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ACER Coordination Group for Electricity Regional Initiatives

Electricity Regional Initiatives Quarterly Report No 1

January 2012 – March 2012

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Agency for the Cooperation of Energy Regulators

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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 sets a **firm regulatory, institutional and political background** to achieve this goal.

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 responsibility of the Agency for the Cooperation of Energy Regulators (ACER).

To this end, national regulatory authorities (NRAs) have elaborated, at the European Commission's request and under the coordination of the Agency, an **EU Energy Work Plan for 2011-2014** based on clear, commonly agreed objectives and milestones. This EU Energy Work Plan for 2011-2014 has been 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 Review of progress with implementation in each of the cross-regional projects

3.1 Implementation of a single European price market coupling ¹

3.1.1 Description of the project

The target model for the day-ahead timeframe is a European Price Coupling (EPC) which simultaneously determines volumes and prices in all relevant zones, based on the marginal pricing principle.

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

Another important element will be a common governance structure. In order to meet the 2014 deadline, the implementation of the EPC might start under interim governance arrangements until governance guidelines are 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 smooth integration of additional borders.

BnetzA (DE), with 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 is available through:

http://www.acer.europa.eu/portal/page/portal/ACER_HOME/Activities/Regional_Initiatives/ERI/Project%201/Work_plan_20112014

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

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

3.1.2 Key milestones and accountabilities

2011	Q3	<p>1- ACER requests:</p> <ul style="list-style-type: none"> ⇒ NWE (TSOs and PXs) to 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 to validate the PCR algorithm starting point and to agree with Europex on one single algorithm; ⇒ Europex to demonstrate the efficiency, manageability and reliability of the system design. <p>The NWE NRAs request TSOs and PXs to prepare a detailed proposal regarding cost recovery for NWE costs</p>
	Q4	<p>2- ENTSO-E sends algorithm requirements to Europex and assesses the starting point PCR algorithm.</p> <p>3- Europex demonstrates the efficiency, manageability and reliability of the system design to ACER and NRAs.</p> <p>4- ENTSO-E and Europex propose cost-sharing between the NWE and the non-NWE countries.</p>
2012	Q1	<p>5- ENTSO-E and Europex consult market participants on the starting point PCR algorithm as validated by ENTSO-E and report outcome to ACER and NRAs.</p> <p>6- NWE (TSOs and PXs) submit to ACER/NWE NRAs for review/validation:</p> <ul style="list-style-type: none"> ⇒ high-level interim governance arrangements for the NWE/PCR project; ⇒ cost-recovery proposal for NWE costs. <p>7- ACER coordinates NRAs' 'endorsement'(e.g. through a letter of comfort) of:</p> <ul style="list-style-type: none"> ⇒ starting point of the PCR algorithm; ⇒ cost-sharing between the NWE and non-NWE countries for the costs associated with the PCR algorithm development; ⇒ flexible high-level interim governance arrangements for the NWE/PCR project. <p>8- All NRAs to:</p> <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 cost recovery proposal regarding NWE costs.
	Q3	10- NRAs' 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 amongst respective NRA/TSO/PX.
	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 NWE/PCR project from the beginning).
2014	Q1- Q4	13- Integration of remaining CSE borders, FUI borders and Baltic borders into EPC.

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

3.1.3 Review of progress during this quarter

On 24 January **ENTSO-E delivered its assessment report on the starting point PCR algorithm**. In its assessment, ENTSO-E concludes that the starting point algorithm fulfils a large part of the TSO requirements but it needs to be further developed to meet all the requirements set for Single European Price Coupling.

On 1 February, the six power exchanges involved in the PCR project made a concrete but still preliminary proposal, with associated planning and costs, which should not only help to deliver the NWE/PCR project by the end of 2012, but also to secure the 2014 roadmap. An important outcome of this meeting was **the PCR PXs' agreement jointly to develop the PCR data handling system (called the PMB) and to upgrade the PCS system (currently in place in CWE) as a backup solution to secure the launch of the NWE/PCR project**. No later than May (when the PMB is supposed to be delivered), they will decide which system will be used for the NWE/PCR project launch. If PCS is used at the start of the NWE/PCR project (i.e. if the PMB cannot deliver in time), a second step will be needed to replace PCS by the PMB.

At the beginning of February **the project was temporarily put on hold because of uncertainties surrounding an investigation by DG COMP** into two PXs in NWE. However, after a clarification by DG COMP at the February AESAG meeting that the investigation was not linked to the PXs' cooperation process and that DG COMP backed DG ENER and ACER and supported the market integration process, the TSOs and PXs gradually recommenced the project.

Since then the **NWE TSOs and PXs have detailed their planning for a go-live of the NWE/PCR price coupling project by 1 January 2013. The planning is tight and does not include any contingency to cover unexpected problems**. Negotiations on an 'All Party Cooperation Agreement (APCA)', to serve as a basis for the joint project, have advanced and parties are striving for completion in April. A preliminary budget of combined NWE PX costs of €11.1 million has been presented by the PXs. TSOs have made a proposal to reimburse reasonable costs incurred in the NWE market coupling project: 100% of the design costs (both common and local) and 75% of the implementation costs (both common and local). It is proposed that the respective part of design and implementation costs borne by, respectively, the TSOs and the PXs should be shared on a per party basis (except for CREOS, which will bear half of the costs). This is the same principle as under ITVC. The common and local costs have to be validated and the sharing arrangements are subject to regulatory approval. **It should be noted that the planned timing envisaged for these steps in the cross-regional roadmap was clearly not respected.**

Thus, at the NWE IG meeting held at Schiphol on 28 March, ACER and NWE NRAs delivered a series of important messages and requests on several aspects of the NWE/PCR project.

