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Safeguarding the move to a single **EU** energy market

ERGEG Regional Initiatives Progress Report -November 2009

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Safeguarding the move to a single EU energy market

ERGEG Regional Initiatives Progress Report - November 2009

What is ERGEG?

The European Regulators Group for Electricity and Gas (ERGEG) is the European Commission's advisory body on internal EU energy market issues. It was set up on 11 November 2003 by a European Commission Decision (2003/796/EC).

ERGEG is charged with advising and assisting the European Commission in ensuring the creation and smooth functioning of the internal energy market in Europe. In advising the European Commission, ERGEG works transparently and is committed to best regulatory practice in terms of conducting its public consultations and engaging with stakeholders.

What are the ERGEG Regional Initiatives?

Following a public consultation on the creation of regional electricity markets, ERGEG launched (in Spring 2006) the Electricity Regional Initiative (ERI). The aim of the ERI is to speed up the integration of Europe's national electricity markets by creating regional electricity markets in Europe, as an interim step to creating a single-EU electricity market. The Electricity Regional Initiative is comprised of seven regional electricity markets namely the Baltic; Central-East, Central-South, Central-West, North, South-West and the France-UK-Ireland regions.

The development of regional gas markets is an important and practical step towards the eventual goal of a competitive, single-EU gas market. In early 2006 ERGEG held a public consultation on the creation of competitive gas market in Europe. The resulting Gas Regional Initiative, established by ERGEG, creates three regional gas markets namely the North-West, South and South-South East regions.

The evidence in this report is that the Regional Initiative continues to deliver results in better integrating Europe's national energy markets.

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Contents

Foreword by Commissioner Piebalgs & ERGEG Chair 4					
Aim of this progress report and its public consultation					
	А	ERGEG Gas Regional Initiative	7		
	В	ERGEG Electricity Regional Initiative	8		
1	Κеу ι	update on the Regional Initiatives process	10		
	1.1	Key update on the process	10		
	1.1.1	Maintaining momentum within a voluntary process	10		
	1.1.2	Looking ahead – from the voluntary to the mandatory approach	П		
	1.2	Contribution to building a single European market: roles of Gas Regional			
		Initiative (GRI) and Electricity Regional Initiative (ERI)	12		
	1.2.1	The Regional Initiatives enhance regional market integration	12		
	1.2.2	Coherence and convergence	12		
	1.2.3	ntroducing market integration incentives	13		
2	Key o	levelopments to date – Gas Regional Initiative (GRI)	14		
	2.1	Key developments region by region	15		
	2.2	Key developments per topic	16		
	2.2. I	Investment in new infrastructure	16		
	2.2.2	Capacity allocation and congestion management	17		
	2.2.3	Transparency	18		
	2.2.4	Interoperability and hub development	19		
	2.2.5	Security of supply	20		
	2.3	Case studies	21		
	2.3.1	Day-ahead capacity auctions in the NW region	21		
	2.3.2	Open Seasons coordination	21		
3	Key o	levelopments to date – Electricity Regional Initiative (ERI)	24		
	3.1	Key developments region by region	25		
	3.2	Key developments per topic	29		
	3.2. I	Capacity calculation	29		
	3.2.2	Capacity allocation	31		
	3.2.3	Transparency	33		
	3.3	Case studies	34		
	3.3.I	Important improvements in cross-border congestion management –			
		the Central-East andCentral-West single auction platforms	35		
	3.3.2	Implementation of harmonised allocation rules in the Central-West region	36		
Annex I - The Energy Community Electricity Region 38					

Foreword by Commissioner Piebalgs & ERGEG Chair

Energy market liberalisation and integration must go hand in hand. A focus on each of the (27) national energy markets is simply not enough if we want a truly integrated European energy market that works for all consumers. This is why in 2004, the European Commission launched the mini-fora on congestion management at the 11th European Electricity Regulatory Forum (Florence Forum). The work within the mini-fora resulted in ERGEG, first publicly consulting and then with the European Commission's backing, launching the Regional Initiatives (in 2006) as a way to move from national markets to regional energy markets as a staging post to a single EU energy market. This regional integration approach is a useful way to break down the borders that separate our markets.

We are pleased to report that for the 3rd year running, concrete progress in integrating Europe's national energy markets continues to be made in the Regional Initiatives across all 7 electricity and 3 gas regions.

Concrete evidence of better integration

There have been significant improvements in transparency across the 3 gas regions. In electricity, 5 of the 7 electricity regions have adopted regionallybased transparency reports leading to a significant degree of coherence on the type and timing of data that must be published.

Similarly, coordinated capacity allocation and the management of congested interconnection capacity have improved in all regions. A new phenomenon over the past few years is the coordination of gas "open seasons procedures" which facilitates better coordination by network operators and regulators of investment decisions on new gas interconnection capacity at a regional level. The Regional Initiatives have proved to be a very good way to encourage cooperation between stakeholders, network operators and regulators. A good example is that which helped in managing the situation in the South-South East gas region which was hit hardest by the January 2009 Ukraine-Russian gas dispute. The culture of cooperation of the Regional Initiatives enabled regulators in this region swiftly to diagnose the effect on gas security of supply and provide timely advice to the European Commission on a set of five concrete measures to mitigate the impact of possible future gas cuts.

Moreover, the Regional Initiatives also played an important role in monitoring compliance with community law. Indeed, input from the Regional Initiatives helped the Commission in launching, in June 2009, infringements against various Member States for breaching the Gas and Electricity Regulations.

The Regional Initiatives' experience clearly shows that the most progressive regions are those where political commitment to regional and EU-integration is strongest and where there is a genuine openness to trial new ideas.

The challenges of achieving results on crossjurisdictional issues

Achievements across all regions are the result of a significant amount of effort of many stakeholders (national regulators, industry, traders, operators and Ministries alike) who have voluntarily cooperated within the framework of the Regional Initiatives.

The challenge of achieving results in a voluntary process, such as the Regional Initiatives, should not be underestimated. Integrating national energy markets inevitably means dealing with difficult crossjurisdictional issues (e.g. harmonising gate closure times) and changing national rules. Through the framework of the Regional Initiatives we encourage those who have the power to implement reform at national level (in particular network operators and Member State governments) to "think outside of the national box" so as to effect necessary reforms at national level. This is easier said than done.

Jurisdictional, regulatory and legislative changes are needed to move from national to regional markets and ultimately to a single European energy market. The European Commission, for its part, has sought through the 3rd energy legislation package (3rd Package) to addresses the jurisdictional challenge. Historically, national regulators' powers have been confined to their national jurisdiction. This resulted in a "regulatory gap" in dealing with cross borders issues. The 3rd Package (adopted this year) sets up a new institutional framework including a new Agency (ACER) to help foster cooperation between regulators and between Transmission System Operators (the ENTSOs). The 3rd Package provides for enhanced regional cooperation; including obligations on Member States and regulators to cooperate at regional level; provisions for grid operators to cooperate on EUwide and regional based network development plans including an oversight role for ACER; and potentially binding EU-wide network codes.

The 3rd Package, when implemented, will transform the context within which the Regional Initiatives operate from an essentially voluntary one, to one with binding and enforceable rules. But legislation also takes time to implement: reform cannot wait.

On the national legislative front, it is each EU Member State government who is in the driving seat of implementing necessary reforms at national level to speed up the process of regional integration. The "open seasons" case study is a good example of how Spain had to reform its legislation in order to have coordinated capacity allocation on the French border.

In terms of regulatory challenges, the all-Ireland electricity market (albeit relatively small) adopted a novel approach to regulatory cooperation. It set up a committee comprising the 2 regulators and one independent party who decides all decision (and not just dispute settlement decisions). This required legislation to be changed both sides of the border. Although not part of the ERGEG Regional Initiatives, this example illustrates the importance of the political commitments of governments in the process of market integration.

The Regional Initiatives umbrella safeguards the move to one single-EU energy market

Besides the enduring success of the Regional Initiatives, there are other initiatives (e.g. the Pentalateral Group and Gasplatform) which strive towards the objective of enhancing regional integration.

It is important that the Regional Initiatives have in-built safeguards to ensure solutions found within the 7 electricity and 3 gas Regional Initiatives do not frustrate the ultimate objective of a single-EU energy market. Regular internal reporting from ERGEG (the Commission's advisory group) to the Commission ensures that the Regional Initiatives leads to regional integration and the ultimate objective of a single-EU energy market. ERGEG reports publicly by posting all information on its website, to the annual/bi-annual Madrid and Florence EU regulatory fora, and regularly consults stakeholders on coherence and convergence across the regions.

Going forward, implementing the 3rd Package is likely to be a mix of the mandatory "top-down" from Brussels and the regional "bottom up" approaches. This requires joined-up thinking. ERGEG and the Commission continue to build on existing safeguards. This year, the European Commission engaged a consultant to develop a roadmap on how the bottomup approach of the Regional Initiatives could be made more consistent with the "top down" approach introduced by the 3rd Package.

ERGEG set about considering the future role of the Regional Initiatives in the context of the 3rd Package. To this end, ERGEG launched for public consultation its strategy for delivering a more integrated European market, foreseeing a primary role for the European Commission and Member State governments in setting the strategic direction of market integration. Commitment to a long term, comprehensive vision also provides a framework for coherent, concerted action on all fronts. We are enthused by several Member State Energy Ministries who had signalled their wish to better engage in the Regional Initiatives. We hope that these good intentions are met with concrete commitments.

We need to

- commit to the single EU market as the essential means of delivering our energy goals whereby the Regional Initiatives are a means for achieving the single EU market rather than a goal in itself;
- commit full political backing to the Regional Initiatives as a mechanism for delivering practical progress on the ground, but also for providing the umbrella framework leading market convergence step-by-step;
- commit to a comprehensive strategic vision of various regional market projects work with or within (as appropriate) the ERGEG Regional Initiatives so as to get us to the single-EU energy market; and
- commit to concerted action on all fronts to ensure change happens.





Mr Andris Piebalgs, EU Energy Commissioner



Lord Mogg CEER President and ERGEG Chair

Aim of this Progress Report and its public consultation

This Regional Initiative Progress Report is a new approach to improve visibility and understanding of the work carried out in the regions on the one hand and the extent of the coherence and convergence across all of the regions on the other hand. Instead of providing separate reports on these aspects (as was done in the past), the present document consolidates the information into a single report.

This document reports on the Gas Regional Initiative (GRI) and Electricity Regional Initiative (ERI) in two ways. The first part is a factual report on progress, in the period January 2008 - October 2009, to enhance regional market integration through a region-by-region approach. This approach shows that the Regional Initiatives continue to have a real impact through practical improvements (such as regionally coordinated transparency reports, or congestion management) that facilitate trade in electricity and gas regions across neighbouring EU countries. The second part, which presents the same achievements in a topic-by-topic approach, assesses the extent of coherence and convergence across the regions. To that end, ERGEG is seeking the views of stakeholders on those assessments, by posing open questions on a set of key messages. In particular, ERGEG invites all interested parties to respond to the following questions (the list is not intended to be exhaustive, ERGEG welcomes any further feedback on the contents of this report):

A. ERGEG Gas Regional Initiative

A.I. From your point of view, what is the main achievement of the Gas Regional Initiative process?

