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**ACER Coordination Group for Electricity Regional
Initiatives**

ERI Quarterly Report #3

July 2012 – September 2012

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1 Context

The entry into force of the Third Energy Package and the strong commitment of the Member States to complete the internal energy market by 2014 establishes a **firm regulatory, institutional and political background** for the completion of the internal energy market by 2014.

Nevertheless, 2014 remains an ambitious target date, which requires genuine commitment to the goal of integrating the regions into a single market area and the real mobilisation of stakeholders through the Regional Initiatives process which now falls under the responsibility of the Agency for the Cooperation of Energy Regulators (ACER).

To this end, the National Regulatory Authorities (NRAs) have produced, at the European Commission's request and coordinated by ACER, an **EU Energy Work Plan for 2011-2014** based on clear, commonly agreed objectives and milestones. This Work Plan was drafted on the basis of three important inputs:

- The AESAG (ACER Electricity Stakeholder Advisory Group) input prepared for the 20th Florence Forum in May 2011;
- The contributions of the seven electricity regions defined in Regulation (EC) No 714/2009;
- The draft Framework Guidelines on Capacity Allocation and Congestion Management (CACM).

The EU Energy Work Plan for 2011-2014 in Electricity is constituted from four cross-regional roadmaps focusing on the implementation of the target models for CACM across Europe and seven regional roadmaps complementing and detailing the cross-regional roadmaps and focusing on other important dimensions for the completion of the Internal Electricity Market.

2 Objective of the Quarterly Report

The objective of this Quarterly Report is to monitor progress in the implementation of the roadmaps and to ensure that any obstacle is well identified and can be tackled in the most effective and efficient way.

While the main focus of the Quarterly Reports will be on the implementation of the target models for CACM across Europe, a dedicated part will also review progress at regional level in other important areas of the market integration process.

3 Main insights from the 3rd Quarterly report

The European Price Coupling project is on track despite a small delay in the NWE project

For the cross-regional roadmap on European Price Coupling, a small delay compared to the original planning has been encountered. The plan now confirms the NWE/PCR delivery end of Q2 2013. The reasons provided by NWE TSOs for the expected delay by one quarter are the recent decisions on new shipping arrangements in the NWE region. New shipping solutions have now been agreed between clearing houses operating in NE region and CWE as well as between the Great Britain and CWE. The extra three month should be used to find reliable solutions to the remaining issues.

Currently, it is not expected that the new planning for NWE has a detrimental effect on the European 2014 target. In order to smoothly progress, the forthcoming challenge will be for non-NWE regions to prepare themselves to be part of the project and to report progress back at the next Florence Forum. ENTSO-E has set up a Task Force to coordinate European market coupling and to facilitate information exchange also with non-NWE TSOs. Similar information exchange is organised as well within Europex between PCR and non-PCR PX.

With their first NWE Stakeholder Forum in September NWE TSOs and PX informed market participants about the details and impacts of the forthcoming new price coupling solution for NWE.

The coupling of the Czech, Slovak and Hungarian day-ahead electricity markets successfully started mid-September.

Launch of the public consultation on Forward Risk Hedging Products & Harmonisation of Long Term Capacity Allocation rules

As announced in the previous edition, ACER launched during this quarter a public consultation document containing a wish list for further harmonisation of the auction rules and an analysis of the different models for long-term hedging and nomination processes, with a view to delivering a common work plan.

The CWE FBMC project postponed the launch of the external parallel run

As discussions on technical parameters of the flow-based allocation method are taking more time than expected, the CWE FBMC project has updated the implementation plan with a few postponements. Consequently, the target date of Q2 2013 will not be reached. The new Go Live target date has been shifted to November 2013 the earliest.

The loop-flows issue has blocked the FBA method development in the CEE

In spite of the initiatives launched after the conclusions of the workshops organised by ACER on 28 June and BNA on 25 July, there is still reluctance to go ahead with the FBA method as no short-term solution has been agreed to tackle the loop flow issue. This deadlock is to be reported to the ACER BoR.

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

4.1 Implementation of a single European price market coupling model¹

4.1.1 Description of the project

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.

Among the different elements of EPC, one of the most important is the choice of a single algorithm that meets the TSOs' requirements in terms of efficient allocation and can be approved by every Member State.

Another important element will be a common governance structure. In order to meet the 2014 deadline, implementation of EPC might have to start under interim governance arrangements until governance guidelines have been finalised.

The general approach to implementation of the target model across Europe relies on the following principles:

- ⇒ Focus on North-West Europe (NWE)² price coupling implementation by the end of 2012;
- ⇒ Adjacent borders may adopt the Price Coupling of Regions (PCR)³ algorithm in parallel and/or join NWE price coupling from the beginning if this does not delay overall progress towards EPC;
- ⇒ Common information level and flexible governance arrangements are necessary to ensure the smooth integration of additional borders.

BNetzA (DE), with the support of AEEG (IT), is co-leading the Single European Price Market Coupling project.

¹ The ACER cross-regional roadmap for the Single European Price Market Coupling Model is available on: http://www.acer.europa.eu/Electricity/Regional_initiatives/Cross_Regional_Roadmaps/Pages/1.-Market-Coupling.aspx

² North-West Europe comprises the CWE region, the Nordic market and Great Britain.

³ PCR is a project comprising six power exchanges: APX-ENDEX, Belpex, EPEX Spot, GME, Nordpool Spot and OMIE and is supported by EuroPEX.

