

5th AHAG Meeting

Monday 28 June 2010 10:30 to 17:00

ENTSO-E offices, 100 Avenue de Cortenbergh, 1000 Brussels

FINAL MINUTES

Participants			
Asta	Sihvonen-Punkka	EMV (Finland)	Chair
Tahir	Kapetanovic	E-Control	
David	Haldearn	RIG (ERGEG)	
Alain	Marien	CREG (Belgium)	
Bente	Danielsen	DERA (Denmark)	
Olaf	Islei	Ofgem (UK)	
Christophe	Gence-Creux	CRE (France)	
Gabor	Szorenyi	HEO (Hungary)	
Jean-Pierre	Becret	CEFIC	
Martina	Beitke	CEFIC	
Jonas	Tornquist	EFET	
Hartmuth	Fenn	EFET	
Andrew	Mcintosh	ENTSO-E	
Juha	Kekkonen	ENTSO-E	
Ritva	Hirvonen	ENTSO-E	
Frank	Vandenberghe	ENTSO-E	
Anne-Malorie	Geron	Eurelectric	
Gunnar	Lundberg	Eurelectric	
Marcel	Cailliau	Eurelectric	
Jean-Francois	Conil-Lacoste	EuroPEX	
Andrew	Claxton	EuroPEX	
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.

1.2 Approval of the minutes

The 4th AHAG minutes were approved with changes.

1.3 Review of agreed action points¹

Action	Description	Who	When Due	Status
A-100520-01	The Florence Forum slides on the capacity calculation implementation project will be revised further to the discussions above.	CC Project team	27 May 2010	DONE
A-100520-02	The Florence Forum slides on the intraday implementation project will be revised further to the discussions above.	Intraday Project team	27 May 2010	DONE
A-100520-03	The AHAG Chair proposed that the next AHAG meeting dedicate some time to jointly discussing the governance and day-ahead issues and the real market coupling projects happening today and how they interact. PCR - EuroPEX NWE – ENTSO-E EMCC-CWE-Britnet – EuroPEX/ ENTSO-E	ENTSO-E EuroPEX	21 June 2010	DONE
A-100520-04	The Florence Forum slides on the governance implementation project will be revised further to the discussions above.	Governance project team	27 May 2010	DONE
A-100520-05	EREGG welcomes feedback on the CACM draft initial impact assessment, in particular the key principles, by 15 June 2010 at the very latest.	AHAG members	15 June 2010	DONE

2 Introduction into the various market coupling initiatives

2.1 3.1 NWE price coupling

ENTSO-E (Ritva Hirvonen) gave a presentation on the market coupling project in Northern and Central West Europe regions including GB (North Western region NWE). The aim is to apply single price coupling with one coordinated matching.

There are 13 TSOs involved in the project, many of which have different connections between them. The structure of the project has been established, with a project manager, a steering group, project teams and some specific tasks. An external consultant has been engaged to do the project management office. In terms of the governance structure, the project is working in line with the AHAG work. The matching, which will become a 'monopoly', should be applied based on the principle of a public service function and be cost-based and transparent. In terms of regulation, the

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

oversight will be on an activity, not an entity per se. Therefore, a conceptual model of the service provision should be designed.

The solution being worked on within the project is to identify the TSO requirements for the service provision – which involved a procurement process with specifications. This can help to shape the governance framework.

Deliverables for the project address 2 issues – TSO-PX agreement on the procurement specification and TSO coordination among themselves. A number of key underlying principles have been identified and include an obligation to coordinate cross-border capacity allocation of capacity calculation, efficient allocation mechanism and maximise availability of capacity.

Transparency is an important issue and should address the algorithm, its development and the selection (criteria) of the algorithm.

The roles and responsibilities in the decision-making process are also being addressed. This includes how to have multi-party agreements “multilateral contractual framework” between TSOs and PXs.

Eurelectric (Gunnar Lundberg) raised the issue of countries where there is a single price area and how this will affect power flows and the price difference between markets citing the Svenska Kraftnät case. Eurelectric is particularly interested in how various projects match together (e.g. with the PCR).

EuroPEX (Jean-Francois Conil-Lacoste) noted that there is some question whether there are in fact two different models, as the outline/principles presented by Ritva Hirvonen are compatible with the PCR work, which goes further than these principles by presenting practical solutions allowing to include from the beginning the Southern part of Europe. The two projects can complement each other.