Investment in new infrastructure

A.2. Do you consider that Gas Regional Initiative (GRI) projects have effectively contributed to cross-border investment processes? What kind of improvements would you expect? Capacity allocation and congestion management

- A.3. What lessons do you draw from GRI projects in the area of access to cross-border capacity? Do the current GRI projects on capacity allocation harmonization meet your expectations?
- A.4. Would there be real benefits if, at this stage, the GRI tried to seek better coordination at a cross-regional level? How do you value the experience acquired with the capacity projects in the regions? What type of projects should be developed in the future?

Transparency

A.5. What would you expect to be the contribution of the GRI to transparency going forward?

Do the current projects in the three regions meet your expectations?

A.6. How could this work help to ensure that the requirements of the 3rd Package are met in a consistent way across the three gas regions?

Interoperability and Hub development

- A.7. What further actions would you expect from the GRI in this area in order to contribute to interoperability and hub development?
- A.8. From your experience with the Regional Initiatives, what are the main obstacles to reach harmonization regarding interoperability at a regional level?

Security of Supply

A.9. Should security of supply be more clearly considered as a main driver within the GRI? Should specific actions be developed in this area?

A.10. How can the regions of the GRI take into account and develop measures contained in the European Commission's proposal for a Regulation concerning measures to safeguard security of gas supply?

B. ERGEG Electricity Regional Initiative

B.I. From your point of view, what is the main achievement of the Electricity Regional Initiatives process?

Capacity calculation

- B.2. What should be the framework conditions for having flow-based capacity calculation based on a common grid model implemented in practice?
- B.3. What do you believe should be the short- and long-term goals for a regional approach to capacity allocation?
- B.4. Do you consider transparency requirements for capacity calculation sufficient? If not, what do you need additional data/information for?

Capacity allocation

- B.5. What practical steps should be taken at an interregional level to ensure an efficient and harmonised approach to capacity allocation in the 1) long-term; 2) day-ahead; and 3) intraday markets?
- B.6. What are the future challenges in ensuring that allocation mechanisms across all timeframes can work together?

- B.7. Do you consider that achievements by different regions towards a harmonised set of rules at regional level for long-term capacity allocation merit further work or should there be more emphasis put on inter-regional harmonisation (considering that this may impede short-term regional progress)?
- B.8. Do you think that extending the geographical scope of existing auction offices is advisable/feasible?
- B.9. Do you agree with price market coupling as the target model for day-ahead capacity allocation?

Balancing

B.10. How important do you consider further development of cross-border balancing solutions? Which model do you consider appropriate and efficient?

Transparency

B.11. Do you share ERGEG's view that significant progress in transparency has been reached thanks to the ERGEG Regional Initiatives? What steps should be taken in order to enhance transparency further?

How to respond to this consultation

Deadline: 31 December 2009

Comments should be sent by e-mail to Regional_Initatives_Progress@ergeg.org

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All responses (except "confidential material") will be published on the website

www.energy-regulators.eu

Treatment of Confidential Responses

In the interest of transparency, ERGEG:

i) will list the names of all respondents (whether confidential or not) or, alternatively, make public the number (but not the names) of confidential responses received;

ii) requests that any respondent requesting confidentiality submit those confidential aspects of their response in a "confidential appendix". ERGEG will publish all parts of responses that are not marked confidential.

For further information on ERGEG's rules, see ERGEG Guidelines on Consultation Practices.

Key update on the Regional Initiatives process

I.I Key update on the process

The European Regulators Group for Electricity and Gas (ERGEG), with the backing of the European Commission, launched the Regional Initiatives in 2006 in order to facilitate progress towards a single European energy market. The cornerstone of the Regional Initiatives has been their ability to harness the voluntary co-operation of stakeholders who want to integrate Europe's fragmented national energy markets together with those bodies that have the power to bring about that change. By focussing initially on the creation of regional markets (7 in electricity, 3 in gas) a manageable process has resulted, capable of tackling the complex and diverse problems that must be overcome. The Regional Initiatives are the regulators' big push to removing persistent bottlenecks to a single EU energy market.

The diversity of the EU, comprising 27 nations who are historically and culturally very different as well as having very different approaches to operating and regulating their energy markets, should not be forgotten. However, the regions have to be seen together to recognise the strength of the Regional lnitiatives as a foundation for moving from national markets, via regional market integration, to a single EU market.

As evidenced by the concrete results in the regions much progress has been made already which has resulted in greater and more efficient cross-border trading of electricity and gas and enhanced security of supply. However, the nature of the Regional Initiatives is that they are essentially a voluntary process. This in turn means that progress can be made only where there is complete consensus among a wide range of diverse stakeholders within the regions. It also means that it is important to maintain (and sometimes build) momentum for stakeholder's commitment to actively contribute to improving energy market integration in Europe. In dealing with cross-border jurisdictional issues, reform at the national level (even reforming national laws) is often needed. The result (inevitably) is that some regions have made more progress than others, and more progress has been made in some

topics than in others. These regions have set standards (e.g. regional transparency reports) for others to follow.

Probably the most important message of the Regional Initiatives is that achieving results in a voluntary process is challenging, although there are some remarkable success stories. To achieve competitive markets, reforms at national level are needed. Europe's energy regulators consider the Regional Initiatives as an essential implementation mechanism for single-EU market reforms, and also as active projects which can develop and trial solutions which may have wider application across the European Union.

With the commitment of network operators and the political will of governments, reform can be made in each region. Such reforms will enhance the benefit to Europe's energy consumers and those companies who have to compete on global markets.

1.1.1 Maintaining momentum within a voluntary process

Progress (and not only activity) is carefully monitored by regulators at EU level. The focus is on tangible results such as stakeholder agreements with concrete impacts, actual implementation of actions etc. This provides the European Commission with an overall picture of what is being achieved. Given that the Regional Initiatives are voluntary processes which depend on the willingness of many stakeholders' active contribution (Member States, grid operators, traders, industry and many more) it is of central importance to report publicly on the work carried out. Presentations are made at the European Electricity Regulatory Forum (Florence Forum) and European Gas Regulatory Forum (Madrid Forum).

The European Commission and ERGEG co-host an annual Regional Initiatives Conference to demonstrate what can be achieved, albeit on a voluntary basis, via the Regional Initiatives. Parties interested in this process of improving regional energy market integration can stay abreast of the Regional Initiatives

Mr. Andris Piebalgs, EU Energy Commissioner; Lord Mogg, Chair of ERGEG; and Mr. Alejo Vidal-Quadras Roca, Member of the European Parliament at the European Commission/EREG Regional Initiatives Conference, February 2008

meetings, public consultations and progress through a dedicated section of the website (www.energyregulators.eu) or by subscribing (free) to the online newsletter European Energy Regulators News which contains a region in the spotlight each month and a quarterly update for all regions.

1.1.2 Looking ahead – from the voluntary to the mandatory approach

The 3rd package of energy liberalisation legislation (socalled "3rd Package") which was adopted in 2009 has the potential to accelerate progress towards a single European energy market through the establishment of new European institutions which will foster cooperation between regulators (i.e. ACER) and between TSOs (i.e. the ENTSOs), the development of Framework Guidelines and the adoption of network codes which, after adoption through the comitology process, will establish a binding cross-border regulatory framework, and the enhancement of regulators' powers which will enable them to enforce their decisions.

These measures, when implemented, will transform the context within which the Regional Initiatives operate

from an essentially voluntary one, to one with binding and enforceable rules. This is a very significant change and will put the single market developments which are currently pursued through the voluntary Regional Initiatives framework onto a similar footing with market reforms undertaken in many national markets. The prospect of binding rules to cement agreed changes will enable progress to be accelerated and will enable consistent and planned progress across both regions and topics.

Europe's energy regulators consider the Regional Initiatives as an essential implementation mechanism for single-EU market reforms, and also as active projects which can develop and trial solutions which may have wider application across the European Union.

Among the measures in the 3rd Package which are likely to accelerate regional market integration are:

- the introduction of Framework Guidelines and Network Codes which create cross-border regulatory rules which facilitate trade between national markets, and ultimately their integration;
- related to the previous point is the ability of the European Commission to propose network codes for the comitology procedure which would make each relevant network code binding;
- the enhancement of the powers and independence of national regulatory authorities (NRAs), together with the extension of their objectives to include the promotion of a single European electricity and gas market, and as part of that, the promotion of regional markets;
- specific consideration of regional co-operation and regional market development as a complement to 'top-down' measures.

The 3rd Package includes obligations on Member States and regulators to co-operate for the purposes of integrating their national markets at one or more regional level. There are also provisions with regard to cooperation by grid operators on Community wide and regional based network development plans, a role for the EU Agency for the Cooperation of Energy Regulators in monitoring the cooperation of Transmission System Operators, and (potentially binding) EU-wide Network Codes. Implementing the 3rd Package will by necessity mean enhanced coordination at both EU and regional level.

Fostering regional cooperation is an exciting prospect which will enable a single market to be achieved in a pragmatic, step-by-step way. ERGEG launched a separate consultation (in November 2009) which will help to define more closely the role that is expected of the Regional Initiatives in this new context of the 3rd Package.

I.2 Contribution to building a single European market: roles of Gas Regional Initiative (GRI) and Electricity Regional Initiative (ERI)

1.2.1 The Regional Initiatives enhance regional market integration

The European Commission, government Ministries and energy stakeholders at the Florence and Madrid Fora have acknowledged the ERGEG Regional Initiatives as an effective way of enhancing regional market integration on route towards a single European energy market. Significant improvements are already being delivered over the past year. For example, major strides have been made in improving transparency in both the electricity and gas sectors. There have also been real developments in the area of capacity allocation and managing congestion. It is expected that the pace of progress in all regions is set to increase with the emphasis placed in the 3rd Package upon regional integration through greater regional coordination. The Regional Initiatives facilitate the voluntary cooperation of stakeholders in improving regional market integration. Major results have, and continue to be, achieved.

Delivering a more integrated European market boosts competition and enhances security of supply. The expected end result is cheaper and more secure energy that can benefit all of Europe's 500 million citizens and its industries.

1.2.2 Coherence and convergence

Some regions have developed different approaches in some topic areas reflecting the different specificities of the regions. Whilst the development of different experiences is potentially beneficial in some cases, it is important that solutions found to problems within a region do not hinder the progress that is being made to integrate the regions into a single European market in due course - for example through the implementation of inconsistent solutions making the integration of markets more difficult. To this end, since 2007 ERGEG has periodically consulted on coherence and convergence across the regions. We have found that the seven electricity and three gas regions are delivering concrete results and are working in ways which foster further regional market integration. Once again the European energy regulators seek stakeholders' view on the extent of coherence and convergence across regions in realising the end objective of single EU electricity and gas markets.