4.1.2 Key milestones and accountabilities

2011	Q3	<ol style="list-style-type: none"> 1. ACER requests that: <ul style="list-style-type: none"> ⇒ NWE (TSOs and PXs) define a very concrete proposal on flexible high-level interim governance arrangements for the NWE/PCR⁴ project, incl. a description of those borders for which differences in approach might be appropriate; ⇒ ENTSO-E validate the PCR algorithm starting point and reach agreement on one single algorithm with Europex; ⇒ Europex demonstrate the efficiency, manageability and reliability of the system design. <p>The NWE NRAs request the TSOs and PXs to prepare a detailed proposal regarding cost recovery for NWE costs.</p>
	Q4	<ol style="list-style-type: none"> 2. ENTSO-E sends algorithm requirements to Europex and assesses the PCR algorithm starting point. 3. Europex demonstrates the efficiency, manageability and reliability of the system design to ACER and the NRAs. 4. ENTSO-E and Europex propose cost-sharing between NWE and the non-NWE countries.
2012	Q1	<ol style="list-style-type: none"> 5. ENTSO-E and Europex consult market participants on the PCR algorithm starting point as validated by ENTSO-E and report the outcome to ACER and the NRAs. 6. NWE (TSOs and PXs) submit to ACER/NWE NRAs for review/validation: <ul style="list-style-type: none"> ⇒ high-level interim governance arrangements for the NWE/PCR project; ⇒ a cost-recovery proposal for NWE costs. 7. ACER coordinates the NRAs' 'endorsement' (e.g. by means of a letter of comfort) of: <ul style="list-style-type: none"> ⇒ the starting point of the PCR algorithm; ⇒ cost-sharing between NWE and non-NWE countries for the costs associated with development of the PCR algorithm; ⇒ flexible high-level interim governance arrangements for the NWE/PCR project. 8. All NRAs to: <ul style="list-style-type: none"> ⇒ agree on a common, coordinated approval/review process for the algorithm; ⇒ involve MS where appropriate and necessary; ⇒ start national review processes (possibly consultation) in parallel.
	Q2	9. The NWE NRAs approve the cost recovery proposal regarding NWE costs.
	Q3	10. NRA approval/review of national specificities regarding the final algorithm; starting in NWE and the regions formally committed to join in 2012, this step is repeated for every additional border among the respective NRA/TSO/PXs.
	Q4	11. Final introduction of price coupling in NWE.
2013	Q1-Q4	12. Integration of the CEE and/or SWE borders into EPC (if not integrated into the NWE/PCR project from the beginning).
2014	Q1-Q4	13. Integration of the remaining CSE borders, FUI borders and Baltic borders into EPC.

⁴ The pilot project is deliberately defined as a NWE/PCR project to reflect the actual scope of cooperation of, respectively, TSOs and PXs.

4.1.3 Review of progress during this quarter

NWE NRAs received the first Regulatory Report from the NWE Joint TSO/PX Steering Committee in July. The report covers the scope and assumptions of the project as well as organisation, high level functional arrangements and algorithm design aspects. A high level project planning foresees a launch of the price coupling for Q1 2013. A second Regulatory Report which shall give a more detailed update is planned for end of September.

In August NRAs from NWE discussed the handling of grid losses of DC cables in market coupling. NRAs agree that the objective of day-ahead price coupling is maximization of social welfare and that all costs and benefits associated should be taken into account. Among other things, DC grid losses are costs that - in general - shall be taken into account by the price coupling algorithm. NRAs seek to have a harmonised approach to this issue in line with EU Regulation for NWE day-ahead price coupling. However, in order to better understand the impacts and technical constraints of taking DC losses into account, NRAs need more information. Therefore, NWE NRAs asked NWE TSOs for an impact assessment. This issue was also discussed during the AESAG meeting in September.

ENTSO-E meanwhile has set up a Task Force for the coordination of European market coupling to facilitate information exchange also with non-NWE TSOs.

The coupling of the Czech, Slovak and Hungarian day-ahead markets successfully started on 11 September (trading day) for the delivery day of 12 September 2012. A high (full) price convergence was observed in the beginning of operation.

During an NWE day-ahead IG meeting on 19 September NWE TSOs and PXs presented the status of the day-ahead project. According to that a decision has been made that shipping will be organised between power exchanges clearing houses (CCP solution) for the current ITVC area, i.e. CWE and NE. This is already in place for CWE and it shall be implemented for the connections towards NE as a three party complex, i.e. CCPs of NordPool Spot, APX Endex and EPEX Spot. For the British market, power exchange clearing houses have agreed on a shipping solution to facilitate clearing and settlement between the two power exchanges operating the British market, as well as over the two interconnectors, as part of the NWE process. Work on a concrete timetable for system testing has started. A difference in flow calculation between CWE and NE is another issue that is currently being worked on. Work on systems should be ready by end of January to start testing. Hence, the earliest go live for NWE price coupling would be end of Q2 2013 instead of Q1 2013 as envisaged in the 1st Regulatory Report.

