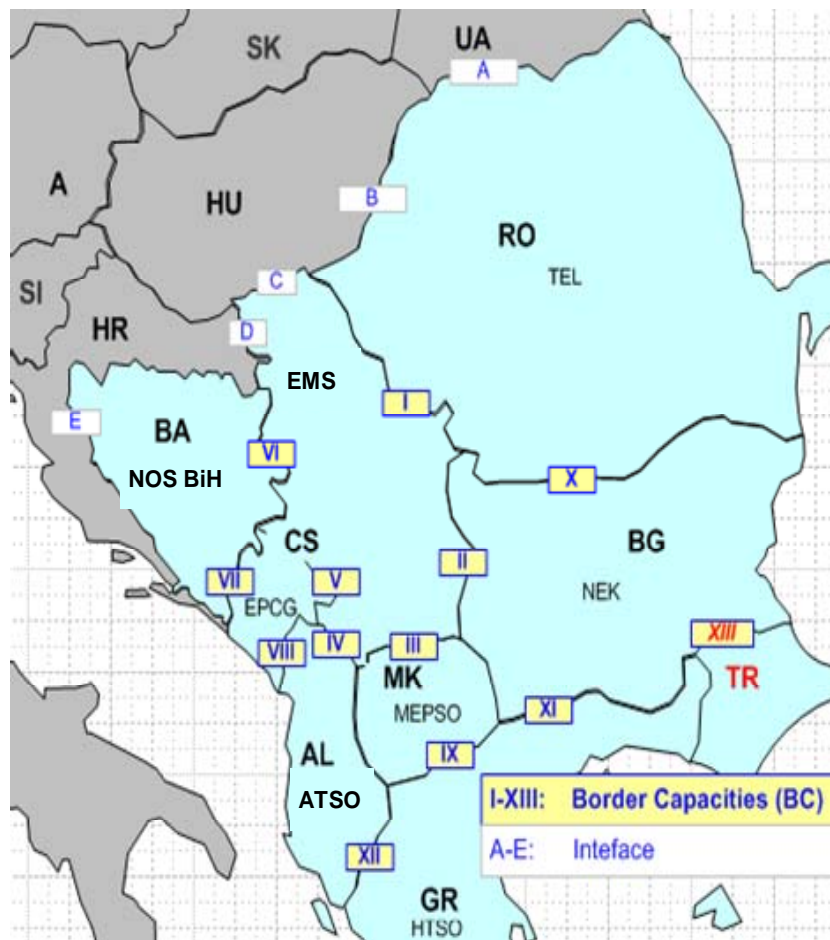




Creation of functional units for the establishment of the Auction Office for South East Europe

**A TERNA-APG's joint proposal
to foster market development in SEE**



- The **efficient use of the cross-border capacities** is a **prerequisite** to promote SEE electricity market
- A more efficient and secure use of capacities, improving Transmission Rights firmness needs a **co-ordinated approach**
- The adoption of the **co-ordinated flow-based** methodology is expected to:
 - ease and **foster regional trading** activities
 - improve **usage of cross-border networks**, pursuing higher level of network security
 - maximise **overall regional welfare**^(*)
 - encourage **transparency** towards market
 - address **congestion values** stimulating investments on regional trans. infrastructure

The preparatory work is being well performed under **SETSO TF co-ordination**

* SEETEC: „STUDY OF THE OBSTACLES TO TRADE AND COMPATIBILITY OF MARKET RULES“;

* CONSENTEC & Frontier Economics: „Analyses of Cross-border Congestion Management Methods for the EU Internal Electricity Market“

- ▶ Definition of procedures to **assess cross-border interconnection capacity**, in line with ETSO methodology adopted in EU
- ▶ Definition of procedures for **data exchange** among TSOs
- ▶ **Analysis of market-based CM methodologies** in line with EU Reg.1228/03
- ▶ **Pilot project** on co-ordinated explicit auction in July-September 2004
- ▶ **Dry-run implementation of a system of co-ordinated flow-based explicit auction** in SEE on a virtual basis, since June 2005
- ▶ Ongoing **investigations** of technical and organisational aspects of **Auction Office**, in collaboration with CONSENTEC and APCS
- ▶ Involvement of **SEE Regulators and Traders** within implementation phase