In a further effort to develop a more strategic vision of the overall direction towards a single European energy market ERGEG created a dedicated working group on the Regional Initiatives in 2009 with a view to fostering even greater consistency across the regions. A roadmap, envisaged in the 2010 work programme, will refocus efforts on (obstacles in) those regions which are impeding the development of a truly EU-wide market and should ensure convergence between work in the regions and parallel work on market integration at European level. 1.2.3 Introducing market integration incentives

Ensuring sufficient interconnection is an essential element in integrating national markets. This can be achieved by using existing interconnection more efficiently and in the longer term by developing more cross-border transmission capacity. ERGEG, in its second (2008) monitoring report of compliance with the Electricity Regulation (EC) 1228/2003, stressed the importance of setting up incentives for system operators to maximize the availability of interconnection capacity. In an effort to further accelerate market integration ERGEG is currently examining how best to introduce ad hoc incentives to maximise the level of available interconnection capacity and introduce the "target" congestion management mechanisms in the electricity regions.

Key developments to date – Gas Regional Initiative (GRI)

The Gas Regional Initiative (GRI), established by ERGEG in 2006, creates three regional gas markets in Europe namely the North-West (NW), the South (S) and the South-South East (SSE) regions.

Regions of the Gas Regional Initiative	Lead Regulator
North West Belgium, Denmark, France, Germany, Ireland, the Netherlands, Sweden, the United Kingdom and Norway (Observer)	The Netherlands (Energiekamer)
South (S) France, Portugal and Spain	Spain (CNE)
South-South East (SSE) Austria, Czech Republic, Greece, Hungary, Italy, Poland, Slovak Republic and Slovenia	Austria (E-Control) Italy (AEEG)

The objective is to find solutions to concrete problems through dialogue between regulators, governments, shippers and the operators of the gas pipelines. Developments and achievements in the regions largely depend on specific issues related to market integration and, sometimes, on unexpected events requiring a coordinated reaction at the region's level. Five dominant topics have been retained as drivers in the GRI during 2008 and 2009 namely investment, capacity allocation and congestion management, transparency, interoperability, and security of supply.

Investment has been a shared priority among the regions with the organisation of several open seasons. The GRI proved a very efficient approach to improving the coordination of these processes, and gathering together all the interested parties. On capacity allocation and congestion management, the GRI contributed to developing coordinated cross-border procedures at various locations in the EU, in response to the specific needs of each particular situation. Transparency was enhanced through voluntary commitments from TSOs to release new data on the availability and use of transmission infrastructures. With regard to interoperability, the GRI helped harmonise certain rules between specific adjacent countries, leading towards easier gas movements and increasingly liquid gas hubs.

The disruption of Russian gas supplies through the Ukraine in January 2009 showed that, in case of a security of supply crisis, the culture of cooperation built within the regions can be very helpful. The South-South-East region, where some countries fully depend on Russia for their supplies, was most directly affected by the January 2009 crisis.

The SSE region helped in developing a diagnosis about the consequences of the disruption and provided timely advice to the European Commission. One of the five concrete measures proposed by the regulators was better coordination of national emergency planning (e.g. so that supplies to foreign customers are not stopped in emergency situations). Others were to have better coordinated gas dispatching, better coordinated infrastructure planning and making reverse flows possible.

The threat of future gas crises underscores the key relevance of stakeholders working on the ground, through the Regional Initiative framework, on concrete measures to integrate markets and reinforce security of supply.

2.1 Key developments region by region

ERGEG monitors the progress of gas regions. Since 2008 a goal-oriented approach was introduced for internal reporting purposes. Quarterly reporting enables ERGEG to compare project plans with what is actually delivered in each region. The evidence for 2009 shows, once again, that there are several concrete developments in each of the three gas regions. Some highlights are set out below region by region.



The **North-West (NW)** region is at the heart of the European gas market. It comprises a large number of interconnected gas systems and includes the main European gas hubs. Consequently, important issues are at stake in developing crossborder flows, promoting efficient hubs and

reinforcing security of supply. In the North-West (NW) region significant progress has been made on improving transparency, managing interconnection points more efficiently and increasing cross-border capacity. The Transmission Transparency Project launched in 2007 was successfully implemented at 133 interconnection points. Its aim was to provide the data needed by market participants to know how much capacity is available and where gas is flowing. This resulted in a significant improvement of transparency on regional gas flows and available transmission capacity. This project is the result of the joint work of all stakeholders. Another major achievement was made in 2008 and 2009 with the launch of the secondary capacity platforms in Germany, the Netherlands and Denmark.

With regard to investment, parties worked on an open season between France and Belgium (see case study on Open Seasons below). Open Seasons have an impact on neighbouring markets. This project provided important insights into the process of investment through open seasons which could be taken into account in the development of other open seasons in Europe. Further projects have been launched with an aim of creating a more consistent regulatory framework for investment across the region. These include a virtual investment test case, and also a manual explaining the framework for investment across all countries in the region.



In the **South (S) region** key developments have been achieved with regard to capacity allocation, interoperability, investments and legal convergence. In 2008 a coordinated Open Subscription Procedure was launched for the coordinated allocation of

interconnection capacity between France and Spain that either exists or is under development. As a consequence, Spanish national legislation (a Royal Decree and a Ministerial Order) had to be modified and harmonized with the French laws. All the capacity offered for long and short-term was allocated. With regard to long-term capacity, capacity requested surpassed several times the capacity offered signalling that shippers wanted more capacity. Once the existing capacity was allocated, the region focused its efforts on developing two Open Season procedures at the Spanish-French border in order to develop future capacity by upgrading existing interconnections (at Larrau and Biriatou) and creating a new gas corridor to the eastern Pyrenees (see case study on Open Seasons below). The Open Seasons to allocate capacity in 2013 and to test market interest in the 2015 interconnection project (where investment decisions need to be taken) was launched in July 2009. Requests from shippers to flow gas from Spain into France were 200% the capacity offered. Requests to flow gas from France into Spain were 58.5% the capacity offered. The Open Seasons was a success in identifying clear market interest in the proposed interconnection projects where investments decisions need to be taken.

On the interoperability side, a proposal to modify the network code was made by the Spanish regulator in order to implement EASEE-gas' Common Business Practices (CBPs) on harmonization of units, nomination and matching processes. At the same time, Portugal and Spain developed a study on the legal changes that are required in both countries when implementing a common trading licensing process. Both regulators are currently working on the required regulatory changes proposals in accordance with the Iberian gas market (MIBGAS) work timetable.



In the South-South East (SSE) region the main focus of attention has been on regional cooperation between National Regulatory Authorities (NRAs) on the one hand and between Transmission System Operators (TSOs) on the other hand. In 2008, nine out of ten

Understanding (MoU) to strengthen their cooperation on cross-border issues and to coordinate more effectively on issues such as market design harmonisation. Regulators launched the SSE Regulators' Network internet platform to make their cooperation more efficient. The TSOs in the region signed a MoU to strengthen TSO cooperation with a view to improving gas transmission services across the region and to contribute to the development of the EU gas market. As in the NW region, a Strategic Advisory Panel was set up in 2008 to give advice and guidance to the SSE region on how to better achieve stakeholder involvement and commitment as well as to better communicate progress to all stakeholders.

Hit by the gas crisis in the beginning of 2009, politically the emphasis in the SSE region was refocused on the issue of security of supply and possible measures to mitigate the impact of possible future cuts in gas supplies to the region. The region's regulators diagnosed the situation and provided timely advice to

the European Commission including a set of concrete actions. The immediate reaction of all affected market participants of the region has shown that the basis for cooperation and solidarity exists, but that further preparation and mid-term measures are needed to prevent countries from possible widespread shutdowns in the future.

2.2 Key developments per topic

Five priorities have been identified across the regions namely investment in new interconnection capacity, access to pipeline capacity, transparency, interoperability and security of supply. There have been a number of concrete developments in each of the three gas regions over the past months. Some highlights are set out below topic by topic. This approach also allows a positive assessment progress in the three regions leading towards a single gas market, which in the end is the main goal of the work done under the umbrella of the Regional Initiatives.

2.2. I Investment in new infrastructure

Increasing interconnection investments is one of the priorities of the Gas Regional Initiative. Significant progress has been made to improve investment in new gas infrastructure through anticipating and coordinating investments for the cross-border transport of gas.

In the wake of the January 2009 gas crisis, work has been done within the South South-East (SSE) region to explore the opportunities for enhancing reverse gas flows. These short- and mid-term investments would allow for a West-East directed gas flow in several cases that could foster security of supply within the region.

GTE+ (representing Europe's transmission system operators) members within the SSE region also agreed to elaborate a more detailed investment plan for the South South-East region, after having completed the European 10 Year Investment Statement by 2010.

Following the allocation of available existing capacity at the Spanish-French border, the South region focused

its efforts on developing two Open Seasons (OS) in order to promote investments and increase capacity interconnections in a coordinated way. This is explained in detail under the case study section below.

An Open Season was also launched between France and Belgium which gave rise to valuable insights on issues such as spare capacity and flexibility in the contracts for later alignment with other European open seasons. Actions have also been taken to deal with confidentiality issues so as to better coordinate through the sharing of information.

In the NW region a virtual test case is being undertaken to build a hypothetical pipeline between Germany, Netherlands, Belgium and France. Furthermore a manual of the regulatory frameworks in the nine countries of the NW region will be finalised by the end of 2009. The aim of all these works is to provide an overview of the regional regulatory framework for cross-border investments and enhance the investment climate in the region.

The investment related projects and accomplishments show that developing interconnection capacity is shared as a priority issue in the three regions. It is indeed considered as an essential milestone on the path to a single gas market in Europe.

In all three regions, investment projects have been based on the evaluation of the actual needs of the market. For that purpose, open seasons have been implemented for assessing the need for capacity and securing project financing. The GRI played a key role in the coordination of these complex cross-border processes involving many actors. A good example is the ongoing Open Seasons organised in the South region for the sale of new capacity not only at the Spanish-French border but also inside France and involving four TSOs in a coordinated way.

2.2.2 Capacity allocation and congestion management

Lack of available firm capacity, often caused by contractual congestion, is a major barrier to

competition and the functioning of a single EU gas market. Several regional projects illustrate the various approaches that can be taken to improve capacity allocation and congestion management across Europe.

The SSE region examined how transmission capacity is used effectively. Projects in the South and NW regions address the way that capacity is allocated such as the allocation of primary capacity in a coordinated way (e.g. open subscription periods) or secondary capacity (e.g. secondary auctioning platforms). For all capacity projects, coordination of capacity products and processes across borders remains a priority.

The European Gas Regulatory Forum (Madrid Forum) has identified contractual congestion on main natural gas transport routes and interconnection points as one of the main barriers to cross-border trade and to the completion of the internal gas market. To promote greater uniformity in operating rules the third energy liberalisation package (3rd Package), adopted in 2009, requires the European body of TSOs (ENTSO-G) to draft EU-wide Network Codes that will be implemented by TSOs. These codes will be based on the Framework Guidelines developed by the Agency for the Cooperation of Energy Regulators (ACER). Tackling capacity management issues is already a key priority for ERGEG, who is preparing input into these Framework Guidelines. Meanwhile, before the EU-wide rules are adopted, steps are being taken at regional level to improve capacity allocation and congestion management across the three gas regions.