Plans of handling losses in the price coupling were also discussed during the IG meeting. This issue is also dealt with in an Annex of the APCA (All Party Cooperation Agreement) according to which the algorithm shall be capable of handling losses. The way to determine available capacity will not be changed. The price coupling algorithm, which will be named *Euphemia*, is capable of including losses. Essentially the shipper procures and sells different amounts of energies on each side of the cable which differ by the amount of energy lost. Before any decision is made whether to activate the loss component in the operational coupling, TSOs were asked to prepare an impact assessment whose most important results should be presented at the next IG meeting end of November. This impact assessment should among other things include impact on prices, Nordic System Price, Forward products, flows, system security and intraday.

During a first NWE Price Coupling Stakeholder Forum end of September with a large number of participants details and impacts of the price coupling solution were presented by the project companies and participants had the opportunity to raise questions and discuss. A second Stakeholder Forum will be scheduled in early Q2 2013 before go live of the price coupling.

<p>Significant achievements during this quarter</p>	<p>25 July: The NWE Joint TSO/PX Steering Committee forwarded their 1st Regulatory Report to NWE NRAs. The report gives an overview of the scope, assumptions and project organisation of the NWE day-ahead Price Coupling Project. It also explains algorithm design aspects. The launch of the NWE price coupling is targeted for Q1 2013.</p> <p>22 August: NRAs from NWE discussed the issue of handling of losses on DC cables in market coupling in a meeting in Copenhagen. While NRAs seek to have a harmonised approach to this issue in line with EU Regulation they need more information on the impacts and technical constraints. Therefore NRAs asked NWE TSOs for an impact assessment.</p> <p>5 September: In an AESAG meeting in Brussels the issue of handling of losses on DC cables in market coupling was discussed. Moreover, project management informed that there is currently no go-live date set, as companies are working on several solutions to be developed, e.g. shipping arrangements. A final planning could be available by end of September. ENTSO-E meanwhile has set up a Task Force for the coordination of European market coupling e.g. to facilitate information exchange also with non-NWE TSOs.</p> <p>11 September: The coupling of the Czech, Slovak and Hungarian day-ahead electricity markets successfully started on 11 September (trading day) for the delivery day of 12 September 2012. A high (full) price convergence was observed in the beginning of operation.</p> <p>19 September: NWE day-ahead IG meeting in Copenhagen. TSOs and PX reported that for the current ITVC geographical area a solution for shipping arrangements has been found. As a result of this and further remaining complex issues, the earliest go live date for NWE price coupling would be end Q2 2013.</p> <p>26 September: An NWE Price Coupling Stakeholder Forum with over 175 participants was organised by project partners in Brussels. The details and impacts of the price coupling solution were presented and participants had the opportunity to raise questions and discuss.</p>
<p>Obstacles or delays in implementation</p>	<p>Compared to the original planning in the cross-regional roadmap a delay for the launch of the NWE price coupling has become evident. The launch is no longer foreseen to be in Q4 2012 but rather end of Q2 2013. However, there is currently no expectation that this could also delay the overall 2014 target. NRAs have not finished their common algorithm assessment. Procedural step 5 (ENTSO-E and Europex to consult market participants on the starting point algorithm) is still pending.</p>
<p>Potential divergences from the FG on CACM</p>	<p>No divergences identified so far.</p>
<p>Comments</p>	

4.1.4 Action needed to overcome the identified constraint(s) or to address the potential divergence(s) from the FG on CACM

A reliable plan confirming the NWE/PCR delivery in Q2 2013 has been presented to NWE NRAs. Former planning did not include any contingency to cover unexpected problems and proved to be too tight.

The delay seems reasonably justified and the extra time should be used to find reliable solutions for the remaining issues. In order for the overall process to get to the 2014 target to continue in time, the forthcoming challenge will be for non-NWE regions to prepare themselves to be part of the project and to report progress back at the next Florence Forum. This will require a high-level of transparency and a strong collaboration between NWE and non-NWE partners, facilitated by an active role of the Agency, ENTSO-E and EuroPEX at their respective level. This will also require within each non-NWE region to hire an excellent project manager and to set up an efficient cooperation and decision-making process.

4.2 Implementation of a cross-border continuous intraday trading system across Europe⁵

4.2.1 Description of the project

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 Target Model, as explained in the ACER CACM FG, is a development of continuous intraday trading, to include intraday capacity recalculation, capacity pricing reflecting congestion and the ability to trade sophisticated products.

Target model implementation will make it easier for market parties to trade electricity across borders close to gate closure and keep their positions in balance. The intraday timeframe is seen as increasingly important in the context of growing intermittent generation.

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.

Ofgem (UK) is leading the Single European Continuous Implicit Mechanism for the Cross-Border Intraday Project.

4.2.2 Key milestones and accountabilities⁶

The table below shows the key milestones and commitments identified in the Intraday Cross-Regional Roadmap for 2012 and beyond. Here we review progress in Q2 2012 towards these 2012 milestones. An explanation of how the 2012 milestones contribute to achieving the 2014 objective is provided in the Roadmap.

The northern European region, the CWE region and GB are participating in the TSO-led North-West Europe (NWE) project to introduce an implicit intraday solution on all borders by the end of 2012. The NWE region intraday project is seen as the European pilot project to implement the Intraday Target Model.

Additional projects have been established in the northern European region to implement an intraday solution on the SwePol Link (Q1 2012) and in the Baltic Region (2013), and in the FUI region to implement explicit intraday allocation on the SEM-GB border in Q3 2012.

For the CSE region, a project is already under way to introduce interim explicit access on all borders in Q2 2012. In Q4 2012, the CSE NRAs intend to consult stakeholders on a roadmap to implement the Intraday Target Model.

