

CZ-SK-HU Market Coupling: The Regulators Perspective



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Agenda

- Background and legal base
- Future European Framework
- CZ-SK-HU Market Coupling
 - Parties, organisation
 - Market Coupling process and details
 - Future

Identified Problems at the EU Markets

- Concentrated national markets – less chance for effective wholesale and retail competition
- Lack of investment – lack of transparency on transmission access and on generation availability, unpredictable demand forecast, new financial environment
- Price trends – regulated end-user prices
- Independence of network operators
- Customer protection – no liquid retail markets, dominant incumbents, complicated supplier switching

Single European Market (IEM) Legal background – 3rd Energy Package

- Directive 2009/72/EC of the European Parliament and of the Council of 13 July 2009 concerning common rules for the internal market in electricity and repealing Directive 2003/54/EC
- Regulation (EC) No 714/2009 of the European Parliament and of the Council of 13 July 2009 on conditions for access to the network for cross-border exchanges in electricity and repealing Regulation (EC) No 1228/2003
- No 713/2009 of the European Parliament and of the Council of 13 July 2009 establishing an Agency for the Cooperation of Energy Regulators (the Agency)

Framework Guidelines and Network Coding process and adoption

According to Regulation (EC) No 714/2009 Art. 6. Establishment of FG & NC:

1. In line with an annual priority list the Commission request the Agency to submit to it a non-binding framework guideline (FG) setting out principles, for the development of network codes (NCs)
2. The Commission shall request the ENTSO for Electricity to submit a NC which is in line with the relevant FG, to the Agency (12 months).
3. The Agency shall provide a reasoned opinion to the ENTSO for Electricity on the NC (3 months). The Agency may formally consult the relevant stakeholders.
4. The ENTSO-Electricity may amend the NC in the light of the opinion of the Agency and re-submit it to the Agency.
5. When the Agency is satisfied that the NC is in line with the relevant framework guideline, the Agency shall submit the NC to the Commission and may recommend that it be adopted within a reasonable time period.

What is a network code?

A set of rules applying to one aspect of the energy sector

Which are developed by ACER, ENTSO-E & market participants

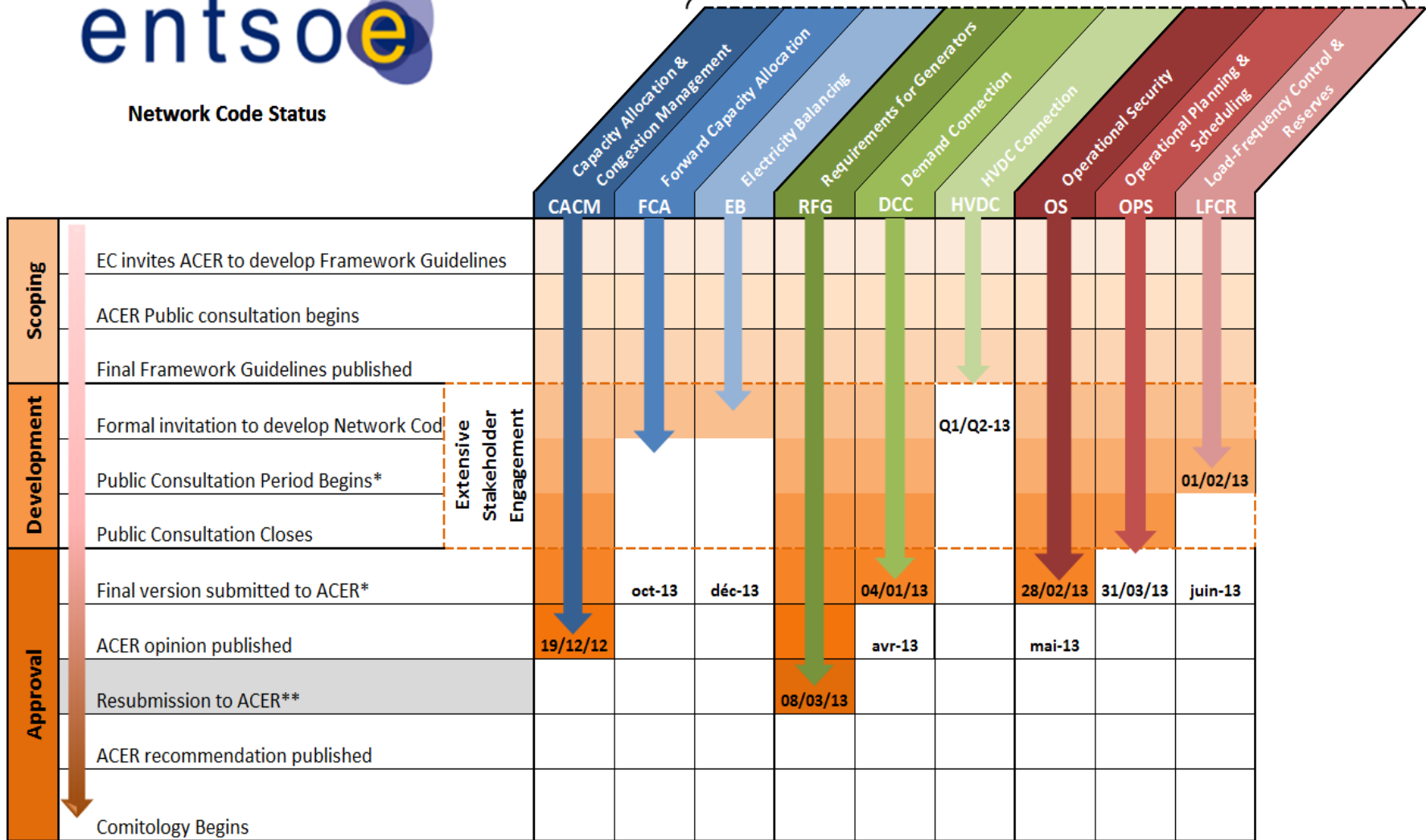
And become legally binding after the Comitology process

