



CEER ANNUAL REPORT 2003

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Foreword

Two important decisions impacted upon the CEER in 2003:

- On the 10th of June, CEER members decided to establish the CEER as a not-for-profit association under Belgian law having its office in Brussels. The main reason for this change was the common will to reinforce cooperation among members and to improve the ability of responding to EU electricity and gas market developments.
- On the 11th of November, the European Commission decided to establish the European Group of Regulators for Electricity and Gas (ERGEG). The first ERGEG meeting, on the 17th of December, created the necessary links between ERGEG and CEER.

The European Commission decision was a consequence of the approval of two directives concerning the internal electricity market and the internal gas market, respectively. These directives entered into force in August 2003 and must be transposed by Member States by July 2004. They have clarified several important aspects related to the internal energy market, including the role of regulatory authorities, and provide a comprehensive framework for the achievement of a fully open and integrated EU energy market in the near future. The CEER has cooperated with the European Commission, the European Parliament and the Council in the preparation of the new legislative framework.

Through active participation at the Florence and Madrid Regulatory Fora, close cooperation with the European Commission and permanent dialogue with stakeholders, the CEER was able to advance the internal energy market. Voluntary agreements were subscribed both by electricity and by gas transmission system operators that facilitate cross-border trade and increase transparency.

The activity of the CEER working groups and task forces is described in this Report. The reader will find a long list of subjects addressed, papers issued and reports published. This work was carried out by CEER members on a voluntary basis with the support of a very small office in Brussels. All the persons involved deserve our recognition, gratitude and encouragement.

The CEER sponsored the 2nd World Forum on Energy Regulation. This event gathered about 900 participants, for 3 days in October, in Rome. It was a big success and a very useful platform for discussing energy regulatory developments worldwide; it also enabled the CEER to make its role and experience better known. For these reasons, the Italian Regulatory Authority, who was responsible for organizing the 2nd World Forum, is to be highly commended.

Jorge Vasconcelos

1 Electricity Working Group

1.1 Background

The Electricity Working Group was established on 14th November 2002. The Work Programme 2003 envisaged five Task Forces:

- Inter-TSO Payments TF (ITP)¹,
- Congestion management, Balancing markets and Peak load capacity TF (CBPL),
- Tariffs TF,
- Electricity Infrastructure TF (Elnfra) and
- System operators benchmarking TF (SOB).

However, the Task Forces were restructured during 2003. At the end of 2003, the Electricity WG comprised the following task forces:

- Cross Border Trade TF (CBT),
- Tariffs TF,
- Electricity Infrastructure TF (Elnfra) and
- System operators benchmarking TF (SOB).

1.2 Objectives

The Electricity WG mandate was to prepare all necessary CEER positions relevant for discussion in so far as they are focused on the fostering of an efficient and competitive single internal electricity market. The mandate was translated into 3 groups of activities:

- Work which comes directly from the conclusions of the meetings of the Electricity Regulatory Forum (Florence Forum).
- Work that is considered to be useful as a future input into the Forum.
- Work that serves a wider benefit for CEER-members in terms of information exchange and discussion on common regulatory approaches, having a wider impact on the internal electricity market in more general terms.

1.3 Activities of the Working Group

The work of the Electricity Working Group and its respective Task Forces during 2003 was very much influenced by the enactment of the new Electricity Directive² and of the Cross-Border Regulation³. WG Electricity's activities were also driven by deliverables and timetables emerging from the Electricity Forum process and from requests by the European Commission.

¹ The name of the Task Force was changed to Inter-TSO Compensation during the 4th WG Electricity meeting (21 March 2003) to reflect the wording of the new Directive.

² Directive 2003/54/EC of the European Parliament and of the Council of 26 June 2003 concerning common rules for the internal market in electricity and repealing Directive 96/92/EC, OJ 2003, L 176, 37.

³ Regulation (EC) No 1228/2003 of the European Parliament and of the Council of 26 June 2003 on conditions for access to the network for cross-border exchanges in electricity, OJ 2003, L 176, 1.

As a result, the key areas of work for the WG Electricity were congestion management, ITC-mechanism and ITC-models, tariff harmonisation and issues on infrastructure investment. This involved not only preparing position papers, but also commenting on the work of other stakeholders, information exchange with other CEER Working Groups and/or liaison with external stakeholders. The later task in particular facilitates the work of CEER in preparing upcoming Electricity Fora and improves the implementation of the existing rules for establishing an Internal Electricity Market in Europe.

Following the enactment of the new legislation, CEER and especially the Electricity WG received a number of new tasks to work on in close collaboration with the European Commission and other stakeholders in the future.

10th meeting of the Electricity Forum

In the conclusions of the 10th meeting of the Electricity Forum, 8-9 July 2003, in Rome, the participants, including the CEER, were invited to take action or to be involved in the following subjects:

- To comment on the second draft of the EC Strategy Paper;
- To work together on the development of regulatory approaches to investment in new infrastructure;
- To comment on the discussion papers on congestion management, tariff harmonisation/locational signals and the inter-TSO compensation mechanism;
- To continue work on improving the rules on congestion management;
- To work further on the harmonisation of the national G-charges;
- To continue work on a proper, long-term system of locational signals in the internal electricity market and to examine possibilities to reflect losses at the EC level in charges, as an interim solution;
- To further discuss the 2004 Inter-TSO compensation mechanism.