The CEE region has undertaken to explore options for implementing the target model in Q2 2012 and to decide on a preferred approach in Q3 2012.

⁵ The ACER cross-regional roadmap on continuous intraday trading is available at: http://www.acer.europa.eu/Electricity/Regional_initiatives/Cross_Regional_Roadmaps/Pages/2.-Cross-border-Intraday.aspx

⁶ So far, no project has been agreed upon for the Baltic Cable.

2011	Q3	1. The NWE TSOs, in cooperation with the NWE PXs, develop a detailed project proposal for implementation of an interim solution.
	Q4	2. The NWE region TSOs consult on the detailed project proposal with market parties. 3. The NWE TSOs, in cooperation with PXs, develop options for intraday capacity recalculation and pricing of intraday capacity. 4. The NWE NRAs develop a proposal for the governance structure for NWE ID. 5. The CEE region improves the existing capacity allocation mechanism. 6. Implement continuous intraday trading on the SwePol interconnector.
2012	Q1	7. Northern region to implement intraday trading on the NordNed interconnector 8. SWE region to identify the necessary systems and regulatory changes to implement continuous trading by Q4 2012. SW TSOs and PXs to become involved in the development of the CMM and SOB in Q1 2012.
	Q2	9. CSE region to implement an interim explicit allocation on all CSE region borders. CSE region will propose a roadmap to implement the intraday target model, which will take the NWE pilot project into consideration.
	Q3	10. FUI region to implement explicit allocation on the SEM-GB border 11. CEE region to propose a stepwise approach to implementing the intraday target model
	Q4	12. NWE intraday project to introduce an implicit intraday solution by the end of 2012, which will facilitate hub-to-hub trading. 13. SWE border implementation of an implicit intraday solution as part of the NWE project. 14. Exploring options for incorporating SEM into the NWE project to implement the intraday target model. 15. CEE region to decide on the preferred approach to implementation of the target model. The options for implementing the intraday project will be evaluated by the regulators and a solution will be decided upon in Q3 2012. 16. CSE region to check the proposed roadmap to implement the intraday target model for coherence with existing intraday projects and to submit it for consultation. Once the consultation is over, the NRAs will decide on and commit themselves to the necessary steps to implement the intraday target model.
2013		17. The NWE region PXs, in cooperation with the TSOs, to consult on options and specifications for sophisticated products.
	Q3	18. The CEE region will implement an intraday solution in line with the CACM FG and the NWE project.
	Q4	19. The NWE region to implement the intraday capacity recalculation. 20. The Baltic region to implement intraday trading based on the ELBAS model.
2014	Q1	21. The NWE region to implement capacity pricing.
	Q4	22. The NWE region to implement sophisticated products.

4.2.3 Review of progress during this quarter

4.2.3.1 Progress against milestones

Within the FUI region, capacity allocation rules have been changed to implement implicit intraday auctions run by SEMO between the British market and the Irish market. This intraday allocation started in July on the Moyle interconnector. Due to some technical problems, the commercial use of the East West interconnector has been delayed⁷. These issues are expected to be resolved in the near future at which point the intraday auctions will also operate on the East West.

4.2.3.2 Progress in the NWE Pilot Project

a) Background

This section reports on progress with the NWE Intraday Project within this quarter. At the Florence Forum in December 2010, the NWE TSOs announced the launch of the NWE Intraday Project to implement a common approach to intraday trading. In May 2011, the Florence Forum supported the continuation of both the NWE Intraday and Day-Ahead projects, to meet the target date of 2012.

Following a series of high-level meetings with the Commission and NRAs, ENTSO-E and Europex presented a joint proposal for the implementation of a common approach to intraday trading in the NWE region by the end of 2012 and pan-European implementation of the Intraday Target Model by the end of 2014 (the 'September proposal'). The September proposal was supported by the ACER Board of Regulators and incorporated into the ACER Intraday Cross-Regional Roadmap.

The December 2011 Florence Forum endorsed both the ACER Intraday Cross-Regional Roadmap and the September proposal and it welcomed the NRAs' formal commitment to the process.

b) Project objectives

The NWE project proposed is a phased approach to achieve the Intraday Target Model with the implementation of basic continuous trading in 2012, which will then evolve towards implementation of the Intraday Target Model by the end of 2014.

The September proposal confirmed that Europex and ENTSO-E were committed to the implementation of a pan-European cross-border intraday mechanism consisting of a Shared Order Book (SOB), performing continuous cross-border implicit intraday matching, and a Capacity Management Module (CMM), allocating cross-border intraday capacity in a continuous manner.

For the Interim Model, ENTSO-E and Europex proposed ELBAS as a starting point for the technical solution to be implemented on a border-by-border basis during 2012. This would allow continuous cross-border trading of standardised hourly products on a hub-to-hub basis. It would also allow for over-the-counter (OTC) access to cross-border capacity on some borders. ENTSO-E and Europex stated that the aim was to cover at least the NWE region by the end of 2012.

⁷

<http://www.eirgrid.com/media/Media%20Release%20-%20East%20West%20Interconnector.pdf>

In this quarterly report we focus on implementation of the Interim Model in 2012. However, it should be noted that NWE implementation of the interim model is seen as an important step towards the Intraday Target Model.

c) NWE progress

ACER called for a High-Level Meeting with the three NWE PXs on 26 July in order to pave the way forward after the divergent views expressed in the NWE IG meeting held on 27 June.

