

## 7<sup>th</sup> AHAG Meeting

Tuesday 2 November 2010 10:30 to 17:00

ENTSO-E offices, 80 av. Cortenbergh, 1000 Brussels

### FINAL MINUTES

| Participants |                 |                     |           |
|--------------|-----------------|---------------------|-----------|
| Asta         | Sihvonen-Punkka | EMV (Finland)       | Chair     |
| Rafael       | Gomez-Elvira    | RIG (EREGEG)        |           |
| Tahir        | Kapetanovic     | E-Control (Austria) |           |
| Alain        | Marien          | CREG (Belgium)      |           |
| Francesco    | Cariello        | AEEG (Italy)        |           |
| Charles      | Verhaeghe       | CRE (France)        |           |
| Sabrina      | Mlynek          | BNetzA (Germany)    |           |
| Jean-Pierre  | Becret          | CEFIC               |           |
| Martina      | Beitke          | CEFIC               | Excused   |
| Jonas        | Tornquist       | EFET                |           |
| Hakan        | Feuk            | EFET                |           |
| Christian    | Dobelke         | ENTSO-E             |           |
| Jakub        | Fijalkowski     | ENTSO-E             |           |
| Frank        | Vandenberghe    | ENTSO-E             |           |
| Ritva        | Hirvonen        | ENTSO-E             | Via phone |
| Andrew       | Claxton         | EuroPEX             |           |
| Juan         | Perez           | EuroPEX             |           |
| Javier       | Gonzalez        | EuroPEX             |           |
| Gunnar       | Lundberg        | Eurelectric         |           |
| Marcel       | Cailliau        | Eurelectric         |           |
| Peter        | Claes           | IFIEC               | Excused   |
| Matti        | Supponen        | European Commission |           |
| Natalie      | McCoy           | CEER Secretariat    |           |

## 1 Opening

*The meeting opened at 10h33 Asta Sihvonen-Punkka (EMV, Finland) in the Chair.*

### 1.1 Approval of the agenda

The Agenda was approved in the form shown in these minutes. The Chair informed the members

that the ERGEG conclusions paper on long term auction rights is not yet available, as it is currently undergoing a final approval within ERGEG.

The Chair introduced an additional agenda item (2) to review progress on AHAG's tasks and mandate.

## 1.2 Approval of the minutes

The 6<sup>th</sup> AHAG minutes were approved with changes.

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

| Action      | Description   | Who                   | When Due                    | Status  |
|-------------|---|-----------------------|-----------------------------|---------|
| A-100921-01 | The Intraday Project team will prepare a draft plan for reaching the target model (steps which need to be taken) for discussion at the November AHAG meeting. | Intraday project team | 26 October 2010             | PENDING |
| A-100921-02 | ENTSO-E and EuroPEX were requested to work on a joint proposal that covers both NWE and PCR initiatives   | ENTSO-E and EuroPEX   | First draft 2 November 2010 | PENDING |
| A-100921-03 | CEFIC will give its presentation on LT transmission rights at the next AHAG meeting   | CEFIC                 | 2 November 2010             | PENDING |

## 2 AHAG activities

The Chair provided a recap of the work AHAG as requested from the Florence Forum in June 2010. The Forum emphasized the need to continue the work and to reach the targets approved for each working group including the monitoring of the progress of existing implementation projects. The June Forum welcomed the PXs initiative (PCR) and asked that they ensure it is in accordance with the emerging governance framework. The Forum also stressed the need for cooperation between regulators, TSOs and PXs.

Regarding intraday market governance arrangements, ERGEG (Alain Marien) reported that there will be a meeting between the CWE and Nordic regulators 9 November meeting and another on 15 November involving the CWE and Nordic TSOs and CWE and NORDIC PXs too.

The June Forum supported the idea of the Commission drafting a governance guideline for day-ahead and intraday markets and welcomed the intention to present a first draft to the next (December 2010) Forum. The Forum then stressed that ongoing projects in both market time frames should not be stopped, but should take due account of the common governance framework.

EFET (Hakan Feuk) noted that there might be other ongoing initiatives (in addition to NWE, PCR, CWE/ITVC, etc) which could be considered/monitored by AHAG. One such project could be the Central East Europe region – which in some ways, is covered by the CWE project, from which it is adopting the approach.

Other examples include Italy-Slovenia, Germany-Switzerland, Hungary-Austria, Polish connection

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

to Nordpool and the Britned/GB coupling to CWE/NWE.

