

## 5<sup>th</sup> PCG Meeting

8 July 2009 from 11:00 to 16:30 hours

CEER offices, Brussels

### MINUTES (V2)

Participants			
Asta	SIHVONEN-PUNKKA	EMV (Finland)	Chair
Matti	SUPPONEN	European Commission	
Tadhg	O'BRIAIN	European Commission	
Ritva	HIRVONEN	EMV (Finland)	
Tahir	Kapetanovic	E-Control (Austria)	
Rafael	Gomez-Elvira	CNE (Spain)	
Christophe	GENCE-CREUX	CRE (France)	
Ulrike	HANSEN	BNetzA (Germany)	
Alain	MARIEN	CREG (Belgium)	
Giuseppina	SQUICCIARINI	AEEG (Italy)	
Peter	STYLES	EFET	
Jonas	TORNQUIST	EFET	
Andrew	McIntosh	ENTSO-E	
Ashefani	Alemu	ENTSO-E	
Marcel	CAILLIAU	EURELECTRIC	
Ruud	OTTER	EURELECTRIC	
Anne Malorie	GERON	EURELECTRIC	
Andrew	CLAXTON	EuroPEX	
Jose Javier	GONZALEZ	EuroPEX	
Salvatore	ZECCHINI	EuroPEX Chairman	
Christian	Dobelke	transpower	
Natalie	MCCOY	CEER Secretariat	

## 1. Opening

*The meeting opened at 11h05 Asta Sihvonon-Punkka (EMV, Finland) in the Chair.*

### 1.1. Approval of the agenda

The Agenda was approved in the form shown in these minutes.

## 1.2. Review of agreed action points<sup>1</sup>

Action	Description	Who	When Due	Status
D-090518-01	Co-existence of OTC and PTR/FTR for forwards	Paul Dawson (EFET)	before next PCG meeting in July	DONE
D-090518-02	ENTSO paper on PTR/FTR to be circulated to the PCG	ENTSO-E	asap	DONE
D-090518-03	Comments to PCG slides for Florence Forum	all	20 May COB	DONE
	Revised slides circulated by PCG Chair	PCG Chair	22 May	DONE
D-090518-04	The Chair welcomed comments to the draft Florence Forum conclusions within this week (at the latest noon on Monday (25 May)).	All	25 May COB	DONE

## 1.3. Approval of the minutes of the last meeting

The minutes were approved with one minor correction.

## 2. Discussion on the Florence Forum and next steps

The Chair thanked the members for their input to the PowerPoint presentation for the Florence Forum. Following the Forum, and as expressed in the Forum Conclusions, 2 tasks are expected of the PCG:

- 1) to finalise the elements of the target model by summer 2009;
- 2) to prepare a roadmap on regional and interregional implementation of the target model, in cooperation with ERGEG Regional Initiatives.

The PCG will report on its work to the next Florence Forum in December 2009 in Rome.

EFET (Peter Styles) reiterated its commitment, but is approaching the work with caution, as there are complex questions to address. The Chair feels that the PCG's work is important, at the very least, as a way of understanding the views of the various stakeholders.

The target model on congestion management could and should feed in to the development of framework guidelines and network codes within the context of the 3<sup>rd</sup> Package. The work of the PCG is thus complementary to the future legislative framework, although its results can of course also be used independently or as input to the comitology guidelines. The Chair confirmed that ERGEG has strengthened its following of the PCG Workstreams and ERGEG's preparations for input to the future framework guidelines has started. A core team (3-4 people per PCG Workstream) within ERGEG has been formed in order to better harness and to contribute to the PCG's work.

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<sup>1</sup> These are outstanding points from previous meetings, for the present meeting's actions and decisions see the end of this document.

The European Commission (Matti Supponen) outlined some of the possible scenarios for the follow-up of the PCG's work. This process could provide the basis for a European market design, which would then feed into the framework guidelines and network codes.

ENTSO-E (Andrew McIntosh) commented that the key open issues being discussed in PCG are at the heart of the issues that will arise in the development of the guidelines and codes.

EuroPEX (Andrew Claxton) enquired how to achieve the uptake/approval of the PCG's work by the stakeholder organisations (beyond the individuals in the PCG).