2.2 PCR - Price coupling of regions - presentation by EuroPEX

EuroPEX (Andrew Claxton) presented an overview of the development of the price coupling of regions (PCR) Initiative. Initially, three parties were involved, with 3 further having joined and others in discussion. With only 5 operating exchanges, this means a pan-European coverage of 80% of the IEM power consumption with all the most liquid and mature spot markets coupled. The idea is one single matching algorithm, co-owned by the exchanges, which would be published and fully transparent. The approach is a decentralised operation by the PXs, like in other well functioning price coupling projects such as TLC, with further improvements: The results can be verified by each PX and the operational organization allows for fallback and partial decoupling in stressed situations. PXs can also consult the master results. The approach is flexible, so that it can be applied in different arrangements. IT solutions are being developed so that the PXs can all coordinate/communicate/exchange data. A provisional timetable for implementing the PCR has been developed, with a view to rolling PCR out in different market regions starting in 2011. After individual market regions have implemented the PCR, the regions can begin inter-regional arrangements.

Much of the work today has revolved around the applicability of a single algorithm – is it possible to have a single algorithm in very different markets (with very different technical requirements). From the simulation work, it seems that a single algorithm is conceptually possible and technically feasible. Also, some of the functionalities can be implemented directly, and are not dependent on the implementation of market coupling projects.

Existing market coupling projects have differing structures and contractual arrangements. The issue is therefore how to find a robust structure given these differences – some issues must be addressed at EU level (coordinated matching, algorithm, market coupling procedures, overall price

coupling, etc.) while other can be sub-European (cross-border, shipping, coordinated capacity management, TSO procedures, operational management, etc) or local (local procedures, settlement, exit, etc.).

EuroPEX proposes a revised framework for relations between TSOs and PX and between market coupling projects. Firstly, through PCR, the PXs would cooperate through IT tools, etc and have a common price coupling algorithm and operational solution. Meanwhile, the TSOs establish capacity allocation requirements, coordinated common TSO processes under a joint TSO framework. In addition, overall coordination of all parties through a “European Price Coupling Advisory Council”, composed of market parties (regulators, TSOs, PXs, European Commission, etc) and could serve as an advisory body to ACER.

The remaining question concerns the enforcement and application of the provisions – either through contractual agreements (between TSOs and PXs) or through binding regulation or a combination of both as presented during the last Florence Forum. This relates to the contractual framework presented by ENTSO-E for NWE, the contents of which would either be referenced in the agreements or reflected in binding regulation.

ENTSO-E remarked that a stakeholder council is perhaps not suited to address/consider the operational issues/details which concern the TSO and PX relationships. As there will in future be a governance guideline, these control/oversight issues could be covered there.

ERGEG (David Haldearn) enquired who is in the end fully responsible and owner of the processes.

EuroPEX envisages that the PXs own the algorithm (with ownership agreements between them) which is made public on the internet to all stakeholders. Also, the arrangements should be flexible, to allow extension to new members/PXs.

Eurelectric remarked that the lead times result in loss of social welfare and there is a great urgency to implement a solution. Eurelectric stressed the need to combine the two current projects (PCR and NWE) into one single project and build a clear and feasible planning. This requires clarification on issues such as the selection process for the algorithm, GCT, price boundaries, products to be offered by PXs.

EuroPEX is working intensely with ENTSO-E to take forward the projects and achieve robust solutions. There is a strong commitment to meet the stated deadlines, while maintaining the quality of the work. In terms of costs, this is marginal compared to the social welfare lost. The timescale aims to be realistic and practical. This timescale is dependent on confirming the roadmap and having clarity on the way forward.

ERGEG (Bente Danielsen) enquired whether a common service operator or exchange might raise competition questions – in terms of creating a monopoly and essential facilities.

EuroPEX underlined that it does not plan to create a legal entity and that PXs are very conscious not to create a ‘cartel’. Rather, all contracts/relationships will apply the same rules and be transparent.

EFET (Jonas Tornquist) proposed that there should be a contingency option for contestability – so that if something does not work, challenges/changes can be presented. A further question is how PXs will compete with each other – in particular on a same territory.

CEFIC (Jean-Pierre Becret) explained the possible risk that prices could be set as a result of a local congestion and power production factor – e.g. where an expensive power plant would have to be run to manage local congestion, but would affect the power price. How would the common algorithm factor this?