Meetings of the WG Electricity, with the most important topics mentioned (detailed minutes are available on the CEER website):

- Brussels, 10 December 2003, (9th): recent stakeholders meetings (ETSO & EC, Eurelectric, EFET); the 2004 CBT mechanism (discussion about the present situation and possible further steps); State of Play of the work in the TFs including information on the deliverables of the TFs before the end of 2003; brief discussion on the Work Programme 2004.
- Brussels, 29 October 2003, (8th): recent developments concerning the work of the WG Electricity (e.g. draft decision on ERGEG, Madrid Forum, Strategy Paper, UCTE Operation Handbook, etc.); State of Play of the work in the TFs; approval of Terms of Reference of CBT, Elnfra and Tariffs TF.
- Brussels, 15 September 2003, (7th): outcomes of the 10th Electricity Forum (8-9 July 2003, Rome); State of Play of the work in the TFs.
- Brussels, 27 June 2003, (6th): CEER Summary position paper for 10th Electricity Forum; State of Advancement of current action points of TFs.

- Brussels, 13 May 2003, (5th): State of Advancement of current action points of TFs; discussion about the draft position on EC's Strategy Paper.
- Brussels, 21 March 2003, (4th): Work Programme 2003; Progress Report by Task Force Chairpersons; CEER position to EC's Strategy Paper; Preparatory Work on Guidelines in Draft EU Regulation.
- Brussels, 24 January 2003, (3rd): CBT mechanism 2003; discussion on document entitled "Draft Elements to be included in CEER Final View on CBT Mechanism 2003"; CEER response to EC's Strategy Paper; Work Plan 2003.

Third Party Consultations, with the most important topics mentioned (by WG Electricity or Task Force members)

- Trilateral meetings with the European Commission and ETSO (24/11/2003; 24/04/2003; 24/01/2003): information about the 2004 CBT mechanism, discussion on the Italian situation, confirmation of the abolition of the export fee; timetable on guidelines, congestion management; 2003 CBT mechanism: Swiss and German case, regulated costs, consumption data.
- Trilateral meeting with the European Commission and UCTE (25/03/2003): Operation Handbook.
- Meetings with the European Commission (15/10/2003; 02/06/2003; 23/04/2003): draft of EC Decision on ERGEG, review of the conclusions of 10th Electricity Forum, implementation of the new cross-border Regulation (congestion management, harmonisation & locational signals, reliability standards), Inter-TSO compensation mechanism 2004; preparation of the 10th Electricity Forum, initial reaction to the draft guidelines pursuant to the Regulation covering Inter-TSO Compensation, Congestion Management and Tariff Harmonisation; information on the new institutional arrangements (advisory group), work on guidelines pursuant to the Regulation, including Inter-TSO compensation mechanism, Tariff Harmonisation and Congestion Management, Strategy Paper, Commission's timetable until July 2004.
- Meetings with EFET (10/12/2003; 23/04/2003): transparency, congestion management; EFET position on CBT mechanism 2003, presentation on Average Participation Method, transparency and market-based solutions for congestion management, German position on tariff issues
- Meeting with Eurelectric (24/11/2003): comments of Eurelectric on the latest version of the EC Strategy Paper, recent blackouts and their reasons, discussion on the 2004 CBT mechanism, congestion management and tariff harmonisation.

1.4 Activities of the Task Forces

In this section the meetings of the Task Forces are listed, with the most important topics mentioned; detailed minutes are available on the CEER website.

Cross Border Trade (CBT)⁴

- Brussels, 16 December 2003, 5th CBT TF meeting: update by William Webster on the requirements of the European Commission concerning the Regulation (the final draft will be forwarded to the WG Electricity and after the approval by the WG Electricity to the General Assembly); confirmation of the key goals and objectives of the TF; final discussion on the requirements list for a long-term ITC model; discussion on the draft decision of rules for Congestion Management principle 5 (the document was prepared to be used by the future TF dealing with the CBT topics); presentations on different balancing markets in Nordic countries and Austria;
- Brussels, 26 November 2003, 4th CBT TF meeting: discussion of a draft document on requirements for a long-term ITC model; discussion of the comparative analysis of different ITC models (draft document prepared and forwarded to the WG Electricity as the preliminary result covering WWT and AP); preliminary discussion on a draft paper of rules on congestion management principle 5; presentations on different balancing markets in Spain, France and Great Britain;
- Brussels, 24 October 2003, 3rd CBT TF meeting⁵: presentation and further discussion of solutions in the Nordic system; discussion of the requirements and the comparative analysis of the options for a long-term ITC solution; final discussion and approval at TF level of the CBT TF Terms of Reference (integrated ToR of former ITC and CBPL Task Forces);
- Brussels, 10 September 2003, 2nd Joint ITC/CBPL TF meeting: update on ITC and CBPL related issues arising from the Florence Forum; presentation of the Nordel ITC model; preliminary presentation of a comparative analysis on WWT and AP; preparation of the proposal for the final ITC solution; discussion on new Terms of Reference for CBPL TF; update on the Nordic Council Report on peak load issues;
- Brussels, 27 June 2003, 1st Joint ITC/CBPL TF meeting: preliminary discussion on the Nordic transit compensation model; update on European Commission (EC) draft guidelines on ITC and congestion management; discussion on Terms of Reference for CBPL TF;
- Brussels, 8 May 2003, 1st ITC TF meeting: discussion of Terms of Reference; completing list of reference, input documents and history information; presentation on the extension of project on Cost Components of Cross-Border Exchanges of Electricity; discussion on G&L, locational signals and congestion management; TF input into CEER reaction to EC draft Guidelines.

