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## THE SEE-CAO AND THE INTEGRATED ELECTRICITY MARKET

**The South East Europe Coordinated Auction Office (SEE-CAO) can play an important role in the integration of the electricity market in Southeastern Europe, which will help the development of a single energy market throughout the EU and the countries of the region. The establishing of a single mechanism for the cross-border transmission and/or transportation of electricity is indeed, the key condition for a borderless electricity market to be possible.**

The Treaty establishing the Energy Community was signed on 25 October 2005 in Athens by the European Union and nine, at the time, contracting parties from South East Europe (i.e. Albania, Bosnia & Herzegovina, the former Yugoslav Republic of Macedonia, Montenegro, Serbia, the territory of Kosovo, Bulgaria, Romania and Croatia, the last three eventually becoming full members of EU). The task of the Energy Community is to organize a regional electricity market in SE Europe which will help integrate the EU and SE Europe into a single energy market. To this end, the Treaty provides, amongst others, that the Energy Community must take measures establishing a single mechanism for the cross-border transmission and/or transportation of electricity. Indeed, in light of the many countries in the region, this is the key condition for a borderless electricity market to be possible.

### **The so-called 8th Region and the SEE-CAO**

The "Treaty establishing the Energy Community" requires that the parties to the Treaty harmonize their legislation with the provisions of EU

"acquis communautaire", including the Regulation for cross-border exchanges in electricity and the Congestion Management Guidelines (Annex to the Regulation) which set the framework on the management and allocation of available transfer capacity of interconnections between national systems. Indeed, an efficient, transparent, market-based and non-discriminatory congestion management mechanism is a necessary condition for eliminating barriers to electricity trade. To this effect, seven (7) regional electricity markets had already been established in the EU, following Commission Decision of 9 November 2006. Crucially, South East Europe was not one of these regional markets but once the Energy Community was established it became imperative that a Coordinated Auction Office for the region in South East Europe be set up. Thus, under the Ministerial Council of the Energy Community Decision dated 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), the Parties to the Energy



Community Treaty decided to implement a common procedure for congestion management and transmission capacity allocation at the SEE regional level. This is how the so-called 8th region came into being. At its inception the 8th region included Albania, Bosnia & Herzegovina, Croatia, the former Yugoslav Republic of Macedonia, Montenegro, Serbia, the territory of Kosovo, Bulgaria, Greece, Hungary, Romania, Slovenia and Italy.

This decision of the Energy Community was a key step towards the creation of a regional electricity market in South East Europe and its integration with the European energy market. The setting up and operation of a Coordinated Auction Office in South East Europe (i.e. SEE-CAO) was, and still is, intended to be the fundamental instrument towards the creation of this regional electricity market. Due to developments in neighbouring regions, the SEE-CAO is intended to target coordinated capacity allocation on Net Transfer Capacity (NTC) basis. The NTC values will be agreed bilaterally among the TSOs. Additionally, at a later stage, within the SEE CAO indicative NTC values may

be calculated and the values will be compared with the NTC values provided by the TSOs.

According to the 5th Ministerial Council decision on 11 December 2008 in Tirana and the agreement of the TSOs, the location of the SEE-CAO was decided to be Montenegro. In 2012, the Transmission System Operators (TSOs) of Albania (OST), Croatia (HOPS), Bosnia and Herzegovina (NOS-BiH), FYR of Macedonia (MEPSO), Greece (IPTO), Montenegro (CGES), Romania (Transelectrica), Slovenia (ELES), Kosovo (KOSTT) and Turkey (TEIAS) established a Project Team Company in Montenegro, whose main goal was to establish the SEE-CAO. The goal is for the Project Team Company to have prepared the necessary legal, financial and technical framework for the start-up of the SEE CAO in 2014.

**Operational and transactional structure of the SEE-CAO**

The SEE-CAO will have the following operational and transactional structure:

1. The general overview of the

service the SEE-CAO provides is the carrying out of coordinated auctions (“Auctions”) regarding the allocation of cross-border capacity on the national borders of the 8th Region. The Auctions are conducted “in the name of the SEE-CAO” but “for the account and on behalf of the national TSOs”.

**For an integrated and liberalized electricity market in SE Europe, SEE-CAO is an instrumental tool in both strategic and (more crucially) operational terms**



## The task of the Energy Community is to organize a regional electricity market in SE Europe which will help integrate the EU and SE Europe into a single energy market

2. The contractual relationships between the SEE-CAO, the Auction Participants and the TSOs will be the following:

a. The SEE-CAO executes, in its own name, coordinated daily, monthly and yearly auctions of cross border capacity on the borders between the TSOs in the 8th Region for the account and on behalf of the TSOs.

b. The SEE-CAO represents and binds the TSOs vis-à-vis the Auction Participants and the TSOs commit themselves vis-à-vis the Auction Participants to accept the results of the Auctions carried out by the SEE-CAO in its name but for the account and on behalf of the TSOs.

c. The contractual relationship arising from the result of any Auction are directly between the SEE-CAO and the Auction Participants who will have submitted the winning bids. According to this contractual relationship, the SEE-

CAO allocates the capacity to the Auction Participants who submitted the winning bids.

d. The TSOs commit themselves to accept the results of the common Auctions executed by the SEE-CAO. In other words, the TSOs assume the obligation that any cross border capacity allocated on the national borders of the 8th Region to the Auction Participants by the SEE-CAO for the account and on behalf of the national TSOs will be honoured and carried out by the licensed TSOs.

e. The Auction Participants may be residents of the country of the TSO who allocated the Physical Transmission Rights (the "PTRs") or a resident of a foreign country. They may be tax residents of the EU or non EU.

f. The SEE-CAO sends monthly reports to the TSOs regarding the daily, monthly and yearly auctions conducted at each

