

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

Friday 3 December 2010 10:30 to 17:00

Eurelectric offices, 66 Boulevard de l'Imperatrice, 1000 Brussels

### FINAL MINUTES

Participants			
Asta	Sihvonen-Punkka	EMV (Finland)	Chair
Rafael	Gomez-Elvira	RIG (ERGEG)	
Alain	Marien	CREG (Belgium)	Excused
Silvia	Vitiello	AEEG (Italy)	
Guro	Grotterud	CRE (France)	
Sabrina	Mlynek	BNetzA (Germany)	
Jean-Pierre	Becret	CEFIC	
Jonas	Tornquist	EFET	
William	Webster	EFET	
Juha	Kekkonen	ENTSO-E	
Antonio	Lopez-Nicolas	ENTSO-E	
Clotilde	Levillain	ENTSO-E	
Frank	Vandenberghe	ENTSO-E	
Andrew	Claxton	EuroPEX	
Jean-François	Conil-Lacoste	EuroPEX	
Gunnar	Lundberg	Eurelectric	Excused
Anne-Malorie	Geron	Eurelectric	
Peter	Claes	IFIEC	
Matti	Supponen	European Commission	
Natalie	McCoy	CEER Secretariat	

## 1 Opening

*The meeting opened at 10h45 Asta Sihvonen-Punkka (EMV, Finland) in the Chair.*

### 1.1 Approval of the agenda

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

## 1.2 Approval of the minutes

The 7th AHAG minutes were approved with changes.

With regard to the next steps on the ERGEG draft framework guideline on capacity allocation and congestion management, the Commission informed the members that there is every intention to consider the ERGEG work seriously and to use it to the extent possible and to avoid duplication for duplication's sake. ACER will need to follow its legal obligations, but a lighter 'consultation' process could be used for draft FG developed by ERGEG. The practical way forward will need to be discussed with ACER.

The Chair informed the members that ERGEG has finalised its Pilot FG on electricity grid connection, which it hopes to approve at the ERGEG meeting in December.

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

Action	Description	Who	When Due	Status
A-101102-01	The AHAG members might send their written comments to the Commission on the governance options	AHAG members	As soon as possible	DONE
A-101102-02	EuroPEX would welcome feedback from stakeholders on its draft PCR paper.	AHAG members	As soon as possible	DONE
A-101102-03	The capacity calculation project team is planning a final report on its work (zones, reliability margin, transparency, etc.) for the January AHAG meeting	CC project	Early January 2011	PENDING
A-101102-04	The intraday project team will report on its progress at the December AHAG meeting.	Intraday project	22 November 2010	DONE
A-101102-05	The project teams should provide first drafts of their presentations to the December Florence Forum for discussion.	CC project Day-ahead and governance project Intraday project	22 November 2010	DONE

## 2 Day-ahead and governance

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

The European Commission (Matti Supponen) gave an update on the work in the project team on governance. The group has concentrated on the role of different parties. They have discussed whether market coupling is a public service concept (i.e. a monopoly function) or rather an extension of the activities of power exchanges (i.e. a market function). There are 2 types of PXs – those established by national legislation and those established by voluntary initiative. Part of the discussions related to how to combine these 2 approaches. For merchant PXs, the relationship

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

would be managed by one single contract – TSO on one side, PX on the other. For regulated PXs, the view is that the relationship should be embedded in national regulation.

The Commission's options paper on governance presents several possibilities:

- On the relation between power exchanges and TSOs
- On options for participation of PXs in market coupling
- On options how single matching would be organized
- On options for stakeholder involvement

The project team will continue to work on this issue – concentrating on the operational arrangements. The Commission has started the process for drafting the impact assessment, which will start on 9 January 2011; this will include a full public consultation. Input will be sought from the Member States.

Both the options paper and accompanying slides will be presented to the Florence Forum. The AHAG members are welcome to add their individual views on the options during the discussions in Florence.

The Chair proposed that the next AHAG meeting could be dedicated to a more in-depth discussion on the options for governance.

CEFIC remarked that the relationship between market participants and PXs does not seem to be addressed.

