant parties.

A proper fine-tuning of the pilot projects took place in the last quarter of the year. The projects should take into account ambitious requirements from the Network Code on Electricity Balancing. The Agency emphasised the need for transparency and coordination in order to maximise the results of the pilots and foster the integration of the balancing markets in Europe in a timely manner. The Agency eventually discussed with ENTSO-E a clear structure based on coordination groups for coordinating and monitoring the development of each project.

The development of effective cross-border balancing markets represents an integral part of the future IEM. The Agency adopted the EB Framework Guidelines in September 2012 and is hopeful that the guidelines will encourage the emergence of regional pilot projects towards the implementation of the Target Model for electricity balancing. The Agency will continue to follow the development of the pilot projects and the Network Code on Electricity Balancing – the drafting should be concluded by the end of 2013 – to ensure consistency with the EB Framework Guidelines.

**The 2014 deadline:
the Agency's
expectation**

3.

THE GAS REGIONAL INITIATIVE





3.1 The GRI in its context

Relevant steps have been taken over the last couple of years in order to lay down the building blocks of the IEM. The European gas market has started to take shape following the publication of the 3rd Package and the subsequent development of Framework Guidelines and Network Codes by the Agency and ENTSOG, respectively. The first Network Code in gas was adopted in 2013, in the area of capacity allocation mechanisms (CAM), and a second one on balancing received the favourable opinion from the Gas Committee in the fall of 2013. Two more Network Codes, on interoperability and data exchange and harmonised transmission tariff structures, are expected to be completed or adopted in the course of 2014.

In addition to the development of Network Codes in those areas which are most instrumental for the completion of the IEM, a vision for the future of the gas markets has been developed by the Council of European Energy Regulators (CEER). In December 2011, CEER presented its proposal for a Gas Target Model²⁸ and this vision was endorsed by the Madrid Forum in March 2012²⁹. The Agency is currently updating the model in light of the expected evolution of gas markets and the challenges that are likely to be faced in the medium and long term.

Despite these developments, achieving the IEM will still require renewed efforts and coordinated action by all the relevant parties in the energy sector. The second ACER/CEER Market Monitoring report³⁰ on electricity and gas markets for the year 2012 has shown that, although progress is observed in some areas, there are particular features of the gas markets that still lack a sufficient degree of integration or competition and therefore require substantial improvement. The lack of implementation of the GTM is identified as one of the reasons why the IEM is not yet being achieved.

In this context, the GRI should focus on the activities that most contribute to the completion of the IEM or are the most suitable ones to be undertaken at regional level. The Agency's vision for the GRI is that it should remain focused on the following priorities:

- contribute, as a top priority, to the early implementation of the Network Codes, identifying potential pilot projects and facilitating their implementation – in cooperation with ENTSOG – through dedicated processes and working arrangements managed at the level of the GRI coordination (as it has been the case for CAM);

28 http://www.energy-regulators.eu/portal/page/portal/EER_HOME/EER_PUBLICATIONS/CEER_PAPERS/Gas/Tab/C11-GWG-82-03_GTM%20vision_Final.pdf

29 Conclusion 5 of the 21st Madrid Forum: http://ec.europa.eu/energy/gas_electricity/gas/forum_gas_madrid_en.htm

30 ACER/CEER Annual Report on the Results of Monitoring the Internal Electricity and Gas Markets in 2012: http://www.acer.europa.eu/Official_documents/Acts_of_the_Agency/Publication/ACER%20Market%20Monitoring%20Report%202013.pdf

- help to implement other EU regulatory developments at national and regional level in line with the activities planned in the regional Work Plans 2011-2014, and
- develop projects that are suitable to be undertaken at regional level and contribute to the IEM, in areas such as the integration of markets through the implementation of the GTM (projects of this kind are currently carried out in the three gas regions).

The Agency believes that the GRI should no longer be involved in infrastructure matters, since they are already dealt with by dedicated regional groups set up under the TEN-E Regulation.

The voluntary nature of the GRI activities may well be an advantage, as in this way the GRI can benefit from more autonomy in defining the scope and geographical perimeter of the projects, as well as set up flexible working arrangements. This has been the case, for instance, in the area of the early implementation of the CAM Network Code where, following voluntary initiatives from TSOs and NRAs, the Agency has established a framework for cooperation with ENTSOG that is proving useful to speed up the implementation process and identify issues and lessons learned.

Next to the priorities listed above, the Agency believes that the GRI should preserve its widely acknowledged value as a regional forum for sharing experiences and best practices, exchanging information and discussing topics of interest for the countries in the respective regions. The three gas regions may continue planning their projects and activities in line with the above identified priorities – or others they may see of critical importance for the region – and define their working arrangements and involve stakeholders in the way they consider more fit-for-purpose and best adapted to their needs.

3.2 Early implementation of capacity allocation mechanisms (CAM)

3.2.1. The early implementation of the Network Codes

The early implementation of the Network Codes is crucial for an effective and timely market integration since it plays a key role in:

- facilitating to meet the tight deadline for implementation set out in the Network Codes and anticipating any issue or complexity arising from the implementation of the rules before they become legally binding;
- stimulating experience sharing and the exchange of best practices in order to encourage the adoption of the most effective solutions across the EU;
- raising awareness among system users and market participants about the implications of the Network Codes and the expected impact on their activities and promoting transparency in the implementation process, involving stakeholders at an early stage and obtaining feedback about their needs and concerns;
- identifying any possible interaction or inconsistency with the other Network Codes and promoting, to the extent possible and where appropriate, the convergence of the different projects undertaken to implement the Network Codes in favour of integrated solutions, and
- ensuring that the lessons learned throughout the early implementation process are duly taken into account in future amendments of the Network Codes.

