



Electricity Regional Initiative – Convergence and Coherence of the Regional Development

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Structure of presentation

- **Background**
- **Process on track**
- **Progress achieved**
- **Convergence and Coherence**
 - **Congestion management**
 - **Balancing markets**
 - **Transparency**
- **Next steps**

Background – What do we want to achieve?

PRACTICAL OUTPUT:

- **IDENTIFICATION** of existing barriers to entry/obstacles to regional market integration (Set Priorities)
- **PROPOSITION** of concrete and practical improvements, with time schedule, to remove those obstacles (Action plan, MoU)
- **IMPLEMENTATION** of those practical improvements at a regional level (Effective Implementation)

**ENSURE COORDINATION AND COHERENCE BETWEEN
REGIONS → TOWARDS A SINGLE MARKET**

Process on track

- **7 electricity regions have been established and are actively working to contribute to the process**
- **Priorities identified in all 7 regions**
- **Work organized**
- **European Commission involvement and support**
- **Stakeholders actively involved, TSOs supporting the Regional Initiatives**
- **ERGEG commitment to transparency -> e.g. ERGEG website (www.ergeg.org)**

Relevant developments since XIII Florence

- **Amended Congestion Management Guidelines entered into force 1 December 2006**
- **Accession of Bulgaria and Romania 1 January 2007**
- **Strategic Energy Review – 3rd Package 10 January 2007**
- **ERGEG Regional Initiatives Conference and Annual Report end of March 2007**
- **Ongoing dialogue EU - Switzerland**

Progress achieved – priority topics pursued

- Action Plans – deliverables and responsibilities being pursued
- Broadly common priorities across the regions include
 - Congestion management methods
 - Transparency
 - Balancing
 - Regulatory issues
- Emphasis now on delivery and implementation

Progress achieved – concrete results

Central-West region

- **Nov 06 - Tri-lateral market coupling Be-Ne-Fr**
- **Feb 07 - Regulators' Regional Action Plan published**
- **Apr 07 - Consultation on harmonisation of auction rules**
- **Jun 07 - MoU of Ministries, Regulators, TSOs, PX'es and NWEMPP of the region concerning the implementation of day ahead flow- based market coupling and on security of supply issues and supporting the Action Plan**

Progress achieved – concrete results

Northern & Baltic regions

- **Northern**
 - Oct 06 - MoU of TSOs and PXs on implementation of day-ahead market coupling between Germany and Denmark 4th quarter 2007
 - Sept 07- publication of the Transparency report
- **Baltic**
 - First draft report on balancing issues
 - Forthcoming a working paper on ITC issues and on solutions to pancaking regarding payments for transferring energy to Estlink cable

Progress achieved – concrete results

France-UK-Ireland region

- **Nov 06 - 7 consultation papers published**
- **May 07 – Reciprocal access to balancing paper finalised**
- **Jun 07 - TSOs put forward a menu of options for progressing on the IFA congestion management**
- **Sept 07 - Consultation proposals Balancing, Transparency**

Progress achieved – concrete results

Central-South & South-West regions

Central-South

- **Jan 07 - Implementation of bilateral coordinated explicit auctions**
- **Mar 07 - New workplan agreed by Regulators and TSOs**
- **July 07 – agreement on a workplan towards harmonized explicit auction rules for 2008 allocations and implementation of intra-day allocation**

South-West

- **Jul 07 - Launching of MIBEL**
- **Jul 07 - Implementation of a secondary capacity market on the French-Spanish market**
- **Aug 07 - Publication of the Regulators' regional Action Plan**

Progress achieved – concrete results

Central-East Region

- **Congestion Management – common agreement to go towards flow based capacity allocations and establishment of common auction office in Munich**
 - Project plan provided by TSOs and establishment of 2 TSO working groups
 - first draft results on capacity calculation – still to be checked
 - Competition status of Auction Office is tackled
 - Target date January 2008 due to different issues to overcome not feasible
- **Transparency report prepared by Regulatory Authorities for further discussion**

Coherence and Convergence – are regions converging to single market?