The structure implemented within **SETSO TF** has revealed so far **successful**

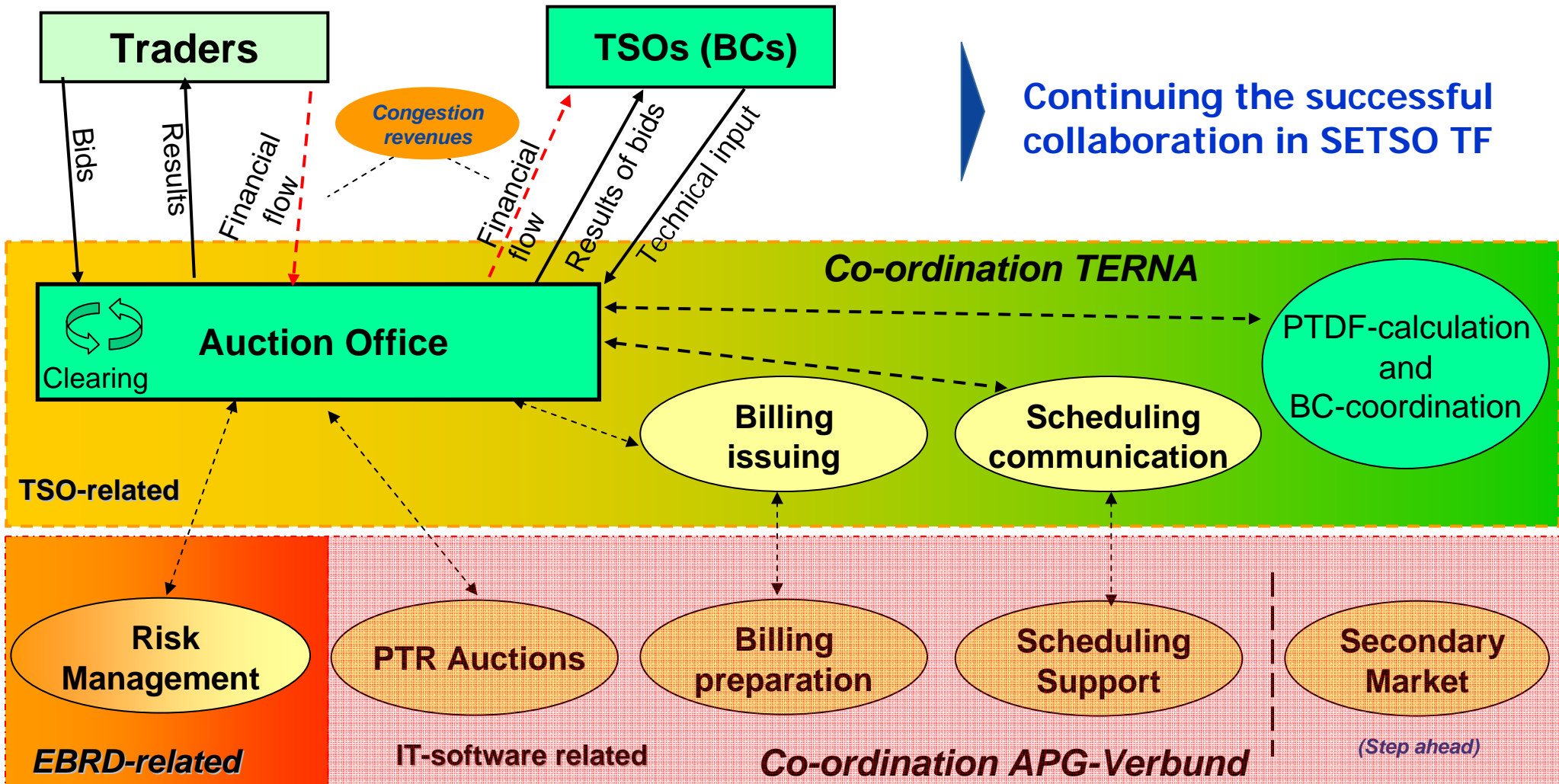
Work status on SETSO TF's responsibility:

- ▶ Conceptual Phase and methodology: *almost finalised*
- ▶ Dry Run implementation: *first testing almost finalised*
- ▶ Participation of Traders to Dry Run: *going to start in January*



Further steps to a professional service to do in parallel:

1. Preparation of **setting-up and creating Auction Office**: organisation, financing features, legal aspects, contractual paths
2. Maintenance/development of **software and IT tools**, including training (future: automatic capacity calc., secondary market, auto-scheduling)
3. Development of **risk management** criteria and entity

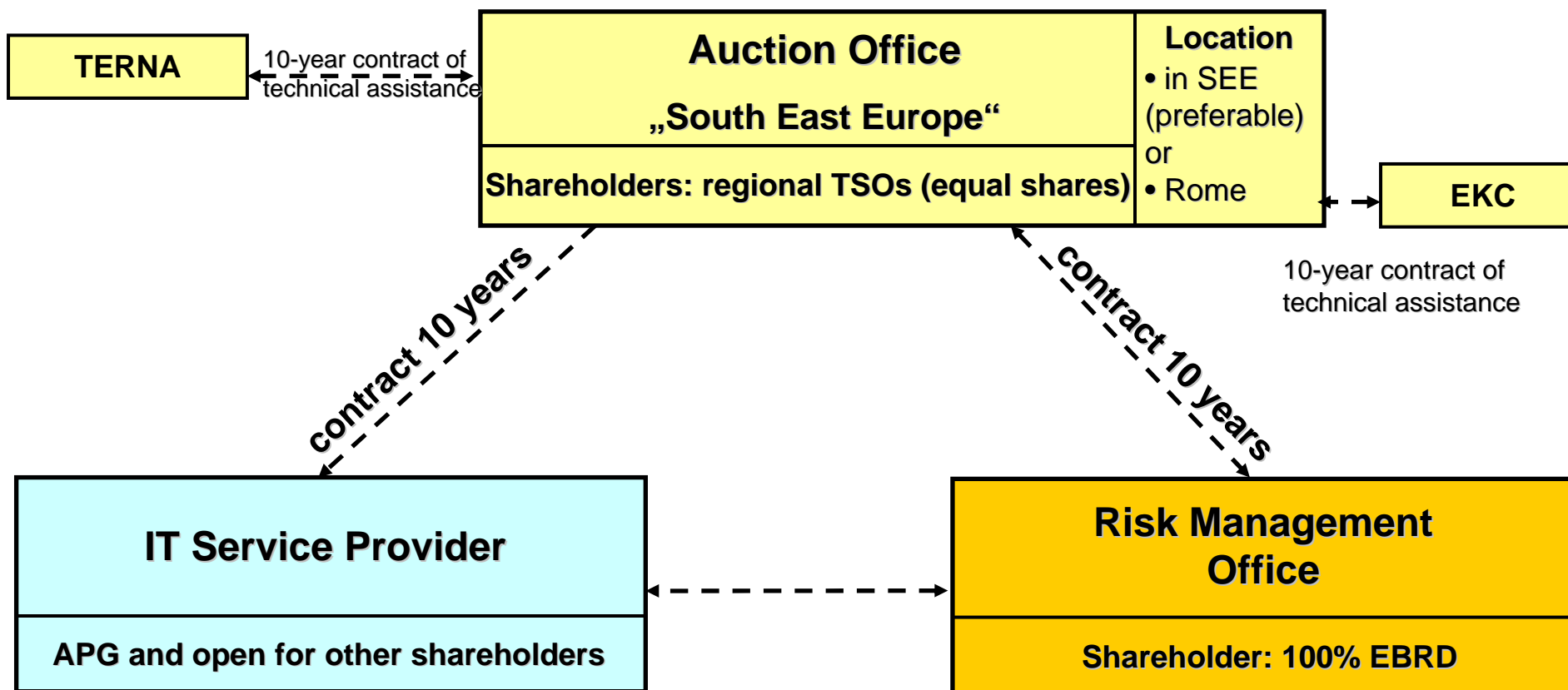


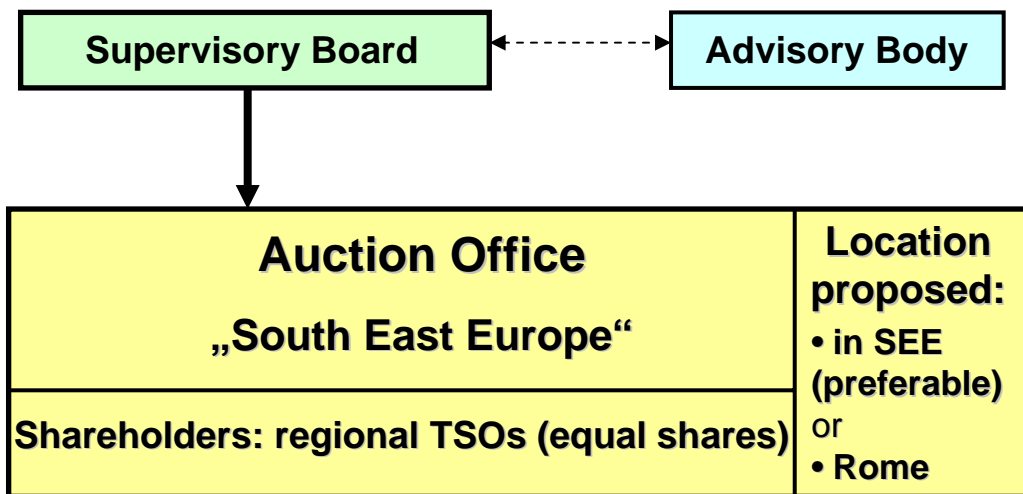
Continuing the successful collaboration in SETSO TF

Support from Commission, SEE Regulators and all SEE stakeholders needed

Contractual relations