The early implementation of the Network Codes is a task that exceeds the regional scope, since these Network Codes eventually have to be implemented across Europe in all EU Member States. An example is the area of CAM, which is the first one to have entered the early implementation stage after the adoption of the Network Code. The early implementation means that provisions of the CAM Network Code will already be implemented before the Network Code formally applies (which is on November 1, 2015). Some of the on-going CAM pilot projects encompass countries from different GRI regions, and therefore the early implementation process is managed through different geographical gatherings, adapted to the scope of the projects. The whole process is facilitated and monitored at European level by the Agency and ENTSOG.

The GRI has served, in some cases, to identify potential pilot projects and some of them have arisen as a result of discussions held at regional level between NRAs and TSOs. Several CAM pilot projects have indeed been planned, at an initial stage, in the regional Work Plans and have only been extended to countries in other regions at a later stage. For that reason, it is important that the identification of potential pilot projects for the early implementation of the Network Codes remains one of the priorities for the GRI. Once those projects emerge and surpass the regional level, it seems appropriate that a specific process is arranged at European level, with ad-hoc working structures that include all relevant parties involved in the projects. This has been the case for CAM, as explained in the following section.

3.2.2. The CAM Roadmap process

Since summer 2012, the Agency and ENTSOG have been cooperating in order to promote the early implementation of the provisions in the CAM Network Code by developing a CAM Roadmap. This work was undertaken following an invitation from the Madrid Forum in its 21st meeting³¹ in March 2012. The CAM Roadmap intends to create a framework that facilitates the implementation of pilot projects and platforms that test the Network Code provisions. In addition, it allows identifying potential issues and sharing the solutions adopted to tackle them in each individual project before the Network Code becomes legally binding. The CAM Network Code was adopted on 15 April 2013 and published in the EU Official Journal on 14 October 2013³². Some of its provisions have to be implemented in 2014, such as the consultation of stakeholders on capacity booking platforms to identify market needs. The entire Network Code will become binding on 1 November 2015.

The Agency and ENTSOG published the CAM Roadmap on 1 March 2013 and updated it in October 2013³³ in order to take stock of the experience gained in the pilot projects during the second and third quarters of 2013. This new version of the Roadmap shows the updated state of play of the projects and the actions planned for 2014. It contains as well information on the implementation of key provisions of the CAM Network Code per interconnection point. The updated CAM Roadmap was presented at the 24th Madrid Forum³⁴, which welcomed the progress made and encouraged all involved parties to proceed with further early implementation initiatives, including new functionalities such as secondary capacity trading. The CAM Roadmap is an example of good cooperation between

31 Conclusions 11 and 12 of the 21st Madrid Forum: http://ec.europa.eu/energy/gas_electricity/gas/forum_gas_madrid_en.htm

32 Commission Regulation (EU) No 984/2013 of 14 October 2013 establishing a Network Code on Capacity Allocation Mechanisms in Gas Transmission Systems and supplementing Regulation (EC) No 715/2009: <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2013:273:0005:0017:EN:PDF>

33 http://www.acer.europa.eu/Gas/Regional_%20Intiatives/CAM_roadmap/Documents/ACER-ENTSOG_CAM_Roadmap_Update_Oct-13.pdf

34 http://ec.europa.eu/energy/gas_electricity/gas/forum_gas_madrid_en.htm

the Agency, ENTSOG, TSOs and NRAs and promotes transparency in the early implementation process towards market participants and network users.

The experience in the early implementation of the CAM Network Code in 2013 has also shown that there are several drivers for success which are essential to ensure that the implementation takes place in a satisfactory way. Examples of these are: (i) the stability of the Network Code during its adoption process, especially of some critical provisions (e.g. in CAM, the capacity allocation algorithm); (ii) the commitment of all parties involved to dedicate sufficient resources to the early implementation, and (iii) an overall positive approach when it comes to the Network Code implementation, focusing on the positive voluntary developments rather than on actions not yet taken or on TSOs and interconnection points where the early implementation has not yet started.

The following sections show the pilot projects which are currently part of the CAM Roadmap and some issues identified and lessons learned so far from the implementation of the projects.

3.2.3. Pilot projects for the early implementation of the CAM Network Code

The first CAM pilot projects across Europe were launched at the end of 2011 and implemented during 2012 and 2013. The implementation of some of these provisions is still at a starting stage – such as capacity bundling – and is observed in only part of the interconnection points where it is expected to apply.

However, the Network Code implementation is expected to spread to new interconnection points and be undertaken by new TSOs within the next months and years until full implementation in November 2015. Table 1 below shows the pilot projects for coordinated capacity allocation that are on-going in EU Member States by December 2013.