- a) Regarding cost-recovery, **ACER and NRAs invited the NWE TSOs and PXs to formally submit, as soon as possible, a detailed and coordinated budget for the design, implementation and operational costs of the NWE/PCR Market Coupling project, including a proposal for cost-sharing arrangements, in which the PXs should bear a part of the costs, both common and local. Following this formal request, ACER and the NWE NRAs will in due course provide the appropriate level of comfort on cost-recovery.** ACER and NWE NRAs stressed the fact that in any case, only auditable, efficient and necessary costs would be taken into account for cost-recovery purposes. They also emphasised the importance of developing a transparent, reliable, easily extendible and cost-effective solution.
- b) Regarding the algorithm approval process, **ACER and NRAs welcomed the assessment made by ENTSO-E, which confirmed the usability of COSMOS as the starting point for the European Price Coupling (EPC) algorithm. ACER and NRAs supported the use of COSMOS and invited PCR PEs to continue, building on COSMOS, to develop an algorithm able to fulfil all TSOs' requirements, i.e. the NWE TSOs' requirements but also, providing it does not hinder the achievement of the NWE/PCR price coupling project by 2012, the requirements of non-NWE TSOs, in order to facilitate the planned extension of the project's scope.** ACER and NRAs asked PCR PXs to report to them if any difficulties emerged during the algorithm development phase, making special reference to difficulties in integrating any TSO requirement. **ACER and NRAs also underlined how important it was for NWE TSOs to have any new (compared to those currently being dealt with by COSMOS) requirements validated by ACER and NWE NRAs as soon as possible after consulting stakeholders and PEs. ACER and NWE NRAs invited TSOs to include this important milestone in their joint project plan.** When submitting their proposed requirements for NRA approval, TSOs should assess the impact on the functioning of connected markets and demonstrate their overall efficiency. **ACER and NRAs emphasised the absolute necessity of consulting stakeholders in the process of developing and establishing the algorithm.** Finally, ACER and the NWE NRAs undertook to clarify as soon as possible the national regulatory process of each NWE NRA for final approval of the algorithm scheduled (in the joint TSO and PX planning) to take place by the end of September 2012.
- c) Regarding the governance arrangements, **ACER and NRAs acknowledged the differences between existing governance arrangements across Europe and accepted that they will be maintained for the implementation of the NWE/PCR project and its immediate extensions.** ACER and NRAs urged TSOs and PXs to make a concrete proposal for governance arrangements for the NWE/PCR project. This proposal should support a quick, flexible, fair and non-discriminatory extension. **ACER and NRAs also invited the PCR PXs to submit their PX cooperation agreements to them and to share and discuss them with the non-PCR PXs. These cooperation agreements should also include a proposal for common (design, implementation and operational) cost-sharing between PCR PXs and non-PCR PXs.**

Among the relevant regional or local developments linked to the implementation of the EPC, the selection by National Grid Interconnector Limited (NGIL) of Nord Pool Spot (NPS) as the GB Hub operator should be mentioned. The purpose of the GB Hub is to ensure coordinated capacity allocation on GB interconnectors and to facilitate competition between GB power exchanges in the day-ahead and intraday timeframes. The GB Hub will act as the GB market coupler in the NWE Day-Ahead Project⁵.

The TSOs and the PX of the Iberian region presented their pre- and post-coupling processes to ACER on 28 February in order to prepare for coupling with NWE.

Finally, it should also be mentioned that the trilateral market coupling on borders between the Czech Republic, Hungary and Slovakia is still on track and should start operating on 1 July 2012.

⁵ For further information, see Annex 2.

<p>Significant achievements during the 1st Quarter</p>	<p>24 January: ENTSO-E delivered its assessment report on the starting point PCR algorithm.</p> <p>1 February: AESAG subgroup meeting on day-ahead in Brussels. The six PXs involved in the PCR project have made a concrete but still preliminary proposal, with associated planning and costs, which should not only help to deliver NWE by the end of 2012, but also secure the 2014 roadmap. One important aspect of this PX proposal is the PCR PXs' agreement jointly to develop the PCR data handling system (called the PMB) and to upgrade the PCS system (currently in place in CWE) as a backup solution to secure the launch of the NWE/PCR project.</p> <p>17 February: AESAG meeting in Brussels. DG COMP explained that it backed DG ENER and ACER and supported the market integration process.</p> <p>28 March: NWE IG meeting at Schiphol. TSOs and PXs announced the forthcoming hiring of a joint Project Management Officer to lead the NWE/PCR project and presented, for the first time, a joint planning and relatively detailed budget plan. NRAs reported on the status of the letter of comfort and delivered some important messages, among them:</p> <ul style="list-style-type: none"> - Invitation to PCR PXs to continue, building on COSMOS, to develop an algorithm able to fulfil all TSOs' requirements; - Invitation to NWE TSOs to include in their project plan a milestone to have the new TSO requirements approved by NRAs; - Strong recommendation to TSOs and PXs to consult stakeholders in the process of developing and establishing the algorithm; - Invitation to PCR PXs to submit their PX cooperation agreements to them and to share and discuss them with non-PCR PXs. These cooperation agreements should also include a proposal for common (design, implementation and operational) cost-sharing between PCR PXs and non-PCR PXs; - Invitation to TSOs and PXs to formally submit for NRA review their detailed budget plan, including a proposal for cost-sharing arrangements, where PXs should bear a part of the costs; - Reaffirmed strong commitment of NWE NRAs and ACER to provide the appropriate level of comfort regarding cost-recovery in due course after a formal request from TSOs and PXs. <p>End of March: National Grid Interconnector Limited (NGIL) selected Nord Pool Spot (NPS) as the GB Hub operator.</p>
<p>Obstacles or delays in implementation</p>	<p>An earlier IG meeting which was originally planned for 9 February in Bonn had to be cancelled at short notice on account of a temporary interruption of the project. One of the reasons for this was uncertainty</p>

	<p>surrounding the investigation of DG COMP into two PXs in NWE.</p> <p>At the AESAG meeting on 17 February, DG COMP underlined, however, that the current investigation had no impact on the AESAG work. DG COMP is backing DG ENER and ACER and supports the market integration process. Shortly after this announcement the TSOs and PXs recommenced the project.</p> <p>Budget and governance information has not been provided by TSOs and PXs in line with the timing defined in the cross-regional roadmap. This delays subsequent steps such as regulatory approvals.</p>
<p>Potential divergences from the FG on CACM</p>	<p>No divergences identified so far.</p>
<p>Comments</p>	

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

Some of the milestones have not been achieved on time as planned in the cross-regional roadmap. This concerns in particular the cost-sharing between the NWE and non-NWE countries and the high-level governance arrangements for the NWE/PCR project. Despite this, **there is currently a reliable plan confirming the NWE/PCR delivery in 2012 and the achievement of the 2014 target.** Nevertheless, it should be highlighted that **the planning is tight and does not include any contingency to cover unexpected problems.** In particular, the development of the data handling system (PMB) is a critical operational aspect.

The letter of comfort coordinated by ACER will be sent to TSOs and PXs after a formal request submitted to NRAs. This letter will focus on the cost-sharing and cost-recovery issues since the main guidance regarding the two other points, i.e. algorithm approval and governance, was provided at the IG meeting held on the 28 March.

3.2 Implementation of a cross-border continuous intraday trading system across Europe⁶

3.2.1 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 an evolution of continuous intraday trading, to include intraday capacity recalculation, capacity pricing reflecting congestion and the capability to trade sophisticated products.

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

The intraday cross-regional roadmap envisages a two-phase approach to implementing an intraday trading solution, with an interim solution based on implicit continuous trading and an enduring solution where this evolves to include intraday capacity recalculation, capacity pricing and the capability to trade sophisticated products.

The North-West Europe (NWE) region intraday project is seen as the European pilot project for the implementation of the CACM FG target model.

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

3.2.2 Key milestones and accountabilities⁷

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 Q1 2012 towards these 2012 milestones. An explanation of how the 2012 milestones contribute to achieving the 2014 objective is provided in the intraday cross-regional roadmap.

The Northern 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 for implementation of the CACM FG intraday target model.

