

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

7 October 2009 from 10:30 to 17:00 hours

ENTSO-E offices, Brussels

### MINUTES (V3)

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)	
Sven	Kaiser	E-Control (Austria)	
Rafael	Gómez-Elvira	CNE (Spain)	
Rodrigo	Escobar	CNE (Spain)	
Christophe	Gence-Creux	CRE (France)	
Thomas	Mueller	BNetzA (Germany)	
Alain	Marien	CREG (Belgium)	
Peter	Styles	EFET	
Jonas	Tornquist	EFET	
Paul	Dawson	EFET	
Andrew	Mcintosh	ENTSO-E	
Antonio	Lopez-Nicolas Baza	ENTSO-E	
Christian	Todem	ENTSO-E	
Niklas	Kallin	ENTSO-E	
Bernard	Malfliet	ENTSO-E	
Cecilia	Hellner	ENTSO-E	
Marcel	Cailliau	EURELECTRIC	
Ruud	Otter	EURELECTRIC	
Marco	Foresti	EURELECTRIC	
Andrew	Claxton	EuroPEX	
Rickard	Nilsson	EuroPEX	
Jean-Francois	Conil-Lacoste	EuroPEX Chairman	
Kamel	Magour	CEER Secretariat	
Natalie	Mccoy	CEER Secretariat	

## 1. Opening

The meeting opened at 10h33 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-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	DONE
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	Not relevant / DONE
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

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

The minutes were approved and will be published on the ERGEG website.

## 2. WS Forwards market

EFET (Jonas Tornquist) presented the discussions from the Forward markets Workstream (WS). The practical means for creating competitive and integrated European markets are related to efficient long-term price signals, competition across borders and efficient linkage of forwards market with short term price signals (market splitting/coupling).

The Forward WS's proposal for a target model for forward markets includes:

- TSOs should sell/offer/issue transmission capacity on a forward basis:
  - o selling/offering/issuing should reflect available physical capacity

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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.

- selling on a calendar year basis and for periods further into the future than on year ahead (e.g. until Y+3 or Y+4 depending on trading in market for energy)
- the amount of capacity should be maximised across all time frames
- transmission rights could be sold/issued/offered, on a regional basis with a minimum level of compatibility:
  - either between bidding areas or between a reference system area and a bidding area
  - either as options or obligations
    - in case of physical rights, as options
    - in case of financial rights either as options or obligations
  - either as physical or financial
- where day ahead prices and/or long-term trading/hedging mainly is handled via derivatives, this may mean that TSOs provide all capacity day ahead implicitly.

The participants in the Forwards WS see two models for forwards markets:

1. Only Financial transmission rights (FTR) – sell 100% of capacity as financial transmission rights and all of it would be used in the market coupling and no separate cross-border trading would be possible. Critics suggest this does not support OTC market but forces trading onto the power exchanges.
2. Only physical transmission rights (PTR) – sell 100% as physical transmission rights, to use them have to nominate them in advance. If you do not nominate all capacity, it is converted automatically into a FTR with UIoSI. Critics are concerned that there would be no guarantee that the long-term capacity would be used physically for market coupling. Conversely, it could be considered to offer more trading option/choice.

It was however noted by EuroPEX (Rickard Nilsson) that in the Forwards WG slides presented to PCG, it was clearly stated that in markets where up to 100% of the CB capacity is provided by DA via Implicit auctioning that is considered trustworthy and/or where there is also a liquid financial market the CB and Area hedging could equally be offered via for example CfDs. Also in the other parties in PCG proposed revised TM slide that fact was still included, but in a more subtle way by not directly mentioning CfDs but merely making reference to financial instruments. Mr Nilsson questioned the validity of PCG making these changes to WS conclusions, and was supported by the Spanish Regulator and the Swedish TSO representative. However, the changed wording remained after the group, including its' Chair, gave an assurance to Mr. Nilsson that the change of wording did not at all remove CfDs (Nordic or Spanish) from being possible option, and that this fact would also be explained in the accompanying glossary.

As the two models offer very distinct options, the Forward WS developed two new options which aim to reconcile the models and allow market flexibility:

1. PTR/FTR model
2. PTR/UIOSI model

Some parties would like certainty that some capacity is always used for DA market coupling, while others are not as concerned with guaranteeing this availability. Both models have their pros/cons and could evolve over time and become one or the other of the two starting models above (100% FTR or 100% PTR).

EuroPEX (Andrew Claxton) commented that reservation is a means to an end, such that liquidity is ensured for supplying the energy the market wants.

The WS also discussed trading of capacity rights as such. The WS agreed it would be a priority to establish a secondary market to trade transmission capacity rights. For this to be possible, (financial) firmness is essential. EREG has not yet expressed its position on this issue, but is considering the issue internally and hopes to provide clarity in future.

Standardised definitions and auction rules with common IT would also facilitate trading.

The roadmap for the implementation of the target model for forward markets outlines the need to proceed as soon as possible, but no later than 2015 across Europe.

