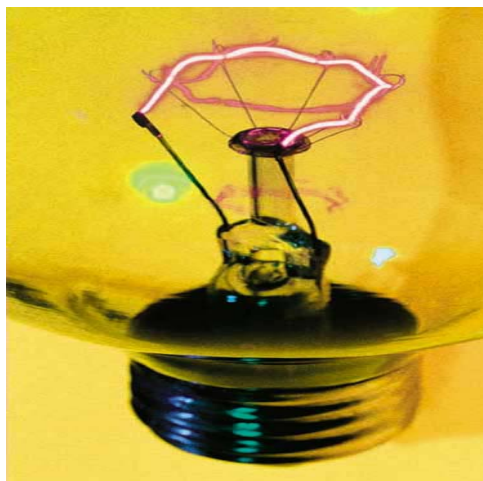
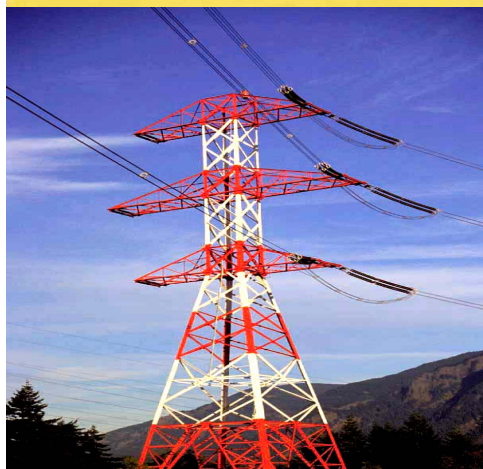




European Commission DG Energy and Transport



DG TREN Strategy Paper ***Main aspects of second draft***



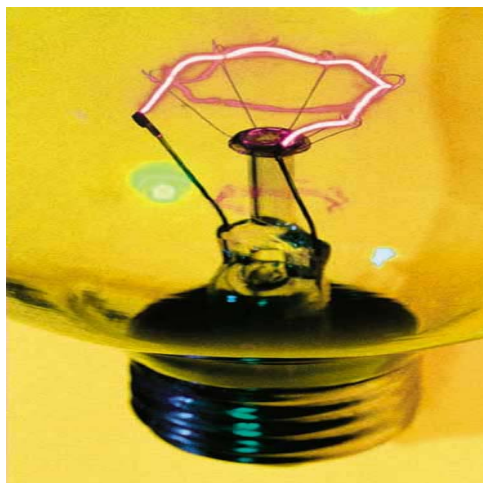
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Directorate General for Energy and Transport



Timetable

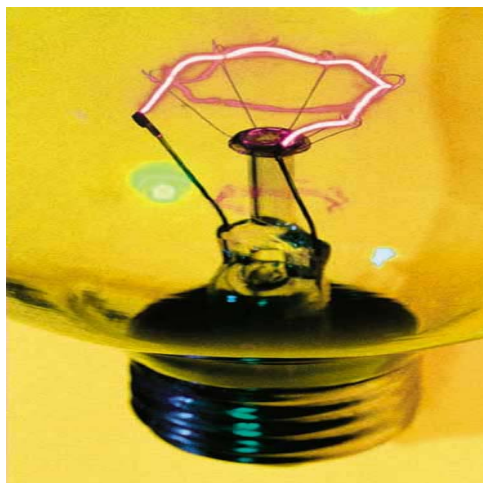


- **9/2002** *Outline document for 9th Florence Forum*
- **2/2003** *Circulation of first draft*
- **7/2003** *Second draft for 10th Florence Forum*
- **end 2003** *Publication of final version as Commission working paper*





Objective

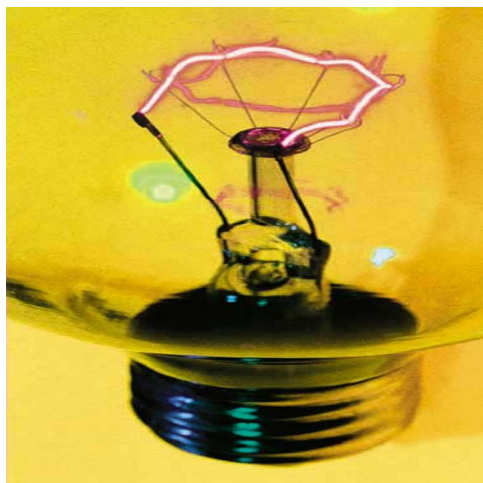


- *To set out a plan of action to deliver a functioning internal market*
- *Address issues not covered in the Directive\Regulation*
- *To achieve (broadly speaking) agreement between market participants*





Background

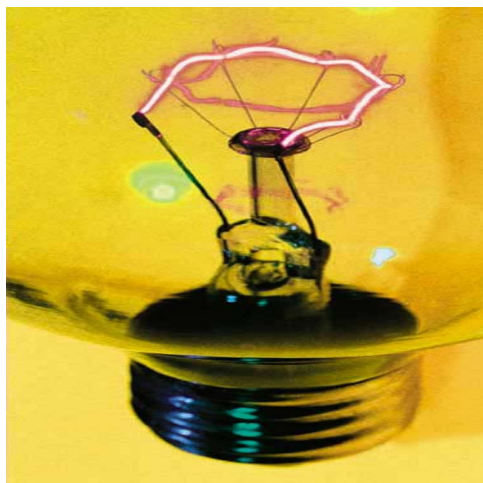


- *Strategy Paper assumes new package adopted and implemented in good faith*
- *Assumes continuation of Florence process, but adds the introduction of regulators group*
- *Continuing impact of sustainability policy*
- *Desire for wider European market*