Additional projects have been established in the Northern region to implement an intraday solution on the SwePol Link (Q1 2011) and in the Baltic Region (2013), and in the FUI region to implement explicit intraday allocation on the SEM-GB border in Q3 2012.

⁶ The ACER cross-regional roadmap on continuous intraday trading is available at: http://www.acer.europa.eu/portal/page/portal/ACER_HOME/Activities/Regional_Initiatives/ERI/Project%202

⁷ So far, no project has been agreed upon for the Baltic Cable.

For the CSE region a project is already under way to introduce interim explicit access on all borders in Q2 2012. In Q4 2012 CSE region 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.

2011	Q3	1- The NWE region TSOs, in cooperation with NWE PXs, develop detailed project proposal for implementation of interim solution.
	Q4	2- The NWE region TSOs consult on the detailed project proposal with market parties. 3- The NWE region TSOs, in cooperation with PXs, develop options for intraday capacity recalculation and pricing of intraday capacity. 4- The NWE region NRAs develop proposal for the governance structure for NWE ID. 5- The CEE region improves existing capacity allocation mechanism. 6- Implement continuous intraday trading on the SwePol interconnector.
2012	Q1	7- Implement intraday solution on the NorNed interconnector. 8- The NWE region NRAs decide on the NWE TSO proposal for implementation. 9- The NWE region TSOs, in cooperation with PXs, consult on options for intraday capacity recalculation and pricing of intraday capacity. 10- The SWE region identifies the systems and regulatory changes necessary to implement continuous trading by Q4 2012. SWE TSOs and PXs involved in the development of the CMM and SOB.
	Q2	11- Implement an interim explicit allocation process on all CSE borders. 12- The CSE region proposes a roadmap to implement the CACM FG target model, taking the NWE pilot project into consideration. 13- The CEE region proposes options for the implementation of an intraday solution in line with the CACM FG target model and NWE region developments.
	Q3	14- Implement intraday solution on the Moyle interconnector. 15- Implement the NWE capacity management module. 16- The CEE NRAs evaluate and decide on option for the implementation of an intraday solution in line with CACM FG target model and NWE region developments.
	Q4	17- Implement the NWE Shared Order Book function. 18- Develop options for extending the NWE to the Single Electricity Market of Ireland and Northern Ireland. 19- The SWE region implements continuous implicit trading on its borders. 20- The NWE region PXs, in cooperation with TSOs, develop options and specifications for sophisticated products. 21- The CSE region consults on roadmap to implement the CACM FG target model.
2013		22- The NWE region PXs, in cooperation with TSOs, consult on options and specifications for sophisticated products.
	Q3	23- The CEE region implements an intraday solution in line with the CACM FG and the NWE project.
2014	Q4	24- The NWE region implements intraday capacity recalculation. 25- The Baltic region implements intraday trading based on the ELBAS model.
	Q1	26- The NWE region implements capacity pricing.
	Q4	27- The NWE region implements sophisticated products.

3.2.3 Review of progress during this quarter

3.2.3.1 Progress against milestones in Q1 2012

Intraday continuous trading was launched on the NorNed cable on 14 March 2012. This is a significant step, linking the existing Dutch-Belgian intraday market operated by APX-ENDEX and Belpex with the existing intraday market operated by Nord Pool Spot in Denmark, Norway, Sweden, Finland and Estonia and is described in more detail in section 3.2.3.2 d) below.

A continuous intraday mechanism should have been launched during Q4 2011 on the SwePol Link but all relevant parties including regulators agreed that the solution presented in spring 2011 was not financially feasible.

The SWE region milestone was to identify the systems and regulatory changes necessary to implement continuous trading by Q4 2012 and to get involved in the development of the CMM and SOB in Q1 2012. The French-Spanish border is included as a border-by-border implementation project for implementation of the interim model in 2012.

As explained below there was limited progress in the NWE region in Q1 2012. Bearing that in mind, there is a strong risk that the NWE TSOs and PXs will be unable to meet the 2012 objective.

3.2.3.2 Progress in the NWE Pilot Project

a) Background

This section reports on progress with the NWE intraday project in Q1 2012. At the Florence Forum in December 2010 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 a 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 map and the September proposal and welcomed NRAs' formal commitment to the process.

b) Project objectives

The NWE intraday project objective is to implement a basic intraday solution for cross-border trade in the NWE Region by the end of 2012 (Interim Model). This would then evolve towards intraday target model implementation 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 the 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.

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 toward the intraday target model.

c) NWE progress in Q1 2012

Following the Florence Forum endorsement of the Cross-Regional Roadmap for Intraday Trading, NRAs hosted a NWE Stakeholder Group meeting on 9 December in London to explain the NWE intraday proposal and to seek stakeholders' feedback. To achieve the 2012 objectives of the NWE pilot project, five key milestones have been identified for Q1 2012:

1. Completion of ENTSO-E and Europex Memorandum of Understanding (the 'MoU');
2. Completion of a PX Cooperation Agreement (the 'PX CA');
3. Development of the SOB by PXs;
4. NRA decision on whether to allow interim explicit access to intraday capacity;
5. Launch of the relevant border-by-border implementation projects.

NRAs hosted two Implementation Group meetings in Q1 2012 with the NWE TSOs and PXs. In the course of these meetings it became clear that the NWE TSOs had specific prerequisites before commencing the implementation projects:

1. Completion of the MoU;
2. A PX plan for development of the SOB;
3. A PX commitment to pool liquidity in national intraday markets.

As a result, the launch of the border-by-border implementation projects has been put on hold until the prerequisites can be met. Here we provide a brief explanation of the NWE progress with regard to the five key actions highlighted above.

Completion of the MoU: the MoU is expected to formalise the principles, objectives and governance structure for implementing the intraday target model. Initially, ENTSO-E and Europex planned to complete the MoU in Q1 2012. However, this deadline has now been extended. Europex and ENTSO-E report that the MoU should be finalised before the Florence Forum in May 2012. The reason given for the delay is that the MoU has become more complex, requiring PX agreement on terms to develop the SOB, a PX commitment to pool liquidity in national markets and an agreed approach to cost allocation and recovery.

Completion of the PX CA: the PX CA is intended to set the main terms and conditions of cooperation between PXs for development and implementation of the cross-border intraday model. It is expected to establish roles and responsibilities for PXs in the development, financing and operation of the intraday model, is being developed by Europex members and will be open to any PX that wishes to join. The objective is to finalise the PX CA before the Florence Forum in May 2012.

Development of the SOB by PXs: the most critical milestone in the NWE project is the development of the SOB by the NWE PXs. In the Cross-Regional Roadmap, ELBAS was chosen as the starting point for development of the SOB. The NWE PXs have been working since then to evaluate the improvements necessary to meet the needs of market participants in new market areas. Particularly, in relation to EPEX Spot's migration from their FITS system to ELBAS, NRAs and the NWE TSOs have requested a clear project plan for the development of the SOB. The NWE PXs have committed to provide that project plan before the Florence Forum in May.

