

Memorandum of Understanding

on

Cooperation Leading to Creating a Functional, Interconnected and Integrated European Internal Electricity Market

among

Energetický regulační úřad (Czech regulatory agency)
Úrad pre reguláciu sieťových odvetví (Slovak regulatory agency)
Magyar Energia Hivatal (Hungarian regulatory agency)

and

ČEPS, a.s. (Czech Transmission System Operator)
Slovenská elektrizačná prenosová sústava, a.s. (Slovak Transmission System Operator)
MAVIR Magyar Villamosenergia-ipari Átviteli Rendszerirányító Zártkörűen Működő
Részvénytársaság (Hungarian Transmission System Operator)

and

OTE, a.s. (Czech Market Operator)
OKTE, a.s. (Slovak Market Organizer)
HUPX Magyar Szervezett Villamosenergia-piac Zártkörűen Működő Részvénytársaság
(Hungarian Power Exchange)

hereinafter referred to as the „Parties“.

I. Purpose of Co-operation as Intended

The Third Energy Liberalisation Package and, more explicitly, the Regulation (EC) No 714/2009 on conditions for access to the network for cross-border exchanges in electricity, have accentuated that the objective of the internal electricity market ("IEM"), which had been progressively implemented since 1999, aims to deliver *inter alia* new business opportunities and more cross-border trade, so as to achieve efficiency gains and higher standards of service. All these targets contribute to a higher security of electricity supply, considering as well the demands of consumers (households, business) in the EU.

In this context, the European Council adopted a commitment in February 2011 that IEM should be completed by the year 2014. As a part of the European Council conclusions it is formulated: *"...this requires in particular that in cooperation with ACER the national regulators and transmission system operators step up their work on market coupling and guidelines and on network codes applicable across the European networks..."*. EU bodies, especially the European Commission shall monitor the IEM functioning across the EU in a way that individual initiatives of the Member States whose aim is the integration of markets and networks at regional, as well as multilateral levels, shall be supported. Without such a proactive approach of the national authorities the final objective – completion of the IEM by the year 2014 – could be compromised.

The European Commission in its Communication to the European Parliament and Council on the Future Role of Regional Initiatives and in line with the recent integration trends has expressed a clear support to parallel developments of various integration activities at the level of regions as defined in Annex 1 to the Regulation No 714/2009 EC and also in respect to all national regulatory authorities, transmission system operators or at the level of Member States, with an aim to support local specific projects and their implementation using the "best practice" principle.

Also, the inter-ministerial platform: Central Eastern European Forum for Electricity Market Integration (CEEE Forum) has set, under the frame of regional market creation, an objective to enhance and accelerate implementation of cross-border capacity allocation in the form of market coupling. This target should be achieved within the relevant existing structures, especially by cooperation of the Regulators in the frame of Electricity Regional Initiative (ERI).

Based on the above-mentioned, the Parties have come to an agreement to work more closely on the creation of a functional, interconnected and integrated European IEM and, for their better future cooperation, they have decided to conclude this "Memorandum of Understanding" (MoU).

II. Background

Progressive interlinking and enlargement of the European local or regional electricity markets are considered by the EU bodies as an essential step towards the achievement of the European IEM whose completion is set for the end of the year 2014.

The existing bilateral Czech and Slovak (CZ-SK) Market Coupling Project, functioning with success and appreciated for its results first of all by the market players, has fully proved positive contribution of “implicit auctions” to the electricity trade. Therefore, the Parties believe that further coupling of the markets will bring more positive impacts on electricity trade among the participants of the national, as well as neighbouring markets. The initiative of the Parties, the aim of which is to contribute to the all-European objective, can in no way be perceived as negative influence on functioning and development of the present region of Central Eastern Europe as – defined in Annex No 1 to the Regulation No 714/2009/EC (CEE). (even though this initiative should assist the Parties widening the market integration among them).

The coupling the market areas of the Parties will facilitate future market integration towards the European IEM and improve coordination of joint progress in market integration of the Parties.

The Parties acknowledge that the market coupling solution applied in CWE/NWE Region is generally recognised by the European stakeholders as a prosperous model for future congestion management method to be applied in the IEM.

III. Common Objectives

With a view to achieve targets of enhanced security of electricity supply and to improve utilisation of cross-border capacities by the market players among their respective electricity markets, The Parties express their intention to develop further market integration jointly and, on a common support to organise implicit day-ahead allocation of cross-border transmission capacities on their mutual borders. The cooperation intended shall be realised in accordance with Day-ahead Target Model on Congestion Management as a step towards accession to the “NWE Market Coupling Project: Enduring Solution”, as well as in line with further developments, not only within the national electricity systems but, also with regard to the developments in the neighbouring electricity systems and in the view of increasing correlation between the physical and commercial cross-border flows.