Table 1. Overview of CAM pilot projects on-going by December 2013

| Project name | Short description | Member States with TSOs involved | Progress achieved by December 2013 |
|---|---|---|--|
| PRISMA | Common platform for the allocation of capacity according to CAM Network Code rules | Austria, Belgium, Denmark, France, Germany, Italy, the Netherlands (Joined in January 2014: Northern Ireland, Great Britain. TSOs from Spain and Portugal also intend to use the platform) | Project launched on 1 April 2012. PRISMA company set up on 1 January 2013 Daily and monthly auctions started in April 2013, and the first yearly auctions took place in May 2013 Secondary trading is expected in January 2014 |
| Bundled Product at Lasów IP | Pilot auction for allocating bundled quarterly products according to CAM Network Code rules Further auctions planned for allocating all bundled products according to the CAM NC Allocation through the PRISMA platform | Germany, Poland | Concept developed in 2012, MoU signed and IT systems developed in spring 2013 Pilot auction for allocation of quarterly products for Q1, Q2 and Q3 2014 held in June 2013 Further auctions of yearly, quarterly, monthly and daily products planned for 2014 |
| Bundled Product and Capacity Platform -Hungary/ Romania via a Regional Booking Platform | Allocation of firm bundled capacity in rolling monthly auctions on the HU-RO interconnector according to the CAM Network Code, via the RBP (Regional Booking Platform) | Hungary, Romania | Concept developed in 2012 and preparatory work done by TSOs and NRAs during 2013 Auctions not yet started (foreseen for Q1 2014) |
| South CAM Roadmap ²⁷ : coordinated allocation of bundled capacity in the South region | Allocation of standard products of bundled capacity via auctions in virtual interconnection points (VIP) | France, Portugal, Spain | Coordinated auctions between Spain and Portugal held in 2012 (yearly and monthly products) and 2013 (yearly and quarterly products) Auctions of bundled capacity between Spain and France will start in 2014 |

35 The South CAM Roadmap published in June 2013 is available at the following webpage: http://www.acer.europa.eu/Gas/Regional_%20Initiatives/South_GRI/CAM_Roadmap_SGRI/Documents/CAM%20Roadmap%20SGRI-%20June%202013.pdf

Important milestones of these projects have been met during the year 2013. The PRISMA platform started its operation in April 2013. By the end of December 2013, there were 321 companies participating in the platform with nearly 1000 registered users, and overall around 36,400 auctions had taken place, with 2401 GWh/h allocated. The ratio of capacity allocated compared to the capacity offered still remains overall low, but meaningful results will only be obtained when a period of a whole year is covered, including the winter season 2013-2014, for which higher values of allocated capacity are expected. In 2014, new functionalities are going to be offered (secondary capacity trading, multi-currency trading and within-day allocation are foreseen) and more TSOs are expected to join the platform³⁶.

Auctions in the South region between Spain and Portugal continued in 2013 and will include France in 2014. Pilot auctions between Germany and Poland at Lasów interconnection point started in 2013 and will be extended to new products in 2014. Finally, after some delays, the regional booking platform between Hungary and Romania is expected to organise its first auctions in early 2014.

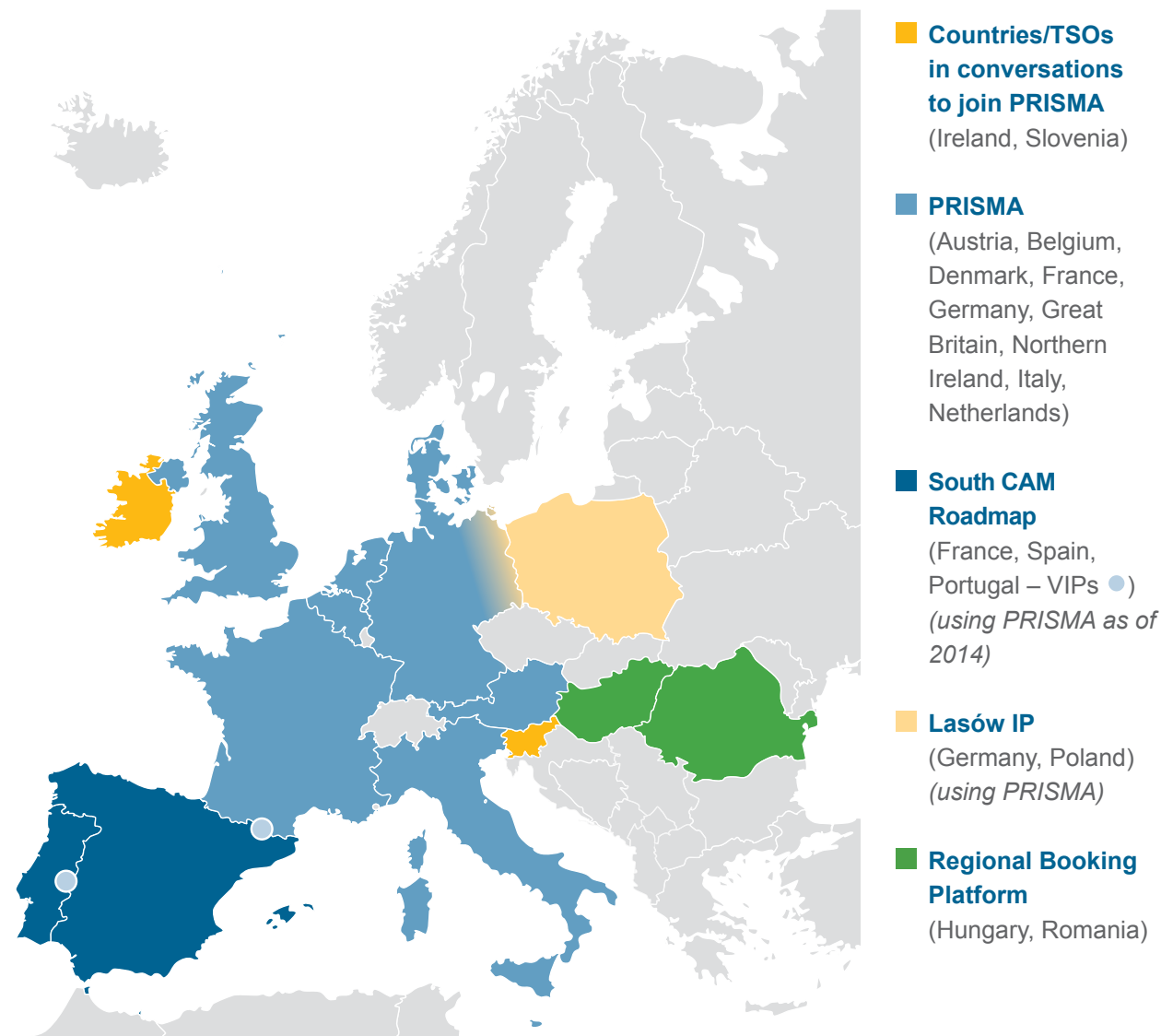
More detailed information about the features of these pilot projects is provided in the CAM Roadmap document published on the Agency's³⁷ and ENTSOG's websites.