Electricity Infrastructure (Einfra)

- Brussels, 17 December 2003, 5th (and final) TF meeting: discussion on the WG Grid Infrastructure Country Report; final discussion on the Draft proposal on “Regulatory control and financial reward for electricity transmission infrastructure” (the final draft will be forwarded to the Working Group and the General Assembly in January 2004);
- Brussels, 19 November 2003, 4th TF meeting: discussion on the WG Grid Infrastructure Country Report; discussion on the draft paper on “Regulatory control and financial reward for electricity transmission infrastructure”;

⁴ Including Congestions management, Balancing markets and Peak load capacity TF (CBPL), Inter-TSO Compensation TF (ITC) and Joint meetings of CBPL and ITC.

⁵ The CBPL and ITC Task Forces merged after a decision by the WG Electricity on 15 September 2003. The numbering of the CBT meetings followed from the former Joint ITC/CBPL TF meetings.

- Brussels, 23 October 2003, 3rd TF meeting: the final approval of Terms of Reference; general discussion about infrastructure investment (5 documents prepared by the TF) and the position paper to be prepared by the TF;
- Brussels, 9 September 2003, 2nd TF meeting: of Terms of Reference; presentation on merchant lines and regulated interconnectors; discussion on Grid Infrastructure country-by-country and summary Report; discussion on future work of the Task Force;
- Brussels, 26 June 2003, 1st TF meeting: the defining the Terms of Reference (first discussion); completing list of reference, background documents and history information; discussion on the actions to be undertaken.

System Operator Benchmarking (SOB)

The Task Force did not hold a meeting during 2003, waiting for some preliminary documentation relevant to a comparison of different TSOs in Europe. The said documentation did not arrive on time.

At the end of October (29th October, 8th WG Electricity meeting) it was decided that the SOB TF will work on the new UCTE Operation Handbook, due to urgent needs to define a CEER position of the on-going work of UCTE. However, due to organisational reasons, which are not usual at the end of a year, the Task Force did not start working on this issue.

Nevertheless, a first comparison of the old UCTE rules and the 3 new policies of the Operation Handbook is available for consideration to the WG and will be circulated in early January 2004.

Tariffs

- December 2003, Tariffs TF submitted a draft position paper on “Setting a Competitive basic-G Across Europe” to the WG Electricity;
- Paris, 14 November 2003, Tariffs TF meeting on approval of Terms of Reference (new mandate on basic G harmonisation); roundtable discussion of strategic options for G harmonisation; in-depth discussion of the draft position paper;
- Brussels, 18 June 2003, Tariffs TF meeting on in-depth discussion of the final report on tariff harmonisation and long-term locational signals; discussion of the presentation to the Florence Forum; finalisation of work of the TF;
- Paris, 16 May 2003, Task Force meeting on comparison of costs included in the tariffs, description of connection charging methodology in each country, pro and cons of tariff models (ICRP, connection charging, Nordel approach, surplus based approach, capacity rights, Average participation method) and conclusion on the need for locational signals in Europe;
- Paris, 28 April 2003, Tariffs TF meeting on in-depth discussion of the draft of the tariffs report; presentation on the method and criteria to define zones for sending long-term locational signals in Europe; discussion on the selection of a Pricing Model to be proposed to CEER;

- Brussels, 24 March 2003, Tariffs TF meeting on country-by-country presentation of connection charging methodologies; discussion on explanatory notes on why a specific model/methodology is chosen for national tariffication systems and locational pricing; approval of the synthesis of cost categories in country tariffs; discussion on connection charging harmonisation; discussion of the ICRP methodology; presentation of the AP method;
- Paris, 14 February 2003, Tariffs TF meeting on a strategic discussion of the Task Force objectives; agreement on the Terms of Reference; country-by-country-presentations of cost categories covered by grid tariffs and existing capacity constraints; presentation and discussion of the Nordic Locational Pricing Model.

Questionnaires

- Questionnaire on costs covered by the infrastructure tariffs in each country, distributed by the Tariffs TF (January/February 2003)
- Questionnaire on Grid Infrastructure country-by-country, distributed by the Elnfra TF (August 2003)

1.5 Main achievements

The following documents were the results of the WG and TF activities during 2003:

CEER Position Papers submitted to the 10th Electricity Forum, 8-9 July 2003

- CEER Comments on the European Commission's Discussion Document "Inter TSO Compensations", approved during the 26th CEER meeting (10 June 2003)
- CEER Comments on the European Commission's Discussion Document "Harmonisation of Network Access Charges", approved during the 26th CEER meeting (10 June 2003)
- CEER Comments on the European Commission's Discussion Document "Guidelines Relating to Congestion Management", approved during the 26th CEER meeting (10 June 2003)
- CEER progress report "Rules on the management and allocation of available transfer capacity of interconnections", approved during the 25th CEER meeting (11 April 2003)

Other Documents approved by the Working Group (earlier drafts of what became CEER Position Papers mentioned above are excluded)

- CEER Comments on the European Commission Staff Working Paper "Medium term vision for the internal electricity market (October 2003)", approved during the 2nd General Assembly meeting on 5 December 2003. The Commission has indicated that these comments will be taken as a "Position Paper" and will therefore be included as an annex to the published Staff Working Paper.
- (Second) "CEER Response to the European Commission's Strategy Paper", approved during the 26th CEER meeting (10 June 2003)

- Tariff Harmonisation and Long Term Locational Signals, Final Report of Tariffs TF (June 2003)
- Elements to be included in CEER Final View on CBT Mechanism 2003 (March 2003)
- (First) CEER Comments on European Commission Outline Strategy Paper, approved during the 23rd CEER meeting (31 January 2003)

Documents prepared by the Task Forces (earlier drafts of what became CEER Position Papers or which were already approved by the Working Group in 2003 are excluded but mentioned above)

