European Regulators Group for Electricity & Gas

Status Review on the ERGEG Regional Initiatives 2010

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Abstract

On 10 November 2010, ERGEG published its Status Review on the ERGEG Regional Initiatives 2010 (E10-RIG-11-03). It outlines the main progress achieved in the regions since November 2009.

Target Audience

Member States, European Institutions, energy suppliers, traders, gas and electricity customers, gas and electricity industry, consumer representative groups, network operators, academics and other interested parties.

Related Documents

CEER/ERGEG documents

- Strategy for delivering a more integrated European energy market: The role of the ERGEG Regional Initiatives - An ERGEG Conclusions Paper, 21 May 2010, http://www.energy-regulators.eu/portal/page/portal/EER_HOME/EER_PUBLICATIONS/CEER_ERGEG_PAPERS/Cross-Sectoral/2010/E10-RIG-10-04_Strategy_Conclusions_21-May-10.pdf
- Safeguarding the move to a single EU energy market. ERGEG Regional Initiatives Progress Report – November 2009, http://www.energy-regulators.eu/portal/page/portal/EER_HOME/EER_INITIATIVES/Progress_Reports/2009/RI_Annual_Reports/RI%20Progress%20Report%2016%2010%202009.pdf
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- ERGEG Pilot Framework Guideline on Capacity Allocation on European Gas Transmission Networks, Ref: E10-GWG-66-03, 10 June 2010, http://www.energy-regulators.eu/portal/page/portal/EER_HOME/EER_FWG/Gas/Capacity%20Allocation%20Management/Overview/E10-GWG-66-03.pdf
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- Firmness of nominated transmission capacity, Ref: E08-EFG-29-05, 15 July 2008, http://www.energy-regulators.eu/portal/page/portal/EER_HOME/EER_PUBLICATIONS/CEER_ERGEG

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- Revised ERGEG Guidelines of Good Practice for Electricity Balancing Markets Integration (GGP-EBMI), Ref: E09-ENM-14-04, 9 September 2009, http://www.energy-regulators.eu/portal/page/portal/EER_HOME/EER_PUBLICATIONS/CEER_ERGEG_PAPERS/Guidelines%20of%20Good%20Practice/Electricity/E09-ENM-14-04_RevGGP-EBMI_2009-09-09.pdf
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- ERGEG benchmarking report on medium and long-term electricity transmission capacity allocation rules, Ref: E09-ERI-23-03, 5 November 2010, http://www.energy-regulators.eu/portal/page/portal/EER_HOME/EER_CONSULT/CLOSED%20PUBLIC%20CONSULTATIONS/CROSS_SECTORAL/ERI%20Benchmarking%20report1/CD

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- Joint France-Spain Investment Plan to 2015, published on July 17th 2007, http://www.energy-regulators.eu/portal/page/portal/EER_HOME/EER_INITIATIVES/GRI/South/Key%20docs/Documento%20de%20los%20TSO%20refundido.pdf
- Report on Transparency in Baltic Electricity Markets. http://www.energy-regulators.eu/portal/page/portal/EER_HOME/EER_INITIATIVES/ERI/Baltic/Final%20docs/Report%20on%20Transparency_Baltic_4%20June%202010.doc
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- A Daily Cross-Border Capacity Auctions in North and North West Europe, EFET Gas Committee, October 2006. http://www.efet.org/GetFile.aspx?File=2282

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EXECUTIVE SUMMARY

The ERGEG Regional Initiatives Status Review (2010) outlines both the progress in the different electricity and gas regions during the past year as well as coherence and convergence across regions. It includes some case studies and also, for the first time, policy advice from the Gas and Electricity Regional Initiatives' experiences.

This ERGEG report provides a picture of the huge work being undertaken by all parties. Hundreds of persons are involved in this process. Now that the 3rd Energy Package[1] has been adopted in 2009, the role of the ERGEG Regional Initiatives is being aligned on 3rd Package implementation issues.

The 3rd Energy Package contains instruments which have the potential to fill the regulatory gap on cross-border issues and promote market integration. However, it will be some time before a comprehensive cross-border regulatory framework is in place. Meanwhile the Regional Initiatives (RIs) will continue to play an important role by leading progress on the ground. They could also be used in a new role – of accelerating progress by co-ordinating the implementation of the 3rd Energy Package cross-border instruments, and of assisting the work of the EU Agency for the Cooperation of Energy Regulators (ACER) in monitoring progress towards a single EU market in electricity and gas.

In this guise, the Regional Initiatives going forward could provide useful practical feedback from the regions to ACER which would help inform the development of the cross-border regulatory framework (e.g. in the form of Framework Guidelines and related EU-wide Network Codes) and encourage the early implementation of the requirements of the 3rd Package.

The Regional Initiatives will also provide a key vehicle for enabling stakeholders to come together with regulators, the European Commission, Member States and Transmission System Operators (TSOs) to strive for the early implementation of the EU network codes once their contents are sufficiently developed.

Electricity Regional Initiative (ERI)

Progress has occurred across the seven electricity regions albeit at different paces and faced with not insignificant obstacles in some cases. The ERI has delivered important and concrete results particularly with regard to capacity calculation, capacity allocation and congestion management. A key development is a new interregional dimension with extension of price coupling to the whole Central-West region (9 November 2010) and simultaneously the first harmonisation between two regional market coupling projects (Central-West electricity region and the Northern market). These are important steps towards the target of a pan-European price coupling, by 2014.

[1] Directive 2009/72/EC of 13 July 2009 concerning common rules for the internal market in electricity; Directive 2009/73/EC of 13 July 2009 concerning common rules for the internal market in natural gas; Regulation (EC) No 713/2009 of 13 July 2009 establishing an Agency for the Cooperation of Energy Regulators; Regulation (EC) No 714/2009 of 13 July 2009 on conditions for access to the network for cross-border exchanges in electricity; and Regulation (EC) No 715/2009 of 13 July 2009 on conditions for access to the natural gas transmission network.

In line with the Baltic Energy Market Interconnection Plan (BEMIP), the Estonian electricity market was integrated with the Nordic market through the introduction of implicit day-ahead auctions operated by Nord Pool Spot on 1 April 2010 and complemented with intraday trading using continuous implicit allocation in October. Similarly, this inter-regional coupling between the Northern and Baltic regions paved the way for further integration between these regions.

In the field of capacity calculation, ERGEG's (2010) draft Framework Guideline on Capacity Allocation and Congestion Management for Electricity[2] proposes a common and coordinated process for TSOs to calculate cross-border capacities. A flow-based approach is being implemented in both the Central-East European (CEE) region and in the Central-West electricity (CWE) region.

Congestion management (like capacity allocation) has been on top of the agenda for most of the regions since the very beginning of the Regional Initiatives in 2006. 2009 was pivotal in this regard with agreement on an EU-wide target model for congestion management (developed under the leadership of regulators for the December 2009 Florence Forum). It covers forward, day-ahead, intraday and balancing markets as well as capacity allocation and governance issues. Some regions have in place single auction platforms (Central-West and Central-East) and others are moving in that direction (e.g. extension of the CASC-Central-West platform to the Central-South region). Related to firmness, the South-West region's experience shows that compensation at day-ahead market spread (related to curtailments) can be applied with successful results.

More work is needed on intraday where more definition on the target model is still needed for some regions. Although progress has been more modest in this context, some bilateral projects offer an encouraging future at regional and inter-regional level.

In January 2010 the European Commission mandated ERGEG to elaborate proposals for guidelines on fundamental data transparency in electricity and existing regional transparency reports are being an extremely valuable basis for this work. With regard to balancing, the TSO-TSO model is confirmed to be the preferred one within the seven electricity regions.

Gas Regional Initiative (GRI)

The three gas regions have also made real progress in the last year with remarkable achievements in a context of voluntary cooperation. Experience shows that the GRI provides a useful frame for debate, sharing of information and cooperation among key stakeholders, not least for carrying out infrastructure projects involving several Member States which can help security of supply.

[2] Draft Framework Guidelines on Capacity Allocation and Congestion Management for Electricity, Ref: E10-ENM-20-03, 8 September 2010, http://www.energy-regulators.eu/portal/page/portal/EER_HOME/EER_CONSULT/OPEN%20PUBLIC%20CONSULTATIONS/draft%20Framework%20Guideline%20CACM%20Electricity/CD/E10-ENM-20-03_CACM%20FG_8-Sept-2010.pdf

After the completion of the virtual test case for a 10-20 bcm pipeline from France to Germany, via the Netherlands and Belgium, the North-West region has produced regional "policy advice" on how to improve the investment climate at regional level. In the South region, the 2010 Open Season between France and Spain is leading to a significant increase of the cross-border capacity between the two Members States and facilitating important investments in the coming years. The South-South East region also features progress in coordinating regional investment in new infrastructure with plans to build an interconnector between Hungary and Slovakia and TAG is offering physical reverse-flow capacity on a firm basis.

The report contains case studies on the Open Seasons in the South and South-South East regions as well as on the North-West region's work on congestion management. The South region is also undertaking work in this regard with a plan to test the ERGEG Pilot Framework Guideline on CAM[3] for short-term capacities at the borders.

The North-West region has already made significant progress in transparency which could be followed in other regions. The January 2009 Russian-Ukrainian gas crisis highlighted the importance of Europe's gas security of supply (which features heavily throughout many projects carried out by ERGEG and the GRI). Moreover, the ability of the regulators in the South-South East region (the area worst affected) demonstrates how regional responses can help mitigate the effects of future gas supply disruptions to the EU.

[3] ERGEG Pilot Framework Guideline on Capacity Allocation on European Gas Transmission Networks, Ref: E10-GWG-66-03, 10 June 2010, http://www.energy-regulators.eu/portal/page/portal/EER_HOME/EER_FWG/Gas/Capacity%20Allocation%20Management/Overview/E10-GWG-66-03.pdf

1 Introduction

1.1 Background

1.1.1 Re-thinking Regional Initiatives

The Regional Initiatives (RIs) were established by ERGEG in 2006 against the background of the gap that it had identified in cross-border regulatory framework. This 'regulatory gap' meant that national regulatory authorities (NRAs) did not have all regulatory tools needed to encourage market integration. The RIs have been seeking to foster market integration in an innovative way through bottom-up, largely voluntary, initiatives and at the same time strived for a certain level of top-down coordination. The implementation of the 3rd Energy Package will effectively fill the 'regulatory gap' and so it is necessary to re-examine the future role of the RIs. In the ERGEG RI Strategy Paper[4], regulators concluded that the RIs will continue to have a useful function in the future, but that their role will be changed to include the co-ordination of the implementation of framework guideline policies, network codes and other comitology guidelines, as well as to test and trial new approaches to inform the drafting of future framework guidelines.

1.1.2 Objective and Purpose of this paper

The purpose of this 2010 Status Review on the ERGEG Regional Initiatives is to inform on progress achieved and obstacles encountered since the last report (published in November 2009[5]). The current status is analysed per region and per topic.

[4] Strategy for delivering a more integrated European energy market: The role of the ERGEG Regional Initiatives - An ERGEG Conclusions Paper, 21 May 2010, http://www.energy-regulators.eu/portal/page/portal/EER_HOME/EER_PUBLICATIONS/CEER_ERGEG_PAPERS/Cross-Sectoral/2010/E10-RIG-10-04_Strategy_Conclusions_21-May-10.pdf

[5] Safeguarding the move to a single EU energy market. ERGEG Regional Initiatives Progress Report – November 2009, http://www.energy-regulators.eu/portal/page/portal/EER_HOME/EER_INITIATIVES/Progress_Reports/2009/RI_Annual_Reports/RI%20Progress%20Report%2016%2010%202009.pdf

2 Key update on the Regional Initiatives process

2.1 Regional Initiatives in the interim period

The 3rd Energy Package contains instruments which have the potential to fill the regulatory gap and promote market integration. However, it will be some time before a comprehensive cross-border regulatory framework is in place. During this time the RIs have an important role to play in encouraging progress on the ground, informing the development of the cross-border regulatory framework, and encouraging the early implementation of draft framework guidelines and network codes where this is practicable.

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

During the period before the Agency for the Cooperation of Energy Regulators (ACER) can act in a legal sense under the 3rd Energy Package, from 3 March 2011, ERGEG has undertaken preparatory work with the intention of accelerating progress once ACER becomes operational. The focus of this work has been on the development of draft framework guidelines and on organisational aspects of ACER. It is clear from this work that it will be some years before the first network codes become legally binding, and therefore some time before the legal instruments to fill the 'regulatory gap' are in place. During this period the RIs will have an important role in continuing to develop practical bottom up approaches which will inform the drafting of future framework guidelines and network codes. The RIs will also provide a key vehicle for enabling stakeholders to come together with regulators, the Commission, Member States and TSOs to strive for the early implementation of network code proposals once their contents are sufficiently developed.