36 National Grid (Great Britain), Premier Transmission (Northern Ireland) and TIGF (France) have become PRISMA shareholders as of 1 January 2014. Other TSOs have announced their intention to use PRISMA in 2014.

37 http://www.acer.europa.eu/Gas/Regional_%20Initiatives/CAM_roadmap/Documents/ACER-ENTSOG_CAM_Roadmap_Update_Oct-13.pdf

The following map shows the geographical extension of the CAM pilot projects with an indication of the countries with TSOs already involved in the projects or expected to join them in 2014/2015:

Figure 1 – EU Member States involved in CAM pilot projects



During the year 2014, it would be desirable that the early implementation of the CAM Network Code is extended to new interconnection points and that more TSOs get involved in existing or new pilot projects, while ensuring that the provisions of the Network Code are implemented in a coherent way across Europe and that convergence is ensured, avoiding duplication of efforts and fostering cost efficiency.

3.2.4. First outcomes from the early implementation of the CAM Network Code: issues identified and lessons learned

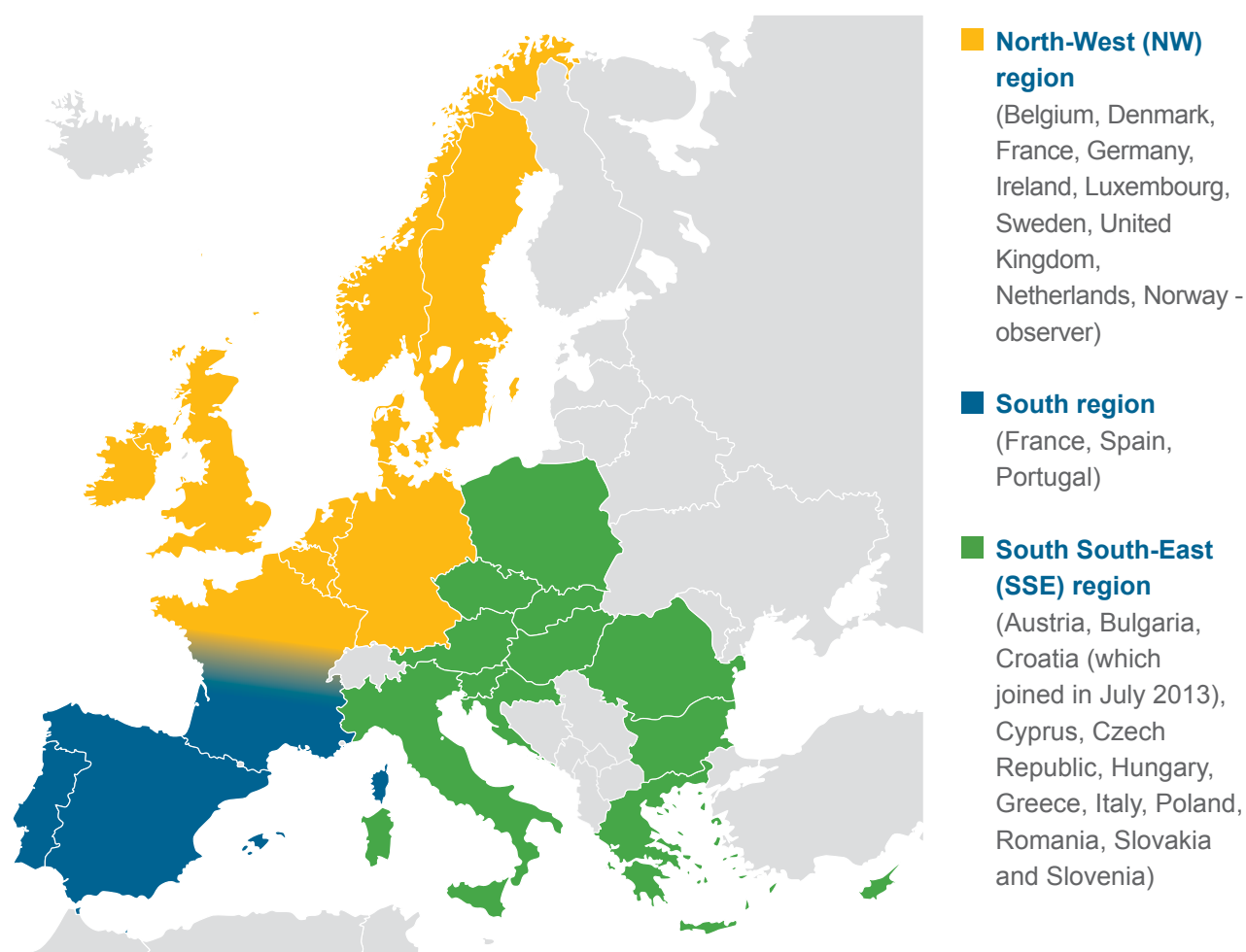
The process for the early implementation of the CAM Network Code in 2013 has revealed a number of aspects that may potentially become an issue when implementing the Network Code provisions or that should be taken into account in order to ensure that they are properly addressed and tackled in a satisfactory way. Some issues have already been dealt with in a successful way by TSOs and NRAs where they appeared. This was the case for certain auction features – the definition of price steps, the split of auction revenues – as well as for the combined application of the CAM and Congestion Management Procedures (CMP) provisions and other features like differences in the currencies in use or in the gas day.