Following this meeting, the PXs present at the meeting committed to use their best effort to come to an agreement, involving also other relevant PXs, for the selection of the system for the ID project by 14 September. They also agreed to report back on progress on the 3rd September.

On 21 August, PXs claimed that reaching a conclusion by 14th September was too tight a deadline and they offered to go for an open fast tender to select an intraday interim solution.

On 24 August, ACER replied that the tender process was accepted provided that the solution could run in the course of Q2 2013, with the proper involvement of all relevant stakeholders and a regular report on progress to ACER.

On 14 September, six power exchanges (EPEX Spot, APX-ENDEX, Belpex, Nord Pool Spot, OTE, OMIE) sent ACER a detailed proposal for a tender process to select a service provider for a common intraday trading platform to be implemented in the North West Europe region. This proposal included a description of the organisation of the tender project, a detailed planning for the tender, a proposal for a robust decision-making mechanism, a description of the contractual framework and a status on the definition of the technical requirements.

On 19 October PXs published a Request for Information (RfI) which initiated the tender process and describes what they are going to tender for. The RfI is available here: <http://www.apxendex.com/press-releases/request-for-information-rfi-for-the-intraday-cross-border-solution/>

We understand that the six power exchanges expect to publish a Request for Proposals (RfP) from service providers to build the common intraday trading platform before 20 November. The power exchanges report that they expect to select the service provider by 27 December. In case there is no consensus between the power exchanges they have proposed a number of escalation routes. The proposed escalation routes include seeking the views of ACER and NRAs as well establishing an independent panel of experts to take a final decision and binding decision in case there is no consensus amongst the six power exchanges. Power exchanges report that, in case there is no consensus, they would anticipate that the final decision would be taken by the independent panel of experts by February 2013.

As part of this process we understand that PXs have incorporated the functional requirements for the platform that have been agreed by North West European TSOs and endorsed by ENTSO-E, as well as the views of stakeholders presented at AESAG.

An overview of the service being tendered for by the six power exchanges and more information can be found in the [Request for Information](#).

Significant achievements during this quarter	<p>26 July: the HLM in Ljubljana enabled ACER and PXs to assess the situation and to agree on a way forward</p> <p>14 September: After first trying to reach an agreement on the solution to be implemented, PXs designed a tender process able to designate a solution in line with ACER's expectations</p>
Obstacles or delays in implementation	<p>The smooth continuation of the Intraday project is now tied up to a successful outcome of the PXs tendering process.</p>
Potential divergences from the FG on CACM	
Comments	

4.2.4 Action needed to overcome the identified constraint(s) or to address the potential divergence(s) from the FG on CACM

NWE NRAs to elaborate and propose a process for the ACER non-binding opinion in coordination with ACER and non-NWE NRAs.

NWE NRAs to consider and agree on cost sharing principles for common and local implementation costs

4.3 Improvement and harmonisation of the allocation and nomination rules for long and medium-term transmission rights⁸

4.3.1 Description of the project

The cross-regional roadmap reflects the main objectives of the CACM FG that set the target model. The objective is to give market participants an opportunity to hedge themselves against congestion costs and day-ahead congestion pricing, in a manner compatible with zone delimitation, through one single access point and a harmonised set of rules for long-term transmission rights, where financial markets do not enable them to do so in an efficient manner.

In order to achieve this objective, four areas of work have been identified:

1. Harmonisation of the allocation rules, since existing allocation rules may differ greatly among themselves and from the CACM FG. The CACM FG envisages a harmonised

⁸ The ACER cross-regional roadmap for the European Platform for the Allocation of Long-Term Transmission Rights is available at:
http://www.acer.europa.eu/Electricity/Regional_initiatives/Cross_Regional_Roadmaps/Pages/3.-Long-Term-Transmission-Rights.aspx

- set of rules for borders where PTRs with UIOSI are applied, and a harmonised set of rules for borders where Financial Transmission Rights (FTRs) are applied.
2. Harmonisation of the allocation platform, as transmission rights today are allocated on different platforms. The CACM FG requires TSOs to implement a single platform (point of contact) at the European level.
 3. Harmonisation of nomination procedures as the variety of procedures for using transmission rights may represent a barrier for some market players. As set out in the CACM FG, there should be greater harmonisation of nomination rules, deadlines and processes.
 4. The implementation of FTRs may require a change in regulation. A dedicated ACER task force has been created in order to study this issue. Member States and regulators will have to assess this question carefully when deciding on the long-term transmission rights to be implemented.

CRE (FR) and EI (SE) are co-leading the European Platform for the Allocation of Long-Term Transmission Rights Project.