Following the presentation, the PCG Members discussed the proposals and identified some open issues which will be shared with the Electricity Regional Initiatives for their views. EREG (Rafael Gómez-Elvira) reiterated the provisions (article 2.8 and 3.2) in the Congestion Management Guidelines (Regulation 714), which refer to "financial electricity forward markets" and possibility to allocate "all interconnection capacity through DA implicit auctioning". In this context, he also stated that financial products already exist and are a reality.

Eurelectric (Marcel Caillau) explained that its Nordic members support the need for long-term transmission rights. It was however pointed out by EuroPEX (Rickard Nilsson) that it does not include all Eurelectric's Nordic members, and anyway the majority of Nordic players see no use/benefit with PTR/FTR since there is a liquid financial market and thus they want continued usage of CfDs for Forwards hedging of Area and CB risks, which is supported by the fact that Nordic PX traded and cleared volume was over 170 TWh in 2008. It could therefore be mentioned that 'financial derivatives not linked to transmission rights' (e.g. CfDs) may exist in parallel to or instead of PTRs/FTRs. ENTSO-E (Andrew McIntosh) suggested a preference for the PTR/UIOSI (with capacity reserved for MC) model instead of FTR/PTR model, keeping in mind the administrative burden of the FTR/PTR model (i.e. conducting both types of trading in parallel). Eurelectric also indicated its preference for PTR/UIOSI instead of FTR/PTR model. The PCG Members agreed to consult the regions on their preferences. EFET (Peter Styles) underlined the importance of harmonising the transmission right auction rules, and the corresponding contracts for secondary trading of rights, rather than the nature of the instrument (physical or financial).

### **3. WS Day ahead market**

EuroPEX (Andrew Claxton) presented the day ahead WS discussions, which have focused on the roadmap and the way forward, as agreement has previously been reached on the method, i.e. single price coupling.

The day ahead WS was particularly interested in the top-down guidance vs. bottom-up implementation of the target model. One key question for the regions is how they will work together to achieve the target of single price coupling across Europe, based on a single matching algorithm. Pan-European single price coupling implies that a single algorithm solution is used by all the power exchanges responsible for the matching. All of the day ahead bids and offers would need to be matched with this single algorithm solution (compatible with capacity calculation), jointly with all the cross-border capacity information across Europe.

The WS recognises that the algorithm can be updated/.reviewed from time to time according to market needs/requirements/extensions. The governance issues associated with the design prerequisites could be critical to the implementation of these prerequisites. In addition to defining these prerequisites, the WS also examined possible governance related-issues, including the arrangements required between the power exchanges and the power exchanges and TSOs.

The day ahead WS feels it is important to gather input from the regions in order to develop a more concrete roadmap. A generic roadmap has been prepared, which identifies a timeline towards 2015 for agreeing on the model, the governance principles and then the gradual implementation in all regions.

The WS has elaborated a number of questions for the regions regarding the proposed target model for day ahead and the situation in their respective markets. One key question is how to coordinate implementation between the regions.

A comprehensive set of questions for all of the Workstreams and market timelines will be submitted to the Regional Initiatives. It should be noted that many of the PCG members are also actively involved in the Regional Initiatives. The regions could also be asked about the sequence for coupling the regions, and to consider how they can be brought together and their interrelationships.

#### **4. WS Intraday market**

ENTSO-E (Bernard Malfliet) presented the discussions from the Intraday WS. The WS first had to define the main criteria for the target model and identified 3 key ones:

1. Ease of use (accessibility for all market parties, visibility/tradability of all offers Europe-wide)
2. Efficiency in solving the balance of market parties (reduce the balancing needs, portfolio optimisation, ability to trade until close to real time, fast matching, etc)
3. Maximisation of social welfare (efficient utilisation of cross-border capacity, market-based allocation of additional intraday capacity and implicit maximisation of social welfare by facilitating trades)

Two layers of trading have been identified for the target model:

1. Inter-regional Cross-border intraday implicit continuous trading
2. Intra-national/regional intraday trading, which can be of other types, for ex. ID Auctions.

For the PCG, the first layer, at European level is being addressed. The WS established that there is probably no practical advantage to periodic auctions in an inter-regional cross-border trading with continuous trading. R. Gómez-Elvira drew participants' attention to the potential benefits of having scheduled auctions (e.g. more market-based, better integration of growing wind energy in markets, easier for new or/and small entrants, etc)

There is a clear preference within the WS for inter-regional implicit continuous allocation of cross-border capacity (continuous trading).

In terms of the roadmap, the WS has set out a timeline toward 2015 for addressing the common principles, a centralised capacity matrix, compatible regional development, coupled order books and then EU-wide trading based on model described in layer 1 above.

#### **5. WS Balancing**

ENTSO-E (Andrew McIntosh) presented the work of the WS, which has met once but was able to reach a certain level of consensus how to proceed with target model.

The WS agrees that full harmonisation of balancing markets is not a prerequisite to integrating balancing markets and a pragmatic approach is important.