EuroPEX (Andrew Claxton) proposed that rather than undertaking individual updates of all projects, it could be useful to develop a number of key issues/steps/factors for the projects and to update how each project has addressed it in a spreadsheet format.

ERGEG (Rafael Gomez-Elvira) noted that within ERGEG there is already coordination of ongoing regional projects and that this report could be used as a basis for reporting to the AHAG.

CEFIC (J-P Bécrot) reminded that the Florence Forum also noted the consumer request to improve Target Models, mainly the optimization of zone sizes, the possibility to conclude long-term international contracts and governance rules for Px. CEFIC reiterated its request to study price zone optimization. It also suggested that either this committee or a future project group should deal with long-term capacity management, because the capacity calculation project focused on short-term.

### 3 Day-ahead and governance

#### 3.1 Day-ahead and governance project - update

The European Commission (Matti Supponen) gave an update on the work of the governance framework. In an effort to be very transparent, a draft options paper has been circulated to the members. This draft is not the guideline itself and is for discussion. The aim is to present a final options paper to the December Florence Forum. An impact assessment is also being planned. The hope is to deliver that in spring 2011, with the draft guideline also being available before summer 2011. It could then be presented to the comitology committee in autumn 2011, with a view to its adoption in spring 2012.

Regarding the draft proposals, EFET remarked that it does not see the need for Member States to designate one or several power exchanges. With a single algorithm, the market can play a bigger role on what kind of exchanges one can choose to trade with. The costs of developing the algorithm should be paid by network users.

Eurelectric agreed with EFET and has a number of comments, which it will share bilaterally with the Commission. **The other AHAG members might also send their written comments to the Commission on the governance options.** One issue for Eurelectric is that another option in the paper could be that PXs delegate the matching task to one entity, PXs still remaining responsible for collecting bids and the settlement.. There is also some concern that the proposed criteria and framework for PXs could serve as a barrier/dissuasion to new PXs entering the market. The members of the advisory board should be composed of the users/participants, while the operators (PXs/TSOs) should be in a “listening” mode to the requests and comments from the users/participants.

EuroPEX explained that PCR is constructed on the basis of the current situation of the PXs across Europe. One of the basic principles of PCR is not to modify what does not need to be modified. The PCR solution is an open solution supported by EuroPEX which is gathering all existing PXs in Europe.

EUROPEX (Javier Gonzalez) indicated that the possibility used today by several MS to regulate PXs should not be questioned by the Governance Guideline while the compatibility of the different arrangements possible in the different MS be included in it.

ENTSO-E favors having identical governance arrangements for both intraday and day-ahead timeframes.

EFET noted that the algorithm is a ‘public good’ and so requires a separate governance framework. As a public good, it should be financed by network users. It should be kept in mind that this day-ahead issue is only one of the services undertaken by PXs.

EuroPEX (Juan Perez) observed that PXs are responsible for ensuring the fair and competent operation of their markets, and that the matching process is a core element of this responsibility.

The Commission concluded that it is the Member States' role to either mandate one responsible party or to leave the floor open. This needs to be discussed further with DG Competition. The Member States could also decide to close its market to competition. Regarding the matching task, the project team has started from the principle that this is done by the PXs. There is no detail as to how PXs should organise this work, so long as the result is final. Regarding the role of ACER, it will have increasing role in a variety of areas. ACER has decision-making powers regarding cross-border issues – and this could be utilized in this context. It is as yet premature to confirm that the governance framework for intraday can be identical to day-ahead – this will depend on the approach that is agreed for intraday markets. The Commission hopes to present a final draft to the December AHAG. It would welcome an endorsement of its proposals by the Florence Forum, with the 'go-ahead' to proceed with a guideline.

CEFIC noted that two issues seem to lack in governance rules:

because of monopolistic position, the PX tariffs should be regulated and their yearly membership fees should be tailored according to volume (some users could not import/export their energy needs due to high yearly fees);

because D-1 PX is the last moment to do offers influencing market price (DA, Forwards), a governance rule should impose generators to provide PX with their previously unsold capacity.

## **3.2 Updates on the initiatives**

### **3.2.1 ITVC**

The launch date is 9 November and work is progressing. There are still a couple of issues which are not fully resolved. A final decision on whether or not they will go live will be taken on 5 November. A fall back launch date could be 30 November in the worst case. Norned will join by mid-January 2011.