4.3.2 Key milestones and accountabilities

2011	Q3	1. Drafting of rules by the TSOs following NRA guidance (CWE+CSE+Switzerland).
	Q4	2. NRA approval for entry in force at the beginning of 2012 (CWE+CSE+Switzerland). Rules applying to the CWE region in line with CACM FG (in particular, firmness). 3. Assessment of the legal consequences of moving towards FTRs (would MiFID legislation be applicable and, if so, what would be the impact on the allocation platforms?) → ACER in coordination with ENTSO-E and stakeholders.
2012	Q1	4. The NRAs' to decide on the possibility of implementing Transmission Rights on the Portuguese-Spanish (IPE) border (Q1 2012), in the northern region (within the NE region and between the NE region and others) (end of Q2 2012), and in the Baltic region (end of Q4 2012). 5. Depending on that decision, NE, NE – Continent, Baltic, IPE to join CASC.
	Q1-Q2	6. Benchmark for the current LT nomination procedures (ENTSO-E). 7. Impact assessment of the implementation of FTRs → ENTSO-E in co-operation with ACER.
	Q1-Q3	8. The NRAs compare existing auction rules in order to list the differences between them and in comparison with the CACM FG. Agreement on a common wish list for a single European set of allocation rules (this wish list to indicate requirements for FTRs and for PTRs). End of Q2 ACER will issue a public consultation document containing a wish list, an analysis/position on the different models for the LT hedging and nomination processes, with a view to delivering a common work plan.
	Q3-Q4	9. Definition of a wish list for the harmonisation of nomination rules based on the decision to move towards FTRs (ACER+ENTSO-E). 10. Agreement on an implementation schedule for this harmonisation (ACER+ENTSO-E). 11. Subject to the conclusions of the legal analysis and impact assessment, elaboration of a pan-European implementation schedule for the move towards FTRs → ENTSO-E and ACER, in close consultation with

		stakeholders.
	Q4	12. The TSOs draft new allocation rules in line with the common wish list agreed by the NRAs. The NRAs to follow this work closely. A dedicated ENTSO-E TF could be created to supervise this work.
2014	Q3-Q4	13. NRA approval of new allocation rules for entry in force at the beginning of 2014.

4.3.3 Review of progress during this quarter

ACER has launched, since 29 August, a public consultation on Forward Risk Hedging Products & Harmonization of Long Term Capacity Allocation Rules. The consultation document includes questions on different forward products and on the draft wish-list for further harmonization of auction rules. The deadline for stakeholders' contributions is 28 October.

The priorities for ACER Task Force on Long-Term Transmission Rights during the 4th Quarter are:

- Elaboration of the synthesis of the public consultation
- Finalisation of the wish-list
- Elaboration of a regional roadmap for implementing the wish-list before the end of 2013

The European Commission sent to ENTSO-E in September a letter asking them to start drafting the Long-Term Transmission Right Network Code. ENTSOE has twelve months to submit this Network Code to ACER.

On 29 August, the Agency received and published the regulators' positions on the Nordic area and on borders between the Nordic area and the continent. These positions can be summarized as follows:

- The Nordic market is considered as well functioning and NRAs consider there is no need to introduce additional Long-Term hedging tools in this market.
- Regarding the borders between the Nordic area and the continent, NRAs do not intend to introduce Transmission Rights on Norned, SwePol and Baltic cables even if further research is considered in 2012 for Norned. Finally, bnetZa and DERA agreed to introduce FTRs on the borders between Germany and Denmark.

More specifically, on the Danish-German border, the pilot project is to introduce FTR options on both the interconnector DE-DK_W and the HVDC cable Kontek (DE-DK_E). The new long-term product FTR options would replace current PTRs with UIOSI on DE-DK_W and introduce for the first time a long-term hedging opportunity on Kontek. The goal was to introduce FTRs by the end of 2012. Finally, because of the lack of clarity from concerned Financial Market Supervisory Authorities regarding applicability of MiFID regulations on FTRs, the involved TSOs (Energienet.dk, 50Hertz and TenneT TSO) have decided to put the pilot project on hold.

Concerning the France-Spain interconnection, CRE and CNE received on 3 July a letter respectively from RTE and from REE asking for comfort, regarding the establishment of CASC as long-term capacity allocation platform.

Regarding the Portugal-Spain interconnection, the MIBEL Board of Regulators, which was held on 4 July, confirmed the choice of shifting the allocation function from TSOs to CASC platform by Q1 2013. MIBEL technical Committee suggested last September 19th that System Operators of Spain and Portugal ask their own Regulators and Ministries for comfort regarding this shift to CASC. Consequently, CNE and ERSE will receive a request from REE and REN for a letter of comfort regarding the allocation of TRs for IPE through CASC.

<p>Significant achievements during this quarter</p>	<p>3 July: Letter from RTE and from REE to respectively CRE and CNE regarding the expansion of CASC as long-term capacity allocation platform</p> <p>29 August: NRAs' decision regarding LT hedging tools to be implemented in the Nordic area and on the borders between the Nordic area and the continent.</p> <p>29 August: Launch of the public consultation on Forward Risk Hedging Products & Harmonization of Long Term Capacity Allocation Rules</p>
<p>Obstacles or delays in implementation</p>	
<p>Potential divergences from the FG on CACM</p>	<p>The absence of Transmission Rights on several borders between the Nordic area and the continent and more generally the impact of NRAs' decision (29 August) will need to be carefully assessed.</p>
<p>Comments</p>	

4.3.4 Action needed to overcome the identified constraint(s) or to address the potential divergence(s) from the FG on CACM

The absence of Transmission Rights on several borders between the Nordic area and the continent and more generally the impact of NRAs' decision (29 August) will need to be carefully assessed.

Feedbacks from discussions about MiFID in the European Parliament were not positive this quarter as the recommendation sent by ACER was not fully incorporated in the draft for discussion. Although the real impact of MiFID will only be known once the final text will be approved, some detrimental aspects are foreseen on regulatory aspects and liquidity with the current draft. This lack of clarity has already delayed the pilot project to implement FTRs between Germany and Denmark.