In terms of major steps, harmonisation of gate closures and technical characteristics (and roles and responsibilities) is important, as is cross-border intraday, which supports cross-border balancing.

The roadmap outlines a process from bilateral TSO-TSO mechanism to multilateral TSO-TSO mechanism and ending with a multilateral TSO-TSO mechanism with a common merit order, to be achieved through progressive harmonisation and structural change. The WS had identified a number of prerequisites and harmonisation requirements in order to achieve the roadmap for balancing. The WS roadmap is not necessarily sequential, such that the mechanisms need not be used consecutively. In addition, intraday harmonisation is not a prerequisite for balancing, although they are technically interdependent.

## 6. WS network modelling and capacity calculation

ENTSO-E (Christian Todem) presented the WS capacity calculation's work. The WS has examined the various models used across Europe (market splitting, explicit allocation, FB explicit allocation, coordinated NTC, etc.). It has identified flow-based capacity determination as the most efficient model (from a theoretical perspective) and proposes to apply this as the target model also linked to capacity allocation via Price Market Coupling, at least for borders/regions where it is proven to give significant improvement vs. enhanced ATC modelling.

In order to implement this approach, an increased level of coordination and cooperation would be needed. The establishment of a Europe-wide common grid model consisting of the same level of information would be important. Coordinated reliability assessment, security analysis and curative redispatch could then be based on the common grid model. In addition, an increased level of detail would be needed e.g. 24-hour base cases for capacity calculation. In general, the closer one comes to real time, the higher the level of detail needed.

The WS has identified capacity calculation principles for the various time frames (starting with long-term).

The roadmap for capacity calculation outlines the process to 2015, starting with improving coordination between TSOs at regional and cross-regional level.

## 7. Governance issues WS

EREG (Asta Sihvonon-Punkka) presented the work of the WS governance. The WS has identified requirements for price coupling and coordinated matching arrangement. Sustainability is a key to achieving an EU-wide solution, as are the level of subsidiarity (minimum level of harmonisation), timely good quality and transparent decision making and the transparency of coordinated order matching.

Regarding price coupling functions, the WS has identified the types of functions and the harmonisation requirements, who could undertake them and who is accountable for each function. Functions include determining the cross-border schedule, participant settlement, cross-border shipping, etc.

Eurelectric (Ruud Otter) presented roles and responsibilities for congestion management. In particular, he stated that TSOs are responsible for congestion management and are accountable for coordinated matching. Meanwhile, the power exchange is a service provider for coordinated matching. It is also responsible for coordinated matching, that is to say the quality of the prices.

There are two main options for delivering coordinated management.

1. Joint operation of power exchanges and TSOs
2. Establishment by TSOs of an entity or framework with PXs as service providers

EuroPEX (J-F Conil-Lacoste) stated that order matching is and shall remain the essential function of any exchange. Market coupling flows account for only a portion of the exchanges transactions (approximately 35 TWh out of 250 TWh across CWE for instance). The preference for implicit auctions over explicit ones has been made possible thanks to liquid day-ahead exchanges. It would be paradoxical and dangerous if this choice should ultimately lead to deprive exchanges from their main economical mission which is to ensure the quality of reference prices in a transparent and neutral manner, a task of public interest. Coordinated matching arrangements must be established in close cooperation with the TSOs, and adequate governance must be fixed, without reshuffling the fundamental roles of the stakeholders.

EFET (Peter Styles) highlighted the many governance issues involved in both day ahead market coupling and coordinated auction offices, which might be worth including in the PCG's work. Further work is planned within the WS and its preliminary work will be shared with the Regional Initiatives. As a starting point, they will receive the governance slides discussed at the last Florence Forum.

### 8. Next steps (coordination with ERI)

The slides presented by the Workstreams will be circulated to the Electricity Regional Initiatives regions for their comments and feedback, by 30 October 2009. The PCG will then review any comments received at its meeting on 2 November.

The documents will be posted on the ERGEG Electricity Regional Initiatives website. A cover letter will accompany the presentations. It was also agreed that a glossary, explaining terms and concepts, would be enclosed together with the package sent to the regions. The pack will be sent by ERGEG's Regional Initiatives Group (RIG) to the regions. RIG will collect all initial feedback by different regions in time for the next PCG meeting on 2<sup>nd</sup> November.

There will be further work on OTC and on governance ahead of the next PCG meetings.

### 9. Any other business

No other business.

### 10. Next meetings

**2 November – Eurelectric premises, 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-091007-01	The workstream presentations with preliminary thoughts on target models and an accompanying cover note and a glossary will be sent to ERGEG's Regional Initiatives Group (for distribution to the electricity region) and European stakeholder	PCG Chair	7 October 2009	DONE, but glossary was sent a few days later and was not complete

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Action	Description	Who	When Due	Status
	associations			
D-091007-02	Comments should be received from the regions and European stakeholder associations by 30 October 2009	ERGEG RIG European stakeholder associations	30 October 2009	PENDING