An important piece of work was launched in the SSE region to identify potential harmonisation of contractual, legal and regulatory arrangements with regard to nomination and re-nomination lead times in different Member States. Harmonisation of lead times for nominations and re-nominations should allow adjacent TSOs to apply congestion management procedures in a consistent way. The outcome and a possible expansion of the project scope on a European level will be discussed by the TSOs.

Another great success in 2008/2009 was the launch of the secondary capacity platforms in Germany, the

Netherlands and Denmark resulting in firm capacity being now available to shippers on a day-ahead basis. Firmness means that shippers are now compensated if their capacity is curtailed. This project (the so-called "day-ahead project") is one of the projects launched within the GRI framework based on a proposal from the European Federation of Energy Traders (EFET). The objective of the pilot project was to establish an online trading possibility for the auctioning of secondary firm cross-border transmission capacity - on a day-ahead basis at two interconnection points: Bunde-Oude Statenzijl (Germany/the Netherlands) and Ellund (Denmark/Germany). The pilot has a wide participation of German, Dutch and Danish TSOs, two trading platform operators, traders, and regulators in the region. Further details about this project are contained in the case study on the day-ahead auctions in the North-West region.

In 2008 a Spanish-French coordinated Open Subscription Period was launched in order to allocate capacity (existing and under construction) at the Larrau interconnection point up to March 2013.A common procedure was approved by the regulators, based on the pro-rata allocation principle. It constituted an important success in terms of regulatory coordination and joint work of different TSOs. Capacity was allocated in full on a long-term (80% of the capacity on offer, contracts longer than one year) and short-term basis. Short-term capacity will continue to be allocated on a common crossborder basis through annual Open Subscription Periods.

The GRI has contributed to developing coordinated cross-border capacity allocation procedures and to clearly identify obstacles to market integration. Processes have been adapted to local issues which lead to various projects across the regions. However, some regulatory divergences remain throughout Europe, which makes it difficult to further improve the access to interconnection capacity in a consistent way across regions.

2.2.3 Transparency

Developing transparency is a necessary step toward a more efficient and integrated European gas market. Significant progress was made in 2008 and 2009 to improve transparency across all gas regions, particularly on the availability and use of transmission infrastructure.

In 2009 a flagship project in the NW region requiring TSOs to publish daily data on transmission capacity and flows was completed. In the South region a new obligation was placed upon TSOs requiring the publication of regular updates on the status of new interconnection capacities.

Transparency on the availability and use of all gas infrastructures (transmission, storage and LNG) is essential for an efficient gas market to develop in Europe. A number of projects that seek to improve transparency on existing or new infrastructures are being carried out in the gas regions.

A major transparency project related to gas transmission was developed in the North-West region through the good cooperation of all stakeholders (regulators, gas market participants, and transmission system operators). It was the first time that European stakeholders came together to agree on a "wish list" for information types needed. Stakeholders agreed to focus the project on the release of new data at crossborder interconnection points, with regard to regional gas flows and capacity availability. The project represents an important step forward in regional transparency and demonstrates the strength of a regional cooperative approach.

The result is that nine out of seventeen TSOs now publish information on all seven data types agreed upon as project deliverables. Overall, TSOs report that they are now 90 percent compliant with the agreed deliverables instead of 50 percent, which is the level at which the project started. Before the end of 2009, all 17 TSOs are expected to publish the information requested by network users. In 2007 regulators in the South region carried out an in-depth study which showed high levels of compliance with the transparency obligations of the EU Gas Regulation on transmission issues. The study was subsequently extended in 2009 to analyse the region's results of monitoring compliance with the transparency requirements of ERGEG's (voluntary) Guidelines of Good Practice for the LNG (GGPLNG). The LNG terminals in the South region, represent around 70% of the re-gasification terminals in Europe. The results indicated a good degree of compliance with the existing regulatory requirements. The main transparency measures in this region consist of obligations on TSOs to periodically publish the building status of new interconnection capacities between Spain and France on their website, as well as on the ERGEG website. First publication occurred in December 2007 and since then information has been updated every six months.

A new project was originally proposed for the North-West region's gas storage operators to publish daily updates of information on European gas storage levels, storage inflows and outflows by I October or I December 2009. The project is supported by all regional regulators, storage users, Gas Storage Europe (GSE) and the European Commission.

Transparency also includes making national market rules accessible to all stakeholders. The SSE region produced some guidelines (to shippers or traders) on how to import and supply natural gas to final customers. Six out of ten countries of the region contributed to the guidelines by providing data. Transparency also relates to the way system operators in different countries interact with each other. A Memorandum of Understanding was signed by TSOs in the SSE region, with the goal of increasing cooperation and transparency among the TSOs. It is a first step to increase interoperability, facilitate network access through more than one TSO system, and to harmonize capacity and congestion management.

Transparency regarding availability, use and access to capacity is a necessary condition to create a level playing field for market participants in the European market. Important progress has been made in the North West region to improve transparency regarding regional gas flows and pipeline availability. Transparency has progressed in the other regions as well, which shows some convergence towards shared standards at the EU level. But there is still room for improvement. Regulation 715/2009 makes new transparency requirements binding (e.g. regarding supply and demand and system balancing information). This should provide the framework for consistent work across the three gas regions in this area.

2.2.4 Interoperability and hub development

Regional efforts to improve gas interoperability increase the flow of gas. Similarly, liquid hub based trading is a core building block for the creation of regional gas markets. The ability to trade between hubs, with no barriers, is crucial to market integration. There has been significant effort in establishing a regional hub at Baumgarten (Austria) and paving the way for an Iberian gas market (MIBGAS).

All three regions have identified interoperability (including gas balancing) as a key plank of market integration. The main focus in this area of work is to enhance the integration of operators within each of the regions and to standardise operational procedures. Practical examples undertaken in the regions include: the conclusion of interconnection point agreements and operational balancing agreements (in the SSE and S regions) and implementing the EASEE-gas Common Business Practices (S region).

In the SSE region, there was a clear lack of liquidity at certain interconnection points, most importantly hubs. The two gas hubs in the region are the Austrian Central European Gas Hub (CEGH) at Baumgarten and the Italian Punto di Scambio Virtuale (PSV) hub. Increasing liquidity at the hubs in the SSE region should contribute to security of supply due to more choice and offers and should also allow for the pooling of imbalance positions throughout bigger areas. In essence, all parties can benefit including traders, shippers, hub operators and end-users.

In the SSE region, TSOs concluded in early 2008 the Interconnection Point Agreement (IPA) at the Baumgarten interconnection point. Further work has been done to update all participants on the legal and technical developments of the remaining Operational Balancing Agreements (OBAs). OBAs are an important element to facilitate the transport of gas, as they impact on the way the cost of transport is allocated to adjacent TSOs. With the establishment of a Gas Exchange at the Baumgarten gas hub (Austria), a new regional balancing point will be created which will give the possibility to access balancing energy, right at the centre of the SSE transmission system.

In 2008 regulators of the South region agreed upon an action plan for the integration and development of the Iberian gas market (MIBGAS). In line with the approved work plan, in April 2009 regulators publicly consulted upon a common trading licensing procedure and started to work on a proposal to modify existing regulations. The regulators also began a study on the need to harmonize cross-border and domestic access tariffs in Spain and Portugal.

The harmonisation of technical or legal requirements for ensuring the interoperability of gas systems often requires changes to national rules. For example in an effort to increase interoperability with neighbouring systems, Spanish national legislation had to be changed in order to implement the EASEE-gas common business practices (CBPs) on harmonization of energy units (measurement procedures) and harmonization of nomination and matching processes (gas day).

The ERGEG GRI has helped harmonise some rules between adjacent countries, even if some regulatory gaps cannot be overcome within the GRI framework. They have facilitated reaching cross-border agreements either between regulators or TSOs on nomination procedures or balancing. These efforts aimed at facilitating gas movements within the regions are expected to progressively make hubs and market liquidity a reality.

2.2.5 Security of supply

The Gas Regional Initiative integrates national gas markets and reinforces security of supply.

The SEE region demonstrates how the culture of dialogue built in the region (which is shared in all regions of the GRI) can help to implement collective responses to regional crises such as the disruption of Russian gas supplies. The SSE region, being the worst affected by the January 2009 Russian-Ukrainian gas dispute, proposed a set of regional-based measures to help mitigate a future gas crisis.

Furthermore, actions related to investment and market integration across all GRI regions contribute to the security of gas supply. The development of new interconnection capacity at the Spanish-French border is also expected to deliver benefits for security of supply not only in the Iberian Peninsula, but also for the wider European market.

Enhancing security of supply and increasing competition in the European market is core to the Gas Regional Initiative as they constitute principal targets of the single EU gas market. Due to the cut of Russian gas supplies in January 2009, the issue of security of supply became a priority for the SSE region. Work in this area is guided by the following questions:

- How to improve the level of preparedness in each Member State - including the possible revision of emergency plans taking the regional perspective into account and how to mutually benefit from past general crisis experience?
- How access to storage could be improved in the region?
- How reverse flows could be installed quickly?

In many cases small modifications of existing infrastructure allowed new or more flexible gas flows (e.g. Kittsee-Petrzalka-Pipeline which was opened in a few days allowing gas flows from Austria to Slovakia). Drawing upon its experiences, the region prepared and sent to the European Commission a report summarizing all bottlenecks which could allow for more flexible gas flows and improved interconnection between markets. Similarly, the increase of interconnection capacity between Spain and France is strongly supported by regulators in the region, since it is considered essential for security of supply reasons and for the Iberian gas market's integration into the wider European gas market. The development of new interconnection facilities will allow Algerian gas to flow to North European countries and piped gas from Europe to the Iberian Peninsula, diversifying the supply sources and thus ensuring security of supply.

2.3 Case studies

2.3.1 Day-ahead capacity auctions in the NW region

Developing gas transmission capacity on the secondary market is an important way of optimising use of the existing gas transmission network. Over a long period a significant amount of effort in the North-West region has gone into developing and delivering improvements to secondary capacity trading. The result is that, since 2008, there is day-ahead secondary trading of firm capacity. This success is the result of considerable voluntary work of participating network operators, the regulators and representatives of network users of the involved countries.

In early 2007 a pilot project on day-ahead capacity auctions was initiated in the framework of the Gas Regional Initiative. The project, initially proposed by the European Federation of Energy Traders (EFET), aimed at improving the capacity situation at interconnection points. It covered the establishment of a day-ahead secondary market for firm capacity at the interconnection points of Bunde/Oude Statenzijl (between the Netherlands and Germany) as well as at Ellund (between Denmark and Germany).

The Anglo-Dutch energy exchange APX and the German secondary trading platform trac-x agreed to design platforms for facilitating the day-ahead trading and network operators committed to implement the necessary processes to support secondary trading on the day-ahead basis. The result was a reduction of the lead time down to a few hours.