2.3 A new strategy for the RIs

In the past they were designed to provide bottom up mechanisms to promote progress towards market integration and competition in the absence of a cross-border regulatory framework. Consequently the RIs operated mainly on a voluntary basis and progress was dependent on reaching a broad consensus among the interested parties. The cross-border regulatory framework which is enabled by the 3rd Energy Package changes the context within which the RIs operate and so a new strategy for the RIs is required so that they continue to play a useful role. Framework guidelines and network codes are, by their nature, cross-border instruments. The task facing those seeking to implement these instruments is that co-ordination is needed across borders at a detailed level if the resulting arrangements are to work in harmony. Mismatches even at a detailed level can introduce barriers to trade and so result in new barriers to market integration. The RIs must be organised in such a way that they are suitable mechanisms to facilitate the necessary co-ordination: geographically as they bring together a number of adjacent market areas; institutionally because the existing structures of the RIs bring together, with only minor modification, all of the key stakeholders and EU bodies that are essential for proper implementation to happen; and in terms of size, since the RIs have demonstrated that each is capable of managing the issues within their scope. This new approach will facilitate the implementation of framework guideline policies and network code requirements, and will accelerate progress towards a single energy market.

2.4 Coherence and convergence

The RIs are already organised within ERGEG, but in future should be organised under ACER. The management of the RIs will be revised to ensure that the continued bottom up approach of the RIs can be maintained, but that adequate top-down guidance is provided to ensure that over time the regions converge towards a single market. This process will be assisted by the development of framework guidelines.

This review facilitates an insight on the degree of coherence and convergence among regions in each topic.

2.5 Incentives and obligations concerning market integration

In addition to the inclusion of a specific objective for NRAs to promote the development of regional markets as a means of achieving a single European market, the 3rd Energy Package also:

- Requires NRAs to cooperate at least on a regional level (which may be facilitated by ACER);
- Provides for network codes to take account of regional specificities, where needed;
- Provides for regional cooperation between Transmission System Operators (which may be facilitated by the ENTSOs);
- Requires, in coordination with an EU-wide 10-year network development plan, the development of regional network development plans;
- Aims for congestion management methods which are applicable in the whole EU in the future but may also be suitable for regional application as an interim step;
- Requires the Rules of Procedures of the Board of Regulators of ACER to provide for specific working methods for the consideration of issues arising in the context of regional cooperation;
- Provides for regional solidarity between Member States in relation to gas security of supply;
- Requires Member States as well as the regulatory authorities to cooperate among themselves for the purpose of integrating their national markets at one or more regional levels, as a first step towards a fully liberalised internal market; and
- Requires ACER to cooperate with NRAs and TSOs to ensure the compatibility of regulatory frameworks between the regions.

Furthermore, ERGEG has addressed this year the issue of designing regulatory incentive schemes to promote cross-border trade (mainly for TSOs)[6]. ERGEG considers these incentives as a long term goal. A call for evidence on this topic was open from January to March 2010.

[6] ERGEG Call for Evidence: Incentive schemes to promote cross-border trade in electricity, 10 December 2009, E09-ENM-07-04, http://www.energy-regulators.eu/portal/page/portal/EER_HOME/EER_CONSULT/CLOSED%20PUBLIC%20CONSULTATIONS/ELECTRICITY/Cross%20Border%20trade%20incentives%20electricity/CD/E08-ENM-07-04_IncentiveSchemes_10-Dec-2009.pdf

3 Review of progress to date – Gas Regional Initiative (GRI)

3.1 Key developments region by region

The evidence for 2010 shows that the three gas regions have realised several concrete achievements. Some highlights are set out below region by region.

3.1.1 North-West region

Within the North-West region (NW), stakeholders of nine different countries (and one observer) are working together to further develop the gas market at a regional level. Recognising the relevance of the coming into force of the 3rd Energy Package, the North-West region has reviewed the existing road map during the first half of 2010. Following to this review a road show has been organised in order to collect input within the region with regard to future organisation and structure of the GRI NW and for the work plan 2011. The forward plan of activity has been determined in cooperation with stakeholders giving a strong basis for future work. In short, GRI NW will focus on implementation work (related to implementation of network codes) as distinct from the proactive work it has undertaken in the past. Proactive work should focus on projects where there is value to be added from a regional approach. Preparations are now under way for a successful implementation of the road map within the North-West region.

Important steps have been taken to further enhance the harmonisation in the North-West region. With regard to investment, a virtual test case has been undertaken in 2009 to build a hypothetical gas pipeline from France to Germany, via the Netherlands and Belgium. A manual of investment procedures in the nine Member States of the GRI NW has also been completed. In addition, regional policy advice and a subsequent action plan to address key investment issues are being rolled out. This outcome forms a strong basis for allowing a meaningful follow up of prior results and delivery of interim implementation results.

Recognising the importance of access to firm capacity, the North-West region continued to work on short-term capacity as to make available firm primary capacity on the day-ahead market. Two models (day-ahead oversubscription and short-term calculation) were chosen to further investigate the possibility of implementation in a pilot project. Project participants are now discussing the scope and content of this pilot project. The principle of incentivisation – considered a major prerequisite in this project – is not perceived as a problem anymore due to the fact, that this issue has been solved by regulators and Member States on national level. Several regulatory frameworks of the involved countries did not foresee such an incentivisation mechanism (e.g. the German regulatory framework did not allow for flexibility with regard to incentivisation). As recent developments, such of amendments of the relevant national legislation, have solved this issue, this hurdle has been removed from a regulatory point of view. Currently there is discussion about the next steps, considering the option to gather views from the project team in order to determine whether the changes of the relevant legislation are sufficient from the TSOs view as well as the option to set up mechanisms making firm primary capacity on a day-ahead basis available, or if other obstacles are perceived. An additional goal of this meeting should be to clarify whether there is commitment to establish a pilot on a concrete interconnection point and to what extend this will bring added value to the region, in light of the fact that in parallel a similar pilot (Link4Hubs) has been established already.

With respect to capacity allocation mechanisms, the North-West region has launched a survey to decide the next measures regarding extension and optimisation of three existing online trading platforms for the trading of firm secondary gas transport capacity. The region will in addition reflect on longer term developments as to capacity allocation and its effects on secondary capacity trading. Also, monitoring the development of secondary trading per product and booking point has continuously taken place.

Finally, the North-West region has worked on the improvement of transparency. At the Stakeholder Group meeting at the end of 2009, the tangible results of the Storage Transparency project were presented to stakeholders. Following the successful completion of the Transmission Transparency project (phase 1) and the Storage Transparency project it was decided to prioritise other areas.

3.1.2 South region

The three member NRAs of the South region are committed to actively contributing to regional market integration. To this end, key developments have occurred since November 2009 with regard to new interconnection investments, capacity allocation and implementation of Regulation 715/2009 on conditions for access to the natural gas transmission network.

Regarding new investments, the second Open Season between France and Spain was launched in May 2010 in order to assess the market's needs and allocate new interconnection capacities available from 2015 between these two countries and inside France. This is the last step of a long process initiated in 2006 with the aim of developing new interconnection capacity between these countries and inside France by upgrading existing interconnections (Larrau and Biriatou) and creating a new gas corridor to the Eastern Pyrenees (Midcat Project).

As a result of the first Open Season, launched in July 2009 and closed in January 2010 with the French TSOs' positive decision to invest, interconnection capacity will be increased by up to 5.5 bcm/year at Larrau as of March 2013. The second Open Season, which closed in July 2010, triggered the development of 2 bcm of interconnection capacity at Irun-Biriatou in the direction of Spain to France by 2015.

The common capacity allocation mechanism (Open Subscription Procedure), developed and applied between France and Spain in 2008 to jointly allocate the already existing interconnection capacities, was again applied in November 2009 for allocating yearly capacity available from April 2010 to March 2011. It will be again launched in November 2010 to allocate short-term capacities from April 2011 to March 2012. The 2009 results were as satisfactory as in the previous year, since all the offered capacity in both directions was allocated. This mechanism is planned to be developed yearly to allocate short-term capacities at the border.

Regarding Regulation 715/2009, an ambitious action plan was approved in January 2010 to promote its implementation. In this respect, the development of a common congestion management procedure (CMP) at interconnection points is set as a key objective. The aim is to follow ERGEG Recommendations for CMP comitology guidelines[7] at the borders. A preliminary analysis of the current CMPs in force in the three countries has therefore been performed, to be used as the basis for the definition of a detailed action plan. Regulators are also planning a pilot project to test the ERGEG Pilot Framework Guidelines on Capacity Allocation Mechanism (CAM)[8] for short-term capacity at the borders.

In addition, a regional investment plan is to be developed, based on the existing studies carried out by TSOs when developing the Open Season procedure in the region, ENTSOG's 10-year investment plan and results of the ongoing Open Season. Regulators have also started the analysis of the current tariffs for gas in transit between Portugal and Spain with the aim of identifying main market development obstacles and ultimately setting common rules to be applied to these transit tariffs. Finally, the regulators' transparency study published in mid 2007[9] is to be updated, in order to check compliance with new requirements on this issue.

3.1.3 South-South East region

With the objective of moving from national markets to a South-South East (SSE) regional market as a staging post to a single EU gas market, the stakeholders have particularly been working on the topics of market integration, development of trading points, transparency, and security of supply.

Significant work has been done to increase market integration among adjacent TSOs. In March 2010, Snam Rete Gas and TAG GmbH, with the support of AEEG and E-Control, started a project with the aim to establish an Interconnection Point (IP) agreement with an Operational Balancing Account (OBA) at the Interconnection Point Tarvisio/Arnoldstein. This could then serve as a good template for other countries where IPs do not include OBAs yet. Due to the establishment of an Italian Gas Exchange, increased access to cross-border capacity could significantly enhance arbitrage opportunities between the Austrian and Italian markets.

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[7] Congestion management procedures. Recommendations for guidelines to be adopted via a comitology procedure, Ref: E10-GWG-67-04, 8 September 2010, http://www.energy-regulators.eu/portal/page/portal/EER_HOME/EER_PUBLICATIONS/CEER_ERGEG_PAPERS/Gas/2010/E10-GWG-67-04_CMP%20comitology%20guideline_8-Sept-2010.pdf

[8] Capacity Allocation on European Gas Transmission Networks. Pilot Framework Guideline, Ref: E10-GWG-66-03, 10 June 2010, http://www.energy-regulators.eu/portal/page/portal/EER_HOME/EER_FWG/Gas/Capacity%20Allocation%20Management/Overview/E10-GWG-66-03.pdf

[9] South Gas Regional Initiative: Study on the level of transparency, July 2007, http://www.energy-regulators.eu/portal/page/portal/EER_HOME/EER_INITIATIVES/GRI/South/Key%20docs/Transparency%20study.pdf

On 10 May 2010, the Italian Ministry of Economic Development approved a legislative decree introducing "P-Gas", a new platform for bilateral gas exchange that will evolve into a proper exchange, where GME, the power market operator, will act as counterparty to all the gas buyers and sellers. In the first stage of the new platform, GME will only match the requests received in an anonymous way and will thus guarantee data confidentiality.

The gas supply disruption of January 2009, forced the SSE region to focus on the issue of security of supply and consider possible actions in order to reduce the effects of potential cuts in gas supply. The last meeting of regional stakeholders in 2010 will therefore be dedicated to the new Regulation on measures to safeguard security of gas supply and also to cooperation among ministries and regional solidarity.

3.2 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.

3.2.1 Investment in new infrastructure

North-West region

The North-West region has undertaken a "virtual test", a sped-up simulation of a feasibility study of a 10-20 bcm gas pipeline from France to Germany, via the Netherlands and Belgium. In this study, four regulators, the relevant gas operators and market participants worked together and presented interim results to the Ministries of the region. The project included identifying a need for capacity, establishing potential investment costs, using a market test and completing the allocation of capacity in a virtual project environment (further referred to as the virtual test approach).

Following a completion of the virtual test case, the establishment of regional policy advice and a subsequent action plan to address key investment issues, the North-West region is continuing its actions on regional investment. This allows for meaningful follow-up of prior results and comprising three key practical actions. The implementation of the recommendations arising from the policy advice has now started. Key recommendations included the need to alleviate risks around asset stranding and clarify prerequisites for overcoming barriers to new investment.

South region

Since the creation of the ERGEG South Gas Initiative in 2006, the need for more interconnection capacity between the Iberian Peninsula and France was identified as a priority. As a result of three years work and several public consultations, the four French and Spanish TSOs involved, together with the regulators, published in 2009 a common Open Season (OS) mechanism organised in two phases, to jointly assess the market's needs and allocate new interconnection capacities at the French-Spanish border and inside France.

The first OS (OS 2013), launched in July 2009, involved reinforcing the Western axis through new investments in the existing interconnections (Larrau/Biriatou and TIGF-GRTgaz interface), increasing capacity from 2013. The allocation of capacity took place in October, and contracts were signed in November 2009. A large number of shippers from different groups showed interest in taking part in the process, and finally 12 requests from 8 different companies were received. This phase ended in January 2010, with the French TSOs' positive decision to invest, allowing capacity at Larrau to increase by up to 5.5 bcm/year from 2013.

The second OS (OS 2015), also designed following stakeholder consultation, was launched in May 2010. It implied coordination of four TSOs in four different balancing zones selling simultaneously capacity at three interconnection points, in both directions. The OS 2015, closed on 16 July 2010, will allow the development of 2 bcm of interconnection capacity at Irun-Biriatou in the direction of Spain to France by 2015.

The implementation of the OS mechanism and its application constitutes an important success in terms of regulatory coordination and joint work of different TSOs. It has also required strong support from French and Spanish Ministries. In particular, it required the modification of Spanish national legislation regarding capacity allocation (a Royal Decree, a Ministerial Order and several Resolutions).