### **3.2.2 NWE Project**

The NWE TSOs have prepared position papers on 'enduring day-ahead and intraday solutions'. A meeting between NWE TSOs and NWE PXs took place on 21 October to discuss the next steps, in parallel to the governance framework discussions. The parties have discussed on 8 identified key topics. In terms of the scope, the project must be extendable to the entire EU (currently covers 3 regions). The aim is to have day-ahead and intraday framework in place by end 2012. One question is how to deal with the SOB contract and also how to deal with congestion rent revenue and cost recovery. Further meetings between the NWE TSOs and NWE PXs are planned for November (18) and December (21). The aim is to have a common presentation for the Florence Forum. Following this, the parties involved could sign letters of commitment to truly kick-start the project.

### **3.3.3 PCR**

EuroPEX has circulated a position paper which outlines how the PCR project is designed, who does what, etc. None of the current algorithms fully meets the needs of regions currently covered by PCR and the team is working to find the one that can serve as the 'basis' for PCR. Regarding governance, there is discussion as to how best address principles of co-ownership and use of the algorithm.

In terms of next steps, there are a number of questions:

How would AHAG like PCR to report to it? High level planning? Progress against the plan? Risks

and issues?

Also, **EuroPEX would welcome feedback from stakeholders on its draft PCR paper.**

One question from AHAG's side is how this work can relate to the cooperation between TSOs and PXs in the NWE project. EuroPEX confirmed that this project is the avenue by which European PXs will develop, not only the NWE PXs contribution to the NWE project, but to other projects and existing Regional markets in other parts of Europe, since the objective of the PCR from the starting point is to develop a solution for all Europe..

EFET suggested that given the many initiatives and activities which are underway, it might be a good thing for AHAG to have an overview of how these all fit together and within the PCG target model.

EURELECTRIC, for its part, insisted that PXs and TSOs would come up with a joint proposal at the next December Florence Forum with a clear implementation roadmap and timetable. ENTSO-E and Europex agreed that this would be their common target.

Regarding the 'running' of the common algorithm, this will be done with parallel redundant calculations with by rotation of the master role by one of the few performing PXs. This will mainly concern verification of the data and procedure application in case of problems. Redundancy will allow for partial decoupling and efficient fallback scenarios.

All PXs will have the ability to calculate the results using the same algorithm and data. Some PXs may choose not to do this and appoint another PX to do this on their behalf, as in the HUPX and Belpex examples.

PXs explained that they anyway need to use the algorithm to produce prices in decoupled situations to guarantee that prices always are formed for each market. It is the intention of PXs to start using all of them the same PCR algorithm, even before being all price coupled.

The Commission presented a draft possible sequence of European market coupling – updating the timeline presented to the 2009 December Florence Forum. The chart provides a possible sequence of joining regions and markets. It was noted that PCR offered a way by which extension across Europe could be achieved by several “oil slicks” extending and merging, rather than only one slick extending. This could be indicated on the roadmap by showing when different regions adopt the common matching solution.

#### **4 Capacity calculation project**

ENTSO-E (Ritva Hirvonen) presented an update on the deliverables of the capacity calculation project (vis-à-vis its terms of reference). All of the tasks have been started, with a couple still under discussion. Since the September AHAG meeting, the project team has discussed zone issues and reliability margins.

Regarding zones, there is a trade-off to be considered between the size of the zones (where smaller zones can help to reduce moving internal congestions to the borders) and the impact on liquidity and competition (where larger zones may help define stable prices).

EFET (Jonas Tornquist) remarked that there are different approaches to how to define zones and there are clearly pros and cons to each approach. There are different models with lots of criteria, which should be examined systematically – to allow for an informed debate. He proposed a structured approach to discussing this topic – before moving to a choice of zones.

Eurelectric (Marcel Cailliau) added some other aspects like competition at retail level, where larger zones can support competition and generation investment climate that is definitively more supported in larger zones.

CEFIC (Jean-Pierre Bcret) remarked that the problem is not congestion, because a good flow-

based method respect grid constraints, but rather the no-declaration of injection/off-take node of each offer, obliging TSOs to foresee these ones via GSK; in this context, smaller “bidding zones” delimited by congestions would improve TSO calculation precision. On the other hand, “Price Zone” should become larger to create competition between several generators in each zone. The Bidding Zones and the Price Zones should be distinguished, with several Bidding Zones within one Price Zone. The study should optimize sizes of both, Price and Bidding, Zones, considering all timeframes. CEFIC reminded that the sole existence of a border, the capacity allocation of which is limited in duration and volume, strongly restricts competition from foreign generators when negotiating bilateral contracts. CEFIC also said Price Zone size might vary between ID, DA and long-term markets.