Moreover, the Parties declare their good will and intention to comprehend justified suggestions of market players for efficient, harmonised, transparent and low-cost approach in cross-border capacity allocation model design. Solutions to such demands shall be considered and if decided incorporated into a common proposal for market coupling of the market areas of the Parties. The market integration namely the introduction of market coupling among the Parties – shall not reduce the activity of the involved TSOs on the work related to a flow-based capacity calculation method.

Therefore, with respect to the recent developments in the CEE region as well as the introduction of market coupling in the region of Central Western Europe (CWE), the Parties consider as appropriate for the benefit of their national markets for the liaison to the evolution of the IEM to introduce within their electricity market areas a congestion management model (flow-based capacity calculation method and/or implicit capacity allocation method) fully compatible with that implemented in the CWE region (ie. NWE enduring solution).

The market coupling within the market areas of the Parties in the form of day-ahead implicit auctions will bring a harmonised approach to the market organisation, more competition on the involved markets, better availability of electricity supply in the respective part of the internal market with sufficient transmission capacities, as well as more stable electricity prices for final consumers.

In order to further contribute to the achievement of the strategic goal of the IEM, the Parties declare their intention to couple with the CWE/NWE region as soon as possible, and the involved TSOs and PXs shall make all necessary effort to fulfil this goal.

The Parties are also prepared to continue their efforts within the Regional Initiatives developing flow-based market coupling in a way applicable for IEM.

The Parties wish to develop an Action Plan which shall be accepted and published by them, having reached scheduling the important steps towards market integration.

IV. Organisation of Cooperation

The Parties have agreed to establish a joint expert project team ("Project Team"), composed of representatives of the Parties. The resulting deliverables of the Project Team will be communicated with the responsible Ministries of the countries of the Parties. The Project Team activities will be defined in its „Terms of Reference“ (ToR).

The Parties may ask for external support for the realisation of this project. The necessary commitment and cost sharing has to be clarified in advance.

V. Compatibility with the Regional Achievements

The Parties reaffirm Clauses 4 and 5 of the common statement of CEE TSOs dated as of 18 March 2011:

“for the enhancement of the Internal Electricity Market, results regarding well-established methods and algorithms that are already accomplished by one region shall be used to enhance the progress in member state(s) of the other region.

As the introduction of implicit auctioning is more flexible, and already implemented in CWE region, CEE region should adapt this solution as a step towards the target model which is Single Price Coupling. Implementations of this mechanism should follow the Single European Model to avoid the incompatibilities within the planned common market. The intensive activity should concentrate on Flow-based capacity calculation being the method granting common grid security”.

The Parties acknowledge that under the foreseeable European legislation flow-based capacity calculation shall be applied to market coupling as day-ahead congestion management. The Parties declare that the achievements of flow-based capacity calculation method shall be applicable to their common market coupling mechanism once its results are satisfactory to all the stakeholders.

The Parties declare that their common intention is to enhance the market integration in the CEE region and to proactively apply market coupling as decided by the CEE TSOs, and other countries may access to this congestion management.

The Parties declare that markets' integration must both, support reliability of the system and increase economic efficiency and be an added value for the involved countries and beyond that for the CEE Region.

The Parties declare that by applying the already implemented implicit auctioning solution their approach complies with the *Single European Model* and with the ongoing market integration and development of the coordinated congestion management in the CEE Region.

VI. Governance

The group of high level representatives of the Parties shall oversight the general progress and support the achievement of the objectives of this Memorandum of Understanding.

The Parties have agreed to entrust the Hungarian Power Exchange HUPX (HUPX) with the role of organising a “kick-off” expert meeting of a Project Team under the framework and in the period of the present Hungarian Presidency in the EU Council. The meeting will be convened by HUPX within a period of 45 days after this MoU signing.

All preparatory steps, as well as the ensuing Project Team expert activities shall be organised in such a way to ensure the establishment of the common electricity market of the Parties in the horizon up to the end of the second quarter of 2012.

The responsible Ministries and other national and European stakeholders of the involved markets will be regularly informed regarding the process in regard to this MoU. Governmental intervention might be necessary to help resolve upcoming issues, especially as regards obstacles in terms of legal framework.

The Parties keep the freedom to continue existing plans and projects or to open new initiatives towards individual developments and bilateral cooperation inside or outside this framework.

The framework remains open for additional parties.

No legal rights and obligations can be derived from this MoU.

The MoU is signed by authorised persons of the Parties.