Additionally, the region's action plan for 2010 considers the development of a regional investment plan, according to the provisions of Regulation 715/2009. This plan is currently being defined by TSOs, based on the existing studies developed when designing the Open Season. It will include ENTSOG's 10-year investment plan provisions and the results of the two Open Seasons.

South-South East region

Regarding investments in the South-South East region, Eustream (Slovakia) and FGSZ (Hungary) had presented a project for a 120 km di-directional interconnector between Hungary and Slovakia. The project has also received financial support (30 millions) under European Economic Recovery Programme of the European Commission. However after a preliminary interest by market participants, the second binding phase of the Open Season issued by the relevant TSOs has seen a total amount of pre-booked capacity well below the total projected physical capacity of the new pipeline thus putting the project at serious risk.

Also, after a successful application to subsidies from the European Economic Recovery Programme, TAG is offering physical reverse-flow capacity on a firm basis along the TAG system (a first non-binding market survey ended at the beginning of April 2010). The final investment decision for the implementation of a reverse-flow has been taken.

These infrastructure projects will improve the integration of the EU gas infrastructure system, create new transmission opportunities for gas players, enhance cross-border liquidity, and increase the security of the region's gas supplies.

3.2.2 Capacity allocation and congestion management

North-West region

In 2008, the North-West region initiated the Secondary Market pilot project (based on a document from EFET[10]) to establish online platforms for the trading of firm secondary gas transport capacity rights on a day-ahead basis at two selected Interconnection Points (IPs), at Bunde-Oude-Statenzijl (Germany/Netherlands) and at Ellund (Denmark/Germany). For both IPs, the possibility of day-ahead trading was successfully introduced in 2008 in the framework of the Day-Ahead Capacity Pilot (APX-ENDEX and trac-x platforms). As of the end of 2009, a third secondary platform (Capsquare) joined the project which now also covers Belgium and France. Experience has shown that liquidity should be further enhanced on all platforms. Therefore, a survey was carried out to collect shippers' views on the functioning of secondary market platforms. In this questionnaire, shippers were asked to give their opinion on the various aspects of secondary trading such as the use of secondary capacity, the preferred allocation method, products and transfer of capacity. Feedback from active and non-active shippers is now being used to decide about the next measures regarding extension and optimisation of the platforms (e.g. improvement of products and/or processes). Furthermore, there will be additional reflection on longer term developments as to capacity allocation and its effects on secondary capacity trading.

Work on the Short-Term Capacity project has continued within the North-West region to make available firm primary capacity on the day-ahead market. Through this project, extra capacity may become available to market participants, which is especially useful for market entrants. Within the project, several models for releasing unused capacity on a day-ahead basis were developed and assessed. Last year, two models (Day-Ahead Oversubscription and Short-Term Calculation) were chosen for further research on the possibility of implementation in a pilot project. Operators have prepared detailed input on both models and their feasibility. Furthermore, as operators consider incentivisation to be a prerequisite for moving this project forward, an important debate has been taking place within the project on incentivisation in relation to making available firm primary capacity on the day-ahead market. After changes in some national regulatory frameworks the issue of incentivisation has been solved at national level. In addition, the possibility, scope and content of a future pilot project will be explored (including criteria for measuring success), which is expected to give strong impetus to this project. Recent developments such as amendments of the relevant national legislation have solved this issue and from a regulatory point of view this hurdle has been removed

South region

Following the first common allocation of already existing interconnection capacities between Spain and France in 2008 (via an Open Subscription Period (OSP) with pro rata allocation), a new OSP was launched at the end of 2009 for allocating yearly available capacity from April 2010 to March 2011. The process will be repeated in November 2010 to allocate capacity from April 2011 to March 2012. In 2009 all offered capacity in both directions was allocated.

[10] Daily Cross-Border Capacity Auctions in North and North West Europe, EFET Gas Committee, October 2006. http://www.efet.org/GetFile.aspx?File=2282

Short-term interconnection capacity between these two countries is planned to be allocated on a common cross-border basis through annual OSP.

Regarding congestion management, the South region foresees the development of a common congestion management procedure (CMP) at interconnections, which will complement the already applied common capacity allocation mechanisms. The aim of this project is to follow ERGEG Recommendations for CMP comitology guidelines[11] at the borders. A first analysis of the current CMPs in force in the three countries has already been performed. This preliminary study is being used as the basis for the definition of a detailed action plan, to allow application of coordinated and harmonised CMPs at the borders. The common CMPs will take into consideration and implement principles contained in the ERGEG CMP Comitology Guidelines.

Finally, regulators are also planning a pilot project to test ERGEG Pilot Framework Guidelines on CAM for short-term capacity at the borders.

South-South East region

At the beginning of 2013 the Hungarian-Slovakian Interconnector should connect Velké Zlievce on Slovak and Vecsés (Budapest) on the Hungarian side. The TSOs started an Open Season in order to allocate their respective transmission capacity of which 10% should be reserved for short-term allocation.
Nevertheless the binding phase of the Open Season ended on 15 July 2010 with a total amount of booked capacity well below the physical projected capacity. Even if the Slovakian TSO proved interested to continue the project, FGSZ – the Hungarian TSO – declared the results of the binding Open Season as unsuccessful. FGSZ will however analyse further alternatives to have the Slovak-Hungarian interconnector project potentially financed and constructed in another way.

3.2.3 Transparency

North-West region

The TSOs within the North-West region have worked on the improvement of transparency. At the Stakeholder Group meeting (end of 2009), the tangible results of the Storage Transparency project were presented to stakeholders. After the successful completion of the Storage Transparency project and the Transmission Transparency project (Phase 1), it was decided not to actively continue the transparency projects for now. Nevertheless, it was recognised that there are longer term improvements to transparency which TSOs can make and that are required under the 3rd Energy Package. With regard to Phase 2 of the Transmission Transparency project, it was decided that this project was currently not able to add enough value to continue this work in the GRI NW. Therefore, the activities on transparency have been put on hold in this region.

[11] Congestion management procedures. Recommendations for guidelines to be adopted via a comitology procedure, Ref: E10-GWG-67-04, 8 September 2010, http://www.energy-regulators.eu/portal/page/portal/EER_HOME/EER_PUBLICATIONS/CEER_ERGEG_PAPERS/Gas/2010/E10-GWG-67-04_CMP%20comitology%20guideline_8-Sept-2010.pdf

South-South East region

The members of the South-South East Regional Initiative will constantly be monitoring the participation of TSOs in the transparency platform. At the 7th Implementation Group meeting of the GRI SSE on 26 March 2010, GIE presented an update on the new participants that joined the platform. Recently added TSOs are Geoplin and FGSZ. The GRI SSE will soon also be able to see TAG and BOG on the transparency platform as both are in preparation and in the testing phase.

South region

In the South region, efforts in terms of transparency have been carried out regarding the Open Season and the Open Subscription procedures. Several documents and press releases have been published on TSOs' and ERGEG's web pages with the aim of keeping all stakeholders permanently informed. Also, several informal meetings with stakeholders were held for information purposes. TSOs have continued publishing the building status of new interconnection capacities between Spain and France on their websites, as well as on the ERGEG website, which is updated every six months (and has been since 2007).

The region's action plan also includes the update of the regulators' study, carried out in 2007, on the region's compliance with the transparency obligations of the EU Gas Regulation 1775/2005 on transmission issues, which was already extended in 2009 to analyse compliance with the transparency requirements of ERGEG's (voluntary) Guidelines of Good Practice for the LNG (GGPLNG)[12].

3.2.4 Interoperability and hub development

South-South East region

After the successful implementation of the Operational Balancing Account (OBA) at the Interconnection Point (IP) Baumgarten, which favoured the creation of the Integrated Trading Area Baumgarten (ITAB), a similar project has been started by the two regulators, AEEG and E-Control, together with the adjacent TSOs at the Arnoldstein/Tarvisio IP.

This project shall help to increase market integration between Austria and Italy and should create additional trading opportunities between the newly designed Gas-Platform P-Gas and the Central European Gas Hub (CEGH). In December 2009, CEGH launched a Gas Spot-Market where constant volumes have been traded up to now. The success of the gas exchange shall be further increased through the introduction of a futures market in 2010.

[12] Guidelines for Good Third Party Access for LNG System Operators (GGPLNG). An ERGEG conclusions paper, Ref: E08-LNG-06-03, 7 May 2008, http://www.energy-regulators.eu/portal/page/portal/EER_HOME/EER_PUBLICATIONS/CEER_ERGEG_PAPERS/Guidelines%20of%20Good%20Practice/Gas/E08-LNG-06-03_GGPLNG_conclusions_7-May-08v2.pdf

Together with the new prospective market place to be implemented on the basis of the existing Italian P-Gas platform, wholesale trading in the region is likely to be facilitated in the near future.

South region

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 and according to progress made in 2009, in January 2010 regulators sent their respective Governments a proposal on the necessary regulatory changes needed to implement common licence recognition between the countries.

Subsequently, regulators have begun a study on the need for harmonising cross-border and domestic access tariffs in Spain and Portugal. Its aim is to identify the main obstacles for market development and produce a proposal to define the rules to apply to the current transit tariffs between the two countries.

North-West region

In the North-West region, no project is currently being undertaken that specifically focuses on interoperability or hub development.

3.2.5 Security of supply

South South-East region

One of the Austrian TSOs, TAG GmbH, has started an Open Season for reverse-flow physical capacity at the TAG system. This is a first step to increase infrastructure flexibility in the SSE region. If the Hungarian-Slovakian interconnector can be constructed, it will contribute to security of supply by opening new routes for gas to flow.

The last meeting of the SSE region in 2010 will be timed with respect to the adoption and publication of the new Regulation on measures to safeguard security of gas supply. This meeting shall also serve as a starting point for increased cooperation between the Member States' Ministries.

South region

The increase of interconnection capacity between Spain and France is strongly supported by regulators in the South 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 or LNG to flow to northern European countries and piped gas from Europe to the Iberian Peninsula, diversifying the supply sources and thus enhancing security of supply. Use of underground storage in the different countries is also an advantage of the future interconnection upgrade.

North-West region

In the North-West region, security of supply is dealt with using a horizontal approach, and is an important driver and deliverable for many projects in the region. For instance, security of supply has been identified in the NW region as one of the five key drivers for past and current development of new cross-border capacity. The actual improvements delivered by the storage transparency project also contribute to greater security of supply.

3.3 Summary table

Regions / Priorities	North-West	South	South-South East
Transparency			
Capacity allocation and congestion management			
Investment in new infrastructure			
Security of supply			
Interoperability and hub development			

Colour legend		Achievements completed in this period
		Activity continued in this period
		Obstacles or significant delays in this period
		No significant activity this period
	n/a	No specific work carried out in this REM

3.4 Case studies: Improving the investment climate at regional level

Facilitating cross-border gas shipping is a key feature of regional market integration. Developing transportation capacity between countries has therefore been a priority for gas Regional Initiatives which contributed to improving the investment climate either by better understanding the obstacles to cross-border infrastructure development or by facilitating the coordination of stakeholders. The investment topic shows how effective the platforms of dialogue provided by GRI are in coordinating stakeholders; it gathers some of the most successful achievements of GRI with different kinds of projects. The North-West region developed a simulation of cross-border pipeline development, the South region framed the organisation of Open Seasons between France and Spain and the South-South East region focused on reverse-flow development at interconnections to improve security of supply.

A virtual test case in the North-West region

In 2009, the North-West region gained valuable insight on investment climate for cross-border infrastructure with a virtual case study which consisted in a simulation of a 10 to 20 bcm gas pipeline investment from France to Germany, via the Netherlands and Belgium. The project aimed at testing in a virtual environment all the usual steps including the identification of a need for capacity, the evaluation of potential investment costs, the application of a market test and the final allocation of capacity to shippers. The ambition was to facilitate a common regional approach to capacity development. Four regulators, the relevant gas operators and market parties worked together and presented interim results to the Ministries of the region. This virtual test case included three workshops held in February, May and September 2009, creating an opportunity to discuss and better understand how all the relevant parameters interact in an investment process.

Many parameters were considered when studying the investment context, with a particular focus on elements having a direct impact on the level of risk for TSOs and, hence, on the decision to invest. The most important were the regulatory status of the pipeline, the way the investment is remunerated and the structure of the four markets. Ten "virtual shippers" participated, namely E.ON, EDF, StatoilHydro, Poweo, BP, Merrill Lynch, ExxonMobil, RWE, Gazprom Marketing & Trading and Gas Natural.

Based on the case study's findings, the region drew up recommendations on how to address the burdens encountered in current regional investment processes, summarised in the "policy advice" for ministries and regulators. Three main areas for improvement were identified: coordination among regulators and involved TSOs, compensation methods for cross-border revenues to be shared between TSOs, and transparency of investment processes. A manual accompanies the policy advice providing a reference for investment regulation approaches across the nine Member States belonging to the North-West gas region. The recommendations endorsed by the Regional Coordination Committee (RCC) and other stakeholders of the region could be applied at least at a regional level as there are sufficient structural commonalities of national investment frameworks.

The next step decided by the RCC in February 2010 consists in promoting the recommendations and monitoring their implementation. It was also decided to further investigate associated issues like the stranded-asset risk of regional projects due to differences in national regulatory regimes. Discussions on investment planning in the

framework of the 3rd Energy Package are also developing with a special focus on regional investment plans. Beyond the legal obligations, the region investigates the stakes and challenges of regional plans and sees there a key opportunity to achieve consistent cross-border infrastructure developments, which shall be clearly beneficial for the investment climate.