- Grid Infrastructures Country Report, final draft prepared by the Elnfra TF in December 2003 (the document should be for internal use)
- Position Paper on “Setting a Competitive G Across Europe”, final draft prepared by the Tariff TF; forwarded to the WG Electricity in December 2003 (after approval by the General Assembly the document should be sent to the European Commission)

Terms of Reference

- TF CBT, approved by the WG Electricity on 29 October 2003, approved during the 2nd General Assembly meeting on 5 December 2003
- TF Elnfra, approved by the WG Electricity on 29 October 2003, approved during the 2nd General Assembly meeting on 5 December 2003
- TF Tariffs (ToR on basic G harmonisation task), approved by the WG Electricity on 29 October 2003, approved by the General Assembly on 5 December 2003

2 Gas Working Group

2.1 Background

The Gas Working Group (GWG) was created in October 2000 with the main objective of coordinating CEER participation at the Madrid Gas Regulatory Forum. The issues considered by the GWG included: tariff systems (entry/exit); transit; hubs; balancing rules and storage and flexibility; Guidelines for Good Practice (GGP); interoperability; and network capacities.

The GWG has four task forces dealing with Tariffs and Transit, Hubs and Tradability, Storage and Flexibility and Balancing Rules.

2.2 Activities

During 2003 the GWG continued to have an active dialogue with relevant market stakeholders, which included the following meetings:

- 10 GWG meetings at the CEER Office in Brussels (1 in Milan);
- 5 bilateral meetings with GTE (Gas Transmission Europe);
- 3 bilateral meetings with EFET (European Federation of Energy Traders);
- 1 bilateral meeting with Eurogas;
- participation at 2 Joint Working Group meetings organised by the European Commission in Brussels;
- participation at the Madrid Gas Regulatory Forum;
- 3 bilateral meetings with the German Ministry.

The GWG continued to provide input to the DG TREN, concerning relevant EC documents:

- "Recommendations on Guidelines for Good Practice in relation to TPA services, Tarification, Balancing, etc".
- "Guidelines for Good Practice – Second version".

The GWG is currently drafting the following questionnaires:

- Entry-exit questionnaire. At the VII Madrid Forum (September 2003), it was decided that the CEER and GTE should monitor the implementation of entry-exit systems for gas transportation throughout the EU, based on the check list and road map developed by CEER, as presented at the Madrid Forum.
- Compliance with the GGP questionnaire. The Commission has noted that it will be the task of CEER to monitor compliance with the GGP within each Member State.

2.3 Main achievements

For the VII Madrid Forum (24-25 September) the GWG produced the following key papers:

- “CEER contribution to the 7th Forum of Madrid: Overview for the single European gas market”. This paper aimed at presenting a medium term vision of the single European Gas market;
- “Guidelines for Good Practice (GGP) – CEER proposals’. This paper largely constituted reactions to Gas Transmission Europe’s (GTE’s) comments and suggested changes to the GGP2. new version presented at the Joint WG on 20/9/2002;
- “Principles for balancing Rules”. This report aims to establish a more robust set of principles in relation to balancing rules reflecting the need to better define roles and responsibilities that need to be established as industry re-structures itself to meet the requirements of the second Gas Directive;
- “Entry-exit system Guidelines”. At the VI Madrid Forum, the CEER was asked to establish a check-list concerning a harmonised entry-exit tariff system and a road-map for its implementation. The CEER was asked to develop its view in this context;
- “Third Party access to storage and flexibility, progress report”.
- “The development of Gas hubs and trading centres in Europe”. This is a working document, which is not binding for the CEER; and
- CEER’s comments on the GTE report: Definition of available capacities at cross-border points in liberalised markets.

At the end of 2003, the GWG produced a paper entitled ‘Recommendations on implementation of Third Party Access to storage and linepack’.

3 International Energy Price Comparison Working Group

3.1 Activities in 2003:

Meetings held:

- 2003-03-03, Milan
- 2003-06-17, Luxemburg (Eurostat Task Force)
- 2003-09-11, Brussels

3.2 Main topics / activities:

- Survey of the information provided by Eurostat (March 2003);
- Survey on prices of transactions in the European Power Exchanges (March 2003);
- Proposals presented to the Eurostat Task Force on Energy Statistics (March - June 2003);
- Comparison of prices published by Eurostat and EEPO (March - September 2003);
- Survey of existing transmission pricing data (work in progress);
- Data collection for transmission and distribution tariffs (work in progress);
- Survey on gas transmission and distribution tariffs (work in progress);
- Summary report to CEER on existing data sources and electricity transmission and distribution prices (work in progress).

3.3 Papers submitted to the CEER Board/General Assembly in 2003:

No paper was submitted to the CEER Board/General Assembly.

4 Quality of Supply Working Group

4.1 Activities in 2003:

Five new countries (Belgium, Greece, Luxemburg and Sweden) joined the WG in 2003.

Meetings held in 2003:

- 2003-02-17, Brussels

The preparation of the two Benchmarking Reports (described below) was achieved mainly through on-line procedure.

4.2 Main topics / activities:

- Special Session on Quality of Supply regulation held during CIRED Conference in Barcelona (May 2003);
- CEER-ETRA Workshop on Quality of Supply in Budapest (November 2003);
- Joint Meeting of CEER and experts of the Hungarian Energy Office and electricity companies on Quality of Supply in Budapest (November 2003);
- Comparative analysis on Quality of Service Regulation Strategies (work in progress);
- Broadening of the WG work scope to the economic value of quality, the quality auditing to secure reliability of quality data submitted by utilities to regulators and the continuity of supply and weather effects (preliminary discussion at the ERRA EU Accession Countries meeting / work in progress).