EuroPEX sees this rather as a question of market rules and design which affect price formation considerations, rather than the algorithm itself.

The AHAG Chair underlined that the Florence Forum called for participation of the European Commission and regulators in the work of the PCR. She also noted the importance of avoiding parallel or even diverging roadmaps of the NWE and PCR activities and the governance guideline work. **The AHAG Chair proposed that all these questions regarding the PCR and NWE projects are also discussed at the day-ahead governance project meeting on Monday 5 July.**

ENTSO-E feels confident that cooperation and exchange is taking place and that the principles of the governance guideline work are feeding in and being used as basis for the PCR and North West projects. They agree that procurement will be needed, and specifications are required to take this forward.

3 Lunch Break

4 XVIII Florence Forum - discussion and exchange of views

The AHAG Chair reported on the conclusions from the Florence Forum which relate to AHAG's work. The Forum emphasized the need to continue the work and reach the targets.

A number of points from CEFIC were also in the Forum Conclusions – regarding the specific role of industrial networks and the need to improve elements of the PCG model.

The PCR was welcomed by the Forum and a request was made to ensure it is in accordance with the governance framework.

The Forum supported the Commission's idea for a governance guideline for day-ahead and intraday markets and asked to continue the work on operational arrangements for these markets. The Commission should present a draft guideline to the next Forum (13-14 December).

5 NWE Intraday pilot – short update

EFET (Harmuth Fenn) presented EFET's perspective on cross-border intraday trading. The EFET proposals expressed at the intraday project meetings have not been taken on board.

EFET underlined that a secure grid and liquid, flexible and open intraday market is the goal for TSOs to provide. In order to have cross-border intraday trading, we need to have a continuous trading platform, with OTC trading possibility (block bids are insufficient for OTC). EFET proposes one interface for all capacity with a common interface and shared order book. Questioned by Eurelectric (Marcel Cailliau), EFET confirmed that an "ELBAS" look alike solution (where OTC could be arranged via block bids going through the platform) could be a good starting model in a first phase.

ENTSO-E (Andrew McIntosh) presented the work of the NWE intraday pilot. This project is in its start-up phase. This project involves 13 TSOs of Northern European countries (CWE, Nordic and GB) – the same as the CWG market coupling project. As a starting point, the target model from PCG is being used as the basis, and build on what exists today. Ultimately, are looking to identify a model that can be extended to the rest of Europe. The project is also aware of the work in the intraday implementation project under AHAG. The project calls for a capacity management module and a shared order book mechanism.

In terms of the project activities, 4 sub-divisions have been identified – orientation phase, design phase, implementation phase, operational phase. After each phase, a report will be drafted to update on the progress of the project. A timeline for the work is not yet fully complete. Eurelectric (Marcel Cailliau) expressed the concern that the market does not need "new consultations" but "implementation".

Regarding shared order books, there is not universal support/interest in this. EFET proposed that an alternative could be a 'capacity matrix' which is open to all and shows the situation. Nevertheless, several platforms operating on one capacity matrix would clearly not be in line with the target model. Finally, the EFET delegation confirmed the EFET position taken at last year's PCG discussion, holding that a trading platform with block bid facilities to replace OTC trade, could be acceptable in a first stage (see "Elbas" look alike solution described above).

In future, intraday markets will handle a lot more volume than at present, and a robust solution is therefore required.

The transmission system operators, Amprion, EnBW TNG in Germany and RTE in France, have started at the beginning of June a new project to harmonise their intraday cross-border capacity allocation mechanisms on the French-German border. The AHAG meeting participants discussed the compatibility of the initiatives. Jean-François Conil-Lacoste declared that the key issue for the whole intraday model is how to reconcile the two existing ways capacity is made available by TSOs (integration with the trading system – Elbas – or unbundling between the trading platform and the capacity platform – comXerv + continental TSOs platform developed by DBS) and a crucial thing to decide is whether we go to the direction of this capacity platform. If Elbas is also able to connect to the "externalized" DBS capacity platform, then the software issue becomes secondary and cooperation between the trading platforms quite possible. Eurelectric (Marcel Cailliau) welcomes the initiatives on both borders, but stressed that there is not a clear view how the next step (completing both projects with FR/BE and NL/GE border) will be achieved. It should be avoided that the 2 small projects seem not to be compatible, blocking any further progress for the whole CWE region.