## **2.2 Updates on the initiatives**

### **2.2.1 ITVC**

EuroPEX reported that the first 3 weeks of the operation since the 9 November launch has been largely successful (more so than the simulations). The system has been able to cope with large volumes, there has been a high degree of price convergence and very little negative prices. NorNed should join the ITVC on 14 December. When thinking about whether to proceed with full price coupling, EuroPEX suggested that the added value of doing so should be carefully considered.

For the Florence Forum, ENTSO-E and EuroPEX could present a common slide on this. This could be done under the agenda items 1.2 and 1.3 for the Forum.

IFIEC noted that since this market coupling, transparency has in fact been reduced – less information on flows across borders. The information should be re-published. EuroPEX underlined that this project is still progressing and transparency will be improved and information published as they improve.

Eurelectric congratulates the project leaders on the successful launch of the ITVC and sees this as a first step towards price coupling in these regions. Eurelectric also shares IFIEC's concerns about transparency (also in the development of the process and the involvement of stakeholders in those stages) and is pleased that this will be addressed.

The Chair underlined that regulators have expressed some concern that the various initiatives which are ongoing across Europe are not coordinated nor do they apply converging principles – which is a risk to the integration of the markets. A joint presentation between EuroPEX and ENTSO-E on the future of day-ahead market coupling would be very important.

ENTSO-E commented that for the existing projects (ITVC) and future of day-ahead there is strong progress and a joint presentation could be envisaged. Regarding intraday, where there is still much discussion, a joint presentation/solution is not as clear.

EFET informed the members that its view is to congratulate the organisations on the launch and success of the ITVC project, which they are pleased is in operation. EFET underlined that market coupling does not mean that prices will be the same at all times everywhere in the coupled market. Although this may often occur, it should perhaps be communicated more clearly that this is not necessarily how the coupling works.

### **2.2.2 NWE Project**

ENTSO-E provided a presentation on the ongoing work on day-ahead (the region is also working on intraday). NWE TSOs have published positions papers on both day-ahead and intraday.

For day-ahead, the TSOs want a single price coupling using a single common algorithm. They request economic technical and transparent performance of the algorithm, with a single governance contract and one single technical interface. The TSOs have decided to investigate the creation of a company to handle the single contractual relationship.

They are following AHAG's direction on governance.

The region has decided not to wait for intraday to be agreed, and will proceed in parallel with day-ahead – as market pressure is there to find a solution.

EuroPEX stated that it agreed that the slides reflect the discussions on day-ahead and would be pleased to use them as a basis for a joint presentation (with perhaps a few supplementary slides from EuroPEX).

RIG enquired whether the two organisations could agree that the PCR develops the single algorithm. ENTSO-E replied that the requirements for the algorithm have not been finalised yet, so it is as yet not possible to determine if the PCR project is fully applicable. In fact, the TSOs have asked the power exchanges to develop a common algorithm, which is being done through the PCR initiative. This will need to meet the requirements agreed by the NWE TSOs.

The Chair proposed that the presentation could start by a description of the two projects and how they are working together, followed by how this experience should be taken into account for an enduring European solution – with a view to extending the NWE model to other regions in due course.

Eurelectric commented that it is important that the presentation is not a mere copy paste of the individual projects, but considers the European approach. The important thing is to have a common vision which answers the main outstanding issues.

EuroPEX underlined that the (practical implementation of) governance framework in each region may differ, but principles should be agreed on. The issue is how to create a framework which is a true framework and encourages progress (and participation).

The Chair proposed that the Florence Forum agenda items 1.2 and 1.3 could be merged into one presentation, covering:

1. recent developments (including ITVC, Nordic-Baltic coupling, activities in Eastern Europe)
2. description of NWE and PCR day-ahead initiatives (describing role of PCR to develop algorithm for NWE)
3. slide on the flowchart of coupling of regions across Europe (Matti Supponen's slide)
4. identification of elements for further work – high level principles for a European framework (i.e. next steps)

### 2.2.3 PCR

EuroPEX provided a brief update on the status of PCR activities. They have created the possibility for observers to the PCR.