4.3 Papers submitted to the CEER Board/General Assembly in 2003:

- CEER Second Benchmarking Report on Continuity of Supply and Commercial Quality (submitted in May 2003 / published in September 2003);
- Benchmarking Report on Public Service Obligations (submitted in July 2003 / approved for internal use);
- Draft Comments to the EC Green Book on Services of General Interest (submitted in September 2003), not transmitted to the European Commission.

4.4 Main Achievements in 2003:

The key focus of the WG in 2003 was the production and publication of a Second Benchmarking Report on Continuity of Supply and Commercial Quality (which both updated and enlarged the scope of the original Benchmarking Report, published in 2001) and the production of an internal Benchmarking report on Public Service Obligations.

5 Taxation and Environment Working Group

5.1 Background

The WG was set up to study the regulatory mechanisms to protect the environment in each country, in order to check for possible distortions in the energy market. In particular, the WG should analyse policies, legislation and policy instruments, including energy and environmental taxation.

5.2 Objectives

According to the terms of reference approved by the CEER, the objectives of the WG are: *“the monitoring of taxation of energy undertakings and energy consumers; the monitoring of environmental laws, regulations and incentives related to energy; the development of common regulatory approaches concerning compatibility between energy markets and environmental incentives and restrictions. Special attention is given to the Directive on Emissions Trading, the Directive on Energy Products Taxation and to green certificate markets”*.

5.3 Activities

Brussels, 2003-06-13, 9th meeting

The document *“Analysis of possible Distortions in Energy Markets caused by Tax and Environmental Regulations”* was approved by the WG. This document covered two items of the Work Programme 2003:

- Comparative analysis of environmental regulation related to energy
- Comparative analysis of energy taxation in EU Member States

The WG also exchanged information on the criteria and proposals for mechanisms that countries will use to award allowances under the proposed Directive on Greenhouse Gas Emission Allowance Trading. WG members agreed to forward written descriptions of the allocation criteria in their respective countries, so the WG could develop a first draft of an Analysis of Allocation Criteria. Furthermore, in July WG members circulated a questionnaire on energy products taxation.

Brussels, 2003-09-26, 10th meeting

A draft of the document *“Current Situation in CEER Member States about the design of national allocation Plan in an Emission Trading Scheme”* was discussed.

The chairperson proposed to present the document in two phases; the first warns about the possible negative impacts in energy sectors of the emission trading Directive (and should be finished by December 2003); the second is intended to develop some detailed proposals in order to implement the emissions trading mechanism in a efficient manner (and should be finished by March 2004).

Brussels, 2003-12-10, 11th meeting

An agreement was reached among the WG members with regard to the first phase of the above mentioned document, which was the possible negative impacts on the energy sectors: security of supply, increase of market prices, distortions on the competition of the utilities and interaction with other environmental mechanisms.

Also, it was agreed to progress the second part of the document (which is on proposals to improve the emission trading regulation) possibly by April 2004.

5.4 Main Achievements

During 2002, the WG concluded a report: *Proposal from the CEER Working Group on Taxation and Environment on the promotion of renewable electricity using a green certificates market* (June 24th, 2002), which was approved by the CEER Board/General Assembly as an internal document in its 22nd meeting on November 28th, 2002.

In 2003, a further WG report called *“Analysis of possible Distortions in Energy Markets caused by Tax and Environmental Regulations”* was approved during the 28th CEER General Assembly meeting on 7th July 2003.

Furthermore in December 2003, the WG discussed in its 11th meeting a draft document called *“Current Situation in CEER Member States about the design of national allocation Plan in an Emission Trading Scheme”*. The first part of this document, possible negative impacts on the energy sectors, was finished, and its results will be submitted to the CEER chairman. The WG hopes also to develop the second part of the document, proposals to improve the emission trading regulation, during the first term of 2004 (April).

6 New Member States Working Group

6.1 Background

The New Member State (NMS) Working Group (WG) was established during 2000. The CEER recognises the importance of collaborating closely and sharing experiences with regulators from New Member States. It is hoped this process will help to ensure the smooth integration of these regulators into the framework of the CEER once their country joins the European Union.

6.2 Activities

During 2003 the TF continued to have an active dialogue with NMS representatives, which included the following events:

- CEER-ERRA workshop (January 13, 2003): Discussion on green energy;
- CEER-ERRA training course for NMS (February 2003);
- CEER-ERRA workshop (April 14, 2003): Challenges for the gas markets;
- CEER-EU workshop (June 12, 2003): European Regulations of the energy market;
- CEER-ERRA workshop (September 18, 2003): Discussion on green energy;
- CEER-ERRA workshop (September 29, 2003): Discussion on gas pricing;
- CEER-ERRA workshop (November 10, 2003): Discussion on Quality of supply;
- Joint meeting of the CEER and experts of the Hungarian Energy Office and electricity companies (November 11, 2003): Discussion on quality of supply.

All of the above meetings were organised following a request from the NMS representatives and the quality of discussion was high. The majority of NMS were represented at all of the above meetings.

The CEER Assembly also met representatives from the NMS regulators on 9 October 2003. The NMS representatives provided an overview of their respective markets and issues relating to the new European Directives and Regulation.

6.3 Main achievements

The NMS WG has continued to establish a good working relationship between the CEER and NMS representatives. Indeed, this work has aided the exchange of information and experiences on a range of issues.