Fundamental Issues

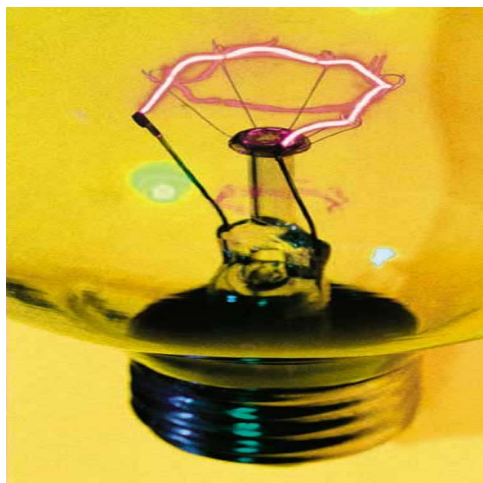


- *Cross border exchanges under the Regulation*
- *Interconnection and Market concentration*
- *Customer choice and public service*
- *Security of supply and volatile prices*





Cross border exchanges: main issues

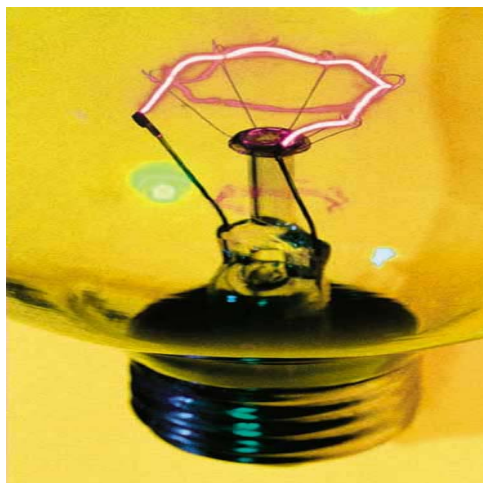


- *“Big bang” approach or regional markets?*
- *How quickly to integrate intraday market and balancing mechanisms*
- *Do we link existing wholesale markets or impose centralised trading model?*
- *Dealing with market power*





Interconnection & market concentration

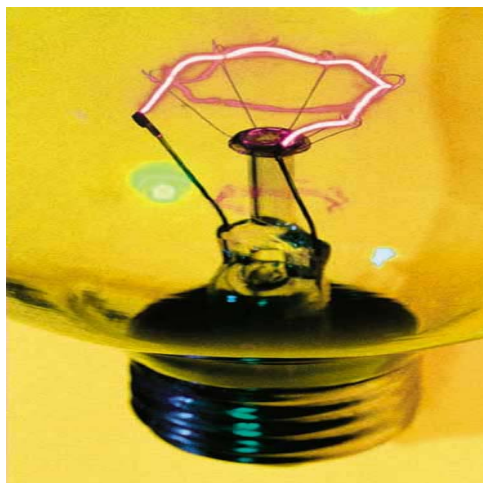


- *Who decides on interconnection projects?*
- *What regulatory\financial framework?*
- *What action to reduce concentration: VPP, divestment, swapping?*
- *How should wholesale markets be monitored? Bid caps? or more reactive approach?*





Customer Issues

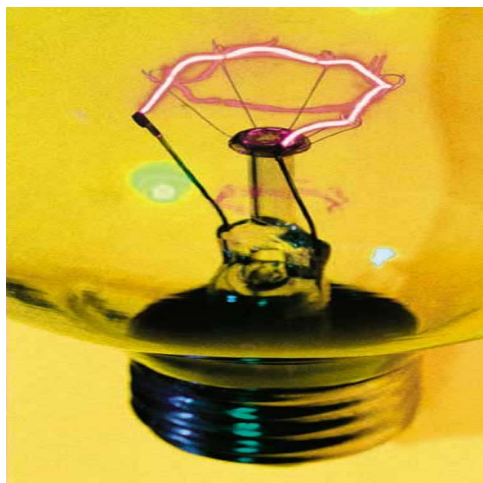


- *Trade off between ease of switching and fixed costs*
- *Default supplier, with or without end-user price controls?*
- *Contract structure between customer and supplier: fixed term or open-ended?*
- *Common supply licence structure?*





Generation adequacy

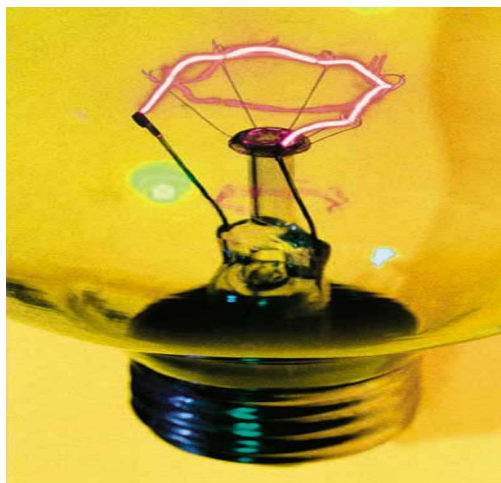


- *Intervention or not, are volatile prices necessarily bad?*
- *Should there be TSO or mothballed reserve ?*
- *Should more customers be paying the spot price?*
- *Is security of supply a subsidiarity issue?*





Conclusion



- *Need a progressive path to full market integration, including regionalisation*
- *Need for action on market structure: either new interconnector lines or other*
- *Need to decide role of end user price controls*





Conclusion



- *Need to encourage a demand response and educate consumers about price volatility*
- *Need to decide on how TSO mothballed reserve is used*
- *Need to minimise distortive impact of ongoing changes to environmental policy*