With regard to preparing the roadmap, the Chair outlined several stages between 2010 and 2015 for the implementation of the target model. Each Workstream should work to similar timeframes. In addition, tailor-made timings could be prepared for each region. In the first instance a European model should be agreed. The Chair also proposed a standardised template for each Workstream to present its target model – a table of contents. The documentation from each Workstream will be included in the final PCG document on the target model. **Guidelines on how each Workstream can prepare its report will be prepared and circulated.**

The Chair introduced some guiding principles for the work of the PCG in order to provide terms of reference guidance to the group's members. The guiding principles presented set out:

- the goal of the PCG;
- the vision;
- the key success factors;
- the roles and responsibilities and participation in the PCG;
- relationship to other initiatives;
- structure, organisation and planning of workstreams; and
- external communication.

The Chair reiterated that the Workstreams are not expected to prepare a single agreed solution, but rather prepare the positions, and discussions (and agreement) can be taken to the PCG.

With regard to external communication and improving the transparency of the PCG, **the Members agreed that the agenda and minutes will be published once they have been approved, starting with this meeting.** A special section of the ERGEG website will be created for this purpose. Other material, i.e. agreed output, will be decided on a case-by-case basis, and by exception.

### **3. Network modelling and capacity calculation WS**

The Workstream has agreed on a number of issues regarding how to compute (global) social welfare, in particular as regards social welfare maximisation, the economic welfare criterion and the proxy for social welfare in explicit auctions. These issues are used in the definition used for capacity allocation.

### **4. Day-ahead market WS**

ENTSO-E (Ashenafi Alemu) reported on the discussions in the Workstream. As a next step, the Workstream agreed they do not have to resolve all the open issues before working on the roadmap. Work will therefore begin with a fuller description of the target model (criteria and requirements) and identification of key elements that need further elaboration.

EuroPEX (Andrew Claxton) presented the design prerequisites for the target model on day ahead. There will need to be a power exchange operating a market in each hub. There will need to be harmonisation of critical aspects (gate closure time, fallback procedures, etc) at a procedural level. Price coupling should be agreed, i.e. a single common algorithm used by all markets across the region. Also, there should be compatibility of bids specifications/market rules and there should be conditions for transmission capacity between bidding areas.

Regarding governance issues, some will only be solvable through practical experience.

There are 3 types of approach to the roadmap:

- Top-down market design project – prescribing specific design rules, with no region-specific reference for particular initiatives and facilitating market integration by ensuring compatibility of each region solution through standardisation;
- Outline regional sequence for coupling – prescribing subsequent steps for all regions with concrete order for coupling;
- Geographic/current project-based – evaluating current projects in terms of key elements of the target model, and identifying certain lead projects to develop aspects of the target model.

The question of the style of roadmap may well be relevant for the other time frames.

The Workstream advises having price coupling with a single algorithm as the target model.

Eurelectric (Ruud Otter) presented a proposal for a roadmap, which is a mixed approach bottom-up/top-down with intermediate volume coupling and the introduction of flow-based and a single algorithm step-wise. The Workstream's work should focus on capacity allocation, rather than capacity calculation, and will concentrate now on how to implement price coupling regardless of the underlying capacity calculation. The E-Bridge study could feed into this work. The work should also involve a 'back-to-basics' explanation of what is meant by price coupling and other terms.

## **5. Presentation by E-bridge on market coupling solutions**

Mr. Christian Dobelke gave a presentation on an interim report by consultants E-Bridge on market coupling between the Central West and Nordic regions. The study was commissioned by the TSOs and power exchanges in the 2 regions (i.e. 15 project partners). By way of background, there are market coupling projects ongoing in each of region. The next step of how to bring the regions together ultimately is also important to consider. A single coupling between the 2 regions should result in an increase in socio-economic benefits.

The presentation outlined one-region and multi-regional loose and tight volume coupling options; the five central functions of the market coupling; governance principles; organisation (legal entity vs. contractual framework; and evaluation criteria (qualitative and quantitative).