7 Energy Infrastructure Task Force

7.1 Background and Activities

The Energy Infrastructure Task Force was an internal CEER initiative that strengthened when the European Commission asked the CEER to develop ideas on how to incentivate infrastructure investments. In order to support the work of the European Commission in elaborating the Communication on "European Energy Infrastructure" in December 2001 and on its Action 8 "Guidelines on regulatory control and financial reward for infrastructure" the Task Force held a number of meetings during 2001 and 2002.

During 2003, no Task Force meetings were held. The Task Force finished its work with issuing the report "CEER Principles on Regulatory Control and Financial Reward for Infrastructure" in the first half of 2003.

7.2 Main achievements

During the first months of the year 2003, the initial version of the report on Regulatory Control and Financial Reward for Infrastructure was modified following the comments received from different regulators. To facilitate a final consensus, it was decided that the report would set Principles rather than Guidelines.

The report was approved at the 24th CEER Board/General Assembly Meeting on 14 March 2003 and sent to the European Commission. The report was also submitted to the Electricity and Gas Working Groups as they are responsible for its follow-up after the TF had finished its work.

The last initiative of the Task Force was the presentation of the above mentioned report at the Xth Florence Forum in Rome (8-9 July 2003).

8 Security of Supply Working Group

8.1 Activities in 2003

Meetings held by the Security of Supply WG:

- 2003-01-15, Brussels
- 2003-02-18, Brussels
- 2003-04-04, Brussels
- 2003-04-25, Brussels
- 2003-06-05, Brussels
- 2003-09-05, Brussels
- 2003-10-03, Brussels
- 2003-11-18, Brussels

Meetings held on gas security of supply (covered by the Gas Security of Supply TF within the Security of Supply WG)

- 2003-04-03, Brussels
- 2003-06-04, Brussels
- 2003-10-02, Brussels

8.2 Main topics / activities

The main topics of the WG Security of Supply during 2003 were:

- Meeting with ETSO WG Security of Supply on 25 April 2003 with exchange of information on activities and goals on security of supply issues;
- Presentation of a paper on Gas Security of Supply, International Energy Agency Workshop (27 June 2003);
- Alignment of the WG's definition of Security of Supply with the viewpoints of other stakeholders / Report to CEER;
- Definition of the objectives, expected results and time plan for covering the specific security of supply issues / Report to CEER, within the work plan;
- Provision of a general overview and of the contents of a detailed report on the Security of Supply situation in the EU countries / Presentation given at the Rome Forum in October 2003;
- Definition of the level of public service obligation for electricity and gas and of the measures available to the TSOs, grid owners, shippers, generators and regulators to ensure Security of Supply (for electricity, this is largely covered by the Quality of Supply WG);

- Development of a common Project with UCTE on Power Balance Monitoring / Report and recommendation to CEER (work in progress);
- Provision of inputs to UCTE on the new UCTE Operation Handbook / Report and recommendation to CEER (presently covered by the dedicated TF in the WGE);
- Study of the generation-demand forecast on a 3-5-10 years basis in CEER countries / Report and recommendation to CEER (work in progress);
- Consolidation and update of a comprehensive list of the Security of Supply related documentation from ETSO, UCTE, EU Commission, CEER and other stakeholders (available on the CEER website);
- Provision of a stable and well structured organisation and co-operation on Security of Supply issues between the different CEER WG & TFs.

The Task Force on gas security of supply which was established during 2003 produced an initial position paper for the IEA workshop in June 2003. The main activities of the WG Security of Supply during 2003 were

- Initial information gathering exercise (remains ongoing);
- Assessment of the current status of gas security of supply (including a questionnaire to all CEER members);
- Identification of the possible barriers a supplier faces in obtaining gas from outside its country (focussing on a number of case studies).

8.3 Papers submitted to the CEER Board/General Assembly in 2003

- New revised Terms of Reference and Work plan 2003;
- Preparation of a Technical Research paper on the Security of Supply situation in Norway and Scandinavia in the winter of 2002/2003;
- Draft Detailed Survey of Security of Supply in EU 2002 (not approved by the CEER);
- Draft Executive Summary of the Detailed Survey of Security of Supply in EU 2002 (not approved by the CEER);
- Presentation of the contents and issues on security of supply for the Rome Forum in July 2003;
- Report to CEER analysing the effects of the renewable generation on Security of Supply with respect to the Kyoto criteria;
- Proposal & presentation on regulators' role in forecasting – the CEER decision was that at present no task & activity shall be performed by the WG on forecasting;

Answer to the EC questions on security of supply topics covered by the CEER and indication of the Security of Supply WG priorities (this input has been used also in the discussion and preparations of the new Work programme 2004).

9 South East Europe Electricity Regulation Working Group

9.1 Background

The former Task Force “South East Europe Electricity Regulation” was established in June 2002. It was renamed as a Working Group at the 25th CEER meeting on 11th April 2003. Following the signing of the new Memorandum of Understanding 2003 on 8th December 2003, the Working Group will not work only on Electricity but also on Gas.

The work of this Working Group is to prepare the positions and reports of CEER on the issues arising in connection with the South East European energy markets. This also includes the preparation of papers for the so-called Athens Energy Forum. The work of this Working Group is done in close collaboration with the energy regulators of the countries of the region⁶, who are also taking part in the CEER Working Group meetings.

The chairman presented the initial workplan to the CEER members during the 23rd CEER meeting on 31st January 2003. It was agreed that the work will be distributed among three subgroups: Institutional Compliance (IC), Internal Market (IM) and Market and Investments Facilitation (MIF).