4.4 Implementation of fully coordinated capacity calculation methodologies and particularly the flow-based allocation method in highly meshed networks⁹

4.4.1 Description of the project

The target model, as defined by the CACM Framework Guidelines, specifies that TSOs need to apply an *Available Transfer Capacity (ATC)* or a *Flow-based (FB)* method. A flow-based allocation method is however clearly preferable for short-term capacity calculation in highly meshed and highly interdependent grids. Whatever the case, a common grid model must be used.

By nature, the capacity calculation method and the market coupling method and algorithm are highly interdependent. The FB method and market coupling implementation must be coordinated.

Coordination among the TSOs will be of key importance for successful implementation of the required capacity calculation method, for optimising utilisation of the infrastructure and for implementing the flow-based allocation method. Coordination with regard to capacity calculation will be required among all TSOs, not only when two regions apply the same method (FB or ATC), but also in cases when one region applies the FB and the other ATC-based calculations.

Prior to switching to the FB method, the following requirements are to be fulfilled:

- ⇒ Full coordination of principles and data;
- ⇒ No negative impact of the FB method on system security;
- ⇒ Increased social welfare brought about by the application of the FB method;
- ⇒ Sufficient time provided for market participants to adapt to the new method;
- ⇒ Work on and implementation of FB capacity calculation and market coupling need to be closely coordinated.

CREG (BE) and E-Control (AT) are co-leading the Capacity Calculation Project.

4.4.2 Key milestones and accountabilities

	Q1	1. CEE FBA implementation path evaluation and decision by the CEE NRAs, in coordination with ACER and the NRAs and stakeholders from other relevant regions, based on input from CEE TSOs and the CAO.
	Q2	2. CEE MC decision and compatibility with the CWE (cf. price market coupling, 4.1). 3. Study of the impact of bidding zones by the CWE TSOs and PXs, in cooperation with the CWE NRAs.

⁹ The ACER cross-regional roadmap for the Flow-Based Capacity Calculation Method for short-term capacity allocation is available at:
http://www.acer.europa.eu/Electricity/Regional_initiatives/Cross_Regional_Roadmaps/Pages/Capacity-Calculation.aspx .

2012		4. Review of the ATC method in the Nordic area by the NE NRAs. 5. Information exchange between the CWE and CEE FB and other regions.
	Q3	6. Decision on FB or the ATC capacity calculation method for CSE, NEE, SEE.
2013	Q2	7. CWE FB MC implementation by CWE TSOs with CWE NRA approval.
2014	Q4	8. Coordinated European Capacity Calculation

4.4.3 Review of progress during this quarter

On 30 August 2012 the TSO and PX representatives of the CWE FBMC project announced a postponement of the market forum on FBMC and of the launch of the external parallel runs. The reasons for the postponement were mainly related to Harmonization of the Flow Reliability Margin (FRM) and Generation Shift Key (GSK) methodology, the use of Remedial Actions and the putting in place of an industrial tool for the operational process. The new Go Live target date has been shifted to November 2013 the earliest¹⁰.

During a technical CWE FBMC meeting on 27 September 2012, an updated planning for the FBMC project was presented. The methods used for FRM, GSK and Critical Branch (CB) selection were discussed. Moreover, the public consultation and reporting to the market during the external parallel runs were covered. Finally the intuitiveness report and the priorities as observed by the NRAs were treated.

The topic of unplanned flows in CEE, CWE and CSE regions is becoming increasingly important. Relevant TSOs, NRAs, ENTSO-E and ACER work on possible solutions to overcome the negative effects of unplanned flows. Envisaged remedies include increased cooperation amongst TSOs, reinforcement of the transmission networks, the establishment of a regulatory framework for remedial actions (amongst which cross-border redispatching) and the implementation of FBMC and appropriate configuration of bidding zones.

All parties of the CEE region agreed in Q2 2012 that two elements of the Target Model - flow-based capacity calculation and day-ahead market coupling – both has to be implemented in one single step by the end of 2013 under the condition that benefits for each individual country are to be achieved. In order to meet the target, the TSOs and PXs from the CEE region were during an IG meeting mid-April required to develop a CEE Target Model Implementation Roadmap by June 2012. With delay, by mid-August, CEE TSOs and PXs managed to deliver a common draft roadmap with the envisaged deadline for implementation in August 2014 (originally, end of 2013 was planned).

¹⁰ http://www.belpex.be/uploads/media/CWE_Flow_Based_Market_Coupling_Go_Live.pdf

During the reporting period discussions for the CEE Region on unplanned flows amongst the project parties, NRAs, ACER and partly governance organisations intensified their cooperation with the aim to find solutions. Although there is consensus that unplanned flows influence the functioning of the regional market and cause a threat to the security of supply, the involved parties could not yet agree on the sequence of project tasks and implementation steps and whether to include smaller scale studies on bidding zones in parallel to those starting on a cross-regional level. End of September CEE NRAs agreed upon informing ACER Board of Regulators on this issue with the aim to move towards a decision.