NRA decision on explicit access: The ACER CACM FG allows explicit access to cross-border capacity as a transitional arrangement. NWE NRAs were requested to clarify whether they would seek to allow explicit access to cross-border capacity. Clarification has been provided for all borders in the NWE region, except that between France and Belgium. Moreover, such a decision is also expected for the border between France and Spain as the French-Spanish border has joined the NWE pilot project. Joint NRA decisions for those borders are still pending.

Launch of the implementation projects: as mentioned above, the NWE TSOs are not willing to launch the implementation project until PXs commit to integrate their local order books and provide a detailed project plan for development of the SOB and the MoU has been completed. We expect the launch of the implementation projects to be delayed until June 2012. As a result, there is a strong risk the NWE TSOs and PXs will fail to meet the 2012 objective.

d) *Launch of intraday project on NordNed*

On 15 March 2012, APX-ENDEX, Nord Pool Spot, Statnett and TenneT announced the successful implementation of the cross-border intraday (XBID) solution over the Dutch-Norwegian interconnector NordNed, marking a significant step towards the implementation of the European Target Model and an integrated electricity market.

This cross-border intraday solution links the existing Dutch-Belgian intraday market operated by APX-ENDEX and Belpex with the existing intraday market operated by Nord Pool Spot in Denmark, Norway, Sweden, Finland and Estonia. The cross-border intraday solution allows

implicit allocation of intraday capacity over the NorNed interconnector. As a result, market participants can trade across the whole region, to the extent of the available cross-border capacity. It is a continuous trading and capacity allocation system guaranteeing that, in its area, each participant is provided at all times with the cheapest sell-orders and the highest valued buy-orders available from the whole region, provided there is cross-border capacity available. Each matched trade is followed up by an update of available transmission capacity on all interconnections and a modified set of available buy and sell-orders for each market area. Any capacity remaining after the day-ahead allocation on NorNed (plus capacity in the reverse direction) will be made available for the intraday market.

Significant achievements in the period	15 March: Launch of the intraday mechanism on NorNed.
Obstacles or delays in implementation	<p>Postponement of the continuous intraday trading project on the SwePol link.</p> <p>For the NWE intraday project there is a strong risk that the NWE TSOs and PXs will be unable to meet the 2012 objective because of delays in:</p> <ul style="list-style-type: none"> - completion of the MoU; - development of the SOB; - launching the border-by-border implementation projects; and - the decision-making process regarding OTC access on the France-Spain and France-Belgium borders.
Potential divergences from the FG on CACM	No divergence identified so far.
Comments	

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

Regarding the continuous intraday project on the SwePol link, NRAs reported that it was put on hold until the transfer of ownership of the cable currently under negotiation becomes a reality.

Regarding the NWE project, relevant TSOs and PXs should put the appropriate resources into overcoming the current delays and minimise the risk of the 2012 objective not being achieved. The NWE TSOs and PXs will be invited to re-demonstrate their serious commitment at the next Florence Forum.

As far as the issue of whether explicit access to OTC trade should be allowed or not on the French-Belgium and French-Spanish borders, the relevant NRAs have been invited to announce a joint decision before the Florence Forum or to ask ACER for a decision.

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

3.3.1 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 the possibility 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 set of rules for borders where PTRs with UIOSI are applied and a harmonised set of rules for borders where FTRs are applied.
2. Harmonisation of the allocation platform as today transmission rights 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. In order to study this issue a dedicated ACER task force has been created. 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.

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/portal/page/portal/ACER_HOME/Activities/Regional_Initiativies/ERI/Project%203/Work_plan_20112014.

3.3.2 Key milestones and accountabilities

2011	Q3	1- Drafting of rules by TSOs following NRA guidance (CWE+CSE+Switzerland).
	Q4	2- NRAs' approval for entry in force at the beginning of 2012 (CWE+CSE+Switzerland). Rules applying for 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- NRAs' decision 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 of 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- NRA compares existing auction rules in order to list the differences between them and compared to 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 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- TSOs draft new allocation rules in line with the common wish list agreed by the NRAs. 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.

3.3.3 Review of progress during this quarter

In January 2011, the ACER Task Force on Long-Term Transmission Rights was created. The objective of this group is to organise the work at European level to implement the target model across Europe, and also to assist ACER in the follow-up of the roadmap.

The group agreed on the expected deliverables for 2012:

- ⇒ A wish list for harmonisation of long-term rules;
- ⇒ Analysis/position on the different models for long-term hedging;
- ⇒ Work plan on Long-Term Transmission Rights (harmonisation of allocation rules, including nomination processes);
- ⇒ A public consultation document to be issued by ACER in July-August 2012 containing a wish list for rules harmonisation, questions on the different models for long-term hedging and on nomination processes, with the goal of delivering a common European work plan.

In order to achieve the above deliverables, NRAs have issued a template for the comparison of the rules at European level. It consists of an excel document and is intended to allow a comparison of various existing auction rules topic by topic, on the basis of the structure of the CWE-CSE and Switzerland auction rules (e.g. general conditions for participation; auctions rules; secondary market; curtailment and compensation; etc.). As a first step, all existing auction rules and the CACM FG have been mapped to the template based on the CWE-CSE and Switzerland auction rules. The NRAs were asked to provide the information requested in the template by 15 March 2012. As a second step, differences between the auction rules and the CACM FG are currently being analysed per topic and a best practice/draft wish list will be prepared. All borders where transmission rights are in place have been included in this study.

In February, ACER sent to the European Parliament and the Council a recommendation asking for an exemption from MiFID for the TSOs and their service providers when issuing transmission rights and providing a platform for secondary trading as well as for the users of any such platform.

ACER and ENTSO-E met in February to agree on the work plan for 2012 and to ensure coordination of the work between the two entities. A teleconference was organised on 19 March to follow up the work in progress. This meeting was intended to clarify the ACER-ENTSO-E cooperation and the deliverables to be provided by ENTSO-E to the LTR TF:

- ENTSO-E to deliver an analysis on different long term transmission risk hedging products. This should be used as a basis for ACER public consultation.
- ENTSO-E feedback on the wish list to deliver European common allocation rules to be submitted to public consultation.
- ENTSO-E analysis on harmonisation of nomination process. No quick-wins have been identified; a deeper analysis is under development. ACER will add this topic to the summer public consultation.

On 30 March, a workshop was organised in Stockholm by the Northern NRAs to consult stakeholders on the long-term hedging products to be implemented between the Northern region and the continent. This workshop was intended to provide Northern and relevant continental NRAs with the inputs needed to reach a decision on transmission rights by the end of Q2.

A pilot project to implement the FTRs options has recently started on the Danish-German border. This pilot project could be soon extended to other borders.