Regarding the choice of an algorithm, it is likely that this will be based on one (or more) of the algorithms in use today. They have completed their description of the core requirements for the algorithm. The work is based on a technical assessment and a consensus between PXs. The target date for selecting the algorithm starting point is February 2011. There may in fact be more than one algorithm which meets requirements. The next step will be simulation-based validation of the selected algorithm after enrichment to cover all core requirements (e.g. by combining algorithms). This work is a key link to the requirements which are needed by TSOs. TSOs have their own requirements, and those need to be incorporated as well (in addition to specific PX requirements).

The idea is that the algorithm will be run in parallel by all the involved PXs, with no rotation. This will require very strong resiliency in operation in terms of back up and fall back. They have already identified the 'high level functional architecture' for normal situation, and are working on an emergency situation one. Target date for the completion of this is January 2011. Following this work, they will work on specifications on the information systems and then operational procedures by May 2011. They hope to launch the procurement by Q3 2011. The process should be defined in a way that there are identical results in a decentralised system. Part of the design is how to check that the results are indeed the same. The "master" serves as the reference set of results against which the others can be checked.

## 3 Capacity calculation project

ENTSO-E presented the slides for the Florence Forum, which explain the work to date (achievements and open issues).

The project team has agreed a number of principles for capacity calculation:

- Coordinated capacity calculation process - Five steps process relevant for all timeframes, enhancing harmonization: Day ahead, Long Term, Intraday
- Define a European Common Grid Model as a main milestone
- Common model (=common base case) of the European-wide grid for a coordinated capacity calculation; base case(s) built on data exchanged between TSOs and from stakeholders to TSOs. Eurelectric raises the importance of distinguishing between technical generation data and commercial data. This second set of data is still under discussion with ENTSO-E and Eurelectric believes that this information should be extrapolated by TSOs from the market.
- Risk assessment in capacity calculation. Capacity calculation is based on a security analysis and calculation. The group has agreed principles to define reliability margin.
- Firmness of capacity: basic issues to be the foundation of firmness of capacity, including maximizing capacity with harmonized levels of firmness and cost recovery.
- Transparency: on the process and data. They have run tutorials and the full information is being prepared for being available on ENTSO-E website.

The group hopes to finalise its proposals in January 2011. Some of the follow-up work will be taken up through the drafting of the network code. Among the issues it will continue to examine (through January) are principles for firmness of capacity, criteria to compare capacity calculation methods (coord. ATC and FB) and zone definition (methodology to assess the costs/benefits of defining new bidding areas).

The issue of zones (bidding area vs. price area) is an open question to be dealt with in future. For the purposes of congestion management, the project has considered criteria for deciding whether or not to apply zone splitting (i.e. when there is congestion in the bidding area). This will be clearly reflected in the Florence presentation.

CEFIC explains that it refused slides related to zone study and that the slides on Project conclusions should either be modified or indicate CEFIC rejection. Why ? Because, a "Price Zone" is the pre-defined zone for which a common price is calculated; Price Zones may be coupled or split; actually a Price Zone = a Bidding Zone = a Member State. CEFIC requested to study Price Zone enlargement to obtain generator competition in each one.

#### **4 Intraday Market project**

ENTSO-E presented the progress of the discussions within the project team. The group has reached consensus on a single algorithm to be used with sharing of order books function (SOBF). The PXs commit to develop and implement the pan-European SOBF. ENTSO-E commits to develop a pan-European capacity management module (CMM) which will allow (as interim solution) OTC access. Meanwhile, the market players commit to provide their requirements for sophisticated products to TSOs and PXs, so these can be integrated in the SOBF.

There are still a number of challenges ahead:

- How to move from existing cross-border PX platforms to a single SOBF?
- How to move from regional capacity allocations mechanism to CMM?
- How to meet market needs concerning OTC trade and cross-border balancing?

The presentation for Florence could highlight these points.

There are a number of ongoing developments which have an effect on developing a pan-European solution on intraday:

- Germany-France should be coupled on 14 December
- Belgium-the Netherlands should couple in February 2011.
- 11 May NordNed intraday continuous trade
- also in May, Germany-Denmark intraday continuous trade

Germany will be coupled (intraday) on its northern and western borders. This means 2 platforms will be operating and question arises how to coordinate trade in this situation.

The aim is for ENTSO-E and EuroPEX to present a timeline and implementation plan to the June 2011 Florence Forum.