The organisation of Open Seasons in the South region

Cross-border Open Seasons are complex procedures often impeded by problems of coordination. They sometimes involve several TSOs and many stakeholders, their launching can be hindered by regulatory gaps and they also depend on associated upstream or downstream infrastructure developments. The creation of new interconnection capacity between France and Spain, foreseen in two steps, was a difficult project since four TSOs were involved and important investments were needed within the core part of national networks.

The organisation of these Open Seasons has been the main achievement of the South region over the past years. It is an example of active coordination and common decision making when developing a joint investment plan in a region. It does not only include infrastructure design at the borders, but also inside the countries of the region, showing an integrated approach concerning the expansion of infrastructure.

Increasing interconnection capacity between the Iberian Peninsula and Northern Europe has been a priority since the beginning of the South region's activities, in 2006. As a first phase, in 2007, French and Spanish TSOs prepared a common investment plan[13], published on ERGEG's and the TSOs' web pages, where the characteristics and cost estimations were presented. The second step consisted in designing a coordinated capacity allocation mechanism to allocate existing capacity at the French-Spanish border. Differences between national regulations required modification of legislation in Spain. All these actions were developed and discussed in the framework of the South region. This is among the first examples of successful cooperation and sharing of information between TSOs and regulators.

Before launching the Open Seasons, the sale of existing interconnection capacity between France and Spain in 2008 revealed a high level of market interest. Requested capacity in the direction south to north was six times the capacity offered. This was amongst the first coordinated allocations guaranteeing that allocated capacity would match on the two sides of the border. The South GRI played a key role by organising meetings (RCC, IG and SG) where the process could be discussed, explained and controlled.

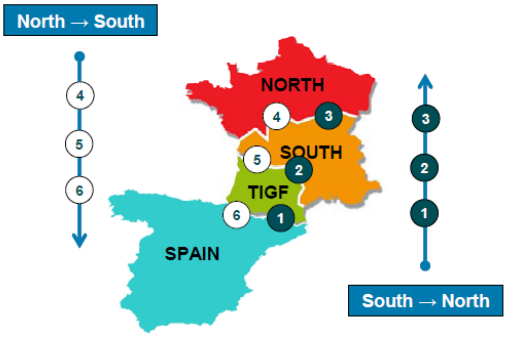
[13] Joint France-Spain Investment Plan to 2015, published on July 17th 2007, http://www.energy-regulators.eu/portal/page/portal/EER_HOME/EER_INITIATIVES/GRI/South/Key%20docs/Documento%20de%20los%20TSO%20refundido.pdf

Building on this experience, the first Open Season was launched in July 2009 and closed in January 2010 by the investment decisions. It included the binding phase of the western axis (via Larrau and Biriatou, two existing points) and the non-binding phase for the creation of a new interconnection at Le Perthus, through Catalonia (eastern axis). This first phase led to the decision to increase the interconnection capacity between France and Spain by up to 5.5 bcm/year at Larrau from March 2013.

The second Open Season for the development of interconnection capacity between France and Spain was launched in May 2010. Two interconnection developments were at stake: the eastern axis in Catalonia (the Midcat pipeline) as well as Biriatou, which was poured into the process after being rejected during the first phase. The Open Season also concerned investments within France aimed at completing the corridors between Spain and the North of the country. Capacity will be available from 2015.

This latest Open Season turned out to be very complex because of the number of potential infrastructure developments, depending on the bidding strategies of shippers. Complexity was mainly due to the interaction between interconnection development and the evolution of the market structure in France: three interconnections between balancing zones were concerned in the two directions (see the figure below). TSOs and regulators designed together 18 possible investment scenarios, with six different prices at the border. Two economic tests, taking into account the different costs of each scenario, were also designed in order to decide on the validation of investments.

Capacity requests from shippers allowed the development of 2 bcm/year of interconnection capacity at Irun-Biriatou in the direction of Spain to France by 2015. Capacity has been allocated to three shippers on the whole route from Spain to GRTgaz North. Demand was too low to trigger the development of the MidCat project and no capacity has been allocated by TSOs from GRTgaz North to Spain.



Interconnection points where capacity was sold in the OS 2015. Capacity was allocated on Interconnection Points 1, 2 and 3

Overall, the two phases of the Open Season procedure will increase pipeline transmission capacity from Spain to France by up to 7.5 bcm/year compared to 2005 levels. This represents respectively 15% and 18% of the French and Spanish consumptions.

The implementation of the Open Season mechanism and its application is a good example of coordination between the different regulators and TSOs of the region. It has also benefited from strong support from the French and Spanish Ministries, exemplified by the modification of the Spanish national legislation regarding capacity allocation (a Royal Decree, a Ministerial Order and several Resolutions). The Gas Regional Initiative also played a key role as it provided a structured platform to frame the process, contributed to the transparency of procedures and most of all helped develop market confidence, which is absolutely necessary for the success of cross-border Open Seasons. The GRI clearly helped to build a safe environment for investment. In addition, all the studies and results presented for the occasion are a highly valuable input for the regional investment plan required by Article 12 of Regulation 715/2009, which enters into force in March 2011.

The development of reverse-flows in key pipelines

In the South-South East region, capacity development is a priority since the January 2009 supply crisis, when interruption of Russian supplies through Ukraine left some countries out of gas. As a result, the SSE region has actively supported possible investments to create reverse-flow capabilities on unidirectional gas pipelines. Within the Implementation Group, regulators and TSOs have worked together to identify priority reverse-flow projects and associated costs. The Balkans appears to be one of the most critical areas in the event of Russian gas supplies disruptions.

Among the potential projects, the TAG pipeline – connecting Baumgarten Hub to the Italian network via Austria – was identified as a possible reverse-flow pilot. New investments financed by the European Economic Recovery Plan and binding commitments from shippers would allow transforming the interruptible backhaul into physical firm capacity. For this purpose, TAG launched an OS to test the market interest for this type of capacity; a first non-binding phase ended at the end of April 2010.

These various regional experiences reveal three key elements to improve the investment climate at cross-border level. The coordination of investment projects between all the involved parties, regulators and TSOs remains necessary and is achieved successfully in the framework of the Regional Initiatives. The regions have also contributed to increased transparency of investment procedures, providing more visibility to market parties and ensuring a sound framework for informed business decisions. Finally, it is necessary to involve all relevant market parties, including the governments, in order to successfully improve the investment climate in the regions.

3.5 Policy advice based on GRI experience

- **Contribute to the implementation of the 3rd Energy Package**

The entry into force of the 3rd Energy Package will deeply transform the context in which GRI operates and, consequently, calls for a redefinition of the actions it leads. Among other potential activities, it seems relevant for the gas RIs to share their expertise and contribute to the elaboration and implementation of the framework guidelines and network codes.

Gas RIs are designed as a forum gathering all stakeholders, with both formal and informal processes. Within this framework, a variety of subjects are debated at the regional level and many lessons can be learnt from all the discussions that have taken place since the creation of the GRI. Therefore, it is important that the gas RIs do not only work on the implementation of the European legislation but also gather the views of the TSOs and shippers, represented in the GRI, on the potential effects and the feasibility of the measures drafted in the framework guidelines. This communication exercise will allow regulators to better evaluate the position of the region's market players, to assess the feasibility of the policies carried out and to analyse the potential difficulties and effects that the incorporation of the framework guidelines´ contents will produce in the regional market.

Regarding the implementation of the framework guidelines and network codes, GRI calls on all regions to identify at least one project which will implement a policy under discussion in the context of one of the framework guideline and network codes. The experience from such an implementation project can feed back into policy development, i.e. into the drafting of the framework guideline and network code. It can also provide an insight into policy implementation from which all regions will benefit. For instance, the GRI could start the process with the introduction of bundled capacity products and auctions at some interconnection points.

- **Facilitate the implementation of concrete cross-border projects**

Experience shows that the gas RIs provide a useful frame for debate, sharing of information and cooperation among key stakeholders, when carrying out infrastructure projects involving several Member States.

Building on their achievements, gas RIs should put a greater focus on these concrete cross-border issues and promote specific infrastructure projects such as the development of interconnections between Member States. Subsequently, these projects would be developed under the scope of the region and clearly bear the hallmark of the concerned gas RI. This way, GRI would actively contribute to the integration of the European market and bring tangible results.

- **Offer a platform for dialogue between a diverse range of stakeholders**

Since their creation, the cornerstone of the gas RIs has been their ability to initiate constructive discussions among the main actors of the regional gas markets. It is essential for the GRI to retain this key role and enhance closer cooperation between regulators, grid operators, market participants and Member States in order to identify important issues and propose collective answers.

4 Key developments to date – Electricity Regional Initiative (ERI)

4.1 Key developments region by region

Relevant developments have occurred in all the seven electricity regions during 2010. The most important achievements are set out below region by region.

4.1.1 Baltic region

In 2010 power exchanges have been launched in Estonia and Lithuania. The Lithuanian Power Exchange BaltPool UAB started to operate in January 2010 and trade through BaltPool has reached more than 55% of all electricity trading volumes in Lithuania. In Estonia the Nord Pool Spot ESTONIA price area (until 1 October 2010 the price area was named ESTLINK) started its operation on 1 April 2010 with day-ahead implicit auction which was extended on 19 October 2010 also to intraday trading implicit auction. This is a significant step forward as it is a landmark for integrating the Estonian and Nordic markets. As the price area is young, no extensive conclusion could be drawn. Nevertheless the start was successful. The total traded volume for the first six months was 1.93 TWh and volumes are increasing. In comparison the 2009 total consumption in Estonian was 7.1 TWh and Estonian the electricity market is opened only for 35%. The Estonian and Lithuanian power exchange prices reflect the Nordic power market price dynamics. Financial markets are interested to participate in the Baltic region however trading of energy derivatives seems to be premature as it requires more extensive market experience. It is planned to operate Latvia's area at Nord Pool Spot in 2011. According to the BEMIP plans the Baltic electricity market will be fully integrated into the EU market by 2015.

The TSOs of the Baltic countries had not experienced congestions until 2010, but there are congestions on the Estonian-Latvian interconnector since 2010 mainly due to the closure of the large power plant Ignalina in Lithuania and to the increase in electricity import in the Lithuanian market. Therefore in the Baltic region the main progress was made regarding the congestion management (CM) procedure implemented on the Latvian-Estonian interconnection.

A Memorandum of Understanding on the Capacity Allocation Mechanism between the TSOs of the Baltic States was signed on 27 April 2010. It states that from 1 April 2010 to 1 January 2011 if there is a congestion on the Estonian-Latvian (EE-LV) interconnection, weekly explicit auction will be used for available transmission capacity (ATC) for bilateral trades, and implicit auction will be used for 80% of ATC for traded capacity in the price zone of Nord Pool Spot (NPS) Estlink. Till 1 January 2011 during congestion at the Latvian-Lithuanian cross-border interconnection, an implicit auction on ATC shall be used for trade organised by Baltpool (Lithuanian Power Exchange). From 1 January 2011 implicit auction will be introduced. The Congestion Management Implementation Group and the Regional Coordination Committee will focus on different aspects of the congestion management scheme applied for cross-border capacity allocation between Estonia and Latvia. Baltic TSOs will work to agree on a common position towards non-EU countries, also regarding coefficients for energy flows.

The Monitoring Working Group was established in order to prepare the common Baltic electricity market monitoring and surveillance rules until 2011-2013. This Working Group elaborated a summary mirroring the present situation of market monitoring and the legal framework in the different Baltic countries. Primary principles and concept of common market monitoring rules for the Baltics will be discussed at the Stakeholder Group and the Implementation Group meetings in October 2010.

The Transparency Working Group has prepared the Report on Transparency in the Baltic Electricity Market including indication of data providers and the definition of transparency data applicable. A public consultations process was launched on the report to seek stakeholders´ views and the final report is published on ERGEG´s home page[14].

The TSOs of the Baltic region are currently working on the step-by-step implementation of new interconnectors in line with BEMIP and funds allocated. A regular overview of the implementation process is discussed at the Baltic region's Stakeholder Group meetings.

In 2011 regulators and TSOs will focus on congestion management issues, on facilitating the development of power exchanges, single price area and interconnectors, and on the implementation of issues related to the implementation of the 3rd Energy Package. These priorities for 2011 were discussed in more depth at the Stakeholder Group meeting in October 2010.

4.1.2 Nordic region

One of the focuses of the work within the Nordic region is congestion management. In the day-ahead market the EMCC market coupling was implemented in November 2009 between Denmark and Germany and has delivered good results since then. In May 2010 the Baltic Cable between Sweden and Germany joined the EMCC market coupling. The coupling of the Northern and the Central-West regions (CWE) has been the next priority. The interim tight volume coupling (ITVC) project was started in order to coordinate the planned CWE coupling and the already implemented EMCC coupling. Coordination is needed in order to secure simultaneous operation of both couplings without disturbances. Coordinated efforts in the Northern and Central-West regions made it possible that the ITVC project started the coordinated coupling on 9 November 2010. In the long run both regions will be coupled through price coupling and the ambition for implementation of this enduring solution is 2012.