On the other hand, other issues such as the costs associated with the set-up of participation in booking platforms, the trading and licensing requirements, the need for information exchange on booking platform activities and the harmonisation of capacity contracts, are still outstanding. These aspects will require further discussions at national, (cross-) regional or European level and will remain high on the agenda in 2014, in order to ensure that they do not represent an obstacle for the implementation of the CAM Network Code or a barrier to the new TSOs joining the existing projects. More information about these issues can be found in the updated CAM Roadmap version published in October 2013.

3.3 Progress in other GRI projects and regional activities

The current composition of the three regions of the GRI is represented in the Figure 2 below.

Figure 2 – Composition of the GRI regions by December 2013



In addition to the early implementation of the CAM Network Code, during 2013 the three gas regions have been working extensively on a number of regional projects in different areas, according to the milestones and deadlines scheduled in their respective Work Plans 2011-2014³⁸. The following subsections highlight the main achievements of these regional projects and activities.

38 The updated Work Plans 2011-2014 of the three gas regions can be found on the the Agency's website: http://www.acer.europa.eu/Gas/Regional_%20Initiatives/Gas_regional_work_plan/Pages/Gas-Regional-Work-Plans.aspx

3.3.1. South region

The South region is composed by France, Portugal and Spain. Its Lead NRA is the Spanish National Commission for Markets and Competition (CNMC). In 2013, the areas of work³⁹ and main achievements in the region were the following:

- **Harmonisation of CMP:** The South region aims to have in place coordinated and harmonised CMP at all interconnections in the region by 2014. TSOs and NRAs have been working together to implement, in a timely and effective way, the new CMP guidelines which entered into force on 1 October 2013.

The main **achievement** in 2013 has been the design of common procedures, by the French and Spanish TSOs, regarding over-subscription and buy-back, capacity surrender and long-term use-it-or-lose-it (UIOLI). Capacity surrender is also planned to be implemented soon in Portugal. NRAs have also worked on the timely adaptation of the regulatory framework in the three countries. Further work is needed to fully implement all the applicable CMP provisions in Portugal and, in particular, firm day-ahead UIOLI (if necessary) in July 2016.

- **Infrastructures:** NRAs in the region aim to create a permanent framework for the cooperation between TSOs and with ENTSOG and other stakeholders for: (i) the elaboration of the Community-wide and Regional Investment plans; (ii) the update of the South Gas Regional Investment Plan (GRIP) and its implementation, and (iii) the identification of the projects of common interest in the region.⁴⁰

The main **achievement** in this area in 2013 was the drafting of the second South GRIP (for the time period 2014-2023) by TSOs in the region. TSOs are currently seeking feedback on the draft GRIP from NRAs and stakeholders through a public consultation and the final publication is expected for early 2014.

- **Balancing:** The region aims to be in full compliance with the provisions of the Balancing Network Code, once it becomes binding. It is planned to investigate the use of gas markets in the region for the procurement of gas for balancing purposes, analyse the current configuration of balancing zones and their possible integration and, as a result, launch a pilot project for a common balancing platform integrating the balancing systems in the region.

³⁹ All projects and activities planned in the South region until 2014 are described in its Work Plan 2011-2014: http://www.acer.europa.eu/Gas/Regional_%20Intiatives/Gas_regional_work_plan/Pages/Gas-Regional-Work-Plans.aspx

⁴⁰ Although the PCIs identification was assessed through specific regional working groups fit for that purpose.

The main achievements in this area in 2013 were the identification of aspects to be harmonised simultaneously with the CAM Network Code early implementation (such as a harmonised definition of the gas day and the schedule for nominations and renominations) and an on-going analysis of the merger of the three balancing zones within France by 2018.

- **Tariffs:** The region aims to harmonise its transmission tariff structures (initially at cross-border points between Portugal and Spain) through the realisation of a joint study for comparing the current tariff regimes in both countries and for analysing potential obstacles to gas trading and proposals for improvement. Each country in the region will develop a national entry-exit system in line with the European rules (Network Code on Harmonised Transmission Tariff Structures) once they are developed.

The initial study on tariff harmonisation between Spain and Portugal was concluded in 2012⁴¹. During 2013, NRAs did preparatory work at national level in order to propose harmonised tariff structures in line with the study.

- **Interoperability:** The region seeks to contribute to the development of the Network Code on Interoperability and Data Exchange, building on the regional experience and harmonising interoperability aspects in line with the referred Network Code.

During 2013, NRAs and TSOs have contributed to the development of the Network Code on Interoperability and Data Exchange and they have started identifying those aspects currently different in each country which need to be harmonised simultaneously with the CAM Network Code early implementation (such as a harmonised definition of the gas day, the combustion reference temperature and the automatic data exchange between TSOs).

- **Developing hub-to-hub trading and market integration:** The projects in this area aim to promote the creation of organised gas markets (hubs) and the development of hub-to-hub gas trading in the region.

In 2013, the Spanish and Portuguese NRAs started analysing possible models for the creation of a hub in the Iberian Peninsula (MIBGAS), based on the implementation of the GTM. A document outlining the advantages and drawbacks of the possible models and the prerequisites in regulatory harmonisation for their implementation is expected to be published in early 2014. After that, a public hearing with stakeholders will be held and the final document is expected to be approved by NRAs by Q2 2014.