Significant achievements in the period	<p>16 February: ACER recommendation on MiFID application addressed to the European Parliament and to the Council.</p> <p>28 February: Finalisation of the Terms of Reference for the ACER task force.</p> <p>30 March: Workshop in Stockholm to consult Nordic stakeholders on long-term hedging products to be implemented in the Northern region and between the Northern region and the continent.</p>
Obstacles or delays in implementation	<p>Postponement of the confirmation regarding FTRs option allocation on IPE by CASC.</p> <p>Postponement on IFE of the process to move to CASC platform (pending the Spanish Ministry's validation).</p>
Potential divergences from the FG on CACM	No divergences identified so far.
Comments	

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

The recent transposition of the Directive into Spanish legislation (Royal Decree-Law 13/2012, 30 March) should now give the CNE the appropriate competences in interconnection management. The next step will be for the CNE to lead the assessment of the implications of this transposition, including in a coordinated manner within the Council of Regulators of the Iberian Electricity Market. The SWE region will define the way forward for the ongoing projects regarding Portuguese-Spanish interconnection and French-Spanish interconnection.

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

3.4.1 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. However a flow-based allocation method is clearly preferable for short-term capacity calculation in highly meshed and highly interdependent grids. In any case, a common grid model is to 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 the 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.

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/portal/page/portal/ACER_HOME/Activities/Regional_Initiatives/ERI/Project%204/Work_plan_20112014.

3.4.2 Key milestones and accountabilities

2012	Q1	1- CEE FBA implementation path evaluation and decision by the CEE NRAs, in coordination with ACER and NRAs and stakeholders from other relevant regions, based on input from CEE TSOs and CAO. 2- CEE MC decision and compatibility with the CWE (cf. price market coupling, 4.1).
	Q2	3- Study of impact of bidding zones by the CWE TSOs and PXs, in cooperation with CWE NRAs. 4- Review of the ATC method in the Nordic area by the E NRAs. 5- Information exchange between the CWE and CEE FB and other regions.
	Q3	6- Decision on FB or ATC capacity calculation method for the CSE, NEE, SEE.
2013	Q2	7- CWE FB MC implementation by CWE TSOs with CWE NRA approval.
2014	Q4	8- Coordinated European Capacity Calculation

3.4.3 *Review of progress during this quarter*

After several months of intensive work, National Regulatory Authorities (NRAs) from the Central-Eastern Europe (CEE) and ACER agreed on further steps in the region. All parties agreed that the Target Model for electricity in the CEE Region is the Flow-Based Market Coupling (F-BMC) (i.e. Implicit Flow-Based Capacity Allocation).

The Target Model consists of two elements, flow-based capacity calculation and day-ahead market coupling, both to be implemented in the CEE region in one single step by the end of 2013.

In order to meet the above target, the TSOs and PXs from the CEE region are required to develop a CEE Target Model Implementation Roadmap by June 2012. The latter will be prepared in close collaboration with relevant market participants and the CWE/NWE TSOs, while ACER and the CEE NRAs will oversee this task and provide support where and if required. The roadmap should be as detailed as possible, including the steps for implementation of Flow-Based Market Coupling, the related time plan, the implementation framework and a clear project structure. Moreover, it should also cover all relevant issues relating to cooperation with the CWE/NWE regions (the NRAs, TSOs and PXs). Compatibility of the CEE and CWE Flow-Based Method with the common NWE+CEE Market Coupling should be ensured as well as the smooth transition of existing market coupling projects in the CEE region (start of trilateral CZ-SK-HU market coupling is planned for 1 July 2012) into the common NWE+CEE Market Coupling. With regard to the lengthy discussions on the issue of loop-flows, a EC study to provide more insight on a wider geographical scale is planned to start in the course of the year and to deliver its first conclusions by the end of 2012.

The CEE NRAs and ACER will facilitate the signing of a joint Memorandum of Understanding by all involved parties by July 2012. This joint MoU will also seek the support of the European Commission.

In the CWE region work on F-BMC and on the zone study continued. As regards F-BMC, attention was given to the remaining NRA questions following the second enhanced flow-based feasibility report and the planning of the parallel runs. Furthermore, discussions on the possible congestion rent-sharing keys took place between the CWE TSOs and NRAs. The CWE zone study was more clearly defined in the second CWE zone study meeting.

Significant achievements in the period	<p>13 February 2012: CWE meeting on F-BMC: CWE NRA questions on the second enhanced F-BMC feasibility report were addressed and F-BMC timeline with planning of parallel runs and regulatory approval process were discussed. The meeting also resulted in regulatory follow-up requests regarding transparency and monitoring of the flow-based implementation and the parallel run.</p> <p>29 February 2012: CWE meeting on congestion income allocation with F-BMC mainly involved discussion of the possible congestion rent-sharing keys.</p> <p>26 March 2012: Joint Declaration of the CEE NRAs and ACER published.</p>
Obstacles or delays in implementation	See section 3.4.4 below.
Potential divergences from the FG on CACM	No divergences identified so far.
Comments	

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

After regulatory agreement on the steps towards the target model for the CEE Region expressed in the Joint Declaration it will become crucial to develop the specific roadmap within the next quarter. The necessary level of coordination with the CWE project in particular may require resources from both projects and might thus constitute a constraint. ACER has already addressed this issue and sent a letter to TSOs from both regions urging them to ensure that the necessary level of coordination can be achieved.

4 Review of progress with implementation in other important areas

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

4.1 *Transmission development plans*

Once every two years, TSOs are required to publish regional investment plans (Article 12(1) of Regulation (EC) No 714/2009). These regional investment plans constitute an integral part of the Community-wide network development plan 'package' that has recently been submitted for public consultation by ENTSO-E and should be submitted for ACER's reasoned opinion (Article 9(2) of Regulation (EC) No 714/2009) by mid-2012. The Agency also has to monitor the implementation of the Community-wide network development plan 'package' and identify any inconsistencies (Article 6(8) of Regulation (EC) No 713/2009 and Article 8(11) of Regulation (EC) No 714/2009).

Given that the TSO regional investment plans cover geographical areas which are different to those in the regional initiatives and to the Regional Groups provided for in the forthcoming Energy Infrastructure Package, in the coming months ACER and NRAs will have to put in place an appropriate framework, consistent with the forthcoming Regulation, to deal with the above provisions.

4.2 *Development of cross-border balancing*

While the development of effective cross-border balancing markets is an integral part of the future Internal Electricity Market, only a very few projects are currently being developed at regional or bilateral level.

Among the instances of progress recorded during the first quarter, the most striking are:

- In the CWE region, TenneT BV joined the IGCC system on 1 February to net its imbalances in the Dutch system area with the net imbalance of the total German system block (total of the four areas). Swissgrid also joined the IGCC system on 1 March. In the SWE region, the contractual framework and the implementation guides of the interim TSO-TSO model were finalised. The regulatory changes constitute the next step.

The forthcoming publication of the Framework Guidelines on Electricity Balancing in September 2012 should encourage the emergence of regional pilot projects towards the implementation of the target model for balancing.