Since May 2008 it has become possible to trade firm secondary capacity for the following gas day at the Bunde/Oude Statenzijl interconnection point. Since October 2008 secondary capacities at Bunde/Oude Statenzijl can be traded on both sides of the interconnection point. Trading at Ellund started in early 2009.

The day-ahead pilot is a good example of what can be achieved in the framework of the Regional Initiatives. On trac-x, a considerable increase of day-ahead capacity trading has been observed since the launch of the pilot. Since May 2008 more than 12,000 offers of a total volume of about 478,000 MVVh have been placed and around 3,000 deals have been concluded. Further interconnection points have already been included and further extensions of trading possibilities are foreseen. The pilot, initially implemented in the framework of the Regional Initiative, is now being expanded independently.

2.3.2 Open Seasons coordination

Open Seasons are a two-step process which allows investors to efficiently consult the market about how much infrastructure it needs, and under what terms it would like this infrastructure to be marketed. It also allows resulting capacity to be allocated on a transparent and non-discriminatory basis. Encouraging investors to use an open seasons procedure to efficiently identify market needs and allocate capacity, ERGEG in May 2007, published (voluntary) Guidelines for Good Practice on Open Season Procedures (GGPOS). The GGPOS aim at ensuring that open season procedures are conducted in a nondiscriminatory and transparent manner and result in efficient outcomes. Since then, a significant number of open seasons have been launched in particular in the North-West and in the South gas regions. The coordination of these investment decisions between TSOs and the concerned regulators is necessary in order to provide to the shipper available and compatible capacity on the adjacent networks. Recent experiences in the two regions have shown that the coordination of investment decisions on a regional scale is possible.

• Open Seasons in the North-West region

GRTgaz and Fluxys, the French and Belgian TSOs respectively, launched an open season in April 2007 to assess the level of interest in booking additional longterm transit capacity from Belgium to France. This open season was the first experience of cooperation and sharing of information between TSOs and regulators.

The coordination (facilitated by a Memorandum of Understanding (MOU) between the TSOs) was successful in several aspects, in particular on the definition of consistent timeframes and on all the technical and commercial arrangements for the coordination of the Open Seasons. The two TSOs also committed to exchange information regarding any decision that could have an impact on the project on each side of the border. There was also coordination on some contractual aspects, especially the consistency of the capacity allocation scheme.

In addition, the process was coordinated with the open season organised by Gas Transport Services (GTS), the Dutch TSO. GTS offered shippers the possibility to adjust their bids on the GTS network on the basis of the French-Belgian open season results by postponing the binding phase deadline. This facilitated the coordination across three countries.

In the case of the ongoing (Energinet.dk) open season on the Danish transmission system, there is an active coordination of investment decisions with the ongoing processes concerning expansion in the adjacent Swedish and German gas transmission systems (Gasunie/GTS integrated open season) and in Poland (Gaz Systems).

Beyond these experiences of successful coordination, Gasunie Deutschland (Germany) and Gas Transport Services (the Netherlands) are currently adopting an integrated approach, aiming to synchronise capacity development on both sides of the German-Dutch border with one investment decision.

Fig I - Two projects envisaged, two Open Seasons

• Open Seasons in the South region

Following the allocation of available existing capacity at the Spanish-French border, the South region focused its efforts on using Open Seasons (OS) to promote investments and increase capacity interconnections. At the end of 2008, the French and Spanish and regulators carried out a public consultation on the future design of two open seasons for the development of gas interconnection capacity between France and Spain. Consequently two phases for the development of new capacity between France and Spain are planned for 2013 and 2015.

The first involves reinforcing the Western axis through new investments in the existing interconnections (Larrau /Biriatou, and TIGF-GRTgaz interface) available from 2013. These investments are not only orientated to cross-border interconnections, but they will include extension of capacities inside France. This project implies coordination of four TSOs, which will sell capacity at the same time in three interconnection points, in both directions at every interconnection point. The second involves creating a new interconnection point on the Eastern axis, in Catalonia (the Midcat project) from 2015. These recent experiences on open seasons demonstrate three points. First, it is necessary to harmonise rules on both sides of the borders. Second, there must be systematic coordination and cooperation involving several parties (regulators, operators etc) for cross-border and cross-TSO investments and projects including the all-important political will of the governments to undertake reforms. Third, the Gas Regional Initiative supports and facilitates the Open Seasons processes as a useful instrument to efficiently identify market needs and allocate capacity.

Fig 2 - Interconnection points included in the 2013 Open Seasons

The Open Seasons to allocate capacity in 2013 and to test market interest in the 2015 interconnection project (where investment decisions need to be taken) were launched at the end of July 2009. Requests from shipper to flow gas from Spain into France were 200% the capacity offered. Requests to flow gas from France into Spain were 58.5% the capacity offered, signalling clear market interest in the proposed interconnection project where investments decisions need to be taken. For the proposed extension to capacities within France the results differ: shippers asked for 160% between TIGF and GRTgaz Sud, and for 33% between GRT gazSud and GRTgaz Nord.

Spanish national legislation (a Royal Decree and a Ministerial Order) regarding capacity allocation had to be modified in order to introduce the possibility of developing open seasons and open subscription periods at the Spanish borders jointly in coordination with French TSOs. Additionally in Spain a Resolution by the Ministry of Industry was needed, for the open subscription procedure to allocate existing capacity or capacity under construction.

Key developments to date – Electricity Regional Initiative (ERI)

The Electricity Regional Initiative is comprised of seven regional electricity markets namely the Baltic; Central-East, Central-South, Central-West, North, South-West and the France-UK-Ireland regions.

A major achievement of the Regional Initiatives process is undoubtedly the growing consensus across Europe towards target congestion management mechanisms (as developed by ERGEG in the two ERI Coherence and Convergence reports published in 2007 and 2008), the implementation of which will allow electricity interconnectors across Europe to be used more efficiently. This work is already ongoing in some regions. It will also be taken as an input to the work of the European energy regulators in developing the relevant Framework Guidelines under the 3rd Package of energy legislation.

Whilst energy laws are decided within the European Institutions, the reality is that the 27 Member States each have their own interpretation of how to implement energy legislation. Inconsistent rules from one country to the next, coupled with a sector marred by many significant barriers to trade (identified in the European Commission's sectoral inquiry), prevent electricity being traded seamlessly across borders. Whilst significant progress has been made (not least through the work of ERGEG which seeks at EU level to harmonise rules and procedures), still major bottlenecks to achieving a single electricity market persist across Europe.

This is why ERGEG, in 2006, set up the Electricity Regional Initiatives. It creates seven regional electricity markets as a first step towards a single EU electricity market. Through the Electricity Regional Initiative framework, the regional regulators lead diverse stakeholders in finding practical solutions to problems. The seven electricity regions deal with three identical priority areas: harmonisation and enhancing congestion management on interconnections; harmonising regional market transparency; and developing balancing market exchanges at borders. Significant progress on achieving integration has already taken place in the regions in each of these core areas. Beyond the several concrete developments achieved within each region, one of the key achievements of the Electricity Regional Initiative process is the emergence of a growing consensus across Europe towards target congestion management methods:

- Capacity calculation: towards a common transmission model with regionally-calculated flowbased parameters (Power Transfer Distribution Factor matrix) especially in meshed networks (against the current bilaterally-calculated Net Transfer Capacity (NTC));
- Long-term and medium-term allocation: towards a single auction platform with harmonized auction rules, IT interface, and products;
- Day-ahead allocation: towards a market coupling model;
- Intraday allocation growing consensus: in some regions towards a continuous intraday platform;
- Developing cross-border balancing (e.g. TSO to TSO model as a first step) aiming at balancing market integration;
- Integration of transparency requirements.

In its 2008 ERI Coherence and Convergence report, ERGEG concluded that progress on implementing the congestion management target mechanisms defined in those documents could be achieved soon through improving cross-regional coordination.

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Regions of the Electricity Regional Initiative	Lead Regulator
Baltic Estonia, Latvia and Lithuania	Latvia (PUC)
Central-East (CEE) Austria, Czech Republic, Germany, Hungary, Poland, Slovak Republic and Slovenia	Austria (E-Control)
Central-South (CS) Austria, France, Germany, Greece, Italy and Slovak Republic	Italy (AEEG)
Central-West (CW) Belgium, France, Germany, Luxembourg and the Netherlands	Belgium (CREG)
France, UK & Ireland (FUI) France, the United Kingdom and Ireland	United Kingdom (Ofgem)
North Denmark, Finland, Germany, Norway, Poland and Sweden	Denmark (DERA)
South-West (SW) France, Portugal and Spain	Spain (CNE)

3.1 Key developments region by region

There have been a number of concrete developments in each of the seven electricity regions over the past months. Some highlights are set out below region by region:



In the **Baltic regio**n a major output in 2009 was adapting the existing common regional balancing rules for all Baltic TSOs. A further step is to involve one open supplier outside the region (i.e. a Russian TSO or trading company). Having the same rules of price calculation in Baltic

countries as implemented in Nordic countries would create a bigger Baltic+Nordel market.

Transparency has also been a key issue with the region producing first results including indicators for identification of data providers and the definition of transparency data applicable for the Baltic region.

Unlike most other regions, there is no congestion within the Baltic region. The Baltic Energy Market Interconnection Plan (BEMIP) is one of the regional responses to meet the growing needs for the electricity in the region and to enhance the trade of electricity with Nordic and Central European countries. On the 17th of June 2009 eight Baltic Sea countries signed a Memorandum of Understanding on the Baltic Energy Market Interconnection Plan with European Commission President, José Manuel Barroso. It is the fruit of nine months work which identifies concrete measures to connect Lithuania, Latvia and Estonia better to wider EU energy networks.



In the **Central-East European (CEE) region**, a key achievement in 2008 was the establishment of the first region-wide Common Allocation Office (CAO) in the EU in Freising near Munich. This was an important milestone and a basis for rolling out (in the future) a regional flow-

based congestion management system in the CEE region. The flow-based approach should deliver correct signals to the market and gives a high incentive towards harmonization, ensuring higher security of network operation, more transparency and more efficient use of existing infrastructure.

Regulators in the region had since 2006 championed a flow based allocation mechanism as their preferred solution for complying with the legally required Congestion Management Guidelines. Following a study in 2008, regulators again in 2009 strongly requested the Central Allocation Office and the TSOs to develop and implement a flow-based explicit auction mechanism for the CEE region. Regulators require that the CAO, in performing the allocations, relies on the criterion of maximising the social welfare for the region. Following an initial testing phase which demonstrated that the envisaged benefits can be achieved, and two workshops to inform market participants of developments, the flow-based allocation system is envisaged to become operational in March 2010. It will ensure an efficient use of infrastructure and lead to significant simplifications for market participants.

In the **Central-South (CS) region** the main priorities are transparency and congestion management. The CS region published its regional based transparency report in February 2009, indicating specific steps for the improvement and harmonisation of transparency in the wholesale electricity markets of the region. By 1st January 2010 all relevant information on load, transmission, interconnection, balancing and generation will be published on homepages of national TSOs or power exchanges or on other appropriate websites, like ETSOVista. This should allow for a higher level of transparency for market participants and also ensure high coherence with other regions.