Hence they will have the same status as any other Regulation



Network Code Status

Delivery of the Third Package



Disclaimer: The purpose of this chart is to provide overall transparency of ENTSO-E's network code development. All forward-looking dates are provisional until confirmed. Stakeholders will be informed and invited to all confirmed events by means of official communication

* In accordance with ENTSO-E's Network Code Development Process, an internal re/drafting and approval is done before public consultation and submission of the code to ACER.

** In case ACER does not attach a recommendation to its opinion, ENTSO-E has the opportunity to resubmit the code

NC CACM

- NC CACM sets common rules for Capacity Allocation and managing cross Bidding Zone congestion in the
 - Day Ahead (DA) and
 - Intraday Market (ID)
- Within the DA and ID, Capacity Allocation shall refer to **implicit Allocation**
- Capacity calculation
- Governance of functions in NC CACM

Policy Options for Governance of the Market Coupling

- Option 1: Continuing the current voluntary approach (no additional EU action).
- Option 2: Creating a European governance framework through a legally binding guideline, which supports maintaining the diversity of local market coupling governance arrangements including the relation between TSOs and Power exchanges
- Option 3: Creating a European governance framework through a legally binding guideline, which strives for a high level of harmonisation of local market coupling governance arrangements including the relation between TSOs and Power exchanges
- Option 4: Creating a European governance framework through a legally binding guideline including creating a new regulated entity to perform the tasks of market coupling

Background of Market Coupling

European Council (04 February 2011 – Conclusions)

- The EU needs a fully functioning, interconnected and integrated internal energy market. Legislation on the internal energy market must therefore be speedily and fully implemented by Member States in full respect of the agreed deadlines.
- The internal market should be completed by 2014 so as to allow gas and electricity to flow freely. This requires in particular that in cooperation with ACER national regulators and transmission systems operators' step up their work on market coupling and guidelines and on network codes applicable across European networks.

European Commission

- Market coupling is a way to foster market integration and will be easier to achieve (and thus quicker) if the countries which are still not using market coupling work together regionally in order to join the EU market coupling.

CEEE Forum

- The forum will promote and accelerate the development of a regional market coupling mechanism, based on the existing processes, institutions and structures ...

Short overview

- The 3rd Chapter of ACER's Framework Guideline for Capacity Allocation and Congestion Management (FG-2011-E-002) prescribe the creation of **single Europe-wide day-ahead electricity market coupling by means of implicit auction applying a single coupling algorithm.**
- CZ, SK and HU parties decided to take the first step on the road towards the target model by realizing a trilateral market coupling:
 1. **Memorandum of Understanding** was signed on 30th May 2011
 2. **Kick-off Meeting** organized on 29th June 2011
 3. **EPEXSpot was selected to be the IT service provider** for the Market Coupling function; LOI signed on 19th September 2011
 4. **First trading day** was on 11th September 2011
- All processes were designed with the aim of having 100% compatibility with the NWE/CWE project to facilitate simple access to the NWE/CWE region!