41 The final study and the results of its public hearing are available at: http://www.acer.europa.eu/Gas/Regional_%20Initiatives/South_GRI/Public_Consultations

3.3.2. South South-East region

The South South-East (SSE) region comprises Austria, Bulgaria, Croatia (which joined in July 2013), Cyprus, Czech Republic, Hungary, Greece, Italy, Poland, Romania, Slovakia and Slovenia. In 2013 the leadership in this region changed. The Austrian NRA, E-Control, stepped down at the end of 2012 from co-leading the region and was replaced the Polish NRA, ERO, as from January 2013. AEEG and ERO are therefore the current co-Lead NRAs of the region.

In 2013, the areas of work⁴² and main achievements in the region were the following:

- **Market integration:** three projects are included in the regional Work Plan 2011-2014 within this area of work, with the respective goals of establishing a cross-border Regional Balancing Platform by the Austrian Central-European Gas Hub (CEGH), analysing the implementation of the GTM in the region by creating a Central-Eastern European Trading Region (CEETR project) and setting up a roadmap for the creation of a common regional gas market in the Visegrad Four Region (V4 - Poland, Czech Republic, Slovakia and Hungary).

The main **achievements** in these projects included: (i) the completion of the first phase of the CEETR project, through the publication of the analysis of the macroeconomic benefits of implementing different models for balancing and trading zones as well as of the main principles under which a trading region could work; and (ii) the development of the Roadmap for V4 integration, which was endorsed by the V4 Prime Ministers in June 2013 and entered its implementation stage in the second half of 2013. The involved NRAs will need to coordinate and ensure the compatibility between the V4 and CEETR projects⁴³.

- **Interoperability:** the region aims to adopt common standards in order to improve system interoperability, based on the EASEE-gas (European Association for the Streamlining of Energy Exchange - gas) common business practices (CBPs), regarding aspects such as the units for measuring gas and a harmonised definition of the gas day. The possibilities for an early Network Code implementation with regard to interoperability will also be explored. In addition, the other priority in the region is to achieve sub-regional integration and harmonisation of procedures, in particular on the route from Slovakia to Germany and back to Slovakia or Austria (Baumgarten).

42 All projects and activities planned in the SSE region until 2014 are described in its Work Plan 2011-2014: http://www.acer.europa.eu/Gas/Regional_%20Initiatives/Gas_regional_work_plan/Pages/Gas-Regional-Work-Plans.aspx

43 The relevant documents from the first phase of the CEETR project and the V4 Roadmap are published at: http://www.acer.europa.eu/Gas/Regional_%20Initiatives/South_South-East_GRI/Pages/GRI-SSE-studies.aspx

No significant achievements have been observed in this area in 2013. Work on the early implementation of the Interoperability Network Code will start once the Network Code is adopted. Other features of the EASEE-gas rules, such as a harmonised gas day, will be implemented through the CAM Network Code.

- **Infrastructure:** The SSE region has aimed, on one hand, at getting involved in the PCI selection process⁴⁴ organised within the new TEN-E Regulation and, on the other hand, at sharing information at regional level regarding the GRIPs developed in the region.

During the year 2013, the TSOs participating in the two GRIPs involving countries from the region – the Central-Eastern Europe (CEE) GRIP and the Southern Corridor (SC) GRIP – have developed some preparatory work for the second edition of these GRIPs, for the period 2014-2023, developing the cases to be modelled, with a presentation of the first outline at ENTSOG's workshop on the GRIPs of 26 November 2013. Public consultations and stakeholders' workshops are envisaged to be organised in 2014, following the publication of the GRIPs in the first half of 2014.

- **Security of supply:** Member States and NRAs planned to use the GRI SSE as a forum to exchange experiences on security of supply and in particular on the implementation of the various provisions and requirements from Regulation (EC) No 994/2010.

During the year 2013, the experiences of the implementation of Regulation (EC) No 994/2010 in Poland and Italy were presented to stakeholders at the Stakeholders Group (SG) meeting of May 2013.

44 Although the PCIs identification was assessed through specific regional working groups fit for that purpose.

3.3.3. North-West region

The North-West (NW) region includes Belgium, Denmark, France, Germany, Great Britain, Ireland, Luxembourg, Northern Ireland, Sweden, the Netherlands and Norway (observer). The Dutch NRA ACM led the region in 2013, but has recently decided to step down from the position of Lead NRA, after performing this role for more than seven years. No successor has been appointed yet. The areas of work⁴⁵ and main achievements in the region in 2013 were the following:

- **Exploring the feasibility of implicit allocation in the gas markets:** this project aimed at exploring the feasibility of implicit allocation in the gas markets in the NW region, by developing a NRAs position paper (through the NW Regional Coordination Committee, RCC) on the added value and conditions for introducing implicit allocation in the gas markets and by collecting views from stakeholders.

The main **achievement** in 2013 was the release of the position paper on the matter by the RCC and the evaluation of comments received through the public consultation of stakeholders. Both documents were published on the Agency's website in July 2013⁴⁶. The main conclusion of this analysis was that implicit allocation may have an added value for the region, but its feasibility will be better assessed once all the CAM and CMP rules have been fully implemented. NRAs also concluded that implicit allocation could be implemented between two adjacent Member States if a cost-benefit analysis shows that this has added value. In that case, implicit allocation (via pilot projects) should ideally be explored on that border and experience would show whether implicit allocation is a viable allocation mechanism.

- **NW GRIP:** TSOs from the region have been working on the development of the second NW GRIP for the time period 2013-2022. They have included extensive consultation of stakeholders in the process and have taken into account the recommendations made by NRAs on the previous (first) edition of the GRIP and also on this second one.