In March 2010 the Swedish and Polish TSOs announced their intention to open SwePol Link to the market through market coupling in a cooperation between the Nordic and Polish power exchanges. The intention is to start market coupling in November 2010. The implementation group is actively following the work.

The Swedish TSO took the decision to divide Sweden into four bidding/price areas in November 2011 in order to avoid moving internal congestions to the border. The decision is a commitment towards the European Commission.

[14] Report on Transparency in Baltic Electricity Markets. http://www.energy-regulators.eu/portal/page/portal/EER_HOME/EER_INITIATIVES/ERI/Baltic/Final%20docs/Report%20on%20Transparency_Baltic_4%20June%202010.doc

For the intraday market the good cooperation between the Northern and the Central-West regions continued in the cross-border intraday (XBID) project. TSOs are working on designing and implementing an enduring intraday solution for the North-West European area (comprising the Central-West and the Nordic regions as well as the UK) in the NWE intraday project. The regulators´ project aims at ensuring that several bilateral and regional intraday projects as well as the NWE XBID project will be compatible in order to adopt the final target model (AHAG, CACM FG) for Europe. Furthermore regulators work on specifying the framework conditions and on ensuring jointly with TSOs and power exchanges that the NWE XBID project is in line with the regulatory framework.

In the Nordic region a second monitoring report on the implementation of the Transparency Report[15] was finalised. This second monitoring report analyses how TSOs meet the requirements of the Transparency Report on generation and consumption. Results show that TSOs have adapted their publication procedures in order to comply with the requirements. The TSOs are taking advantage of publishing most of the information on joint internet platforms of the Nord Pool Spot and EEX. There are, however, some areas where compliance is not fully achieved yet and regulators in the region will continuously work towards compliance.

With regard to interconnections the Nordic TSOs published in 2004 and 2008 common plans for the strengthening of the transmission capacity between the Nordic countries and reducing congestions within the Nordic area - and between the Nordic area and adjacent countries. The process towards completing these investments, which were given strong support by the Nordic council of ministers, is progressing.

4.1.3 Central-East region

In the Central-East (CEE) region main focus lies on the implementation of the TSOs congestion management project with its core deliverable, a harmonised flow-based allocation (FBA) system ready for the whole region. In order to foster a smooth development, the eight TSOs involved established in summer 2008 the so called Central Allocation Office (CAO) to implement the load flow-based explicit allocation process in the region and all necessary business processes supporting the future explicit FBA capacity auctions. Due to various reasons and the complexity of the flow-based approach the go-life of the system had to be postponed by CEE TSOs.

[15] Nordic Electricity Region: Report on Transparency, 13 September 2007, http://www.energy-regulators.eu/portal/page/portal/EER_HOME/EER_INITIATIVES/ERI/Northern/Final%20docs/Report_on_Transparency.pdf

In January 2010 CEE TSOs announced that the deadline for the implementation of the FBA (initially set for March 2010) could not be met due to a number of critical lines causing significantly lower capacities compared to the current NTC based allocation. In order to be able to elaborate further and resolve the issue of low capacities, CEE TSOs together with a consultant started to work on a so called efficiency analysis. Moreover, regulators decided at the beginning of 2010 to participate continuously in the TSOs´ technical working group and also in high level group meetings in order to be able to react promptly to new developments in the project.

The efficiency analysis should help to elaborate measures to achieve correct and realistic capacity values with the common grid model for CEE, which has already been developed for the flow-based approach. Final results and proposals how to overcome the issue of significantly lower capacities are available since mid July 2010 and allow a new planning of the remaining implementation work for CAO, TSOs and regulators. The final results of the efficiency analysis have been approved by the TSOs for further testing and will be also considered when adapting the existing project roadmap. The common auction rules, which were consulted publicly last year have, been updated according to the findings of the efficiency analysis and to allow for a shift to the flow-based method during the year 2011. Beginning with January 2011 a regional coordinated allocation based on NTC-values will start, followed by day-ahead flow-based allocation starting during spring 2011. Thus CAO starts to allocate capacities for the entire region for 2011 as a single point of contact with a single and harmonised set of auction rules.

TSOs also continued their work on the implementation of a new scheduling concept for the CEE region with harmonised data formats and gate closure times for scheduling documents. The harmonisation of scheduling is a positive step towards a higher level of coordination in capacity usage in the region and the harmonised regional scheduling avoids the implementation of different national IT requirements for each market participant, thus it reduces significant administrative market entry barriers.

It is envisaged to introduce the new scheduling approach in December 2010. Currently CEE TSOs are organising together with the Central Allocation Office a trial data exchange with market participants. This external test run aims at testing the sending and receiving of all documents between the involved entities. In order to enhance the communication between CAO, the TSOs and market participants on the new scheduling concept and the FBA implementation project a Customer Advisory Committee was established. At the same time coordinated intra-day allocation between seven of the eight CEE TSOs (50HzT, APG, CEPS, PSE-O, SEPS, MAVIR and TenneT) will start.

Another key priority in the region's development for 2010 is to continue monitoring how the region's TSOs implement the transparency requirements. In order to monitor the current state of compliance with the transparency report for the CEE region regulators were invited to provide information through a questionnaire. The responses will be compiled and the assessment will support further enhancements.

Moreover, regulators decided to apply a regional monitoring of congestion management methods in the CEE region. The main aim of the interconnection report is to provide an evaluation of the economic efficiency of congestion management methods at regional level. The collection of 2009 data was finalised over summer. The final report taking into account the specific conditions in the CEE region will be available in autumn 2010.

4.1.4 Central-West region

In the Central-West (CW) region the implementation of day-ahead market coupling constitutes a main priority. The ambitious price coupling project intends to couple all markets in the Central-West region (linking the Netherlands, France, Belgium, Germany and Luxembourg) and 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 four years, with prices in the three markets perfectly converging almost 60% of the time between 2007 and 2009. The first step in the implementation of market coupling is based on coordinated Available Transmission Capacity (ATC) calculations, the implementation of which has started on 9 November 2010. The expected welfare increase of this first step, compared with the current situation, is estimated at 40 M€ per year. In a second phase flow-based market coupling should be implemented. This step is expected by the first quarter of 2012.

The CW market coupling project started in parallel to the EMCC project, which is linking Germany and Denmark through tight volume coupling since last summer 2009. The simultaneous operation of both market coupling projects in November 2010 is referred to as the interim tight volume coupling (ITVC). On a longer timescale, a full price coupling between the CW and Scandinavian countries is foreseen. With the launch of ITVC, 9 November 2010, price coupling has been extended to the whole CW region and simultaneously is the first harmonisation between two regional market coupling projects (Central-West electricity region and the Northern market).

In December 2008 the system operators of the CW region created 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 in place through the region (one for the Dutch borders, one for the French-German border and one for the Belgian-French border). One single set of harmonised rules for the region, applied by CASC-CWE and featuring all the functionality of the CASC platform, was published in September 2009. A 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 of non-nominated yearly and monthly capacity rights at the daily auction. Following the publication of an ERGEG position paper (July 2008) on the firmness of exchange programs[16], the firmness of transmission capacities after nomination has been improved and harmonised on all the borders of the region[17]. In a Memorandum of Understanding, signed in May 2010, it is foreseen that CASC operates the Central-South (CS) region and Switzerland. To this end, the long-term auction rules will be harmonised between the Central-West and the Central-South regions.

[16] Firmness of nominated transmission capacity, Ref: E08-EFG-29-05, 15 July 2008, http://www.energy-regulators.eu/portal/page/portal/EER_HOME/EER_PUBLICATIONS/CEER_ERGEG_PAPERS/Electricity/2008/E08-EFG-29-05_FirmnessTransmissionCapacity_2008-07-15.pdf

[17] As 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

Concerning the implementation of regional intraday trade the regulators launched a public consultation concerning the design of a regional intraday mechanism in May 2009. The TSOs responded with an Orientation Study on Implicit Intraday Allocation in Central-West Europe in February 2010. The CW regulators reached a common position on intraday trade as a result of consultation on the study. Next steps in the intraday trade will be the implementation of bilateral initiatives and the North-West European intraday project, announced in June 2010, which will include the CWE region, Denmark, Sweden, Norway, Finland and Great Britain.

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 published its first report on electricity interconnection management and use in March 2010[18] and the CW regulators plan to deliver yearly monitoring and transparency reports.

4.1.5 South-West region

In the South-West (SW) region, progress in 2010 is based on the priorities established by the Action Plan[19] approved this year for the region.

The development of new interconnection capacity is very important in this region, since it is currently scarce and increase in interconnection capacity is crucial for real market integration. In this area, the first regional investment plan (Article 12 of Regulation 714/2009) is being produced by the TSOs of the SW region. Furthermore, the status, features and deadlines for the construction of new interconnection lines between Portugal and Spain as well as between France and Spain are continuously reviewed.

The region's activity with regard to transparency is on hold because it depends on the final Transparency Comitology Guidelines that still have to be approved in the comitology procedure.

The SW region aims at implementing several enhancements in congestion management. The regional action plan is promoting a single auction platform and interface designed to accommodate long-term interconnection capacity products. In order to reach that goal, the first requirement is to implement coordinated capacity allocation rules on each border. For that purpose, the MIBEL Regulators' Council has submitted to their respective Governments a coordinated proposal for long-term financial transmission rights. The Spanish Government has committed to study the regulators' proposal. In comparison, coordinated capacity auction rules between France and Spain have been in force since June 2006.

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[18] Central-West Regional Initiative. Regional reporting on electricity interconnection management and use in 2008, 16 March 2010, http://www.energy-regulators.eu/portal/page/portal/EER_HOME/EER_INITIATIVES/ERI/Central-West/Report%20on%20electricity%20interconnection%20-%20CWE%20region%20-%20200.pdf

[19] South-West Electricity Region. Detailed action plan2010-2012, Ref: E10-ERI-SW-IG-06-03, 24 April 2010, http://www.energy-regulators.eu/portal/page/portal/EER_HOME/EER_INITIATIVES/ERI/South-West/Final%20docs

The French and Spanish TSOs have assessed the revised IFE Rules, in force since 1 June 2009, and deemed the caps on the compensation schemes applied in case of curtailment or in case of day-ahead auction cancellation, as appropriate and well defined. The congestion rent is not being jeopardised, and market players have received better compensations (compared to previous scheme) in the first year of the new rules in force. The caps will be reviewed as it was foreseen "one year after entering into force".

The SW region, as a whole, is advancing towards the implementation of price coupling between the CWE region and MIBEL. Preparatory works by power exchanges (through the Price Coupling of Regions project), with the collaboration of TSOs, are ongoing. MIBEL is preparing for shifting the Gate Closure Time to 12:00 (instead of 10:00, which is the current GCT) in order to facilitate eventual market coupling with the CWE region.

After the announcement of an agreement on day-ahead price coupling as the proper solution to integrate the Iberian and Central-West markets, the region continues its work in this area. OMEL and EPEX Spot have presented the guidelines of the Price Coupling of Regions project and results of market coupling simulation. This project, initiated by OMEL and EPEX SPOT, now comprises six power exchanges and has been supported by the Regional Coordination Committee of the SW region[20].

The regulators of the SW region did not see a benefit, at the beginning of 2010, in changing the intraday model currently in place on each of the two borders as an intraday model had to be defined within the draft Framework Guidelines on Capacity Allocation and Congestion Management[21] in the course of the year. As the draft Framework Guidelines submitted to public consultation on 10 September 2010, the region started debating about implementing a model in line with this draft.

Cross-border balancing has not been developed so far in this region. The Implementation Group has agreed on a target model based on a TSO-TSO model with a common merit order. Until its implementation, an interim solution could be an extension of the BALIT project on the France-Spain border where the coherency with the system developed on the Spain-Portugal border is ensured.

Finally, in February 2010, the RCC presented the first SW Regional Report on Interconnections Use and Management with data from year 2008. This report mainly aims at providing a detailed evaluation of the economic efficiency of congestion management methods at a regional level. By June 2010, the data from 2009 have been requested to TSOs and Power Exchanges and a new Regional Report will be ready by the end of 2010.

[20] See press release: http://www.energy-regulators.eu/portal/page/portal/EER_HOME/EER_INITIATIVES/ERI/South-West/Press/091204_Press%20Release%20PCR%20SW_EN_FINAL.pdf

[21] Draft Framework Guidelines on Capacity Allocation and Congestion Management for Electricity, Ref: E10-ENM-20-03, 8 September 2010, http://www.energy-regulators.eu/portal/page/portal/EER_HOME/EER_CONSULT/OPEN%20PUBLIC%20CONSULTATIONS/draft%20Framework%20Guideline%20CACM%20Electricity/CD/E10-ENM-20-03_CACM%20FG_8-Sept-2010.pdf

4.1.6 Central-South region

During 2010, the Central-South region experienced important developments concerning mainly congestion management issues.

Since April 2010, the TAO (TSO Auction Operator) solution has been successfully implemented on the Italian-French border, with Terna taking over the whole auction management process for both direction of electricity exchange and applying a fully harmonised procedure on this border.