As to congestion management, important

harmonisation and substantial improvements were achieved through the Regional Initiatives. The Use-It-or-Sell-It (UIOSI) principle has been introduced on all Italian borders since January 2009. In addition, the region has focused its efforts to introduce coordinated allocation procedures. After the initially planned Single Auction Office approach was opposed by some TSOs in the region, a stepwise approach was adopted to gradually apply coordination on all borders in the CS region. Regulators proposed a light approach in a first step, with one TSO performing the auction operator role on the Italian borders (so called "TSO Auction Office" model). In a second step, further progress towards regional (i.e. for all Central-South regional borders) and inter-regional convergence will be the objective of the region. In this perspective, a common auction office for explicit auctions in the Central-West and Central-South regions is currently being explored with a view to fulfil the common allocation procedure requirement in the EU's mandatory Congestion Management Guidelines.

Improvements in the short-term allocation mechanisms have been pursued with preparatory studies on implicit auctions aiming at implementing a market coupling mechanism on the Italian-Slovenian border. A Memorandum of Understanding was signed by the power exchanges and the project has also been backed by the national Ministries and regulators concerned.

The region will finalise its first report on electricity interconnection management and use during autumn 2009.



In the **Central-West** (**CW**) region the implementation of a flowbased market coupling (FBMC) in day-ahead is a main priority. This project requires the collaboration of several TSOs and power exchanges. The trilateral market coupling of the Belgian, French and Dutch spot markets

(established in November 2006) has proven its ability to operate efficiently for three years, with prices in the three markets converging 65% of the time in 2008. An ambitious price-coupling project is ongoing to couple all markets in the Central-West region (linking Germany and Luxembourg with the other three) in 2010.

In their implementation study (August 2008), TSOs and power exchanges announced the implementation of the FBMC in two steps. The first step is the implementation of market coupling based on coordinated Available Transmission Capacity (ATC) calculations, the implementation of which is foreseen in March 2010 and the flow-based version is expected for the end of 2010. The expected welfare increase of the first step, compared with current situation, is estimated at 40 M€ per year. In February 2009, the region's TSOs and regulators published their common view underlining the complexity of the issue, the features of the capacity adjustment method, the issue of minimum capacities and an updated planning of TSOs works.

In the CW region, system operators created in December 2008 a common subsidiary, the Capacity Allocation Service Company for the Central West-European Electricity Market (CASC-CWE) which is an auction platform to facilitate cross-border exchanges in the region. The operation of CASC-CWE started with 2009 auctions, using the three sets of rules currently in place through the region (one for the Dutch borders, one for the French-German border and one for the Belgian-French border). The application by CASC-CWE of one single set of harmonised rules for the region, featuring all the functionality of the CASC platform, was published in September 2009. Major improvement in the single set of harmonised rules submitted by TSOs is the implementation of the "Use-It-Or-Sell-It" mechanism, allowing for an automatic resale at the daily auction of non nominated yearly and monthly capacity rights. Following the publication of an ERGEG position paper, published in July 2008, on the firmness of exchange programs, the firmness of transmission capacities after nomination has been improved and harmonized on all the borders of the region¹.

Concerning the implementation of a regional intraday trade, in May 2009 the regulators launched a public consultation concerning the design of a regional intraday mechanism.

Regulators also continued their work on other key priorities, identified in their action plan published in February 2007, such as transparency and market monitoring.

The region will finalise its first report on electricity interconnection management and use during autumn 2009.



In the **France-UK-Ireland (FUI)** region, there has been significant progress in 2008 and 2009 on the congestion management and crossborder balancing on the French-English interconnector.

The most significant achievement reached in

the region over the reporting period is the implementation (in March 2009) of the "interim solution" of the TSO-TSO balancing model that

¹As a minimum requirement transmission rights shall be firm after they have been nominated by market participants. Even though physical firmness is the preferred approach for nominated capacity, financial firmness is also an acceptable solution in the context of explicit auctions."

improves reciprocal access to cross-border balancing services in England and France. This allows TSOs to exchange six prices per day, compared to only one previously. Regulators are currently reviewing experiences with the interim solution with the TSOs concerned. Regulators will also approve the methodology for an appropriate remuneration scheme for the use of the IFA infrastructure for balancing services as soon as they will receive the required information. It was expected that an "enduring solution" with more prices and greater automation should be finalised and implemented in November 2009. However, this will be delayed into 2010 due to the IT testing and upgrades required.

Regarding congestion management, the region has developed a new "one-stop-shop" for all capacity management aspects (including capacity allocation, secondary trading and nominations) of the French-English interconnector, the Interconnexion France Angleterre (IFA). New (IFA) access rules have been approved by regulators in September 2009 and the new capacity management system went live on 1st October 2009. The new improvements include hourly products during daily allocation, a firm nomination stage of long-term capacity, allowing extra capacity to be offered to users in a new process called "netting", Use-It-Or-Sell-It arrangements for unwanted capacity and the introduction of two intraday explicit auctions each day alongside the existing product range of daily to annual auctions. There is also greater transparency of capacity being offered to the market in each auction, giving much more visibility to users. The regulators have begun discussions on how to take into account the ERGEG (July 2008) position paper² which recommends firmness of nominated capacities except in cases of force majeure. This new congestion management system aims to make more efficient use of the interconnector, ensures compliance with the EU Congestion Management Guidelines and improves harmonisation with other European borders. It brings significant benefits to users of the interconnector (offering them more choice and flexibility). It is also a

major step towards further integration of European energy markets, which is important for security of supply and the diversity of energy supplies.

The region has also been reviewing experiences to date with the all-island Single Electricity Market (SEM) operating (since November 2007) across Northern Ireland and the Republic of Ireland, along with trading across the Moyle interconnector (which links Northern Ireland to Scotland). Furthermore, the SEM Committee has been looking forward at options (compliant with the EU's Congestion Management Guidelines) to increase use of the Moyle interconnector and develop trading rules for the East-West Interconnector (linking Ireland and Wales) due to which is due to come on stream in 2012.

The region's regulators will finalise their first report on electricity interconnection management and use in autumn 2009.



In the **North region**, progress in 2008 and 2009 focused on optimising the use of interconnectors and on regional transparency issues. Furthermore, the possibilities of introducing a regional cross-border balancing mechanism were investigated.

In autumn 2008 volume market coupling was introduced to improve day-ahead trading between the Nordic countries and the rest of Europe. A European Market Coupling Company (EMCC) was set up as a joint venture by the Danish and relevant German TSOs and Power Exchanges of both markets. However, the market coupling had to be suspended in order to adjust the market coupling algorithm to the Nordic constraints. The re-launch of Market Coupling before the end of 2009. The Northern region was the first of the regions (in September 2007) to publish a transparency report to harmonise transparency rules within the region. It outlines the type and timing of data to be published on the websites of TSOs and power exchanges. It is based on the mandatory transparency requirements of the Congestion Management Guidelines but also takes into account the ERGEG Guidelines of Good Practice on Information Management and Transparency (GGP-IMT). In 2008 and again in 2009 the region monitored the implementation of the transparency report including data on generation.

The last milestone in the Northern region is the report (to be published in autumn 2009) on introducing a regional cross-border balancing mechanism. The integration of balancing markets in the Nordic market is already far reaching, but differences between the Nordel area and Germany and Poland need to be addressed. The report will build on work previously done by ERGEG concerning guidelines on cross-border balancing.



In the **South-West**

(SW) region, and given the fact that the Iberian Peninsula is an "energy island", a significant development is the agreement to build a new interconnection line between France and Spain which is expected to raise the commercial capacity from the current 1400

MW to 2600 MW in 2014.

The region also published a transparency report in September 2008. However, despite TSOs' efforts to publish the required data by June 2009, some information is not yet available. The points of noncompliance were presented by regulators with a view to seeking full compliance.

There have been several advances in cross-border congestion management methods. The new common

set of auction rules for the French-Spanish interconnection came into effect on 1st June 2009. It introduced improvements for market players such as the mechanism for automatic resale of unused longterm capacities at the daily auction, and also compensation at the day-ahead market price differential in case of curtailments before nomination and in case of daily auction cancellation.

Further to the announcement of an agreement on dayahead price coupling as the proper solution to integrate the Iberian (MIBEL) and Central-West markets, the power exchanges started developing a feasibility study and an implementation plan at the beginning of 2009. On 5 October 2009, Nord Pool, EPEX Spot and OMEL announced an agreement to test the concept of a pan-European price coupling called "Price Coupling of Regions – PCR". In this new context, spot electricity price formation will be coordinated in the SW, CW and Nordic areas covering Portugal, Spain, France, Germany, Austria, Switzerland, Denmark, Norway, Sweden and Finland.

The region will finalise its first report on electricity interconnection management and use during autumn 2009.TSOs have collaborated with regulators clarifying cross-border capacity calculation methodologies.

The TSOs also presented a proposal for cross-border balancing. After analysing the feasibility of this model, TSOs are expected to present an implementation plan by the end of 2009.

3.2 Key developments per topic

The regions continue their work on three major priorities: harmonisation and improvements to congestion management (calculation and allocation); harmonising transparency; and integrating balancing markets. There have been a number of concrete developments in each of the seven electricity regions in 2008 and 2009. Some highlights are set out below topic by topic.

3.2.1 Capacity calculation

For capacity calculation, consistency and cooperation is essential. If each TSO were to retain its own approach to the calculation of available capacity, the usage of the transmission system may not be maximised and this could hinder the development of competitive regional markets.

Studies show that the commonly used ATC-based approach is not appropriate in regions characterised by highly meshed networks (with the security factor sometimes underestimated, sometimes overestimated).

While the experience of the CEE region demonstrates benefits, so far no generally followed reference model has emerged. More work needs to be done to develop a pan-European approach for calculating the amount of capacity available on interconnectors.

Transparency on limiting constraints and flows on critical branches as well as data-sharing and increased coordination between TSOs are essential for making progress on this topic.

A priority within the regions is for the TSOs to cooperate so as to calculate capacity in a consistent way over time and across borders and to comply with the legally binding Electricity Regulation and the Congestion Management Guidelines as soon as possible.

A number of regions are addressing the question of capacity calculation within their region. Nordic countries have applied a common transmission network model since the 1990's. Capacity calculation using load flow calculations based on a common transmission model is the route taken by Central-West (for the day-ahead timeframe) and Central-East regions, and point to a reasonable degree of convergence where networks are meshed.

According to the Implementation Study made in August 2008 by the TSOs and the Power Exchanges of the Central-West region, the currently used bilateral ATC model gives a poor approximation of the security factor (sometimes overestimated, sometimes underestimated). Calculations made by the TSOs have shown the difficulties linked to the development of base cases at regional level. In particular, based on expost 2007 data, the TSOs have observed that for 17% of the time these base cases already exceeded the capabilities of the transmission network (i.e. "precongested" cases).