On 28 June, the Agency organized an internal workshop with NRAs and the Commission to discuss possible remedies for the rapidly growing phenomenon of unplanned electricity flows in Central-West Europe and Central-East Europe. On 25th July Bundesnetzagentur and the German Ministry for Economic Affairs addressed the same issue in a jointly organized workshop. All involved parties in the region have worked very intensively on tasks brought by conclusions of this workshop. All these efforts may path the way towards solution; however a clear breakthrough is still not foreseeable. During last quarter – due to the above described development – the development of flow based method in CEE region and cooperation between FB working groups in CEE and CWE did not experience progress. Thus the timely achievement of the target in the CEE region is strongly endangered.

<p>Significant achievements during this quarter</p>	<p>29th June: CEE IG meeting. First version of common CEE TSOs and CEE PXs roadmap was presented.</p> <p>9th August: CEE RCC meeting.</p> <p>13th August: CEE IG meeting. Second elaborated version of common CEE TSOs and CEE PXs roadmap was presented; assumed deadline for CEE FB MC in September 2014.</p> <p>30 August: CWE FBMC project representatives announced postponement of the launch of the external parallel runs.</p> <p>30 August: ACER letter to ENTSO-E on remedying unplanned flows</p>
<p>Obstacles or delays in implementation</p>	<p>See section 4.4.4 below.</p>
<p>Potential divergences from the FG on CACM</p>	<p>No divergences identified so far.</p>
<p>Comments</p>	

4.4.4 Action needed to overcome the identified constraint(s) or to address the potential divergence(s) from the FG on CACM

With the announced postponement in the planning of the CWE FBMC project and the updated planning, the target date of Q2 2013 for the launch of the FBMC will not be reached. CWE NRAs urged the TSOs to do their best in having a good FBMC in place as soon as possible and to inform the market well of the advances made and new elements related to the use of FBMC.

To overcome the problems originating from loop flows, relevant TSOs, NRAs, ENTSO-E and ACER have started investigating potential remedies for the impact of unplanned flows. Several paths are followed to mitigate the effect of unplanned flows within the framework of the target model for CACM.

After regulatory agreement on the steps towards the target model for the CEE Region expressed in the Joint Declaration it will, once project starts as required in the Joint Declaration, become crucial to develop the specific roadmap as soon as possible. The necessary level of coordination with the NWE and in particular CWE project is very important and may require resources from both projects. This has to be carefully planned and prioritized. It still might constitute a constraint.

5 Review of progress with implementation in other important areas

In this section, the NRAs review achievements and obstacles, at regional level, regarding other important dimensions/areas for the completion of the Internal Electricity Market.

5.1 *Transmission development plans*

ENTSO-E published in July, after public consultation in March-April, six regional investment plans (RIPs), which cover different geographical areas than those in the regional initiatives. Published in September, here are summarised a few points underlined in the Agency's opinion on the ENTSO-E Community-wide ten-year network development plan (TYNDP) 'package', which included views about RIPs:

- The applied regional approach makes it easier to consider national specificities and that the coherence issue stemming from this approach has been addressed by ENTSO-E
- Regional studies have been run in line with a coherent European methodology, thanks to overlapping study perimeters and harmonisation at different levels of regional studies, including cross checks for results and border condition
- Information on congestions and on increased capacity needs is given in different forms and levels of detail from one RIP to another. The Agency appreciated that the form is region-specific to provide clearer and the most relevant information for each region. Nevertheless, a harmonised level of information with regard to market study results was recommended.
- About monitoring of previous plans, the Agency considered that full transparency of the evolution of projects should be provided in the RIPs, especially on delayed and cancelled investments.

5.2 *Development of cross-border balancing*

The development of effective cross-border balancing markets is an integral part of the future Internal Electricity Market. ACER published the Framework Guidelines on Electricity Balancing on 18 September 2012, which should encourage the emergence of regional pilot projects towards the implementation of the target model for balancing. In the meanwhile, a few projects are being developed at regional or bilateral level:

- In the Nordic area, the TSOs are involved in a pilot project establishing a common Load Frequency Control market (automatically-activated energy from Frequency Restoration Reserves). An interim phase is expected to be launched in early 2013;
- In the CWE and CEE regions, the international expansion of Module 1 of the Grid Control Cooperation (IGCC) system has become operational and gradually expanded, enabling TSOs to « net » imbalances in real time. Following the TSOs Energienet.dk, TenneT BV and Swissgrid, CEPS joined the project in June and Elia in October 2012. Thus, the IGCC system currently comprises six countries;

- In the SWE region, the Spanish TSO (REE) is involved in bilateral projects to extend the BALIT mechanism, together with the Portuguese TSO (REN) and the French TSO (RTE). As agreed during an IG meeting in May 2012, TSOs requested during the summer a letter of comfort from concerned NRAs. An interim phase is likely to be launched in Q1 2013.

5.3 Transparency

ACER is expecting the launch of the Comitology Process for the adoption of the Transparency Guidelines.

5.4 Management and use of interconnections

During this quarter the process of data collection through NRAs (process that started on the 9th CG for ERI meeting on 28 February 2012) was finalised. Out of 25 countries participating and supporting the data request through the CG for ERI group, 18 provided the data, often not complete. The data that has been made available to the Agency includes information about cross-border auction participants, long term auctions, daily auctions, intraday allocation, prices, cross-border capacity curtailments, dispatching, security reserve margins and congestion revenues. The Agency has made as much as possible use of these data in the first joint ACER/CEER Annual Market Monitoring Report. This report to be published by the end of 2012 includes recommendations which aim to remove barriers to market integration.



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