The AHAG intraday project team should discuss the intraday pilots and then report to the AHAG to allow AHAG to discuss the preferred approach.

6 CACM FG - presentation by ERGEG followed by a discussion and exchange of views on the draft Impact Assessment and the draft Framework Guideline on Capacity Allocation and Congestion Management

The AHAG members have received the first draft of the framework guideline. Previously, several AHAG members have sent comments to the draft initial impact assessment – ENTSO-E, EFET, ENTSO-E, EuroPEX with prior comments from CEFIC.

The draft framework guideline does not represent ERGEG's final views and will still be reviewed and fine-tuned. The framework guidelines will also include interim solutions as well as the final targets.

Cost-benefit assessment is being currently tackled by ERGEG. Regarding the relationship with the PCG work, the draft framework guideline starts from that basis and is in line with the PCG proposals.

The members discussed the draft framework guideline by topic area and with regard to the comments sent by the AHAG members.

ENTSO-E (Juha Kekkonen) enquired how deep the framework guideline should be – the current draft seems to take a rule-making approach. ERGEG's view is that the framework guideline should be firm and concrete and prescriptive where necessary, leaving room for technical implementation to be covered in the network code. Other stakeholders, like Eurelectric confirmed this view and stated that the framework guidelines should not be too much detailed, but set the principles, responsibilities, etc.

EFET suggested that the ERGEG work on long-term transmission rights could be useful for the forwards market section. This paper is currently under public consultation and the results will feed into the CACM framework guideline.

The framework guideline should identify what the network code should do. They should define the responsibilities and criteria. The initial impact assessment should look at the impact of choosing a given solution on market functioning, costs, etc.

There is a question of what will happen to the Congestion Management Guidelines – and how they will relate to the network code. The European Commission (Matti Supponen) explained that it will depend on the final output of the framework guideline and network code work but that there is a possibility to repeal the Congestion Management Guidelines or amend them. He also raised an important question of how many network codes should come out of the framework guideline.

Written comments to the draft CACM framework guideline should be sent by Friday 9 July at the latest.

7 Any other business

ERGEG (David Haldearn) provided an update of its work within the Regional Initiatives Working Group (RIG) on long-term transmission rights. ERGEG closed its public consultation on “ERI Benchmark on medium and long-term electricity transmission capacity allocation rules - An ERGEG public consultation document” (ref. E09-ERI-23-03) in May 2010. The paper looks across borders at the allocation procedures in use to try to extract some lessons. ERGEG is currently reviewing the responses received and hopes to produce a conclusions report after the summer.

EFET reiterated that this work could be useful for the CACM framework guideline.

In addition, CRE has produced a report on long-term transmission rights, where they try to emphasise the remaining issues at stake regarding these rights.

The European Commission reported that it is still planning to engage a consultant to examine this issue, with a view to reporting in March 2011.

CEFIC proposed that AHAG could hold a specific discussion on long-term rights at a future meeting.

The AHAG Chair proposed that the September AHAG meeting focus on intraday trading issues and on long-term transmission rights.

8 Next meetings

Tuesday 21 September - CEER offices

Tuesday 2 November - CEER

Friday 3 December - CEER

The meeting adjourned at 16h10.

Summary of all ongoing and outstanding action points:

Action	Description	Who	When Due	Status
A-100628-01	The AHAG Chair proposed that all these questions regarding the PCR and CWE projects are also discussed at the day-ahead	Day-ahead and governance project team	As soon as possible	PENDING

Action	Description	Who	When Due	Status
	governance meeting on Monday 5 July.			
A-100628-02	The AHAG intraday project team should discuss the intraday pilots and then report to the AHAG.	Intraday project team	21 September 2010	PENDING
A-100628-03	Written comments to the draft CACM framework guideline should be sent by Friday 9 July at the latest.	AHAG Members	9 July 2010	DONE
A-100628-04	The AHAG Chair proposed that the September AHAG meeting focus on intraday trading issues and another on long-term transmission rights.	AHAG Members	21 September 2010	PENDING

Summary of decisions

Decision	Description
D-100628-01	Minutes of the 4 th AHAG meeting were approved.
D-100628-02	The draft agenda of the 5 th AHAG meeting was approved.