- Are the same issues tackled on the way towards a single market?
- Are the solutions to these issues coherent to the extent needed?
- In most regions the work is focused on
 - **Congestion management (including transmission capacity calculation as well as long and medium term, day ahead and intra-day capacity allocation)**
 - **Balancing**
 - **Transparency**

A growing consensus in terms of target congestion management methods

- **Capacity calculation:** towards a common transmission model with regionally-calculated PTDF matrix (against the current bilaterally-calculated NTC)
- **Long term and medium term allocation:** towards a single auction platform with harmonized auction rules, IT interface, and products
- **Day-ahead:** towards a market coupling model
- **Intraday:** towards a continuous intraday platform

Long term and medium term allocation of capacity

- **At most borders annual and monthly explicit auctions for physical capacity rights take place → developments in several regions indicate that for long and medium term capacity allocation explicit auctions will be the CM solution for the next few years**
- **Necessary to ensure that development of the design of explicit auctions occur in a compatible way**
- **Towards a single auction platform with harmonized auction rules, IT interface, and products**
- **Harmonisation could lead to the implementation of an auction office in charge of explicit auctions**

Day ahead capacity allocation

- **Implicit auctions applied for day ahead capacity allocation in the Nordic area, between France-Belgium-the Netherlands and the Kontek Cable (Denmark East-Germany)**
- **A majority of regions are proceeding with implicit auctions (except France-UK-Ireland and Central-East)**
- **It is widely recognised that for the day-ahead timeframe implicit allocation methods are more efficient than explicit**
- **Coexistence of different implicit auctions (market splitting, market coupling)**
- **Coexistence of implicit and explicit auctions**

Intraday

- **Cross-border intraday allocation mechanisms implemented in the EU-Nordic countries of Northern region, the French interconnections (except IFA and France-Italy) and the German-Swiss interconnections**
- **Central-West region is planning to revise intraday allocation mechanism similar to the Northern Region**
- **Different options still on the table, most stakeholders support continuous trading**

Balancing

- **Some interesting local or regional initiatives for a better integration of Balancing Mechanisms**
- **Currently in Nordic countries and France it is possible for market players in neighbouring countries to participate in the national balancing market**
- **The creation or enhancement of trading balancing services across borders is being pursued by the Central-West, FUI, South-West and Northern regions**
- **Projects still at their beginning → not yet clear how regions plan to integrate balancing markets and the extent to which these might or might not be coherent**
- **A formal legal basis would facilitate convergence further**

Transparency

- **Common approach is of high importance**
- **The feasibility of implementation of better transparency is heavily influenced by the legal framework in each country**
- **Assessment of transparency requirements in some regions has helped produce a more consistent approach across the EU**
 - **Three regions (Central-West, Northern and Central-East) are striving for the adoption of the same approach**
 - **Interregional compatibility**
- **Additional work on consistency and a formal legal basis would facilitate convergence further**

Coherence and Convergence: **are there well identified obstacles?**

- **Regulatory gap that could delay the overall integration process**
 - Differences in competences of regulators, possibilities for cross-border cooperation and action
 - Lack of flexibility in some national legislation
 - How a single regional auction office would be regulated? Etc.
- **Differences in market designs**
 - e.g. absence of a liquid and transparent day-ahead reference price in some EU countries, diversity of status and roles of existing power exchanges in Europe, etc.
- **Resources: regulators, TSOs, stakeholders often involved in several regions, topics**

Looking forward

- **Timely implementation of solutions requires continued commitment of stakeholders especially TSOs to meet the planned timeframes in particular in accordance with the legal framework**
- **Public consultation on ERI Convergence and Coherence Report from July until 12th October (extended deadline)**
- **ERGEG Regional Initiative Annual Conference and Annual Report April 2008**
- **Invites continued support and involvement :**
 - **Stay informed – meetings, publications, online**
 - **Be Heard – consultations, bilateral contacts**
 - **Take Action – joint the Stakeholder Group for your region**

Coherence and Convergence Report: Preliminary views on report's issues

➤ **General comments:**

- Actors involved in ERI process welcome the opportunity to express views and wish to continue a structured dialogue and consultation with ERGEG and other parties on the various topics tackled in the report
- Special thanks for the first answers received (APG, Europex, EFET)

➤ **On capacity calculation, responses stress:**

- The need for transparency, harmonization and coordination of capacity calculation methods. In particular, the assumptions used in the calculation process should be clearly stated
- Objective of maximizing capacities, in particular transmission rights of longer maturity

➤ **Long and medium term capacity allocation :**

- The need for a harmonization of auctions rules and platforms, in particular the need for homogenous products (e.g. same degree of firmness)
- Coexistence of PTR and FTR possible but they need to be traded in the same way and fully harmonized in terms of contractual structure

Coherence and Convergence Report: Preliminary views on report's issues

- **Day-ahead capacity allocation**
 - Should be implicit auctions (market splitting and market coupling) involving power exchanges
 - Market coupling or market splitting can coexist. Linking or merging market coupling requires a high degree of compatibility and ultimately complete harmonization of products and contractual terms
- **Intraday**
 - Regions should actively pursue the implementation of continuous trading
- **Balancing**
 - “TSO to TSO” and “Actor to TSO” balancing trade can coexist

Thank You

**More information on the
Electricity Regional Initiative (ERI) is available at
www.ergreg.org/portal/page/portal/ERGEG_HOME/ERGEG_RI/ERI**