In February 2009, CWE TSOs and regulators agreed in a common paper on the poor utilisation of network capabilities made by fully automatic ATC calculations. They agreed on the interim solution proposed by TSOs. This solution is based on bilateral ATC calculations combined with a coordinated security check, using a common grid model and the regional base case for two time stamps a day. If this coordinated security check reveals that the network security is at risk, several actions may be considered by the TSOs such as topology changes, reductions of cross-border capacities and re-dispatching. Furthermore, the paper points out that only reductions of cross-border exchanges inside the region are considered in the proposed method, even if adjustments of exchanges internal to a country or exchanges outside the region may have a more efficient effect.

Detailed results of simulations (using real operation, ex-ante data for the first six months of 2009) concerning the impact of the interim solution on the volume of capacities offered to the market and on the regional socio-economic welfare are expected during 2009.

The CEE region has elaborated a solution for their region which foresees each TSO providing a grid model and base case data to the Central Allocation Office, who then performs the capacity calculation centrally. The results would then be subject to the approval of each individual TSO.

In the CS region, capacity is calculated jointly on the Northern Italian borders with a Net Transfer Capacity (NTC) methodology based on load flow scenarios. Capacity is calculated on a bilateral basis on other borders. Further developments towards a common grid model would require the full commitment of Switzerland due to its central location in the region. Regions peripheral to the 'central' regions are beginning to address the issue of consistency in capacity calculation but have in general not defined solutions yet, possibly because they have less meshed networks and therefore have a less direct need to address these questions.

In the SW region, where the ATC-based approach is considered the most appropriate, the TSOs have collaborated with the region's regulators in clarifying cross-border capacity calculation methodologies.

3.2.2 Capacity allocation

• Long term capacity allocation

For long term allocations, the actions taken or planned at regional level ensure the development of coherent and convergent methods. The rules have significantly improved over time increasing efficiency of allocations and supporting cross-border trading.

With regard to common allocation procedures there has been significant progress with coordinated regional auction offices being created which will help harmonise and improve the characteristics of allocated products (firmness, compensation schemes, hourly/daily/monthly etc.).

ERGEG is carrying out a benchmark of long-term allocation rules to identify best practices and to further improve the level of harmonisation of longterm products. This work could be a step towards the elaboration of a single European set of auction rules.

Considerable progress was made in the regions of the Electricity Regional Initiative on long and medium-term capacity allocation. Harmonisation and improvement of auction rules is progressing.

The Central-East, Central-South and Central-West regions have, or will soon have, a single set of auction rules operational at a regional level. Other regions are also working to optimize the use of their cross-border electricity transmission capacities and to enhance the integration of power markets. The France-UK-Ireland region developed a capacity management system to apply new auctions rules on the French-English interconnector which would be compliant with the Electricity Regulation (1228/2003) and EU's Congestion Management Guidelines and ensure harmonisation with other European borders. This went live on the 1st of October 2009.

In the South-West region new rules on the France-Spain border entered into force on 1st June 2009. The main improvement in the new version of the rules is the firmness of allocated capacities and compensation scheme based on the day-ahead market spread with caps in case of curtailments before nomination and in case of daily auctions cancellation.

The automatic resale of unused long-term capacities at daily auction (UIOSI) is applied in the Central-South and South-West regions and will soon be introduced in the Central-West region and on the French-English interconnector in the FUI region.

With regards to common allocation procedures, significant progress can also be reported. Both the Central-West and Central-East regions have set-up and introduced their own Single Auction Office, paving the way for further harmonisation of their allocated products' features. The Central-South region is currently studying the practical details of the CS region's TSOs joining the CASC-CWE (Single Auction Office of Central-West region).

In the North region, capacity is sold yearly and monthly in the interconnectors spanning Germany and Denmark West. In the year following a re-launch of market coupling, UIOSI will be introduced in these interconnectors.

• Day-ahead capacity allocation

For day-ahead allocation of interconnection capacity, many projects underway are converging towards the implementation of market coupling.

The challenge for day-ahead allocation is to ensure the compatibility of the different market coupling projects, especially for countries involved in several projects at the same time. More generally, the development of day-ahead market coupling is a multi-regional issue which is challenging both from the technical and organisational perspectives and which will require a strong coordination between all involved parties.

In terms of day-ahead capacity allocation, the regions are working towards market coupling solutions in order to enhance their capacity allocation and to promote effective regional market integration. After some well-established experiences with implicit auctions on some borders within the Northern, the Central-West and the South-West regions, the work has focused on developing truly regional solutions.

In the Central-West region progress is focusing on implementing market coupling on a regional level (by March 2010), possibly leading to the launch of a flowbased coupling in December 2010. In the South-West region price coupling was recognized as the most suitable solution to couple the Iberian and Central-West markets. On 5th October 2009, the power exchanges of the two regions announced an agreement with Nord Pool Spot aiming to couple day-ahead spot markets of MIBEL, CW and Nordic regions through a price-coupling scheme of the three regions.

A further market coupling project has been launched in the Central-South region concerning the Italian-Slovenian border, where interested parties have signed a Memorandum of Understanding and have explored coupling feasibility.

As to the German-Danish interconnectors, market coupling was introduced in September 2008, but unfortunately some incompatibilities hindered its full functioning resulting in a temporary suspension. It is expected to overcome these problems and re-launch the market coupling project on the German-Danish interconnections around the end of 2009.

• Intraday capacity allocation

Interim solutions for intraday trade have been implemented in most interconnections such as prorata, first come first served or explicit auctions, although cross-border intraday trade is still impossible at some borders. To allow further progress and to ensure convergence, a target model is needed.

In the North region, an intraday capacity platform was introduced in the German-West Denmark interconnector in June 2008 leaving both interconnectors between Germany and Denmark with an intraday mechanism. Furthermore, work began on how to monitor congestion management within the day-ahead timeframe of the region.

In CWE, regulators have pushed for the quick implementation of interim, bilateral solutions for intraday at the borders of CWE (where intraday mechanisms did not yet exist). In December 2008 an intraday capacity platform was introduced on the Dutch-German borders and in May 2009 the TSOs introduced an improved pro-rata mechanism on the Dutch-Belgian borders. Recently, a public consultation on a regional target solution has taken place, which aimed at defining a short-term intraday regional model. Conclusions to the consultation were published in autumn 2009.

A new capacity management system including two intraday explicit auctions on the French-English interconnector were implemented on the 1st of October 2009.

The SW region developed a public consultation on intraday cross-border capacity allocation methods (finished in July 2008) following TSOs' and Power Exchanges' proposals. However, the answers received do not allow the region's regulators to conclude a clear view by stakeholders. The region's Implementation Group decided that a new scheme for cross-border intraday trading is not a priority for the region since intraday market based allocation methods are already in place.

• Balancing

A consensus on the TSO-TSO target model, which is described in the ERGEG (voluntary) Guidelines of Good Practice on balancing markets, has emerged.

However, very few projects are on track and crossborder balancing exchanges are mostly not yet possible within Europe. As a consequence there is a very low level of convergence among regions.

ERGEG encourages more efforts to be made to implement interim solutions such as the one between France and UK as a first step towards electricity balancing integration.

In January 2007, the European Commission published its energy sector inquiry, which stressed that balancing energy and reserve markets were highly concentrated, pointing out the fact that the inadequate integration of balancing markets is a key impediment to the development of a single European electricity market. However, despite ERGEG Guidelines of Good Practice for Electricity Balancing Markets Integration (GGP-EBMI)³ integration of balancing markets was not targeted as a first priority issue in many regions which has resulted in a very gradual integration of balancing markets so far.

Norway, Sweden, Finland and Denmark benefit from a TSO to TSO common balance management since 2002 including a common merit order bid list. In the beginning of 2009, further progress was achieved through harmonization of principles of cost recovery and tarification in a stepwise approach. A deliverable for the creation of a regional cross-border balancing in the whole region was presented to TSOs of the Northern region in September 2009.

The French balancing market has been open to foreign balancing services providers (BSP) since 2003. However, experience with the TSO-BSP approach has shown some limitations. A project to develop balancing market exchanges in the FUI region has been under consideration since 2007 and a new model has been developed to implement cross-border balancing between France and the United Kingdom. An interim solution was implemented on 3rd March 2009 and an enduring solution is expected to be operational in 2010.

In 2009, the Baltic region finalised its report on the integration of balancing markets in the region. In the South-West region, the development of a TSO to TSO model for balancing has been identified as the preferred option and an implementation plan is expected by the end of 2009.

3..2.3 Transparency

Significant work has been done in the regions to achieve a more harmonised level of transparency both within and across regions. TSOs are now obliged to publish required information in due time. However, with regard to the generation data, regulators have only limited possibilities to enforce the reports.

Compliance with the requirements of the reports differs across regions. Moreover, transparency requirements should also cover DC links, which currently are not covered in many of the regional Transparency Reports.

Providing transparent information to market players is an essential ingredient for efficient and competitive markets. The purpose of transparency on physical information is to support security of supply, facilitate (regional) market development for making energy markets more efficient, foster competition, and provide additional (partly price sensitive) information in order to prevent insider trading and market manipulation (market abuse). However, ERGEG's monitoring showed a severe lack of compliance with transparency rules and the provisions of the EU's legally binding Congestion Management Guidelines.

³ERGEG developed (voluntary) Guidelines of Good Practice for Electricity Balancing Markets Integration (GGP-EBMI) in December 2006 which aim to enhance cross border balancing markets. In September 2009 (following a public consultation) ERGEG revised (Ref: E09-ENM-14-04, 9 September 2009) the original GGP-EBMI to take into account the relationships of manually-activated reserves to the intraday market and automatically-activated reserves (see document Ref: E09-ENM-14-04, 9 September 2009, on www.energy-regulators.eu).

A major success of the Regional Initiatives has been "Regional Transparency Reports" for five (the North, CWE, CEE, CSE and SWE) of the seven electricity regions. These reports stipulate relatively detailed transparency requirements – mainly on fundamental/infrastructure data and provide more precise interpretations of the legal requirements (delay for publication, frequency of publication, etc.) of the Congestion Management Guidelines. Recently, work to prepare a transparency report for the Baltic region has also begun.

During 2009 the work on transparency continued in terms of implementation and the further adoption of transparency reports in some regions. This has led to a significant degree of coherence across regions on transparency.

Following the lead of the North, Central-West, Central-East and South-West regions, the Central-South region adopted its Transparency Report in February 2009. The timeframe set in this report for data on load, transmission, interconnection and balancing is 1st July 2009 and is 1st January 2010 for generation data.

The Baltic region plans to publicly consult on a list of the basic transparency requirements by year end. The results of this consultation will be the basis for the regional Transparency Report, which is planned to be adopted and published in 2010.

In 2008 ERGEG analysed the differences, overlaps and coordination between the regional Transparency Reports. The analysis showed that the regional requirements are widely consistent and do not in any way hamper the development of a single EU electricity market. Only minor regional diversifications exist which reflect regional differences for example in terms of network development or production structure.

In contrast to the Transparency Reports published in other regions, the Central-South and South-West regions request system operators, by 2010, to justify or explain the cause of the constraints limiting interconnection capacity. Learning from this good practice, such an obligation on TSOs should similarly be adopted in other regions so as to ensure the proper implementation of these Transparency Reports.