4.3 Transparency

A minimum common level of fundamental data transparency is a precondition for the efficient functioning of wholesale electricity markets. As soon as the Transparency Comitology Guidelines are approved, NRAs will report progress with the implementation of the new transparency requirements at regional level.

In the meantime, a few projects in the area of transparency have been launched, and the following progress has been recorded this quarter:

- In the CWE region, NRAs requested the CWE Market Coupling steering committee to create a central platform where price, commercial capacities and commercial flows, together with urgent market messages, can be published. This issue was also addressed during the 30/03/2012 PLEF SG1 meeting. With regard to F-BMC, the publication of (anonymous) critical branches and the consultation process were addressed during relevant F-BMC meetings in Q1 2012.

4.4 Management and use of interconnections

NRAs are committed to monitoring the economic efficiency of congestion management methods. This monitoring activity should help NRAs to reach not only a common understanding of the functioning of congestion management methods but also a common view about the best way to further improve their functioning.

In order to cross-fertilise the above-mentioned monitoring activity with ACER's tasks pursuant to Article 11 of Regulation (EC) No 713/2009, it has been agreed that ACER will include the above-mentioned assessment in its Annual Monitoring Report due by the end of 2012. The key input to be provided by the NRAs to ACER is the data that has been identified as necessary by ACER and discussed with NRAs. It is ACER's intention to report on electricity interconnections management and use on the basis of previous work done in connection with past regional reports. It has however been agreed that the analyses will be less detailed because validated and accurate, detailed data is difficult to obtain.

In addition, NRAs may decide to produce monitoring reports devoted to a particular event.

5 ANNEX 1: The 8th Region

The 8th electricity region¹⁰ participates in ACER's coordination work. Streamlining milestones and actions with the European target model, the opening up of the 8th region's wholesale electricity market follows the South East European Regional Action Plan¹¹.

5.1 *Implementation of a cross-border continuous intraday trading system across South East Europe*

5.1.1 *Description of the project*

At the moment, the introduction of a specific cross-border continuous intraday trading system across the 8th region is not planned.

5.1.2 *Key milestones*

Once a decision to implement a cross-border intraday system in the 8th region is taken, the key milestones will be defined accordingly.

5.1.3 *Review of progress during this quarter*

Not applicable.

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

Not applicable.

¹⁰ The 8th region was established following a [decision by the Ministerial Council](#) of the Energy Community on 27 June 2008 with a view to implementing a common procedure for electricity congestion management and transmission capacity allocation at regional level. **The 8th region groups together the Energy Community (www.energy-community.org) Contracting Parties** (Albania, Bosnia and Herzegovina, Croatia, former Yugoslav Republic of Macedonia, Moldova, Montenegro, Serbia, UNMIK and Ukraine) and the **six neighbouring EU Member States** Bulgaria, Greece, Italy (limited to its interconnections with Contracting Parties), Hungary, Romania and Slovenia.

¹¹

http://www.ecrb.eu/portal/page/portal/ECRB_HOME/ECRB_DOCUMENTS/PUBLICATIONS/ELECTRICITY/2011/RAP_FINAL%20approved%20%20ECRB17%20_CLEAN__PUBLISHED%20VERSION%20incl%20ENTSO_E%20RG%20SEE%20logo.pdf.

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

5.2.1 Description of the project

The fact that there is still no regionally coordinated capacity allocation mechanism remains a key concern, in terms of both market liquidity and compliance with EU law. Unharmonised congestion management schemes are a barrier to cross-border electricity trade and the establishment of a regional electricity market. Even though the TSOs of all Energy Community Contracting Parties, except Moldova¹² and Ukraine, have already introduced market-based capacity allocation mechanisms (based on NTC auctions) for congestion management at their borders, there is insufficient harmonisation in the region. In particular, inconsistent gate closure times and auction products are a barrier to international energy trading. It was thus decided to work on the establishment of an SEE Coordinated Auction Office (SEE CAO) to perform coordinated NTC-based capacity allocation in the starting phase and to switch to flow-based capacity auctioning at a later stage.

The expected advantages of coordinated allocation, which will be performed by the SEE CAO are:

- higher degree of market harmonisation;
- simplicity for market participants ('one-stop-shop' solution with common set of Auction Rules and one IT system) and increased transparency.

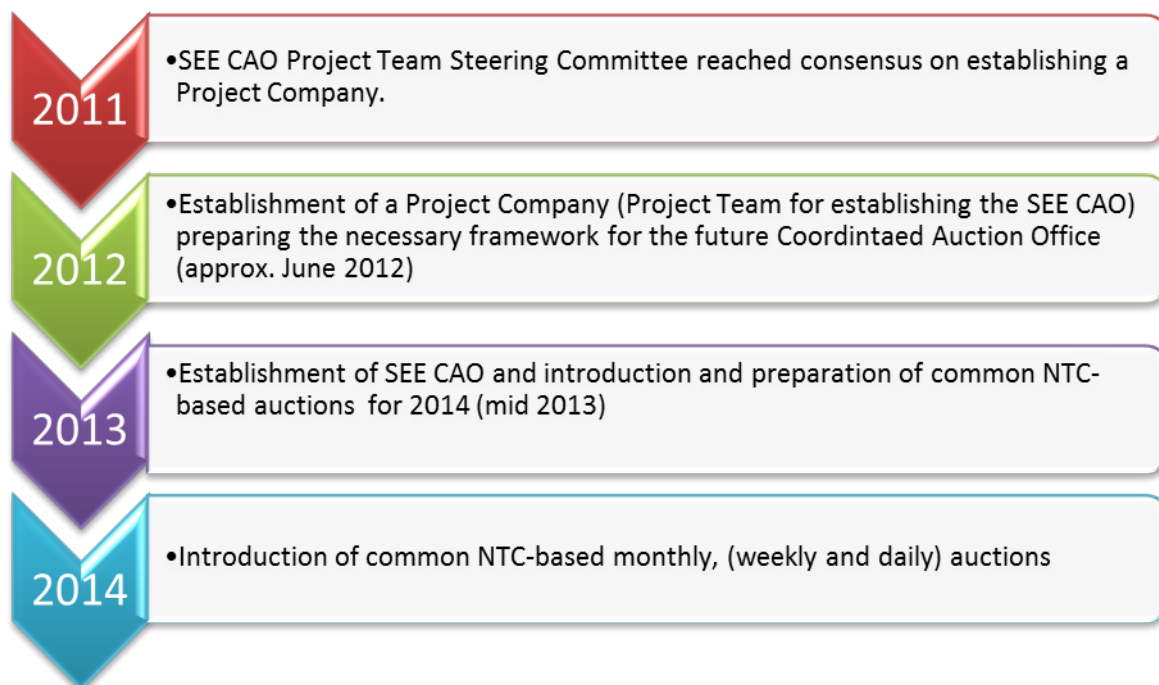
Implementation of a load-flow-based mechanism for cross-border capacity allocation is envisaged at a later stage.