At the same time, under the auspices of the European Commission, TSOs of the Central-South region, and with the participation of Switzerland, have continued developing the process towards integration of long-term auctions into CASC. The TSOs of the Central-West region, the Central-South region and Switzerland have signed in May 2010 a Memorandum of Understanding defining the Capacity Allocation Service Company (CASC) as single explicit auction operator for the two regions, comprising Swiss borders (Switzerland-Germany, Switzerland-Austria and Switzerland-Italy). CASC will eventually manage explicit annual, monthly and daily auctions for the Central-West and the Central-South regions and the border Germany-Switzerland starting from 2011. In order to foster this transition towards one single auction operator, the CSE and CWE regions with the participation of the Swiss regulator held two common Regional Coordination Committee meetings in April and September 2010.

In 2011 CASC will operate the auctions on the basis of existing rules for each border, while from 2012 a full harmonisation of the auction rules is envisaged, as part of the agreement signed by the TSOs. Special attention will be put also on the outcomes of the ERGEG benchmarking report on long-term auction rules[22] on the harmonisation of administrative requirements to participate in the auctions, products definition, firmness and bank guarantees.

Concerning capacity allocation at day-ahead time-frame, the market coupling process on the Italian-Slovenian border is reaching full implementation, after a testing phase during 2009. A Memorandum of Understanding has been signed in summer 2010 between the Italian and Slovenian governments, and the price coupling allocation mechanism is foreseen to start its operation in January 2011.

The compatibility of this project with the future CWE coupling and other coupling schemes proposed at EU level (i.e. Price Coupling of Regions) is considered as a necessary target.

In addition also a national intraday market is set to start in Italy from 2011, paving the way for the creation of a cross-border intra-day market in the Central-South region.

[22] ERGEG benchmarking report on medium and long-term electricity transmission capacity allocation rules, Ref: E09-ERI-23-03, 5 November 2010, http://www.energy-regulators.eu/portal/page/portal/EER_HOME/EER_CONSULT/CLOSED%20PUBLIC%20CONSULTATIONS/CROSS_SECTORAL/ERI%20Benchmarking%20report1/CD

4.1.7 France-UK-Ireland region

Up to 2009 the key priorities for the French-UK-Ireland region were congestion management and balancing.

In October 2009, NGIL and RTE launched a new capacity management system (CMS) to ensure compliance with the Congestion Management Guidelines[23]. A mix of long and short-term capacity products are auctioned via a platform jointly run by NGIL and RTE. Long-term auctions are explicit auctions of transmission capacities. Capacity is offered for certain time periods (yearly, seasonal, quarterly, monthly and weekly) and for different types of auction products such as peak and off-peak capacities. Long-term capacities are subject to the Use-It-Or-Sell-It (UIOSI) principle. At the D-2 stage any non-nominated capacity is automatically resold as day-ahead capacity and long-term capacity holders receive the auction price paid at the day-ahead auction. The capacity released via the UIOSI mechanism is combined with the capacity reserved for the day-ahead auction. The day-ahead takes place at 08:30 hours on D-1 and nominations take place at 11:00 hours. Day-ahead capacity which is not nominated is subject to the Use-It-Or-Loose-It (UIOLI) principle. Two intra-day auctions at 19:00 hours on D-1 and 08:00 hours within day allow capacity trades to optimise their positions and react to unexpected events during the day. Unsold day-ahead capacity, UIOLI capacity and any capacity made available through netting, is offered in two intra-day auctions. Capacity bought on intra-day auctions is secured for half a day and is not subject to netting. There are six opportunities for capacity holders to refine their nominations within the day.

An interim solution for TSO-TSO balancing was implemented in March 2009 allowing the two TSOs to exchange six prices per day for four hour segments exchanged at D-1. Prior to this solution one price per day was exchanged. The TSO-TSO balancing uses capacity which has not been nominated in the long-term, day-ahead or intraday auctions. The TSOs are working for the implementation of the enduring BALIT solution by November 2010 which will involve 1h CBB products. In addition to the 1h BALIT arrangement NGET has requested the inclusion of a 2h product with a 2 hours lead time to increase the opportunities for BALIT to be utilised for broader system balancing purposes. RTE and NGET agreed on “BALIT extension” solution to accommodate NGET’s request. The acquiring TSO activates the BALIT volume in the first hour if available. If the BALIT volume is not available for the 2nd hour then the delivering TSO will deliver energy through the BALIT Extension service and settled at a pre-agreed “excess energy price”. The BALIT Extension service will be maintained until April 2012. Any extension of these arrangements beyond this date would require common agreement between Ofgem, CRE, NGET and RTE.

The priorities of the France-UK-Ireland region for the 2010-2012 period, developed by the Implementation Group of the region, were presented and have been endorsed by the region’s stakeholders. The priorities include market coupling, addressing barriers to efficient flows, coordination of auctions, new interconnector investment and balancing.

[23] Guidelines on the management and allocation of available transfer capacity of interconnections between national systems, annexed to Regulation (EC) No 1228/2003 of the European Parliament and of the Council on conditions for access to the network for cross-border exchanges in electricity.

On market coupling the central proposal of the European Target Model is single price coupling across Europe. This priority will focus on the implications and implementation of market coupling in the FUI region. Priority will be given to market coupling between Great Britain and the North-West region, as Britned's exemption decision requires providing day-ahead implicit auctions from the start of its operation (Q1/Q2 2011). There are two main options for Great Britain, namely price coupling for both Britned and IFA (enduring solution) or price coupling for Britned and IFA to follow (interim regime). This priority will then focus on the inclusion of the Single Electricity Market (SEM; the wholesale electricity market operating in the Republic of Ireland and Northern Ireland) in the agreed market coupling solution for the FUI region (and the North-West region).

The FUI region will address barriers to efficient flows in the coming period. The key barriers identified by the region's stakeholders are SEM market design issues, GB charging and interconnector losses and firmness on IFA. Responsibility for assessing and, where appropriate, addressing these issues will generally lie in the first instance with a single authority, but this work stream will keep an overview of progress and will ensure that solutions are compatible with market integration.

Regional coordination of long-term auctions is a key component of the Congestion Management Guidelines. The main options for work identified are full harmonisation (single set of auction rules leading to single auction system for all borders in the FUI region to be operated by a central body); moderate harmonisation (matching of timeframes for auction of capacity, types of products and implementation of compatible systems) or gradual approach.

The TSOs of the FUI region presented their initial proposal for coordination of long-term auctions to the regional Implementation Group and Stakeholder Group ranking the issues based on the difficulty of achieving progress and on the importance of the issues. The TSOs will progress with their proposal towards the implementation of a single system for the FUI region including Britned and will consult with stakeholders on the best way forward.

Intraday coordination is also considered a priority for the FUI region, given the increased amount of intermittent generation expected in the coming years. The region will follow closely the various groups set at EU level for the development of an intraday model and agree on the best way forward for the region.

Regarding new interconnector investment the main input for this work stream will be Ofgem's consultation on interconnector policy (which sought views on the appropriate investment framework for regulated investment) and CRE's consultation on merchant interconnectors and exemption decisions. Ofgem and CRE will keep the region's Implementation Group informed on progress. Potential areas for elaboration in this regard include the development of a regional model on regulated interconnector investment, improvement of cross-border investment climate by enhancing communication and cooperation between interconnector owners, potential investors and regulators and/or developing a coordinated regulatory approach on how to deal with exemption decisions.

Following the implementation of the enduring solution on IFA in November 2010, the balancing work stream will look at potential mechanisms for increased provision of cross-border balancing services and the possibility of implementing the TSO-TSO balancing solution on IFA on other borders.

4.2 Key developments per topic

4.2.1 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 (Available Transfer Capacity) approach is not the best in regions characterised by highly meshed networks (with the security factor sometimes underestimated, sometimes overestimated). While the experience of the Central-East region demonstrates benefits, so far no generally followed reference model has emerged. More work is necessary 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 the cooperation of the TSOs to calculate capacity in a consistent way over time and across borders and to comply with the legally binding European Electricity Regulation and the Congestion Management Guidelines as soon as possible.

A number of regions are addressing the question of capacity calculation. The 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 the Central-West (for the day-ahead timeframe) and the Central-East regions, and point to a reasonable degree of convergence where networks are meshed.

According to the Implementation Study elaborated by the TSO and the Power Exchanges of the Central-West region in August 2008, 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 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, which is based on bilateral ATC calculations combined with a coordinated security check, using a common grid model and the regional base case. 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. The social welfare gains of the interim solution for the CWE region are estimated by the CWE MC project to be 43.2M Euro on an annual basis.

During 2010, the issue of having minimum capacities on borders within the CWE region was heavily discussed. The outcome of these discussions is the launch of a study by the CWE TSOs, presented to and accepted by AHAG, on the delimitation of zones and its influence on the different capacity calculation methods. The CEE region has elaborated a solution which foresees that each TSO provides a grid model and base case data to the Central Allocation Office, which then performs the capacity calculation in a fully coordinated manner. The results would then be subject to the approval of each individual TSO. Although the initial tests have resulted in lower capacities than the currently used NTC methodology, benefits

regarding welfare have been demonstrated. The amount of capacity is subject to studies, further tests and coordination steps. This will result in measures by the TSOs (e.g. calculation input parameter) which help to remedy the drawbacks in the concept.

In the Central-South region, capacity is calculated jointly on the Northern Italian borders with a Net Transfer Capacity (NTC) methodology based on load-flow scenarios and 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 South-West 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.

4.2.2 Capacity allocation

4.2.2.1 Long-term capacity allocation

Long-term capacity allocation has been the topic chosen for a benchmarking report published by the ERGEG Electricity Regional Initiative Task Force in February 2010[24]. Long-term products have a special importance due to the great volume of electricity they represent in the cross-border exchanges. Besides, it facilitates risk hedging and long-term trade between market players located in different countries.

In the last years, gradual convergence of long-term auction rules has been observed throughout Europe, notably in terms of conditions for participation in the auctions, characteristics of allocated products and functioning of the secondary market. Indeed, long-term capacity allocation is one of the areas where more enhancements as regards market integration have been implemented.

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. The Memorandum of Understanding, signed in May 2010 for having CASC operating also the Central-South (CS) region and Swiss borders is a major step forward. To this end, the long-term auction rules will be harmonised between the CW and the CS regions.

[24] ERGEG benchmarking report on medium and long-term electricity transmission capacity allocation rules, Ref: E09-ERI-23-03, 5 November 2010, http://www.energy-regulators.eu/portal/page/portal/EER_HOME/EER_CONSULT/CLOSED%20PUBLIC%20CONSULTATIONS/CROSS_SECTORAL/ERI%20Benchmarking%20report1/CD

After postponing the introduction of flow-based capacity allocation, the Common Auction Office (CAO) of the Central-East region will start auctioning Physical Transmission Rights (PTRs) as coordinated NTC allocation for the entire CEE region for the year 2011 as a single point of contact with a single set of rules. The shift to flow-based capacity calculation will be done as soon as possible.

No changes have been observed in the Nordic region in this area. Explicit physical capacity auctions for long and medium-term allocations are used on the interconnector between Germany and Denmark-West. On the other borders (Denmark-East to Germany, Denmark-Norway, Denmark-Sweden, Sweden-Finland, Norway-Sweden and Sweden-Germany), yearly and monthly hedging products are provided by the financial markets (Contracts for Differences) and can be traded e.g. on the Nordic power exchange Nord Pool.

In the France-UK-Ireland region, PTRs are allocated on a long-term basis on IFA and Moyle interconnectors.

In the SW region, PTRs are allocated on the French-Spanish interconnection and a financial product is offered by the Spanish system related to the price differential between Portugal and Spain. CNE and ERSE have submitted to their respective Governments a proposal for a coordinated long-term product of financial nature (FTR) within MIBEL. The Regional Coordination Committee is promoting a single auction platform and interface designed to accommodate long-term capacity products.

Further harmonisation in auction rules, facilitated by auction platforms, is expected in the coming years, as well as a possible evolution from PTRs (with UIOSI) towards Financial Transmission Rights (FTRs) when necessary prerequisites are met. In the context of the coming Framework Guideline on Capacity Allocation and Congestion Management, both kinds of products will be accepted; cross-border financial hedging instruments could be offered in liquid financial markets.

Regulators will promote gradual progress towards the final goal (when conditions allow for it) of one set of long-term transmission rights auction rules and one allocation platform for whole Europe.

4.2.2.2 Day-ahead capacity allocation

The Central-West region's market coupling faced new delays in 2010. The test phase evidenced that IT improvements were needed, which led to a target launch date beginning of November 2010. The assessment of the interaction between EMCC and CWE market coupling also showed that the quality of EMCC market coupling would be deteriorated due to the fact that EMCC would not consider the whole coupled region. It was thus decided to upgrade EMCC (the so-called ITVC) and to launch the CWE Market Coupling simultaneously with the ITVC. Subject to test results, the new target launch date was 9 November 2010 for the CWE market coupling together with the ITVC on EMCC. The next step is to include NorNed – the DC interconnector between Norway and the Netherlands – in the ITVC as soon as possible and subject to test results.

Implicit auctions are also to be implemented on the BritNed cable – the DC interconnector between the UK and the Netherlands – in 2011. So far, an embedded solution is envisaged by APX, so that the APX UK order book can be included in the market coupling without inducing consequent changes in the CWE algorithm. Nonetheless, this solution is not transparently explained so far.

The Action Plan of the SW region foresees the implementation of Price Coupling between MIBEL and CWE 18 months after the implementation of ATC-based market coupling within the CWE region.

