



From Regional Markets to a Single European Market

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1. Project Background



The aim of the project is to:

- Review progress of the Regional Initiatives (RIs)
- Define a Roadmap for the RIs to converge towards Single Internal electricity and gas markets

Focus

- Issues and progress
- Analysis of approaches
- Governance of the process
- Reference model
- Definition of best practices
- Recommendations
- Definition of a roadmap

Consultation

- Questionnaire to Lead Regulator in each Region
- Interviews with stakeholders:
 - Government
 - Regulators
 - Associations



2. Main achievements

Electricity Regional Initiative

- Development of 5 regional **Transparency Reports**
 - CW, N, CS, CE, SW
- Creation of two regional **Auction Offices**
 - CASC CWE (2009) and CE (2010)
- New **Market Coupling** projects
 - Norway-Netherlands (2010), Germany-Denmark (2010)
- New **Balancing Mechanism** FUI (2009)

The work of the ERI has progressed alongside parallel developments (MIBEL, SEM, TLC, Pentalateral)

3. Strengths of the RIs

The RIs have promoted Single electricity and gas markets by:

- Promoting (a culture of) **regional cooperation**
- Permitting progress at **different speeds**
- Allowing **pilot testing**
- Facilitating **benchmarking** of different approaches and **spreading of best practices**

RIs have been effective in implementation, but policy design is beyond their reach (and remit)

3. Weaknesses of the RIs

There are some fundamental problems hindering the RI process:

- Insufficient **central direction (Reference Model)**
- Lack of an appropriate format for **Government involvement**
- Different level of **Stakeholders involvement**
- **NRAs powers** vary
- Weak **project management** in some Regions

Addressing these issues is the current challenge

4. Best practices

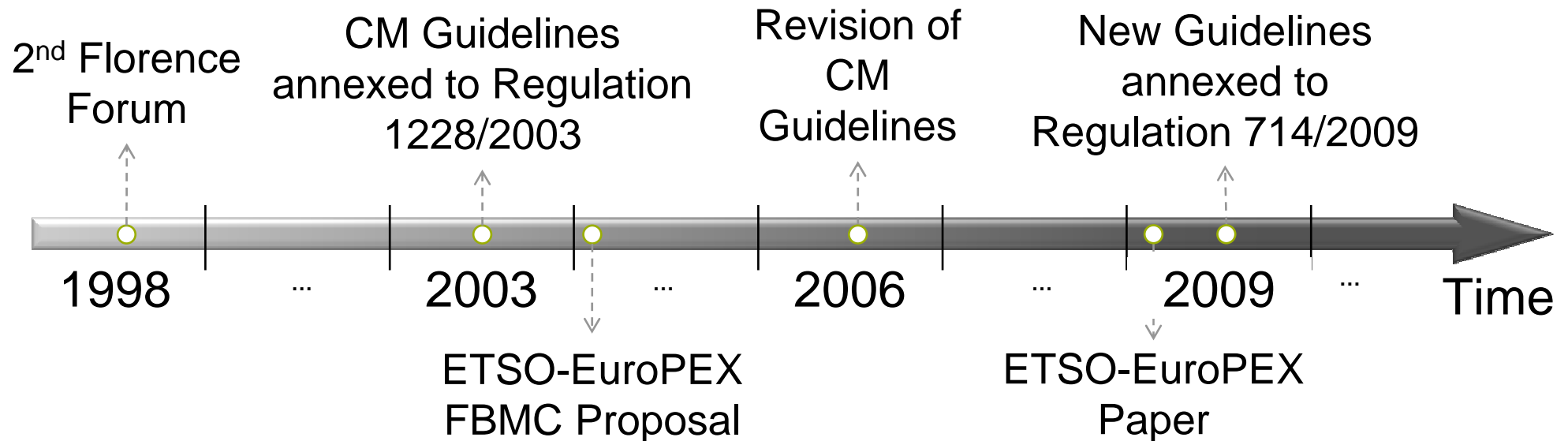
Best Practices have emerged, which could be implemented more widely to address some of the identified weaknesses

- Political and Policy Involvement
 - **Government engagement through Ministerial Meetings (NW) and High Level Groups (SW, S)**
 - **Participation of EC Observers (S)**
- Improved Coordination
 - **MoU between NRAs (NW, SSE)**
 - **MoU between TSOs (SSE, S)**
 - **Common RCC (CW and CE)**
- Project Management
 - **Programme Board / Programme Office (NW)**
 - **Strategy Advisory Panel (SSE)**

5. Reference Model for Electricity (I)

A Reference Model is at hand

The quest for a Reference Model dates back ten years



Main tenet of the CM Guidelines is that CM solutions should:

- Be non-discriminatory
- Be market-based
- Give efficient economic signals to market participants and SOs

5. Reference Model for Electricity (II)



Main requirements of the CM Guidelines

- **Non transaction-based** approach (§ 1.6)
- **Explicit or implicit auctions, possibly coexisting.** Continuous trading may be used for intra-day trading (§ 2.1)
- **Implicit auctions** where **forward financial electricity** markets are well developed and efficient (§ 2.8)
- **Non discrimination** between **bilateral** supply contracts and **on-exchange** trading. The highest value bids, whether implicit or explicit in a given timeframe, shall be successful (§ 2.7)

The Project Coordination Group (PCG) has come very close to defining a Reference Model

5. Reference Model for Electricity (III)

Institutional and Governance Implications



A Regulated Organised Electricity Market (OEM/PX) operates in each jurisdiction

- Common minimum regulatory standards for PXs, or
- Mandate to SOs to establish regulated OEM platforms where a PX does not exist or operates outside standards

Coordinated auctions

- Single Central Auction Office, owned by SOs (and PXs)

Single/common pricing/matching algorithm

- | | | |
|---|-----------|--|
| <ul style="list-style-type: none">■ Central Auction Office■ Separate entity owned by all PXs (and SOs) | Vs | <ul style="list-style-type: none">■ Run in parallel by all PXs ? |
|---|-----------|--|

5. Reference Model for Electricity (IV)



Harmonisation

- EU-wide network model
- Single/common pricing/matching algorithm for implicit auctions
- Central explicit auction procedure
- Market products
- Procedures and timelines (bidding and gate closure)

Convergence

- Tightly coupled regional markets (market splitting or price-based market coupling)
- Congestion between regions
 - Initially managed through explicit auctions of physical transmission rights
 - Tighter (price-based) market coupling progressively introduced

6. Implications of the 3rd Package (I)



The 3rd Package may address some of the issues identified for the RIs:

- Direction: Network Codes
 - What role for PXs?
- Leadership: ACER/ENTSOs/Comitology/EC framework
 - ACER may be given a regulatory oversight responsibility (additional to its powers as currently envisaged)
- Minimum common powers for NRAs
- Stakeholders consultation

A new role for the RIs?

- *Pilot testing*
- *Feeding regional specificities into ACER's Framework Guidelines process*
- *Implementation*



ACER to play a coordination role

6. Implications of the 3rd Package (II)

Open issues



Timeframe

- The 3rd Package framework (Network Codes) may not be in place for another 3 years (at least)
 - RIs or “parallel developments” may diverge in the meantime, jeopardising convergence towards the Single Internal energy market

Government involvement

- Still only involved at the end of the process (Comitology)

Need for action to avoid a policy vacuum in the interim period

7. Recommendations (I)

Policy guidance



A two-tier approach should be implemented

1

***Where a vision
needs to be
developed***



2

***Where a vision
is already
shared***

- Identification of current issues
- Design of possible solutions
- Shared vision

**Governmental
Committee**

- Endorsement of a Reference Model
- No diverging developments allowed

ERGEG & NRA

7. Recommendations (II)

1. Where a vision need to be developed

- Capacity allocation and congestion management for gas
- Interoperability in the gas sector, including gas balancing
- Hub development
- Safety and operation of the transport system



**Vision to be
developed by
Governmental
Committee**

ERI Regions may contribute to the development of a vision through pilot testing

7. Recommendations (III)

2. Where a vision is already shared

- ITC mechanism in electricity
- Congestion management in electricity
- Transparency both in gas and electricity
- Balancing in electricity
- Tarification



**ERGEG to define
and endorse a
Reference Model**

**ERGEG & NRAs to
ensure consistency
of developments**

***ERI Regions should focus in implementing and
adapting the Reference Model to their regional
specificities***

7. Recommendations (IV)



The Top-down vs. the Bottom-up approach

Issues identified in the two-tier approach call for a Top-down approach

- Transparency
- Congestion management
- Tarification/ITC
- Balancing
- Etc...



Regions:

- Implementation reference model
- Pilot testing

Issues of a mainly regional nature can be dealt with through a Bottom-up (regional) approach

- Capacity expansion and investment
- Wind integration



Regions:

- Regional development

7. Recommendations (V)

Governmental Committee

Member States should have their own forum for discussing policy and implementation issues (involving changes in national legislation) at regional level

- Governmental Committee for each Region to complement the RCC, IG and SG
- Formed by Government representatives and Regulators from the relevant Member States
- Coordinated by the Commission
- Meets in advance of the RCC meetings to discuss broader strategic and policy issues
- Could be maintained even once the 3rd package framework is implemented

7. Recommendations (VI)

ERI Geographical Structure



Progress towards the Internal Electricity market calls for a streamlining of the Geographical Structure