CZ-SK-HU Market Coupling – Involved Parties

	Czech Republic	Slovakia	Hungary
Regulators			
TSOs			
Market Operators / Power exchanges			

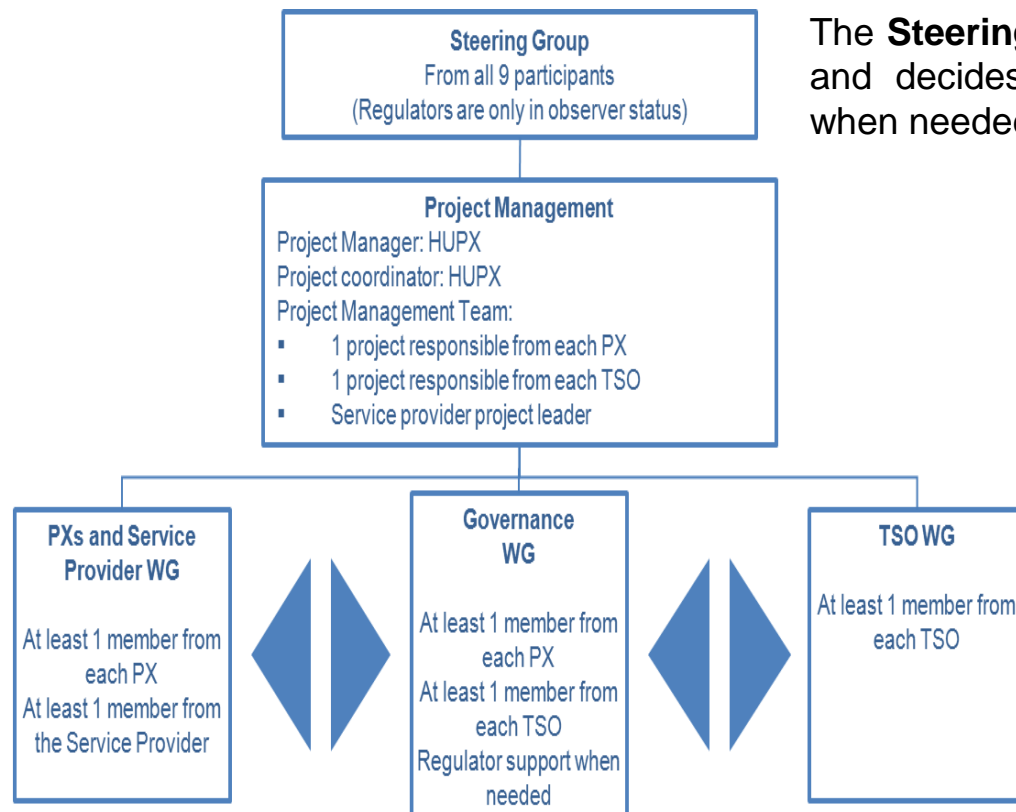
- Technical project management
- Price coupling system (PCS) provider



EPEX SPOT
 EUROPEAN POWER EXCHANGE

- All spot PXs are state institutions
- Local institutions work in completely different ownership and legal setup

Organization Structure of the Project



The **Steering Group** acted as the project sponsor and decides on strategic and escalated issues when needed.

High level tasks and responsibilities of the **Project Management**:

- Development of the project plan
- Coordination the work plans of the working groups
- Management of the working groups' performance and budget
- Monitoring and management of the project schedule

Working Groups were formulated based on stakeholder types to ensure short response times. This setup proved to be efficient during the work.

Compatibility

- The project design is modular, it can be extended to any neighbouring country.
- Full compatibility with
 - NWE/CWE
 - The single European market initiative.

This design allows later extension with new countries and migration into the integrated European energy markets with the minimum possible effort

TSOs & PXs Tasks

- TSOs Responsibilities
 - Individual grid analysis and coordinated capacity calculation
 - To monitor the measure of the cross-border transport, financial and physical fulfillment
 - Scheduling management: reception of cross-border and internal nominations and transmission of nominated cross-border flow
 - The capacity rent share distribution
- PXs Responsibilities
 - Collect the bids from market participants
 - Transform them (aggregate and anonymize) and send to the MCF
 - MCF calculates all relevant data (prices, volumes, accepted blocks, cross-border flows)
 - After the coupling, the aggregated results shall be split to the individual bids and the trades are cleared and settled by respective PXs in the relevant market areas
 - Allocate the individual results to the market participants

Extension of the project, 5M MC

- On 28th January 2013 representatives of Czech, Slovak, Hungarian, Polish and Romanian NRAs, TSOs and PXs/market operators met in Budapest to agree on the start of the structured cooperation with a goal to investigate and prepare for the integration of the day-ahead electricity markets of the five countries
- This is a logical step forward in building the European Internal Energy Market (IEM)
- Conclusions of the meeting confirmed willingness and readiness for intensive cooperation and a mutual approach to confirm technical feasibility. It was agreed to launch a common project that would assess possible ways forward and select the most suitable and efficient form of market integration

Next steps

- TSOs and PXs collect the challenges and plans to the Steering Committee during February and March
 - IT specification
 - Contractual framework
 - Legal background (energy law, tax law)
- All the parties comment the draft MoU
- The SC meeting will analyze the inputs received



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Thank You for Your attention!

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