9.2 Activities

The 2nd Athens Energy Forum took place on 26th and 27th March 2003 in Rome. The conclusions of the Forum invited CEER and especially the SEEER Working Group

- to develop a standard benchmarking model for regulatory authorities;
- in cooperation with SETSO to make a concrete proposal on an Inter-TSO compensation mechanism; and
- in cooperation with the European Commission, ETSO and UCTE to develop a paper on the options for a Standard Market Design for the SEE Regional Electricity Market.

The 3rd Athens Energy Forum took place on 23rd and 24th November 2003 in Sofia. The conclusions of the Forum invited CEER and especially the SEEER Working Group

- to continue the work on the Benchmarking for the SEE Regulatory Authorities;
- in cooperation with SETSO to resolve the remaining problems concerning the CBT mechanism;
- to further collaborate with SETSO on Congestion Management in SEE region and Net Transmission Capacity;
- to draft the detailed market design paper in close collaboration with all other relevant bodies, notably ETSO and UCTE; and
- to collaborate with the World Bank on their generation investments study.

⁶ These include besides CEER members participants of the following countries: Albania, Bosnia–Herzegovina, Bulgaria, Croatia, FYR of Macedonia, Hungary, Kosovo, Romania, Serbia, Slovenia and Turkey.

The activities of the Working Group were driven largely by the deliverables and timetables emerging from the above-mentioned Athens Energy Forum process. In order to be able to coordinate the work between the three subgroups and the regulators involved, five Working Group meetings were held during 2003:

- 8 October 2003, Rome (in the course of the World Forum of Energy Regulation),
- 18-19 July 2003, Athens,
- 9 May 2003, Budapest,
- 25-26 March 2003, Rome (in the course of the 2nd Athens Energy Forum), and
- 20 January 2003, Athens.

The Working Group and the different subgroups worked in close collaboration with the European Commission, SETSO and the Donors' community for the preparation of the work for the two Athens Energy Fora which took place in 2003. The WG Chairpersons (or their representatives) also participated in various workshops organised by stakeholders in the region (mainly concerning market design and specific topics, such as the Hydropower study for the SEE region) presenting the work and the positions of the WG on such occasions.

The future activities of the Working Group will not only be driven by the timetables of the Athens Energy Forum, but also by the deliverables arising from the new Memorandum of Understanding (2003) and from the future legally binding document establishing a regional energy market in the SEE region and all activities necessary for the incorporation of this market into the EU Internal Market.

9.3 Main achievements

The activities of the three subgroups were coordinated by the chairpersons of the WG. The main achievements of the three subgroups were:

Institutional Compliance

The Institutional Compliance (IC) subgroup is coordinated by EMRA, the Turkish regulator.

The IC subgroup performed an evaluation of the 1st Benchmarking Report of the EC for the countries of the SEE region and presented a position paper on Institutional Compliance of the SEE countries during the 2nd Athens Energy Forum. Following the mandate of the 2nd Forum, the IC Subgroup also performed a revision of the evaluation grid used by the EC for its first benchmarking of the SEE region. This task was concluded in July 2003 and will be further communicated to the EC, as the regulatory input for its future 2nd Benchmarking Exercise.

The IC subgroup also commented on the work done by USAID/Pierce Atwood for the Regulatory Benchmarking of the SEE Energy Regulators (work accomplished by May 2003). Following the mandate of the 2nd Athens Energy Forum, the subgroup worked (in close collaboration with USAID/Pierce Atwood) on the development of a CEER discussion paper on regulatory benchmarking standards for the SEE Regulatory Authorities. This paper was presented and endorsed by the 3rd Athens Energy Forum in Sofia.

The work of the subgroup will continue in cooperation with EC and USAID with the evaluation of the current status of the SEE regulatory authorities when compared to these regulatory standards. In addition, the development of the Regulatory Standards for the SEE region will be further elaborated.

Internal Market

The Internal Market (IM) subgroup is coordinated by ANRE, the Romanian regulator.

Two papers were developed and presented during the 2nd Athens Energy Forum:

- the first one on Capacity Allocation, Congestion Management and Transparency of the electricity networks in SEE region; and
- the second one on the implementation of a CBT mechanism, similar to the one already implemented in EU countries, for the SEE region.

The Forum decided to proceed with the implementation of a CBT mechanism in SEE on a virtual basis from January 2004 and on a real basis from July 2004. The members of the IM subgroup are in continuous collaboration with ETSO on this matter; representatives of ETSO participated in some of the CEER WG SEEER meetings and vice versa. As a result of this collaboration, ETSO presented an operational proposal for the implementation of a SEE CBT mechanism during the 3rd Athens Energy Forum. CEER stressed the importance of operating this mechanism on a real basis and urged SETSO to resolve the remaining problems during the initial six months' virtual period.

In addition to that, the IM subgroup is in close collaboration with ETSO for the implementation of the work already developed under the Florence Process for the Congestion Management and Capacity Allocation mechanisms and the corresponding work on Transparency in the use of electricity networks in SEE region.

A further point stressed by CEER and ETSO was the importance of the North-South reconnection of the 2 UCTE-zones and the implementation of the CBT in the SEE region. ETSO presented papers on NTC (net transmission capacity) and Congestion management. CEER will collaborate with ETSO for further work requested by the Forum. The SEEER WG will be in close collaboration with ETSO and UCTE on all issues concerning the Internal Electricity Market in the countries of the SEE region and report accordingly when necessary.

Concerning the development of Grid Codes in the countries of SEE region, the WG is following the developments in these countries and also following the developments on the corresponding efforts performed by others (e.g. EdF) on this issue.