In parallel, the TSOs of Serbia, Hungary and Croatia started to implement joint auctions with their neighbouring TSOs. This improved the situation with regard to the harmonisation of auctioning systems.

5.2.2 Key milestones

It is envisaged that the SEE CAO will be established in two steps. As a first step, a project company (Project Team for establishing the SEE CAO), owned by the participating transmission system operators, will be established in Montenegro by mid-2012. Experts working for this project company on a full-time basis will prepare the necessary legal, financial and technical framework for the future SEE CAO.

¹² With regard to the Republic of Moldova, the draft regulation transposing EU Regulation No 1228/2003, with further amendments, has been finalised but approval is pending until primary legislation has been amended.



5.2.3 Review of progress during this quarter

<p>Significant achievements in the period</p>	<ul style="list-style-type: none"> - All Contracting Parties' TSOs, except the TSOs of Moldova¹³ and Ukraine, have introduced market-based mechanisms for cross-border auctions, namely explicit NTC-based auctions. - Yearly and monthly allocations have been introduced at all electricity borders whilst weekly and daily allocations have been introduced only at some borders. - Intraday allocations are also available at a number of borders, but are not market based (first come, first served). - Several TSOs started to implement joint auctions in 2011 (see Fig. 2), and more common auctions are expected to be implemented during 2012. This will facilitate electricity trading in the 8th region till the end of 2012. - Although the SEE CAO project has experienced some delay in the past, remarkable progress has been made in recent months by the TSO's involved, in close cooperation with International Financing Institutions (IFI). There is now a well-founded expectation that a TSO-founded company responsible for preparing the operational kick-off of the SEE CAO can start activities by mid-2012. The company is supposed to complete its work within one year, including elaboration of the Action Plan, Business Plan and Auction Rules. SEE NRAs will be responsible for approving the SEE CAO Auction Rules and other relevant documents, while respecting the recommendation of the ECRB
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¹³ See footnote 12.

	at the regional level. It is also realistic to expect that SEE CAO operation could start within one year.
Obstacles or delays in implementation	
Potential divergences from the FG on CACM	
Comments	

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

Not applicable.

5.3 Implementation of a flow-based allocation method in highly meshed networks

5.3.1 Description of the project

Following the implementation of a coordinated NTC allocation mechanism, the implementation of a flow-based capacity calculation and allocation method within the SEE Coordinated Auction Office should be considered as a next step, after the decision of the interested SEE TSOs upon approval of the SEE NRAs, to improve:

- economic signals: for planning transmission network expansions (TSOs) and the location of new power plants/large consumption units (market participants);
- system security: improved identification of critical transmission network conditions at regional level.

5.3.2 Key milestones

So far no milestones for the implementation of flow-based allocation have been defined.

5.3.3 Review of progress during this quarter

Not applicable.

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

Not applicable.

Progress Review in the implementation of other important areas

In this section, NRAs of the 8th Region review achievements and obstacles, at regional level, in other important dimensions/areas for the completion of the Internal Electricity Market.

5.4 Transmission development plans

Since the 8th region's national transmission grids are relatively small, regional transmission network planning is of utmost importance. The SEE TSOs are therefore actively participating in the relevant ENTSO-E working groups. In addition, the SECI transmission planning project provides a platform for the TSOs to exchange information about ongoing transmission projects. SEE TSOs are actively contributing to the development of the ENTSO-E Ten Year Network Development Plan, thus involving the SEE transmission grid in the pan-European context.

5.5 Development of cross-border balancing

Although the importance of cross-border/regional balancing for the 8th region has been recognised by all stakeholders and feasible approaches have been investigated in the past, further development of a regional balancing mechanism is currently on hold until day-ahead cross-border auctions are introduced throughout the whole region.

5.6 Transparency

A minimum common level of fundamental data transparency is a precondition for the efficient functioning of wholesale electricity markets. As soon as the Transparency Comitology Guidelines are approved, NRAs will report progress with the implementation of the new transparency requirements at regional level.

In order to increase Market Transparency most of the SEE TSOs are participating in the ENTSO-E transparency web platform. The quality of the SEE TSOs' websites has been improved. However, none of the TSOs is in full compliance with the obligations arising from the CM Guidelines.

5.7 Management and use of interconnections

The situation with regard to management and use of interconnections has further improved recently. Thanks to the implementation of the marginal price mechanism on all Serbian borders, the cross-border capacity allocation mechanisms applied have been further harmonised.

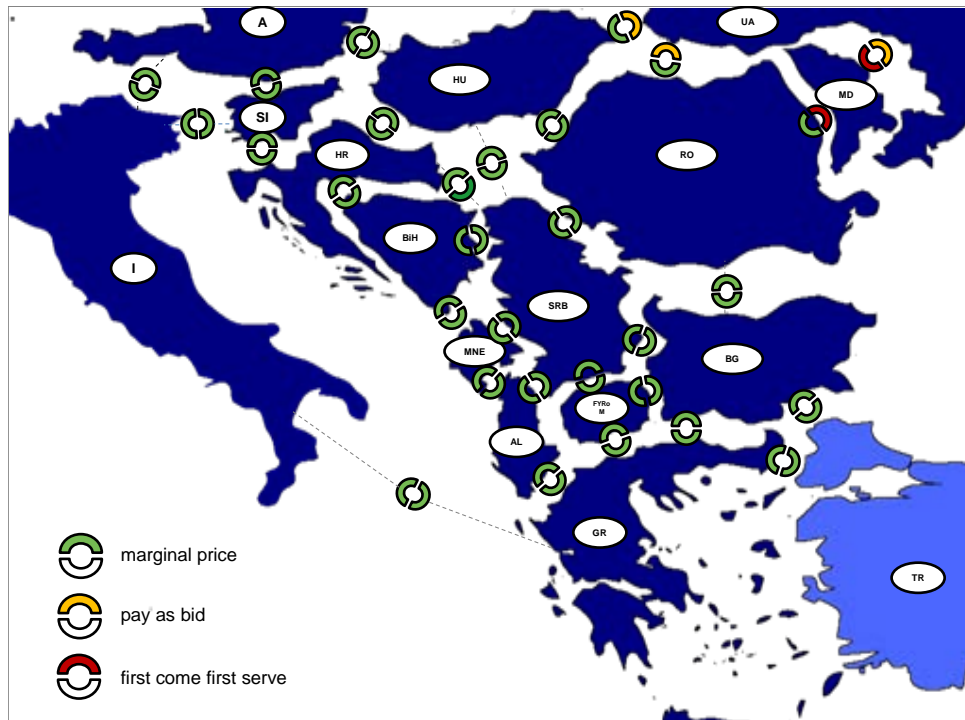


Fig 1: Mechanisms for capacity price determination in the 8th Region

In addition, several TSOs have started to implement joint auctions with their neighbouring TSOs, and this could be seen as another step towards harmonisation. (See Fig. 2)