Structure transformation into functional units





Main tasks:

- PTDF-calculation, BC-Coordination
- Performing of coordinated flow-based auctions
- Market and customer Interface, Billing issuing
- Scheduling communication (interface TSOs and Traders)
- Congestion revenues distribution

Proposal of location:

- in SEE region (**preferable**, choice up to SEE stakeholders)
- if outside SEE-region: **Rome**

Company Type:

- Limited Liability Company Ltd.

Shareholders:

- Regional TSOs with equal shares
- Shares financed by EBRD?

Supervisory Board (stakeholders commerc. involved):

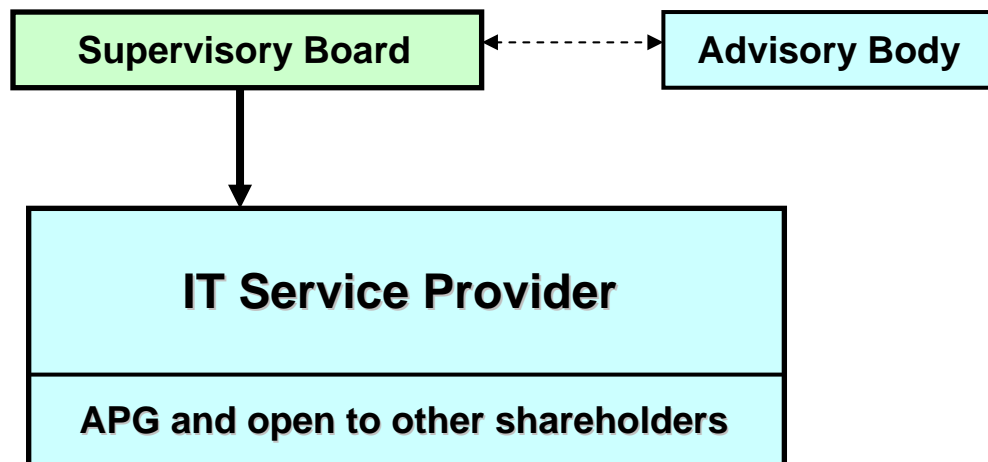
- Co-ordinator: TERNA
- Members: regional TSOs, APG

Commercially related to shareholders, discussions and decisions, based on recommendations from Advisory Body

Advisory Body-Consulting Com.