The report concludes that a one-region price coupling is conceptually the most preferable, although there would be implementation challenges – in the setting up of new cooperation agreements and operation structures, which replace the existing ones in the coupled regions.

One challenge of a one-region price coupling is the need to agree a single algorithm for the region. Another is the consideration and treatment of renewables in each region. This is an issue which will need to be addressed generally in market operations.

One suggestion for addressing the use of capacity in the long-term vs. day ahead was to move to a definition of financial rights (instead of physical).

## **6. Intraday market WS**

EuroPEX (Jose Javier Gonzalez) presented an update of the Workstream's work. The WS proposes to start with ATC-based and then upgrade in future to flow-based when manageable by TSOs and fully understood by stakeholders. The best thing is to have intraday mechanisms everywhere. The implementation could begin country by country and then spread wider.

There are 2 models presented as a result of the discussions in the workstream:

- A) hybrid model based on continuous trading, complemented by implicit auctions; and
- B) hybrid model based on implicit auctions, complemented by continuous trading.

Model A provides a pragmatic solution to deal with additional cross-border capacity. Intraday auctions would only be held when new capacity (huge amounts, at a high value) is introduced. There would also be the possibility to 'freeze' continuous trading.

In Model B, the amount of continuous trading can increase or decrease depending on the number of auctions that have been held. The intraday model should be based on day ahead implicit auctions. As soon as an auction is completed, continuous trading is opened for the hours during which there won't be an auction.

One open issue in the Workstream is how to include OTC in a market-based and non-discriminatory manner.

The PCG Chair proposed to **assess the 2 options for an intraday model by certain criteria, reviewing the pros and cons of the 2 methods for discussion at the next meeting**. The question is also whether only one model is possible or whether they can coexist.

ENTSO-E (Andrew McIntosh) commented that there are 2 other models –wholly continuous trading and wholly explicit auctions – in addition to A and B (which are variations of one model).

Eurelectric (Marcel Cailliau) explained that in fact these two models are underlying starting points of the hybrid system. Models A and B are the result from the workstream discussions.

EuroPEX (Andrew Claxton) commented that the key is to find a single solution which can be applied and that we should focus on any improvement in current conditions, even if it is not the ultimate perfect solution – any model would provide more clarity than currently exists.

Eurelectric (Marcel Cailliau) proposed that the Commission consultant review experienced efficiency of the underlying two options (continuous trading and intra-day auctions) that are currently in operation.

## 7. Forward market WS

EFET (Jonas Tornquist) reported on the work of the Workstream. The Workstream has prepared a draft paper on the issues it is discussing and the plan is to further develop it and then circulated to the next Workstream meeting. (18 August). The PCG has also discussed briefly Paul Dawson's paper on OTC. **EFET invited the PCG to provide written comments to the paper**, as the paper had been asked for by the PCG.

The paper assesses the efficiency of integrating physical cross-border OTC trades within day-ahead market coupling for the operation of the market and goes through a number of rules. Following Members' comments, the Workstream can develop views/agreement on the main issues. Where agreement is not universal, options will be presented.

## 8. Governance issues WS

Discussions on the work in this area will be covered during the next PCG meeting.

## 9. Any other business

No other business.

## 10. Next meetings

**7 October – ENTSO premises, 10h30**

**2 November – Commission premises (tbc), 11h00**

**30 November – CEER premises, 11h00**

*The meeting adjourned at 16h58.*

## 12. Summary of all ongoing and outstanding action points:

Action	Description	Who	When Due	Status
D-090708-01	The PCG meeting agenda and minutes will be published on the ERGEG website, starting with this meeting.	ERGEG	As soon as possible after their approval	PENDING
D-090708-02	Guidelines on how each Workstream can prepare its report will be prepared and circulated.	PCG Chair	As soon as possible	PENDING
D-090708-03	The 2 options for an intraday model will be assessed by certain criteria, reviewing the pros and cons of the 2 methods for discussion at the next PCG meeting.	Intraday Workstream	Before the 7 October PCG meeting	PENDING
D-090708-04	EFET invited the PCG to provide written comments to the paper provided by Paul Dawson on OTC trading.	PCG members	Before the 18 August Forwards Workstream meeting	PENDING