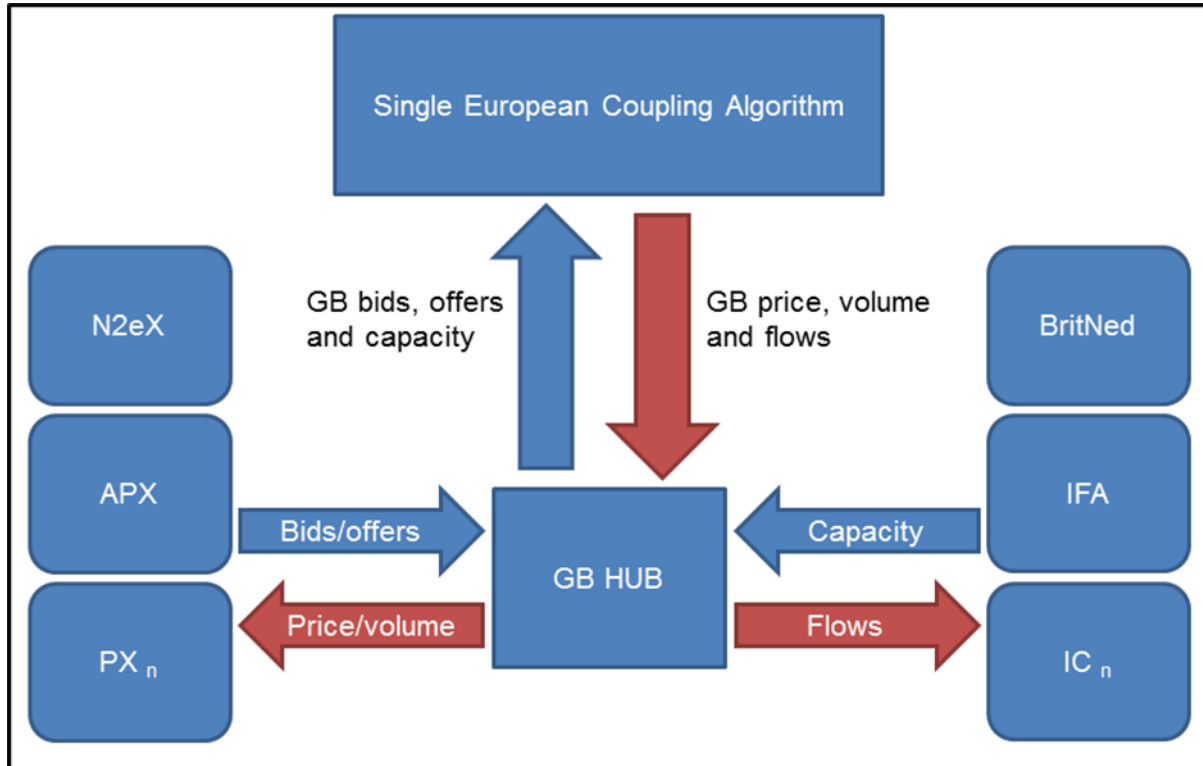


Fig 2: Cross-Border Capacity Allocation Mechanisms in the 8th Region

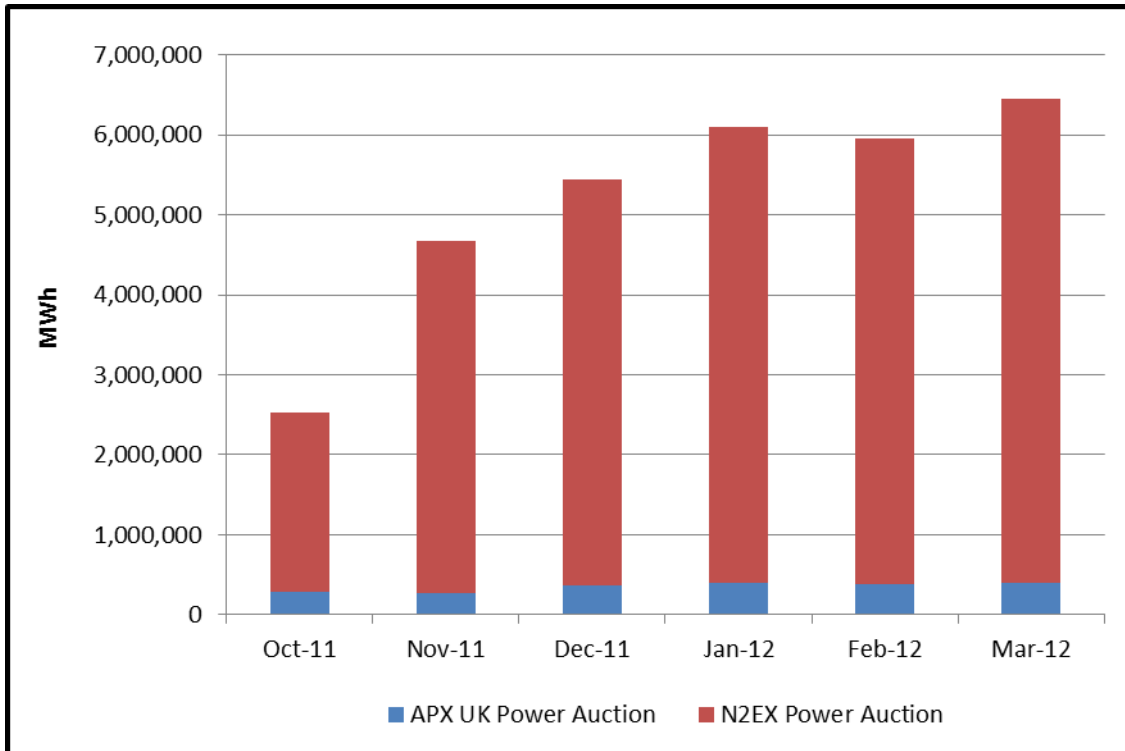
6 ANNEX 2: Selection of GB Hub

6.1 GB Hub development

- National Grid Interconnector Limited (NGIL) has selected Nord Pool Spot (NPS) as the GB Hub operator. The purpose of the GB Hub is to ensure coordinated capacity allocation on GB interconnectors and to facilitate competition between GB power exchanges in the day-ahead and intraday timeframes. The role the GB Hub is expected to play in the day-ahead timeframe is explained below.
- We expect that the GB Hub will act as the GB market coupler in the NWE Day-Ahead project. The GB Hub will pool GB day-ahead auction results (bids and offers), together with available interconnector capacity, and submit this information to the single European coupling algorithm. The European coupling algorithm will then calculate a GB clearing volume and price, as well as GB interconnector flows, for each hour of the subsequent day. The GB Hub will then submit the cleared volumes and prices back to the individual PXs and hourly flows back to each interconnector.
- The figure below shows the role of the GB Hub in ensuring efficient allocation of cross-border capacity.



- There has also been a marked increase in volumes traded on the GB day-ahead power auctions operated by APX-ENDEX and N2EX. The graph below shows the total traded volumes for the last six months.





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