Some members of EuroPEX feel the situation between day-ahead and intraday is very different. Competition between PXs and with OTC should be possible (in particular it could be done in NWE region).

IFIEC supports the compromise, although it had a number of concerns. He proposed that competition should occur rather between producers and suppliers, than between PXs and OTC. Many stakeholders felt a cooperation solution between PXs would be welcome.

EFET supports the EuroPEX views. Regarding the wording, EFET hesitates at the suggestion that OTC needs to be phased out.

Eurelectric stresses the need to swiftly move towards one single intraday platform in the CWE-Nordic region as it will be an essential tool in the near future for market players to adjust their position and accommodate growing volumes of intermittent generation.

CEFIC asked if a block bid is possible around midnight. ENTSO-E answered it will verify.

The Chair summarised the discussions. It seems that the current direction suggests that there will be 'regional' approaches (2). One important issue seems to be how to enhance competition, although this involves different relationships (between PXs and OTC vs. between producers and suppliers). For the purposes of the presentation to the Florence Forum, the Chair suggested to add a little more explanation of the main terms (for greater understanding among the Forum participants).

The Chair suggested that the work towards presenting a timeline and implementation plan in June 2011 should undergo a mid-point review, to gauge the direction, work that is being prepared. The Commission supported this stating that they do not accept just waiting for a half a year. There should be a review at the end of February and drafting of terms of reference for the SOB function should start in April.

## **5 ERGEG conclusions paper on long-term auction rules**

On behalf of ERGEG's RIG, Rafael Gomez-Elvira provided a brief summary of the work to prepare the conclusions paper on long term transmission capacity allocation auction rules. ERGEG posed 6 questions to stakeholders on the degree of convergence, on the need for attention by ERGEG, on the share of LT CB capacity, on proposed improvements, on barriers, and on most efficient solution for the internal electricity market.

From the consultation, there was a clear preference for physical transmission rights, with Use-it-or-sell-it.

The paper concludes that in the long-term, there should be a European-wide platform operating with a single set of auction rules. In the short-term, specific features of the auction rules have to be harmonised (firmness, force majeure, products' definition, etc). Further, special attention should be paid by NRAs to concrete regional and inter-regional projects. A list of specific projects of interest is shown in the report.

The Commission informed the members that it is now reviewing consultants for a study on this issue and hopes to be able to launch the work soon.

On 10 November 2010, ERGEG published a Regional Initiatives Status Review, which includes (for the first time) policy advice on the next steps, based on the experience in the regions. ERGEG recommends that compensation at day-ahead market spread (related to curtailments) can be applied as long as appropriate caps or other accompanying measures are established, even without market coupling. Regulators support a cap. In some regions, congestion rents are used to help ensure firmness. The PCG had proposed that "The costs of guaranteeing firmness should be met from TSOs' allowed revenues with appropriate incentives."

CEFIC suggested that because the issue of long term cross-border capacity management is crucial for industrial consumers, it should be studied in more detail by a dedicated group next year.

Concerning firmness, CEFIC recommended that capacity curtailment compensation, also before nomination, to be equal to market price differential. But, emergency situations – without any compensation, should be harmonised across Europe and should be the same for both international and national transactions.

## **6 Any other business**

## **7 Next meetings**

**Wednesday 26 January – CEER**

The meeting adjourned at 17h10.

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

Action	Description	Who	When Due	Status
A-101203-01	ENTSO-E and EuroPEX will prepare a joint presentation on day-ahead market coupling for the Florence Forum.	ENTSO-E and EuroPEX	6 December 2010	PENDING
A-101203-02	Each project team leader will finalise their slides for Florence, in line with the discussions during the AHAG meeting, and send them to the AHAG chair and the Commission by Monday 6 December.	CC project Intraday project Day-ahead project	6 December 2010	PENDING
A-101203-03	The capacity calculation project team is planning a final report on its work (zones, reliability margin, transparency, etc.) for the January AHAG meeting	CC project	Early January 2011	PENDING

### Summary of decisions

Decision	Description
D-101203-01	Minutes of the 7 <sup>th</sup> AHAG meeting were approved with changes.
D-101203-02	The draft agenda of the 8 <sup>th</sup> AHAG meeting was approved.