The main **achievement** in this area in 2013 was the drafting, consultation and finalisation of the GRIP 2013-2023, which was published on 5 November 2013.⁴⁷

45 All projects and activities planned in the NW region until 2014 are described in its Work Plan 2011-2014: http://www.acer.europa.eu/Gas/Regional_%20Initiatives/Gas_regional_work_plan/Pages/Gas-Regional-Work-Plans.aspx

46 Both documents are available at the following webpage: http://www.acer.europa.eu/Gas/Regional_%20Initiatives/North_West_GRI/Public%20Consultation/GRI_NW_Implicit_Allocation/Pages/default.aspx

47 Available at ENTSOG's website: <http://www.entsog.eu/publications/gas-regional-investment-plan-grips#NORTH-WEST>

- **Pre-comitology meetings:** NRAs, TSOs and Member States within the GRI NW regularly discuss the content of each Framework Guideline and Network Code in the so-called “pre-comitology meetings”. At these meetings, NRAs present the background of the Framework Guidelines, while TSOs explain how the principles in a Framework Guideline are translated into the Network Code, so that Member States can gain a good understanding of the provisions in the Framework Guidelines and Network Codes and can signal any question or concern at an early stage. The overall purpose of these meetings is to identify (and solve) the contentious issues at an early stage, in order to ensure an efficient comitology process.

Two meetings of this kind were held during the year 2013: one on 16 May (focusing on Interoperability and Tariffs) and another one on 21 November (with a focus on Tariffs, Interoperability, Rules for trading and the Gas Target Model).

- **Identifying priorities for 2014-2017:** within this area of work, the NW NRAs aim to identify, in close cooperation with stakeholders, the regional priorities for the region which can most contribute to further improving the functioning of wholesale markets at regional level. This exercise is carried out starting with the year 2014 – which is already covered by the current Work Plan 2011-2014 – and is extended until 2017.

In 2013, an initial project plan was drafted by NRAs and presented to stakeholders, who have asked to express their views on what the regional priorities should be. Taking this input into account, a regional agenda will be developed and submitted for a public consultation, and the final outcome is expected to be published in the second quarter of 2014. The results obtained for the year 2014 will feed into the next update of the NW Work Plan 2011-2014.

3.4 The way forward for the GRI

3.4.1. Next priorities and areas for regional work in 2014

In the three gas regions, the work in 2014 will be mainly defined by the regional Work Plans 2011-2014. These Work Plans were first developed in 2011, at the request of the European Commission, to contribute to the elaboration of a “European Energy Work Plan 2011-2014” for each region, including the necessary steps for the completion of the IEM by 2014.

Responding to this request, the first Work Plans for the South, NW and SSE regions were published in June, September and October 2011, respectively. Following a recommendation by the Agency, all the three Work Plans have been updated twice since then, on an annual basis, in order to reflect an updated picture of the priorities and the on-going work in each region, as well as the relevant milestones and deadlines of regional projects. The three regions updated their Work Plans in March 2012 and March 2013, before the 21st and 23rd Madrid Forum meetings, respectively.

Following the same trend, the Agency recommends that before the next Madrid Forum in May 2014 the Work Plans are updated again for 2014, the last year of their timespan, so that they reflect the updated status of the on-going work in the region and any changes made regarding priorities and planned projects since the last update in March 2013. The Agency believes that the good practice of Lead NRAs consulting the other NRAs, TSOs and stakeholders of the region when carrying out this update should be maintained. The Agency will continue to keep track of progress in projects at regional level on a quarterly⁴⁸ basis with the Work Plans as a reference.

Next to the implementation of regional projects, the work on the early implementation of the CAM Network Code will continue in line with the planned milestones of the CAM Roadmap. Where required, the work will be facilitated by the Agency and ENTSOG, who will jointly monitor the process in order to enable finding solutions to the outstanding issues of general interest already identified. They will also aim to ensure that, where appropriate, any new issue is addressed in a satisfactory way and dealt with at European level.

In addition to this on-going work, building on the positive experience in CAM, further work might be undertaken by the Agency to promote an early implementation in other areas where the work on the Network Code has already finalised (Balancing) or where the Network Code is being developed (Interoperability and Data Exchange), if agreed with ENTSOG and where considered appropriate, taking into account the nature of each Network Code. The Agency encourages

⁴⁸ The Agency publishes online quarterly reports on the Regional initiatives, available at: http://www.acer.europa.eu/Official_documents/Publications/Pages/Publication.aspx

the TSOs and NRAs to further explore potential pilot projects for the early implementation of the Network Codes developed in these areas.

Finally, an area that may become more prominent in the near future in the GRI is the promotion of market integration through projects for the implementation of the GTM. Several projects of this kind are already on-going in the three regions, such as the CEETR project and the Roadmap for the V4 markets integration in the SSE region; the MIBGAS project in the South region; and the analysis of the possible application of implicit allocation in the NW region.

These initiatives show that the GRI can be a suitable framework to undertake such analyses and therefore contribute to the progressive integration of markets in Europe. The Agency encourages NRAs to carry on investigating the application of the GTM principles in the regions and to present concrete proposals for effective market integration between market areas in EU Member States, following the principles of the (updated) GTM.

3.4.2. Geographical composition of the regions

After more than seven years under the current geographical configuration of the GRI regions⁴⁹, it could be questioned whether these groupings are still the most appropriate ones to deliver the desired results and bring together efforts from NRAs, TSOs and stakeholders in the most effective way. The geographical composition of the regions has already been a matter of debate in several instances in the past. The last one of them was triggered by the Communication from the European Commission to the European Parliament and the Council on 'The future Role of Regional Initiatives'⁵⁰, of December 2010. In this Communication, submitted for consultation of stakeholders and extensively discussed at the Madrid Forum in 2010, the European Commission raised the question about the number and composition of the regions, in particular of the South and SSE regions. However, after the consultation process and substantial debate with NRAs and stakeholders, no decision was taken and the composition of the regions remained unchanged.