Eurelectric (Gunnar Lundberg) noted that regarding the competition issue, if there is a dominant actor on one side, the size of the zone is irrelevant, as the dominance is there.

ENTSO-E (Frank Vandenberghe) noted that in terms of the proposal to separate bidding and price zone, there are a number of issues that should be considered – this could a question of paradoxical pricing and gaming – if the price is not related to the bidding.

ERGEG (Alain Marien) underlined the difficulties which have been identified in the CWE project. The size of the zone could affect the calculation of the base case for market coupling.

EuroPEX (Andrew Claxton) supported ERGEG’s concern, pointing out that there was a risk of ever decreasing amounts of capacity being made available to allocate. However, the issue should not be addressed piecemeal: the technical analysis was not by itself sufficient.

The project team has begun a discussion on the criteria for defining bidding zones. It is focusing on the technical aspects of zone definition. The criteria depends on actual analysis. The CWE region has been asked to undertake a study of the issue – which will feed into the project team’s discussions. It is likely that the TSOs of the CWE region will undertake the study - and will provide proposals to the regulators. It will be important to reflect that the study only considers one aspect of zone definition.

The Chair noted that now that the regulators’ framework guideline has been published, this detailed issue will need to be taken forward within the capacity calculation network code. For this, an impact assessment should be applied – to provide an indication of which approach to zones should be used.

*As transmission costs are low (~5 %) with regard to energy prices, actions of TSOs, adding some costs but improving competition, would be welcomed.*

To a certain extent, these issues address short term difficulties and responses. In the long term other solutions – more infrastructure, more generation – could resolve many issues. ENTSO-E argued that the time needed for each solution is also a factor – such that if it takes 3 years to re-size the zones for a ‘quick win’, is it perhaps more advisable to wait a few years longer to have new lines which address the problem for the longer term.

CEFIC (J-P Bécrot) reminded the members that the Florence Forum admitted consumers to AHAG and work on market design improvement. Until now, they have limited their demands to three issues. CEFIC estimates that Price Zones size optimization must be studied, in short delay, by AHAG or its Cross-Border Capacity Calculation project.

ERGEG (Tahir Kapetanovic) informed the members of a workshop on 10 November between TSOs and regulators to discuss redispatching costs, counter-trading. The questions for the meeting will be circulated for information to the AHAG members.

Regarding reliability margin, the project team is trying to define the principles leading to the sizing of the reliability margin. An issue raised by stakeholders is the need for more transparency and availability of information. Based on the principles, every TSO would define its margin – for regulator approval. There is an additional issue of how to calculate reliability in a flow-based

capacity calculation framework.

**The capacity calculation project team is planning a final report on its work (zones, reliability maring, transparency, etc.) for the January AHAG meeting**

## 5 Intraday Market project

ENTSO-E provided an update on the work in the project team. The project has identified 2 scenarios for a roadmap to implement the intraday target model. The scenarios present different approaches to building the capacity management module (CMM) and the shared order book (SOB) function. They also had to foresee the continuation of OTC trades in intraday until the Target Model is in operation. Scenario 1 has 4 steps(0-3) and Scenario 2 starts at step 2. The main difference revolves around the question whether the CMM should be able to treat several PXs simultaneously in the early stage (scenario 1) or whether the one-to-one relationship between SOB and CMM is established from the beginning (scenario 2). Both scenarios allow treating OTC trades in the early stages – either through the shared order book function or directly to the CMM. The choice depends on some extent on the PXs' developing the SOB.

EFET expressed some concerns about extending the 'monopoly' capacity allocation activity to the SOB in scenario 2 compared to scenario 1. The key issue is to ensure that transactions are made against capacity and any capacity that has been traded cannot be used again. EFET explained that traders would like to see continuous trading as this enables traders to adjust positions as soon as changes are needed. EFET will clarify its view on step 2 and report back to AHAG.

EuroPEX enquired if there is a study available which examines how often pricing of capacity would be needed.

Eurelectric supported agreeing on a simple and clear approach and to proceed to building it – based on step 2 (SOB connected to the CMM, with OTC feeding into the SOB).