With regard to compliance with the requirements of the regional Transparency Reports, there are differences across regions. Nonetheless, most of them consider monitoring as a necessary complementary element to the implementation process. The North region made explicit how this should be done. Its first monitoring report (August 2008) focussed on the implementation of the publication requirements of load data, transmission and interconnection data and balancing data. The second monitoring report (summer 2009) included the publication of generation data.

In the CW region a monitoring report of the functioning of all electricity interconnections in the region was published by the region's regulators in autumn 2009. During 2009 the CEE region is also monitoring the publication of the required information in line with the deadlines set.

In the South-West region a first monitoring was included within the published report itself. The level of compliance with transparency requirements has improved since the report was published. An updated monitoring report may be foreseen in the future.

3.3 Case studies

The Electricity Regional Initiative has led to EU-wide consensus that a Single Auction Office at regional level is the congestion management "target model" for allocating medium- and long-term capacity on electricity interconnectors. There are already good experiences with two such Single Auction Offices.

ERGEG encourages TSOs to extend the scope of the activities of such single auction platforms: capacity calculation, secondary market, nomination, intraday. The move towards financially firm transmission rights where implicit allocations are in place could be an alternative to a single point for nomination.

Governance of regional auctions platforms should be practical with regard to decision-making by the involved (regulatory) entities and flexible enough to allow for revising the geographical scope of the offices accommodating new parties with a view of developing a European market.

3.3.1 Important improvements in cross-border congestion management – the Central-East and Central-West single auction platforms

The Electricity Regional Initiative has led to important harmonisation efforts in congestion management and substantial improvements in actually allocating capacity on the borders. It has led to a consensus on the main principles of congestion management (so called target models) that would allow interconnectors to be used more efficiently. In ERGEG's first (2007) Coherence and Convergence Report of the Electricity Regional Initiative, ERGEG identified a single auction platform at regional level with harmonised auction rules, IT interface and identical products on all interconnectors as the target mechanism for medium- and long-term capacity allocation.

Such an explicit auction model harmonised throughout Europe would reduce transaction costs for both market participants and TSOs, and contribute to fostering cross-border trading and competition. The main principles of this model are clearly established. In 2008 coordinated regional auction offices were set up in two regions: the CAO (Common Auction Office) located in Freising (Germany) for the Central-East European (CEE) region and CASC-CWE (Capacity Allocation Service Company) located in Luxembourg for the Central-West European (CWE) region. In the Central-South region a step-wise approach is under discussion with the European Commission which may result in the integration with the CASC-CWE (as a possible alternative to an independent regional Single Auction Office) and which would enhance interregional integration. This solution requires the participation of all the TSOs involved.

In an effort to examine best practices, ERGEG has benchmarked these two existing Single Auction Offices in the CEE and CWE regions.

In both cases the TSOs have chosen a centralised organisation by creating a common subsidiary, in which all TSOs own equal shares and decisions are taken unanimously by the seven shareholders. The main task of both companies is the explicit allocation of crossborder capacities for all borders within each region and single interface for all market participants, thus replacing several platforms previously used within each region. Moreover the CEE CAO IT platform also supports the transfer of already allocated capacities to other market participants (secondary market).

In both cases, the single auction offices are in charge of all customer relationships, even if TSOs remain legally responsible for cross-border capacity allocation. Concerning CASC, during the first phase of its implementation (from November 2008), it was not in charge of registration and settlement, but will do these tasks as soon as the second phase starts (planned for autumn 2009).

In both cases, nomination of allocated capacities remains a TSO task.

The main differences between the roles of the two Single Auction Offices set up in the Central-East (CEE) and in the Central-West (CWE) regions are the following:

- CAO (in CEE) is involved in capacity calculation (flow-based) and will provide a source-sink scheduling, whereas in CWE, capacity calculation remains a TSO task.
- CAO operates long-term as well as daily auctions. By contrast, even if CASC will operate daily auctions at German borders as soon as the second phase starts (autumn 2009), it will cease doing it when CWE market coupling is launched (planned for March 2010).

ERGEG stresses that in the case of cross-border entities such as the CASC and CAO there is a need for proper regulatory oversight. However, currently the main regulatory oversight of these cross-border entities is through regulatory approval or review of the related auction rules. Companies' statutes, shareholders agreement and the service contract between companies and the TSOs have been communicated to regulators and need to be approved by some national regulators. The oversight of capacity allocation is done by each regulator according to its competencies, as set out in the Electricity Regulation (EC) 1228/2003 and by national laws. However, the arrangements for exchanges of the necessary data and information between regulators have to be defined.

3.3.2 Implementation of harmonised allocation rules in the Central-West region

With the implementation of a common allocation platform (CASC) in the CWE region, the TSOs involved have elaborated common allocation rules to replace the three different sets of rules formerly applied in the region. ERGEG has examined the points of harmonisation and the non-harmonised ones, the improvements compared to the previous sets of rules and the possible future improvements.

ERGEG concludes that the implementation of common allocation procedures enables harmonising and improving the characteristics of allocated products. ERGEG considers that the creation of CASC together with the implementation of common allocation rules in CWE is a major step towards the creation of a regional market.

Main points of harmonisation

The main harmonisation point is of course the onestop-shop service provided by CASC (single point of contact, single bid format, etc.), In addition, notable points of harmonisation are:

- Definition of Force Majeure;
- Responsibility;
- Conditions for suspending or withdrawing the entitlement of a participant;
- Features of transfer and resale of capacity;
- Firmness of exchange programs.

Non-harmonised points

The main non-harmonised points are:

- Two-round annual auctions only on Dutch borders;
- Non-identical timeframes and closing times.

New features of the rules

The main new features of the harmonised auction rules, compared with the three former sets of rules, are:

- Implementation of Use-It-or-Sell-It (UIOSI) at time of nomination: long-term capacity which is not nominated is automatically sold through daily (implicit or explicit) auctions. This mechanism allows for using long-term capacities as financial hedging instruments and creates clear possibilities for the development of the secondary capacity market;
- Financial guarantees: the bank guarantee is replaced by a business account credited with the amounts necessary for each auction (except for the annual auction, for which market participants have to provide only 1/6th of the amount before the auction);
- Clearer separation between allocation rules and nomination contracts.

Expected improvements for the next revision of the rules

ERGEG highlights that harmonisation is not sufficient and that improvements are needed to foster market integration in the CWE region. To this end, forthcoming discussions regarding the auction rules will include in particular:

- Improvement of the firmness of allocated capacities;
- Improvements of the features of the secondary market;
- Possibility for TSOs to buy back allocated capacities on the secondary market to avoid curtailments.

The Energy Community Electricity Region

Annex

A regional approach for Congestion Management and Transmission Capacity Allocation in South East Europe

Albania, Bosnia & Herzegovina, Croatia, the former Yugolsav Republic of Macedonia, Montenegro, Serbia, UNMIK, Bulgaria, Greece, Hungary, Romania, Slovenia, Italy

The Energy Community Region was established by decision of the Ministerial Council⁵ (MC) of the Energy Community on 27 June 2008, with a view to implementing a common procedure for electricity congestion management (CM) and transmission capacity allocation (CA) at regional level. The Energy Community Region includes Albania, Bosnia and Herzegovina, Croatia, the Former Yugoslav Republic of Macedonia, Montenegro, Serbia, UNMIK, Bulgaria, Greece, Hungary, Romania, Slovenia and Italy.

The Energy Community Region is governed by the institutional framework of the Energy Community Regulatory Board (ECRB). The ECRB operates as an institution of the Energy Community Treaty⁶, that has been signed by the European Community and then nine Contracting Parties from South East Europe, to pave the way for a common legal and a harmonised regulatory framework throughout the region in which it can cooperate on rebuilding its energy networks, ensure the stability vital for investment, and create the conditions in which its economies can be rebuilt effectively. From the beginning, the Energy Community has been aiming for a common regional approach that is streamlined with European legislation⁷.

The level of cross-border electricity trade remains a benchmark for market integration. In 2004 electricity traded between the members of the Energy Community region summed to only about 10% of final demand in South East Europe. Insufficient transmission interconnection capacity, lack of transparency and different transmission capacity auction mechanisms (on a large number of borders) are the main reasons for limited cross-border trading. With a view to overcoming these barriers and boost the integration of national electricity markets, the Energy Community Region focuses on establishing a Coordinated Auction Office (SEE CAO) for cross-border capacity allocation and congestion management across the region.

Related work is coordinated via the ECRB Implementation Group for the South East European Coordination Office (SEE CAO IG) which brings together regulators, international financing institutions, the European Commission, network operators, network users and traders for agreement of the

⁴The ERGEG Electricity Regional Initiatives comprises 7 electricity regions in Europe. The Energy Community region is not one of these 7 regions. ERGEG does not have any responsibility for the Energy Community region. However, in the interest of sharing best practice experiences gained within Europe, representatives of the Energy Community are invited to attend the meetings of the ERGEG ERI Task Force.

⁵Decision of the Ministerial Council of 27 June 2008 (2008/02/MC-EnC: on the implementation of Commission Decision of 9 November 2006 amending the Annex to Regulation (EC) No 1228-2003).

⁶The Treaty establishing the Energy Community was signed on 25 October 2005 in Athens. Following ratification, the Treaty entered into force on 1 July 2006. For details on the Treaty, the Energy Community and the work of the ECRB see www.energy-community.org.

⁷By signing the Treaty the signatory parties agreed to implement the acquis communautaire on electricity, gas, environment, competition and renewables. For details of the relevant acquis see http://www.energy-community.org/portal/page/portal/ENC_HOME/ENERGY_COMMUNITY/Legal/Treaty. implementation steps and financing the project. The ECRB Electricity Working Group (EWG) coordinates regulatory positions on SEE CAO related questions and other related regulatory topics, such as harmonisation of licensing regimes, regulatory cooperation on cross-border investments, wholesale market opening, regional balancing and harmonisation of market rules.

Significant progress in establishing the SEE CAO has been made in 2008 and 2009 by

- signature of a Memorandum of Understanding on setting up the SEE CAO by the involved TSOs;
- the Ministerial Council's support for the SEE CAO operating in Montenegro;
- the development of a Business Plan and an Action Plan on milestones;
- the setting up of a Steering Committee under the chairmanship of the Montenegrin Transmission Operator PRENOS responsible for guiding the work of a Project Team dedicated to establishing the SEE CAO;
- a recommendation on a harmonised trade licensing approach across the region;
- regulatory assessments on how to overcome noncompliance with the capacity allocation and congestion management requirements of the Electricity Regulation (EC) 1228/2003.

Given overlaps between the members of the Energy Community region and the Central-East and Central-South regions of the ERGEG Electricity Regional Initiative (ERI), the work of the Energy Community region aims at streamlining the regulatory approaches with the best practice experience gained in Europe via the ERGEG Regional Initiatives.

European Regulators Group for Electricity and Gas (ERGEG) c/o Council of European Energy Regulators (CEER)

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