- President: **Energy Community Regulatory Board (ECRB)**
- Members: SEE Regulators, SEE TSOs, EBRD, Traders, EKC

Consulting Committee to ensure fairness and transparency, to analyse market needs and propose solutions



Tasks:

- Providing (hosting and running) the necessary IT- Infrastructure
- Providing the necessary functions for conducting coordinated flow-based auctions
- Providing the relevant services for billing and the online risk management (checking credit limits of Auction Entities)
- Providing the relevant services for conducting scheduling support
- Providing the relevant services for supporting secondary markets
- Upgrading and development according to markets need

Company Type:

- Limited Liability Company Ltd.

Shareholding:

- APG
- open to other shareholders

Supervisory Board:

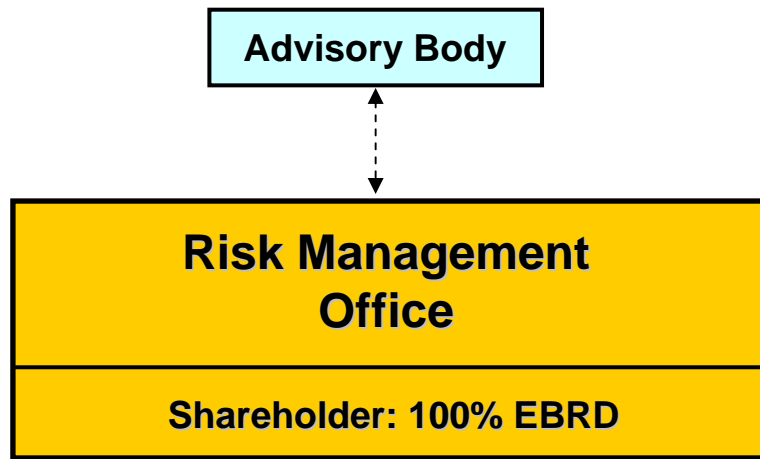
- Co-ordinator APG-Verbund
- Members: SEE TSO, others
Commercially related to shareholders, discussions and decisions, based on recommendations from Advisory Body

Advisory Body:

- President: **Energy Community Regulatory Board**
- Members: EKC, future partners
Consulting Committee to ensure fairness and transparency, to analyse market needs and propose solutions

The Risk Management Office

Structure transformation into functional units



Tasks:

- Initial funding of SEE-Auction Office
- Provide shares for participating regional TSOs
- Foster market development by providing risk/hedging funds
- Develop with IT Service Provider the relevant risk management principles
- Coordination of Risk fund and risk development of management strategies
- Guarantee trusted and reliable clearing and settlement

Company Type:

- Limited Liability Company Ltd.

Shareholders:

- 100% EBRD

Advisory Body:

- President EBRD
- Members: ECRB, SEE Regulators, SEE TSOs, TERNA, APG

Consulting Committee to analyse needs, compensate interests and proposing solutions

Athens Forum

- **Full support by all Fora** to the Regionally Co-ordinated flow-based Auction system
- Highlighting the **need of a detailed and feasible proposal** to pass to the implementation phase

Legal framework

- Compliance with EU legislation (ECSEE Treaty, EU Reg. 1228/03, Congestion Management Guidelines)

Consultants' study

- **SEETEC**, "Obstacles to trade/compatibility of market rules": Recommendation on SEE Co-ordinated flow-based auction
- **CONSENTEC**, "Analyses of Cross-border Congestion Management Methods for the EU Internal Electricity Market"

Proven **regional significance and benefits** of Co-ordinated Auction system initiative

TERNA-APG joint proposal represents a **concrete** and **professional step forward**:

- to put in place entities needed to set-up a **common regional Auction Office in SEE**, giving momentum to market development and facilitating trade/competition
- **concept open**, seeking support of SEE TSOs, Regulators, Donors and Commission
- looking into **legal efforts** necessary to make the structure functioning