At present, the South and NW regions seem to be working well and their format and membership appear therefore appropriate. However, the current configuration of the SSE region could be perceived as more questionable due to several reasons: (i) there is a high level of heterogeneity in the degree of development of the gas markets in the region; (ii) the participation from several countries in the region has been very poor (or practically non-existent) over the last years; and (iii) the priorities for countries in the region may vary substantially, given the different key factors that are most relevant for each one of them. Even the denomination of the region does not seem fully representative of its member-

49 Shown by figure 2 in section 3.3.

50 COM(2010) 721 final: <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2010:0721:FIN:EN:PDF>

ship as not all countries in the region can be rightly denominated as “South” countries.

The Agency recommends that a debate about the optimal geographical configuration of the SSE region and the opportunity to split it into several regions is held within the region, involving all relevant parties and authorities and including consultation of stakeholders.

With regard to the Baltic States and Finland, setting up a specific region for the four Member States in question is worth considering, as they are currently not included in any of the existing GRI regions.

In addition, a question could also be raised regarding the convenience and potential benefits of extending the scope of the GRI to new countries⁵¹ in the EU neighbourhood, currently not involved in this initiative. In particular, as suggested at different fora, the GRI could be expanded to some Contracting Parties of the Energy Community, in order to foster the implementation of the EU regulatory acquis in the region. Such an extension could bring positive effects, such as the inclusion of NRAs and TSOs from non-EU countries into working groups together with those from EU Member States, promoting experience sharing and lessons learned from implementation of EU regulatory provisions to be fed into these countries. This could apply for the most advanced ones in particular, some of which are already candidates to join the EU. On the other hand, this integration of the Energy Community Contracting Parties into the GRI might also bring additional challenges, creating further heterogeneity in the GRI and additional pressure on available resources.

The Agency looks forward to assessing the possible extension of the GRI to specific Contracting Parties of the Energy Community area during the year 2014, discussing the potential advantages and downsides of this possibility with the relevant parties from this region.

⁵¹ Article 31 of Regulation (EC) No 713/2009, of 13 July 2009, establishing an Agency for the Cooperation of Energy Regulators, contemplates the participation of third countries in the work of the Agency, under certain conditions.

4. THE REGIONAL INITIATIVES BEYOND 2014

By the end of 2013, the Regional Initiatives are close to completing the first three years under the coordination of the Agency. Relevant achievements have been reached both in electricity and gas, in a number of topics. The ERI (and the AESAG framework) and the GRI have proven to be a useful tool to foster the implementation of EU rules, complementing the development of Framework Guidelines and promoting the early implementation of Network Codes, while remaining a widely appreciated framework for cooperation among NRAs, TSOs and other stakeholders at regional level (at EU level for AESAG).

By the end of 2013, the first Network Codes have been already developed and, in the case of gas, the first one (on CAM) has been adopted and published. Even though the implementation of these Network Codes has already started through a number of pilot projects in different areas in electricity and gas, it still remains a voluntary exercise until their application becomes fully binding. Once the Network Codes become binding, the work in the specific areas in question will progressively shift to be coordinated and monitored under dedicated processes.

In the field of gas, the first Network Codes will become binding by the end of 2015. The CAM Network Code will apply as from 1 November 2015 and the implementation date for the Balancing Network Code is expected to be October 2015. Over the year 2014 and during the first quarters of 2015, the Network Codes will remain mostly in the stage of the early implementation, although some of the Network Code provisions need to be applied already in 2014. The early implementation in these two areas – and others to come – is expected to facilitate meeting the target dates for the full application of the Network Codes, while revealing any issue of complexity that might hamper a swift implementation of their provisions.

In parallel, the market integration dimension is also expected to become a main feature of regional projects under the GRI, being the most suitable forum to analyse potential integration projects in line with the GTM principles. Finally, the GRI will remain a framework for discussing issues of regional relevance, exchanging best practices and raising bottom-up experiences. The gas regions are starting to think already beyond 2014, such as the NW region which is currently consulting its stakeholders about the next priorities until 2017.

In the field of electricity, the Agency aims at a well advanced implementation of the Target Model through the ERI framework before handing over to the binding process represented by the Network Codes. The Agency believes the ERI has created a strong dynamic towards the achievement of the IEM which should continue delivering important progress thanks to the support of all stakeholders. This dynamic relies on clear objectives set through the Cross-Regional Roadmaps and the subsequent regional plans as well as well-identified structures such as the AESAG or the Cross-Regional Coordination Committee now

used for more than three years and which have not yet clear equivalent in the binding process.

The Agency also believes that even after the entry into force of the CACM and FCA Network Codes, the project-oriented structure of the ERI defined at European level would apply to topics currently under discussion to gain experience. Balancing offers a good example as the current discussions and different understandings have led ENTSO-E to accept a high number of local projects which may difficultly converge. Other topics such as the development of capacity markets could also benefit from the European coordination offered by the ERI and allow all stakeholders to have the full picture about the undergoing developments in electricity.

When the first Network Codes enter their implementation stage, the Agency, the European Commission, NRAs, TSOs and other stakeholders involved in the ERI and the GRI might revisit the Regional Initiatives concept in order to adapt it to the new binding implementation process. This will also be an opportunity to take stock of the progress achieved and to feed the best practices observed in the regional initiatives framework into the new binding process.

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