The Italian-Slovenian market coupling has been finalised during 2010. Following the encouraging results of tests performed, the price coupling algorithm will become fully operational on 1 January 2011. All the capacity allocated today through explicit auctions at the D-1 timeframe will be included in the coupled mechanism. In terms of organisation, the single allocation algorithm is to be run on both power exchanges (GME in Italy and Borzen in Slovenia) at the same time, so that each power exchange is still responsible, and controls, allocation in its own country.

In the CEE region it is envisaged to switch from day-ahead NTC-based allocation to day-ahead flow-based allocation in spring 2011.

4.2.2.3 Intraday capacity allocation

The timeframe considered as intraday is any time after the day-ahead stage and before gate closure time. The key feature of the intraday market is to provide market participants with an efficient way to balance their positions before real-time and trade energy as close to real time as possible. Intraday trade is particularly important in order to take into account variable generation, e.g. wind.

European national and cross-border markets for intraday trading are generally less well developed than equivalent forward or day-ahead markets. However, intraday markets are important, as they provide market participants with a wider range of options to balance their position in response to unanticipated changes in production and consumption. The objective of the target model currently developed under the framework guideline/network code process is to design and implement an efficient intraday cross-border market that will address all these issues. In parallel, in June 2010 the NWE intraday project was launched to implement a platform for intraday implicit continuous trading (including capacity valuation mechanism and more sophisticated products) between the GB, Benelux, French, German and Nordic markets, extendable to all Europe. In the CWE region, following consultation on the design of a regional intraday mechanism (May 2009), regulators reached a common position. The TSOs responded with an orientation study on Implicit Intraday Allocation in Central-West Europe in February 2010. The next steps for the CWE region will be to contribute to the North-West European intraday solution, ensuring that it is aligned with the various bilateral initiatives, where possible.

The South-West region will continue with their intraday arrangements on both borders (explicit auctions are in place between France and Spain and implicit auctions are implemented between Spain and Portugal), until an intraday model in line with the framework guideline is finalised.

Intraday coordination is considered a priority for the France-UK-Ireland region, given the increased amount of intermittent generation expected in GB and SEM markets. The region is committed to the development and implementation of a NWE intraday solution. The SEM market is also going through a modification process to allow intraday trading to take place. This will allow the FUI region to develop coordinated capacity products and work towards the implementation of the intraday solution.

4.2.2.4 Balancing

The balancing market takes place after the last gate closure of intraday market. Once the market parties have notified the TSO about their expected physical positions in the real time, TSOs undertake balancing actions within their control areas adjusting demand and consumption in order to maintain the system in balance.

Today the multilateral TSO-TSO (with common merit order) balancing model is confirmed to be the preferred one within the seven ERGEG Regional Initiatives. This approach has been also supported in the Guidelines on Good Practice for Electricity Balancing Markets Integration[25]. However, despite this large consensus on the model to be adopted, only few areas have implemented cross-border integration of national balancing markets.

Among the different reasons behind this, it is important to remind that balancing markets are crucial to guarantee system's security, as TSOs rely on the balancing market to maintain the system operations safe.

Currently there are cross-border balancing markets in the Nordic region and in France (so-called BALIT). In the Nordic region, the countries participating to the NordPool (Norway, Sweden, Denmark and Finland) benefit from a common balancing market since 2002. An extension of the system to the whole region is foreseen in the future, and since 2009 Nordic TSOs are working towards this solution.

In France, foreign operators have been allowed since 2003 to participate into the French balancing market and the BASA mechanism has permitted some cross-border balancing exchanges between France and the UK. An integrated balancing system with the UK has started as an interim arrangement in March 2009. It enables TSOs to exchange balancing offers in a reciprocal and more efficient way, and to integrate them in their merit order. The enduring solution is foreseen to start to operate in December 2010. Possible extensions to Switzerland and to the South-West region are currently being evaluated.

4.2.3 Transparency

Providing transparent and reliable information to market players is a key element for efficient and competitive markets. The purpose of transparency on physical information is to support

[25] Revised ERGEG Guidelines of Good Practice for Electricity Balancing Markets Integration (GGP-EBMI), Ref: E09-ENM-14-04, 9 September 2009, http://www.energy-regulators.eu/portal/page/portal/EER_HOME/EER_PUBLICATIONS/CEER_ERGEG_PAPERS/Guidelines%20of%20Good%20Practice/Electricity/E09-ENM-14-04_RevGGP-EBMI_2009-09-09.pdf

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).

Regulators continued their efforts to achieve a more harmonised level of transparency both within and across regions. For the Baltic region a transparency report was elaborated and published after the SG meeting in May 2010 after a consultation was held. Thus "Regional Transparency Reports" for six (the North, CWE, CEE, CSE, SWE and Baltic) of the seven electricity regions have been elaborated. 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.

Monitoring is still considered as a necessary complementary element to the implementation process and it does still show gaps between the requirements and the actual publication practice the work in the region is mainly focusing on closing these gaps.

4.3 Summary table

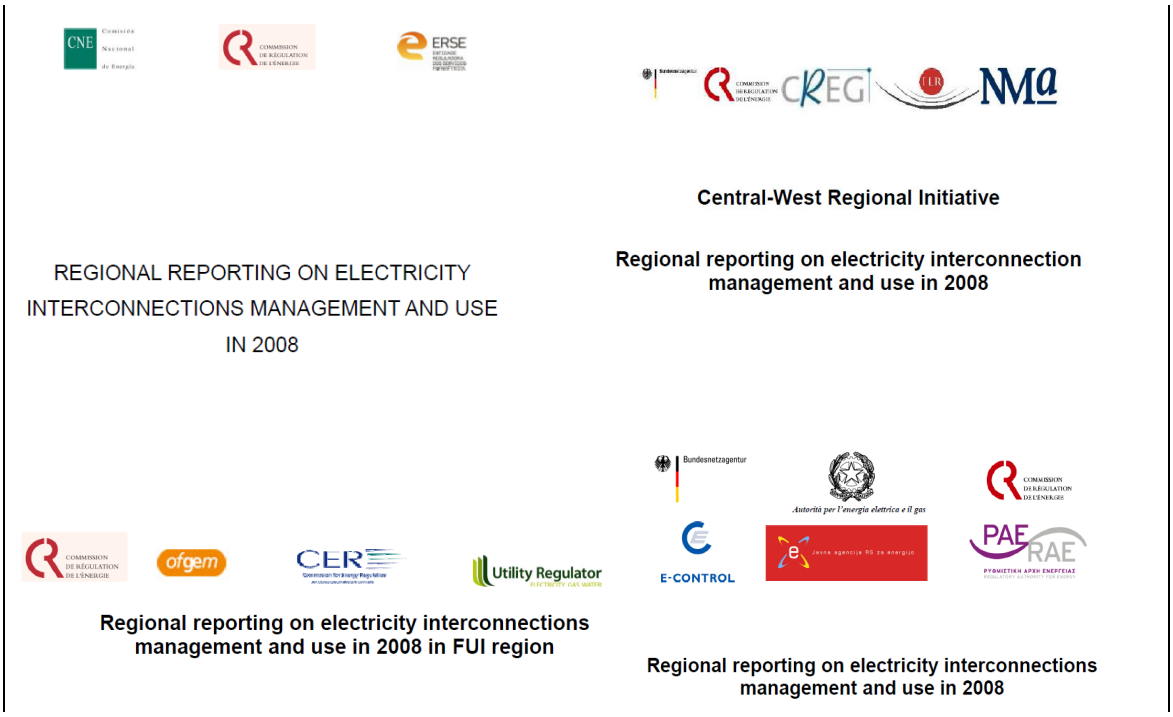
Priorities/Regions	Baltic	Central-West	Central-East	Central-South	FUI	Northern	South-West
Capacity calculation							
Long-term allocation							
Day-ahead allocation							
Intraday allocation							
Balancing							
Transparency							

Colour legend		Project implemented in this period
		Activity continued in this period
		Obstacles or significant delays in this period
		No significant activity this period
	n/a	No specific work carried out in this REM

4.4 Case studies

4.4.1 Regional reports on interconnections use and management

Four regions of the Electricity Regional Initiative, the South-West, the Central-West, the France-UK-Ireland and the Central-South regions have produced during 2009 – and published in 2010 – their regional reports on interconnections use and management, with data concerning the year 2008[26]. A common structure of the report was agreed by the ERI TF followed by all these regions. The reports include a summary of cross-border flows, a description of the congestion management methods used in each region and an assessment of their economic efficiency, a review of capacity calculation, and some conclusions as well as perspectives.



[26] Regional reporting on electricity interconnection management and use in 2008 of the South-West region, January 2010, http://www.energy-regulators.eu/portal/page/portal/EER_HOME/EER_INITIATIVES/ERI/South-West/Final%20docs/Report%20on%20electricity%20interconnection%20SWE%202008.pdf; of the Central-South region, http://www.energy-regulators.eu/portal/page/portal/EER_HOME/EER_INITIATIVES/ERI/Central-South/Final%20docs/Report%20on%20electricity%20interconnection%20CSE%20region%20-%20final.pdf; of the Central-West region, 16 March 2010, http://www.energy-regulators.eu/portal/page/portal/EER_HOME/EER_INITIATIVES/ERI/Central-West/Report%20on%20electricity%20interconnection%20-%20CWE%20region%20-%20200.pdf and of the FUI region, http://www.energy-regulators.eu/portal/page/portal/EER_HOME/EER_INITIATIVES/ERI/France-UK-Ireland/Final%20docs/FUI%20Report%20on%20Electricity%20Interconnection

It is the first time that these reports are elaborated, and it is expected that new editions will be published in the coming years. During 2010, new reports with data from 2009 are being developed, and will be published at each ERI region website[27] by the end of the year.

The main objective of these reports is to provide a detailed evaluation of the economic efficiency of congestion management methods at a regional level. The reports should help National Regulatory Authorities to reach a common understanding about the functioning of congestion management methods, and a common view about how to further improve their effectiveness. They should also help market parties to get a better understanding of the effectiveness and the efficiency of congestion management methods.

Areas with room for improvement in congestion management have been identified in all the regions that were analysed, such as firmness, shortcomings of explicit allocation versus implicit allocation, opportunities for cross-border balancing exchanges and implementation of financial transmission rights. Evolution of these topics will be followed-up in the next reports. Identification and disclosure of weak points put pressure on decision making processes and promote changes to facilitate the overall objectives of efficiency, social welfare and market integration.

Some key findings of these reports are:

- In general, explicit allocation methods prove to be quite inefficient for day-ahead. The estimations of the “loss in social welfare” associated with the absence of market coupling showed that these inefficiencies could be overcome by implementing implicit allocation methods;

- Intra-day allocation procedures in place are not efficient as capacity available in this timeframe is not fully used;

- In the FUI region, the arbitrage margin is quite high in France-GB (actual price spread compared to the price paid for capacity in explicit auctions). This should be followed up in the next report;

- As regard to the Central-South region, the report highlights that the secondary market is rather active compared to the three other regions, intra-day capacity allocation is not well developed in several borders, and that the absence of implicit auctions on Swiss and Italian borders is causing important losses in social welfare. A large loss in social welfare can also be observed in the French-Spanish interconnection, especially in the Spain-France direction;

- More interconnection capacity is very necessary at least in some interconnections of the CSE, SW and FUI regions;

- In the FUI region, cross-border balancing exchanges are quite important. On the other hand, secondary market of PTRs is not well developed;

[27] http://www.energy-regulators.eu/portal/page/portal/EER_HOME/EER_INITIATIVES/ERI

- There are significant opportunities for cross-border balancing exchanges in all regions since the reports showed that capacities are available at this stage.

4.4.2 Balancing TSO-TSO Balit (CRE)

An interim solution for cross-border balancing exchanges is implemented on France-UK interconnection since March 2009. CRE and Ofgem approved the TSOs' proposal (RTE and National Grid) in April 2008 considering it will allows a reciprocal access to both balancing markets and enhance economic efficiency and competition on both markets. The interim solution allow TSOs to exchange, in day ahead, 1h energy blocks with 6 prices per day, whereas the enduring solution will allow the exchanges of 1h energy blocks each hours for delivery one hour later, thus 24 prices per day.

In April 2010, TSOs presented an analysis of the annual cycle of the interim solution showing the positive impact of the exchanges, it allowed a competition increase on both markets and balancing costs decrease. NGET's upward offers prices are often greater than RTE's, whereas downward offers are most often competitive. The volumes called by RTE and NGET are more or less symmetrical (40%-60%). SO-SO trades are flowing mainly from France to England.

Nevertheless, following this assessment National Grid express its wish to maintain the ability to use a 2h product along with the 1h product of BALIT solution. The 2h product would overcome concerns of the use of BALIT to resolve "on the hour" demand peaks in UK and will offset the requirement for alternative higher cost transactions. Accordingly, NGET proposed, and RTE agreed, the inclusion of a 2 Hr product with a 2 hrs lead time (in addition to the 1hr product) to increase the opportunities for BALIT to be utilised for broader system balancing purposes. This 'BALIT Extension' aims to achieve a 2hr delivery through enhanced obligations around the BALIT arrangements. TSOs will inform as soon as possible if the 'BALIT Extension' service is to be withdrawn in keeping with the existing good practices. Acquiring TSO will give notice of intent by no later than 2 hours ahead. Acquiring TSO will activate the BALIT volume in the first hour. If no BALIT volume is available for the 2nd hour then delivering TSO will deliver energy through the 'BALIT Extension' service and settle at a pre-agreed Excess Energy price.