Market and Investments Facilitation

The Market and Investments Facilitation (MIF) subgroup has been working on the development of a paper on the strategy that should be followed for the development of a Regional Electricity Market in SEE and its future integration in the EU Internal Market. This paper was presented to the 2nd Athens Energy Forum.

Following the results of the 2nd Forum, the MIF group has developed two documents:

- the first one on the Basic Principles of the Standard Market Design on which the development of the SEE REM should be based and which was presented to the 3rd Athens Energy Forum; and
- the second one, a more detailed paper on the details of the SEE REM design.

Following the conclusions of the 3rd Forum and after extensive discussions with the EC, ETSO and the international Donors active in the SEE region, it was commonly agreed that the European Commission shall coordinate all actions towards the implementation of the Standard Market Design along the lines of the Basic Principles proposed by CEER. The SEEER WG, along with ETSO and UCTE, was assigned the task of elaborating and proposing an Action Plan and to elaborate further the detailed market design, in close collaboration with the European Commission. This Action Plan will be discussed among all SEE REM initiative stakeholders and will form the basis for the future actions at a national and regional level.

The SEEER WG was also invited, in close collaboration with other stakeholders, to draft a detailed market design to be presented to the next Forum.

CEER Position Papers submitted to the 2nd Athens Energy Forum (26-27 March 2003)

- Working Paper on “Institutional Compliance of SE European Countries”;
- SEEER WG Position Paper on “Cross-Border Trade in SE Europe”;
- Working Paper on the “Options for a SE Europe Electricity Market Model”; and
- Working Paper on “Transparency Congestion Management and Capacity Allocation Mechanisms in SE Europe”.

CEER Position Papers submitted to the 3rd Athens Energy Forum (23-24 October 2003)

- CEER Position Paper on “Regulatory Benchmarking Standards for SEE”; and
- CEER Position Paper on “Standard Market Design of the SE Europe Electricity Market Basic Principles” (the first draft of the CEER Discussion Paper was made available to all stakeholders shortly afterwards).

10 CEER Board meetings

23 rd CEER meeting	31 January 2003	Brussels
24 th CEER meeting	14 March 2003	Brussels
25 th CEER meeting	11 April 2003	Brussels
4 th EU/US Energy Regulators' Roundtable	12-13 May 2003	Lisbon
26 th CEER meeting	10 June 2003	Brussels
27 th CEER meeting	30 June 2003	Paris
28 th CEER meeting	7 July 2003	Rome
29 th CEER meeting	12 September 2003	Brussels
30 th CEER meeting	9 October 2003	Rome
31 st CEER meeting = 1 st General Assembly meeting	7 November 2003	Brussels
2 nd General Assembly meeting	5 December 2003	Brussels

11 CEER documents

“Recommendations on implementation of Third Party Access to Storage and Linepack” – December 2003

“Comments on the European Commission Staff Working Paper Medium term vision for the internal electricity market (October 2003)” – December 2003

Report on Public Service Obligations – December 2003 (for internal use only)

CEER Position Paper “Standard Market Design of the SE Europe Electricity Market – Basic Principles” – October 2003 (for IIIrd Athens Forum)

CEER Position Paper “Regulatory Benchmarking Standards for SEE” – October 2003 (for IIIrd Athens Forum)

“Lessons that should be drawn from the recent incidents in electricity supply and suggestions for guaranteeing an adequate electricity supply in liberalised markets. A note by the Council of European Energy Regulators (CEER)” – Press Release, October 2003

“Completing the internal energy market: the missing steps” – Press Release, October 2003

“CEER contribution to the 7th Forum of Madrid: Overview for the single European gas market” – September 2003 (for VIIth Madrid Forum)

“Entry-exit system guidelines” – September 2003 (for VIIth Madrid Forum)

“The development of gas hubs and trading centres in Europe” – September 2003 (for VIIth Madrid Forum)

CEER proposals on “Guidelines for Good Practice – CEER proposals” – September 2003 (for VIIth Madrid Forum)

“Principles for balancing rules” (gas) – September 2003 (for VIIth Madrid Forum)

CEER comments on the GTE document “Definition of available capacities at cross-border points in liberalised markets” (July 10) – September 2003 (for VIIth Madrid Forum)

Non-paper on interoperability/gas quality issues – September 2003

“Analysis of possible distortions in energy markets caused by tax and environmental regulations” – July 2003 (for internal use only)

“CEER Comments on EUR document – HV transmission grid requirements” – July 2003

CEER views on Security of Supply (presentation) – July 2003 (for Xth Florence Forum)

CEER Comments on the European Commission’s Discussion Document “Guidelines Relating to Congestion Management” – July 2003 (for Xth Florence Forum)

(Second) “CEER Response to the European Commission’s Strategy Paper” – June 2003

CEER Comments on the European Commission's Discussion Document "Harmonisation of Network Access Charges" – June 2003 (for Xth Florence Forum)

CEER Comments on the European Commission's Discussion Document "Inter TSO Compensations" – June 2003 (for Xth Florence Forum)

Second Benchmarking Report on Quality of Electricity Supply (Commercial Quality and Continuity of Supply) – June 2003 (published in September 2003 by AEEG)

CEER Paper on Gas Security of Supply – June 2003 (for IEA Workshop on 27 June 2003)

CEER Annual Report 2002 – May 2003

CEER progress report "Rules on the management and allocation of available transfer capacity of interconnections" – April 2003 (for Xth Florence Forum)

"Principles on Regulatory Control and Financial Reward for Infrastructure" – March 2003

"Elements to be included in CEER Final View on CBT Mechanism 2003" – March 2003

"CEER Comments on European Commission Outline Strategy Paper" – January 2003