- The benefit of overlapping regions is now questionable
- However, little point in fundamentally restructuring regions at this stage
- Parallel structures
- Where a Bottom-up approach is recommended, the current structure can be maintained
- Where a Top-down approach is now more appropriate, Regions to merge as regional markets integrate

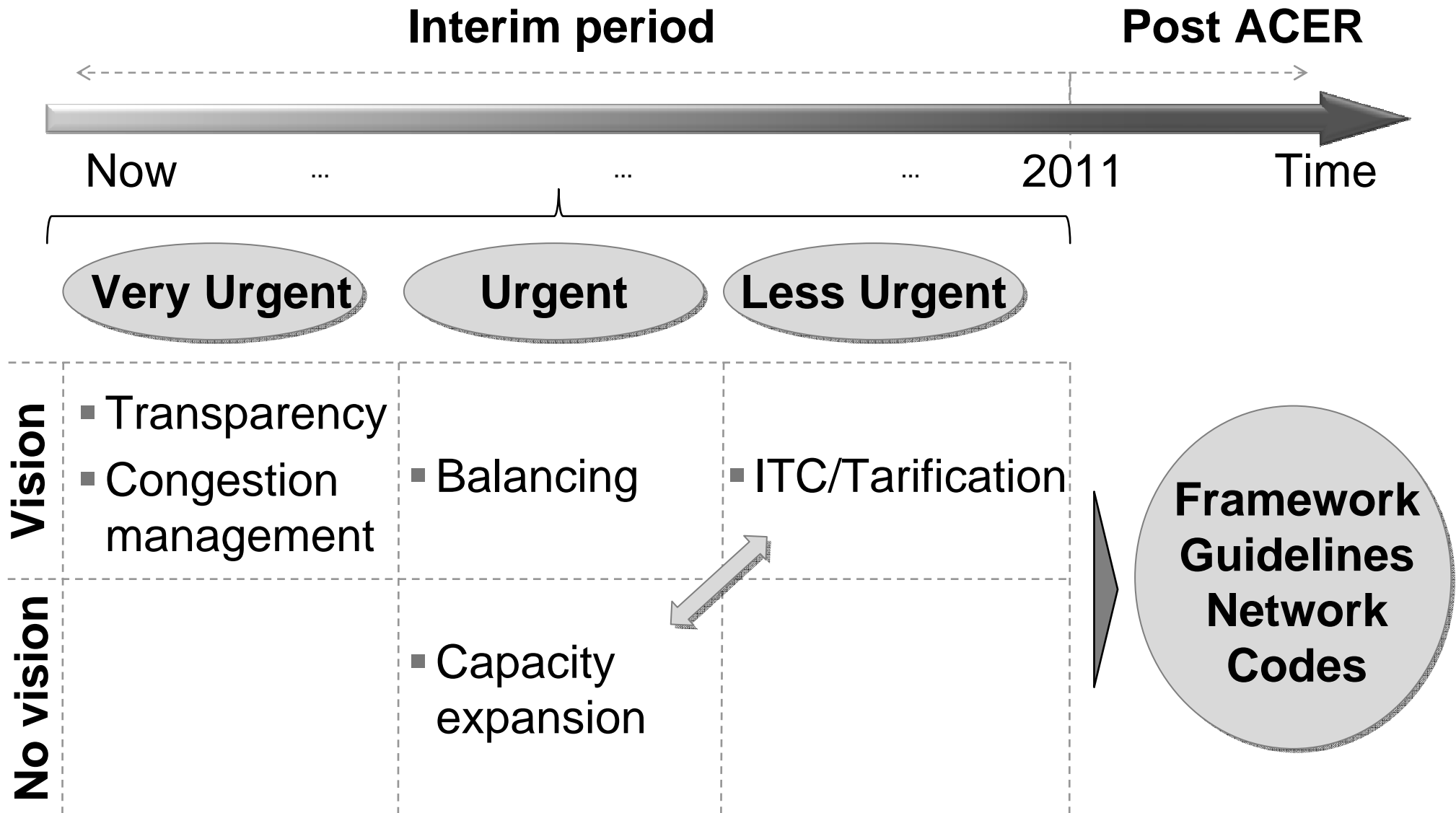
7. Recommendations (VII)

Project management and stakeholder involvement

ERGEG should develop Good Practice Guidelines for enhanced stakeholders' consultation and project management

- Draft agenda
- Written consultation documents
- Timeframe and format for circulating minutes, including specification of critical points & actions plans
- Stakeholders involvement: Procedures and timeframes
- Monitoring report to Governmental Committee
- List of open issues in which the intervention at policy level may be required

8. Roadmap for electricity





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Thank you for your attention!