However, RTE warned all parties that implementing a 2hr product in parallel with the standard 1hr product could jeopardize further extension of standard mechanism to other borders. In consequence, this 'BALIT Extension' service will only be maintained until 1st April 2012. This will allow a detailed review to be undertaken after 1 year. Any extension of these arrangements beyond this date would require common agreement between Ofgem, CRE, NGET and RTE. Enduring BALIT solution and BALIT extension will be implemented on the 1st of December 2010. Regulators and TSOs are still reviewing the remuneration scheme for the use of IFA infrastructure.

4.5 Policy advice based on ERI experience

- **Price coupling must be implemented as early as possible**

The efficiency loss associated to the absence of price coupling calls for an urgent coordinated action by all the regions to facilitate its prompt implementation across Europe. All regions must make all necessary actions to implement a single algorithm as soon as possible. In this regard, the regions promote a pragmatic approach which may build on existing arrangements to simplify governance issues. However, in the mid-term a reasonable governance structure along the lines discussed for the governance framework under the envisaged Governance Guidelines needs to be achieved and steps taken at this stage should go in that direction.

The ERI, therefore, recommends supporting Europe-wide or cross-regional projects (which do not just focus on a single region any longer) and calls for a deep collaboration between power exchanges and TSOs. TSO and power exchange contributions are essential for achieving solutions. The Price Coupling of Regions proposed by six power exchanges and the NWE TSO market coupling project are initiatives that should be brought together as they are complementary. These two projects focus on different aspects (selection of the coupling algorithm on the one hand, coordination of the TSOs on the other hand), but discuss separately other issues such as how to organise the next enlargements of the price coupling and how to conduct it as quick and efficient as possible. The ERI thinks that gathering these two approaches would be the most efficient way to proceed.

- **Capacity calculation**

Since the results of the current capacity assessment methodologies are generally not considered satisfactory by market participants and also regulators, this needs to be an area of further work. This is also reflected in the ERGEG draft Framework Guideline on Capacity Allocation and Congestion Management[28]. Depending on the grid situation (highly meshed vs. less meshed networks) the approach may differ.

In regions with highly meshed networks such as the CWE and CEE, flow-based capacity calculation systems have been defined as objectives. In both regions work has been started. For regions with less meshed networks an ATC approach with a sufficient level of coordination can be the objective. In order to be able to support proper market development and to have appropriate representation of the physical situation of the network, coordination for both calculation systems are needed. For these purposes, existing experience will be shared and efficiently used.

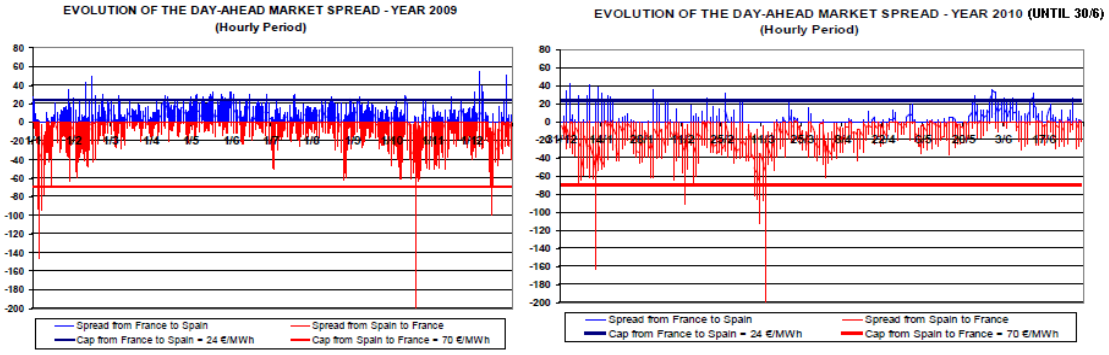
[28] ERGEG draft Framework Guidelines on Capacity Allocation and Congestion Management for Electricity, Ref: E10-ENM-20-03, 8 September 2010, http://www.energy-regulators.eu/portal/page/portal/EER_HOME/EER_CONSULT/OPEN%20PUBLIC%20CONSULTATIONS/draft%20Framework%20Guideline%20CACM%20Electricity/CD

- **Firmness: compensation at day-ahead market spread is feasible**

In the France-Spain interconnection, since 1 June 2009, even though market coupling is not implemented in this border, curtailments are compensated at the day-ahead market spread with two caps:

- A cap on the market spread: 24 €/MWh for compensations from France to Spain and 70 €/MWh for compensations from Spain to France:
- A cap on the overall monthly compensation amount equal to the long-term auction revenues related to the month concerned[29].

After one year functioning, this compensation scheme has worked properly. The only cap reached was the maximum market spread for compensations from France to Spain (24 €/MWh), which was reached just in 18 hours, (being the actual market spread lower than 38 €/MWh). The other caps were not reached.



In the period from 1 June 2009 to 30 June 2010, market players have received higher compensations in overall terms, but the congestion rent has not been jeopardised by this scheme.

The South-West region's experience shows 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. These results may encourage other regions to introduce similar schemes. A similar approach will be implemented between France and Belgium at the start of the market coupling on 9 November 2010.

[29] The monthly auction revenues in both directions raised in this particular month plus the part of the annual auction revenues corresponding to that month (a twelfth of the revenues raised at annual auction in both directions).

- **Transparency**

Although significant improvements have been made regarding the publication of data, further efforts are needed to ensure that market participants have all necessary information available in a consistent and convenient manner. For the time being all affected parties should ensure that the existing transparency requirements are fulfilled in a coordinated way.

In January 2010 the European Commission mandated ERGEG to elaborate proposals for guidelines on fundamental data transparency in electricity. ERGEG will advise the Commission in this matter and prepare a draft guideline by the end of 2010, which could formally be adopted and made legally binding through comitology procedure. The existing regional transparency reports are an extremely valuable basis for this work, which is conducted in cooperation with ENTSO-E. Thus it can be envisaged that future transparency framework will be built on the existing reports. As soon as the content of the currently elaborated Transparency Guidelines[30] becomes clear, steps for having the new and more detailed requirements implemented need to be taken quickly.

[30] ERGEG Draft Comitology Guidelines on Fundamental Electricity Data Transparency, Ref: E10-ENM-02-07, 8 September 2010, http://www.energy-regulators.eu/portal/page/portal/EER_HOME/EER_CONSULT/OPEN%20PUBLIC%20CONSULTATIONS/Comitology%20Guideline%20Electricity%20Transparency/CD

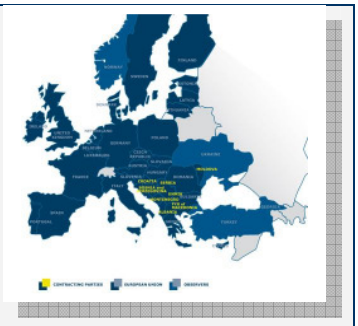
Annex 1 – The Energy Community Electricity Region

Development of the Energy Community Electricity Region

GEOGRAPHIC SCOPE AND ORGANISATIONAL SET UP

The Energy Community Electricity region includes Albania, Bosnia and Herzegovina, Croatia, the Former Yugoslav Republic of Macedonia, Moldova[31], Montenegro, Serbia, UNMIK[32], Bulgaria, Greece, Hungary, Romania, Slovenia and Italy.

It has been established by decision of the Ministerial Council[33] of the Energy Community on 27 June 2008 with a view to implementing a **regionally coordinated procedure for electricity capacity allocation and congestion management.**



The Energy Community Electricity region is governed via the **institutional framework** of the Energy Community Regulatory Board that operates as an institution of the Energy Community Treaty[34].

TOWARDS INTEGRATION OF ELECTRICITY MARKETS

Following its scope defined by the Ministerial Council, the activities of the Energy Community Electricity region focus on establishing a regionally coordinated electricity capacity allocation and congestion management model as a stepping stone and driver for the development of **electricity market integration in South East Europe**. The level of cross-border electricity trade and convergence of prices remains a benchmark in this respect. Both continue to be low level in the 8th Region. Together with insufficient transmission interconnection capacity,

[31] Moldova turned from an observer status into a member ("Contracting Party") of the Energy Community as of 1 May 2010 following signature of the Energy Community Treaty on 17 March 2010 and its ratification afterwards.

[32] Pursuant to United Nations Security Council Resolution 1244.

[33] Decision of the MC 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) and the establishment of the so-called "8th Region".

[34] The 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. By 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.

lack of transparency and different capacity allocation mechanisms this identifies the key challenges that need to be tackled.

With a view to overcome these barriers and implement the requirements of Regulation (EC) 1228/2003 and its annexed Congestion Management Guidelines[35] the Energy Community Electricity region targets the establishment of a **Coordinated Auction Office** (SEE CAO) for regionally coordinated capacity allocation and congestion management in South East Europe.

The work is coordinated by a three-layer organisation:

- *The SEE CAO Project Team Steering Committee* - a coordination body of the TSOs of the 8th Region that committed to set up and co-finance a Project Team[36] under the Chairmanship of the Montenegrin TSO. The European Commission, International Financing Institutions, the SEE CAO IG Chairman and the Energy Community Secretariat participate in the group as observers.
- *The ECRB SEE CAO Implementation Group* – a platform bringing together regulators, International Financing Institutions, the European Commission, network operators, network users and traders.
- *The ECRB Electricity Working Group* - coordinating regulatory positions on SEE CAO related questions.

PROGRESS MADE AND OPEN CHALLENGES

Among the **milestones reached** since the beginning of the process in particular the 2009/2010 agreement on the organisation of a Project Team Company – responsible for the organisation setting up of a future SEE CAO – requires specific attention. The related financial commitment expressed by a number of TSOs of the Region and International Financing Institutions combined with the support of the relevant governmental bodies shows readiness for working towards a regional approach and awareness for the fact that the creation of a framework able to attract investments and contribute to the social development of the Region can only develop in a regionally coordinated way.

[35] Regulation (EC) 1228/2003 including its annexed Congestion Management Guidelines have been made part of the Energy Community acquis by decision of the Energy Community Council in June 2007 (2008/02/MC-EnC; see fn **Error! Bookmark not defined.**).

[36] The Project Team Company shall be responsible for the organisation setting up of a future SEE CAO.

However, the final success of the project is – for various reasons – delayed by lack of commitment of a – minor but size-wise and geographically relevant – group of TSOs. In a framework of pre-dominantly state owned TSOs the existing discrepancy between support for the setting up of a SEE CAO on high political level[37] and its practical pushing forward on Ministerial level has to be identified as **missing step** on the ladder to success.

OTHER RECENT REGIONAL DEVELOPMENT

On broader regional level the following aspects require attention:

- Moldova joining the Energy Community on 1 May 2010.
- Ukraine signing the Energy Community Treaty on 24 September 2010 and expected to join the Energy Community after ratification of the Treaty.
- Regulatory work on harmonisation of licensing regimes, regulatory cooperation on cross border investments, wholesale market opening, balancing and harmonisation of market rules.

[37] The Energy Community Ministerial Council, Permanent High Level Group and Electricity Forum ("Athens Forum") have frequently supported and urged progress on the establishment of a SEE CAO.

Annex 2 – ERGEG

The European Regulators Group for Electricity and Gas (ERGEG) was set up by the European Commission in 2003 as its advisory group on internal energy market issues. Its members are the energy regulatory authorities of Europe. The work of the CEER and ERGEG is structured according to a number of working groups, composed of staff members of the national energy regulatory authorities. These working groups deal with different topics, according to their members' fields of expertise.

This report was prepared by the ERI and GRI Task Forces of the Regional Initiatives Working Group.

Annex 3 – List of abbreviations

Term	Definition
ACER	Agency for the Cooperation of Energy Regulators
AHAG	Ad Hoc Advisory Group
ATC	Available Transmission Capacity
CAM	Capacity Allocation Mechanism
CAO	Common Allocation Office
CEER	Council of European Energy Regulators
CM	Congestion Management
CMP	Congestion Management Procedure
EFET	European Federation of Energy Traders
ENTSO-E	European Network of Transmission Operators for Electricity
ENTSOG	European Network of Transmission Operators for Gas
ERGEG	European Regulators Group for Electricity and Gas
ERI	(ERGEG) Electricity Regional Initiative
EU	European Union
FTR	Financial Transmission Rights
GCT	Gate Closer Time
GGP	Guidelines of Good Practice
GRI	(ERGEG) Gas Regional Initiative
IG	Implementation Group
IP	Interconnection Point
ITVC	Interim Tight Volume Coupling
LNG	Liquefied Natural Gas
NRA	National Regulatory Authority
NTC	Net Transmission Capacity
NW	(ERGEG) North-West gas Regional Initiative
OBA	Operational Balancing Account
OS	Open Season
OSP	Open Subscription Procedure
PTR	Physical Transmission Right
RCC	Regional Cooperation Committee
RI	(ERGEG) Regional Initiative
RIG	(ERGEG) Regional Initiatives Group
SEM	Single Electricity Market
SG	Stakeholder Group

Term	Definition
SSE	(ERGEG) South-South East gas Regional Initiative
TAO	TSO Auction Operator
TF	Task Force
TSO	Transmission System Operator
UIOLI	Use-It-Or-Lose-It
UIOSI	Use-It-Or-Sell-It
WG	Working Group