



Memorandum of Understanding
on
Cooperation Leading to
the Accession of Romanian and Polish Parties
to the Czech-Slovak-Hungarian Market Coupling

among

Energetický regulační úřad (Czech Regulatory Agency)
Úrad pre reguláciu sieťových odvetví (Slovak Regulatory Agency)
Magyar Energetikai és Közmű-szabályozási Hivatal (Hungarian Energy and Public Utility
Regulatory Authority)
Autoritatea Nationala de Reglementare in domeniul Energiei (Romanian Regulatory
Authority)
Urząd Regulacji Energetyki (Polish 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)
Compania Nationala de Transport al Energiei Electrice (Romanian Transmission System
Operator)
Polskie Sieci Elektroenergetyczne S.A. (Polish 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)
S.C. Operatorul Pietei de Energie Electrica (Romanian Power Exchange)
Towarowa Giełda Energii S.A. (Polish Power Exchange)

hereinafter referred to as the „Parties“.



I. Purpose of Cooperation 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 ("Regulation (EC) 714/2009"), have accentuated that the objective of the Internal Energy Market ("IEM"), which has 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 help to increase security of electricity supply, taking into consideration as well the interests of the final consumer (households and businesses) in the EU.

In this context, the European Council adopted a commitment in February 2011 that the IEM should be completed by 2014. EU bodies, especially the European Commission shall monitor the IEM functioning across the EU in a way that supports individual initiatives of the Member States whose aim is the integration of markets and networks at regional as well as multilateral levels. The final objective – the completion of the IEM by 2014, requires a proactive approach of national authorities, otherwise it 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 (EC) 714/2009 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.

The agreed target model for day-ahead timeframe of the IEM is flow-based implicit allocation ("Target Model"). Striving for this goal the Czech ("CZ"), the Slovak ("SK") and the Hungarian ("HU") Parties introduced an ATC-based¹ day-ahead market coupling in September 2012 (hereinafter CZ-SK-HU MC). Until the Target Model solution is ready for implementation, CZ-SK-HU MC can integrate further market areas willing to join it.

Poland, as an EU Member State and also part of the Central Eastern European ("CEE") region is committed to implement the Target Model on time. Having common interconnections with the Czech Republic and Slovakia, its accession to the CZ-SK-HU MC is a key step towards the IEM.

Romania, as an EU Member State, is also committed to meet the requirements and expectations set up for the countries of the CEE region to which it is adjacent. Namely, due to Romania's close geographical proximity to them, the Romanian Parties are keen on cooperating with the Czech Republic, Slovakia and Hungary.

Based on the foregoing, the Parties have come to a common understanding that they are ready to work in close cooperation towards the creation of a functional, interconnected and integrated IEM. This will take a form of the enlargement of the CZ-SK-HU MC. To facilitate their future cooperation, they have decided to conclude this Memorandum of Understanding ("MoU") on the Cooperation leading to Accession of the Romanian and Polish Parties to the CZ-SK-HU MC, which describes steps necessary for the achievement of the above mentioned main goal.

¹ Also referred to as NTC-based. In this context these expressions can be used interchangeably.



II. Background

Progressive interlinking and enlargement of Europe's local, regional or cross-regional electricity markets are considered by EU bodies as an essential step towards the achievement of the IEM which completion is set for year 2014.

The CZ-SK-HU MC launched its operation on 11 September 2012 and has been functioning with success ever since. Its functioning is appreciated most of all by market players and proves positive contribution of implicit auctions to the electricity trade. Therefore, the Parties believe that further coupling of their markets will bring more positive impacts on electricity trade among the participants of national, as well as neighbouring markets. The aim of this initiative is to contribute to meeting the European objective. Therefore it can in no way be interpreted as to hinder or negatively influence the functioning and further development of the present congestion management region CEE as defined in Annex No 1 to the Regulation (EC) 714/2009.

The Parties acknowledge that the principles of market coupling solution applied in the CWE region and preferably to be applied in the NWE region² are generally recognised by European stakeholders as a prosperous model for a future congestion management method to be applied in the IEM. The Parties affirm their commitment to implement the Target Model in the CEE region in due course as agreed in the region and approved by the relevant NRAs.