From the Commission's perspective there needs to be a SOB in the CMM. They support having value for capacity. One approach could be for ENTSO-E to take the lead to develop the CMM with an SOB in it. This is similar to the approach in step 2. However, there is a problem with intraday if countries do not have coordination of intraday in the cross-border trade (which would be the case with the first steps of scenario 1 for countries not joining the CMM) – which is in breach of the Congestion Management Guidelines.

ENTSO-E indicated that the project team has had difficulty reaching consensus – and PXs have indicated they cannot proceed to develop an SOB.

EuroPEX (Javier Gonzalez) indicated that this was not correct and that PXs have indicated that they cannot proceed to develop an SOB, prior to a Target Model being clearly defined. This definition will give a clear objective to be achieved by PXs and TSOs

The Chair summarized that there seems to be agreement on the need for a CMM and for an SOB based on implicit continuous allocation. Work on these could begin sooner and then in parallel when the time is right, more complicated elements could be developed (e.g. developing an algorithm that enables pricing of capacity in case of scarcity, sophisticated orders).

**AHAG recommends that ENTSO-E examine a CMM/SOB arrangement (based on step 2, using implicit continuous allocation – which incorporates in the SOB more complex functionalities).**

**The intraday project team will report on its progress at the December AHAG meeting.**

## 6 Forward market

No update for this meeting.

## 7 Future stakeholder cooperation

The AHAG terms of reference indicate that AHAG will run until March 2011, when ACER becomes operational and ERGEG should be phased out.

ENTSO-E reported that it has begun its thinking of how to take forward the work on the 3 trading timeframes. Intraday, Day-ahead and capacity calculation which each be subject of individual network codes.

ENTSO-E sees the value of the discussions in AHAG and would like to envisage a similar group being organized with stakeholders to support the development of the network codes – to be led by ENTSO-E. It will have one group for all the codes – to ensure consistency in the approaches of the codes.

CEFIC proposed:

- a future project group to examine long term capacity calculation and allocation;
- to supervise “market integration” to solve structural congestions by studying congestion percentage for each border, European grid TYNDP and European transmission projects and suggesting improvements.

Eurelectric proposed that a list of open issues from AHAG’s work to date could be developed before the end of AHAG’s mandate. Each project team could compile a list based on its terms of reference. After identifying which issues still need to be addressed, the members could discuss how/where to take them forward.

**The members will discuss the presentations for the Florence Forum at the December AHAG meeting.**

## 8 Any other business

## 9 Next meetings

**Friday 3 December – Eurelectric offices**

**NEW DATE 2011:**

**Wednesday 26 January – CEER**

*The meeting adjourned at 16h10.*

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

| Action      | Description  | Who          | When Due            | Status  |
|-------------|--|--------------|---------------------|---------|
| A-101102-01 | The AHAG members might send their written comments to the Commission on the governance options | AHAG members | As soon as possible | PENDING |
| A-101102-02 | EuroPEX would welcome feedback from stakeholders on its draft PCR paper.                       | AHAG members | As soon as possible | PENDING |
| A-101102-03 | The capacity calculation project team is planning a final report on                            | CC project   | Early January 2011  | PENDING |



| Action      | Description   | Who  | When Due            | Status  |
|-------------|---|--|---------------------|---------|
|             | its work (zones, reliability margin, transparency, etc.) for the January AHAG meeting                               |  |                     |         |
| A-101102-04 | The intraday project team will report on its progress at the December AHAG meeting.                                 | Intraday project   | 22 November 2010    | PENDING |
| A-101102-05 | The project teams should provide first drafts of their presentations to the December Florence Forum for discussion. | CC project<br>Day-ahead and governance project<br>Intraday project | 22 November 2010    | PENDING |
| A-101102-06 | ENTSO-E + EuroPEX to present a common position paper on how to develop and integrate further the NWE/PCR project    | ENTSO-E<br>EuroPEX   | As soon as possible | PENDING |

### Summary of decisions

| Decision    | Description   |
|-------------|---|
| D-101102-01 | Minutes of the 6 <sup>th</sup> AHAG meeting were approved with changes.   |
| D-101102-02 | The draft agenda of the 7 <sup>th</sup> AHAG meeting was approved.  |
| D-101102-03 | AHAG recommends that ENTSO-E examine a CMM/SOB arrangement (based on step 2 as an interim solution to step 3, using implicit continuous allocation – which incorporates in the SOB more complex functionalities). |