III. Common Objectives

With a view to achieving the targets of enhanced security of electricity supply and to improving the utilisation of cross-border capacities, the Parties express their intention to jointly develop further market integration and, on a basis of mutual support, to organise implicit day-ahead allocation of cross-border transmission capacities on their respective borders. The intended cooperation shall be realised in accordance with the day-ahead Target Model on Congestion Management as a step towards accession to the CWE/NWE Day-Ahead Market Coupling Project according to the Joint Declaration. Furthermore, it shall be conducted in line with further developments, not only within the national electricity systems but also in the neighbouring electricity systems with a view to improving correlation between the physical and commercial cross-border flows.

The herein proposed ATC-based coupling of the Romanian and Polish market areas with the already coupled Czech, Slovak, and Hungarian market areas will facilitate future market integration towards the IEM. It is also expected to improve coordination of joint progress in market integration of the Parties in order to achieve full compliance with existing European goals and future EU legislation. Its ultimate goal is the achievement of the most beneficial market design possible in terms of security of supply, operational system security, and welfare maximization related to trading possibilities.

² E.g. in case of PXs the solution of Price Coupling of Regions (PCR) is being implemented.



Moreover, the Parties declare their good will and intention to deal with justified suggestions of market players for an efficient, harmonised, transparent and low-cost approach in cross-border capacity allocation model design. Such suggestions shall be considered and – if agreed – incorporated into a common proposal for market coupling of market areas of the Parties. The introduction of market coupling among the Parties shall not reduce the activity of the involved transmission system operators (“TSOs”) and power exchanges (“PXs”) on the work related to the preparation and implementation of the Target Model in the CEE region.

The market coupling within the market areas of the Parties in the form of day-ahead implicit auctions is expected to bring a harmonised approach to the market organisation, more competition in 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 joint 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. Ideally such coupling requires correctly implemented coordinated capacity calculation and allocation scheme. The Parties are therefore prepared and ensure their willingness to continue their efforts in developing flow-based market coupling in a way applicable to the IEM.

The Parties acknowledge that under the foreseeable European legislation (see Framework Guidelines on Capacity Allocation and Congestion Management for Electricity and the draft of the respective Network Code) flow-based capacity calculation shall be applied to market coupling. The TSOs declare their intention to reflect the achievements of the flow-based capacity calculation method as well as PXs declare their intention to reflect the achievement of solution of Price Coupling of Regions implemented in NWE and both solutions shall be applicable to their common market coupling mechanism once its results are satisfactory to all the stakeholders.

IV. Governance and Organisation of Cooperation

The group of high level representatives of the Parties shall oversee the general progress and support the achievement of the objectives of this MoU.

The Parties have agreed to establish a joint project organization (“Extension Project”), composed of representatives of the Parties and focusing on the accession of the Romanian and Polish Parties.

The high level representatives of the Romanian and Polish Parties are welcome to attend the Steering Committee meetings of the CZ-SK-HU MC in order to discuss issues affecting their accession to the CZ-SK-HU MC, including but without limitation to, the technical and financial ones. Full membership is admissible subject to signing of all necessary market coupling contracts.

The Parties may ask for external support for the realisation of the Accession of the Romanian and Polish Parties. The necessary commitment and cost sharing has to be clarified and agreed among all Parties in advance on per-case-basis.



The Extension Project shall reflect the vision of the upcoming integration of MC CEE+NWE with the aim to be compatible with NWE as much as possible to ensure any further smooth integration CEE+NWE MC. This will include amongst others agreement on coordinated capacity calculation and allocation method, PXs systems and communication, and pre-coupling and post-coupling procedures.

The responsible ministries and other national and European stakeholders of the involved markets will be regularly informed about the process of the accession of the Romanian and Polish Parties. 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 in existing plans and projects or to open new initiatives towards individual developments and bilateral cooperation inside or outside this cooperation framework. Parties intend to inform each other on relevant intended changes and projects affecting the Parties of the Extension Project.

This cooperation framework remains open for new additional parties.

This document is not legally binding and does not constitute any legal rights or obligations whatsoever. This document cannot be considered as an alteration of existing contracts or as a new legally binding stand-alone contract.

The MoU is signed by authorised persons of the Parties.