

EREG Electricity Regional Initiative

Report to Florence Forum

22 August 2006

1. Introduction

1. The XII Florence Forum of September 2005 called for, among other things, a further development of regional markets. Accordingly, in February 2006 EREG launched its Electricity Regional Initiative (ERI). This is intended to establish functioning and effective regional electricity markets as a step which converges towards a competitive single European market. EREG is committed to an open and transparent process regarding this initiative, including reporting on developments. This paper therefore summarizes, for the XIII Florence Forum, developments and progress since the launch.
2. A full description of the rationale for, and details and ongoing progress of the ERI can be found on the EREG website¹. A summary description of the Electricity Regional Initiative is given in Annex A. Annex B contains detailed descriptions of events and progress in each of the seven electricity Regional Energy Markets (REMs).

2. Developments and progress

Summary position

3. Table 1 gives a summary of the establishment and developments in each of the 7 electricity REMs since February 2006.
4. During March and April, six of the seven electricity REMs were established. Most regulators convened Regional Co-ordination Committees (RCCs) and held a first meeting, with the lead regulator administrating and chairing the process as appropriate. The European Commission has maintained a full involvement and attendance. Each of these initial meetings established the purpose, role and process for the region. Most set out the initial view of the regulators regarding the priority issues to be tackled. In the main these initial meetings also planned for and organized the establishment of the Stakeholder Groups, and the involvement of other relevant parties such as Member States.

¹ http://www.ereg.org/portal/page/portal/EREG_HOME/EREG_RI/ERI

Table 1 - Summary Electricity Regional Initiatives Developments since February 2006

(Includes meetings scheduled before end August)	Process			Priorities		Action plan and timetable established ?	Written consultation undertaken or planned ?
	Number meetings held :			Identified ?	Consulted with Stakeholders ?		
	RCC	IG	SG	Y/N	Y/N		
Central-West: Belgium, France, Germany, Luxembourg, Netherlands	2	0	1	Y	Y	Y	Y (undertaken in the framework of the road maps)
Northern: Denmark, Finland, Germany, Norway, Poland, Sweden	1	0	1	Y	N	Y	N
France, UK, Ireland: France, Republic of Ireland, Northern Ireland, Great Britain	3	2	1	Y	Y	Y	Y
Central-South: Austria, France, Germany, Greece, Italy, Slovenia	3	1	1	Y	Y	N	Y
South-West: France, Portugal, Spain	0	0	0	Y	N	N	N
Central-East: Austria, Czech Republic, Germany, Hungary, Poland, Slovakia, Slovenia	3	2	1	Y	Y	N (To be mapped out)	N
Baltic: Estonia, Latvia, Lithuania	1	0	2	Y	Y	Y	N

5. RCCs have taken a number of different approaches to the involvement of TSOs and market operators, and the establishment of an Implementation Group. Some have invited TSOs to form one IG, to be chaired by the lead regulator, in order to pursue a dialogue. Some RCCs have established a number of IGs, differentiated according to topic. Where some particular initiatives already exist, some RCCs have chosen to use existing methods of dialogue with TSOs rather than create parallel and duplicate organisations.
6. Two RCCs have also explicitly considered the way in which their particular electricity REM would need to fit with existing initiatives. Regarding the Central-West RCC, two 'road maps' have already been established for the majority of countries comprising the Central West region, including a timetable and actions. The Central-West RCC has accordingly established its electricity REM in a way that reflects this. The Northern RCC has adapted its organizational structure and process to reflect ongoing efforts in Scandinavia to integrate national markets.

Consultation processes

7. The establishment of the ERI has in general been accompanied by a strong commitment to involve all relevant parties, including market participants and other stakeholders. Stakeholders in general reacted positively to the launch of the ERGEG ERI, seeing it as an active and useful measure to achieve further progress. Some concerns were expressed shortly after the launch by some stakeholders regarding the method and extent of consultation that would occur. These stakeholders emphasized their willingness to be involved in the process, and the need for the ERI and any solutions adopted to take account of the expert input of market participants.
8. The processes set in place by most regulators have sought to bring in views and participation of Member States, TSOs and other relevant parties. Regulators have for example sought to keep Member States informed about the initiatives and how they might be further involved. Market participants and stakeholders have been engaged with in a number of ways.
9. Consultation with stakeholders and market participants has to date been most visible through the Stakeholder Group process, and in most regions this is a 'core' consultation forum. At least one formal meeting involving stakeholders, Member State government representatives, regulators and others has been held in most regions. Participation in these Stakeholder Group meetings has in general been wide. Individual stakeholders and Europe wide groups representing market participants, traders and others have been invited to and have attended these meetings. In most cases regulators have sought to give stakeholders sight of the issues to be discussed beforehand, and to give slots at meetings for formal presentations.
10. Other processes have been and are being pursued. A number of RCCs are presently planning written consultation exercises on topics identified at Stakeholder Group meetings. Informal bilateral contacts between individual regulators and stakeholders have occurred.
11. Some stakeholders have organized themselves in ways to reflect more closely the regional structure of the ERI, in order to develop and input their views. A North West European Market Parties Platform (NWEMPP) for example co-ordinates views from market party associations in the five countries of the Central West area.
12. ERGEG has sought to make the ERI processes transparent through its website. The ERGEG website² now contains a section devoted to the ERI. This contains summary

² www.ergeg.org

information relating to the 7 REMs as a whole, plus folders devoted to each REM and meetings. EREG intends to retain this as a major element in its commitment to transparency and openness in pursuing the ERI. In due course written consultation exercises will be placed here. Some RCCs have also set up an own webpage to inform all parties involved (e.g. Central West REM).

European Commission and Member State governments

13. The European Commission has expressed its support and commitment to the aims and process of the ERI. Commission representatives have participated in all meetings of the Stakeholder Groups that have been held, and have maintained an active involvement with the regulators through the RCCs.
14. Member State governments have equally been involved in the process. Following the launch of the ERI, each regulator contacted its relevant ministry or ministries in order to inform them of the aims and process of the ERI, and to invite their active support. Following this, most regulators have maintained active bi-lateral contacts with Member State representatives regarding the ERI. Member State representatives have participated in most Stakeholder Group meetings.

Role of TSOs

15. The TSOs have played a strong role in most electricity REMs, becoming involved in the process and where relevant the IGs. TSOs have been particularly supportive of the aims of the ERI and with committing themselves to the necessary inputs. Naturally, bearing in mind a primary role for TSOs in implementing solutions and remedies to the priority projects and the scope of the overall ERI project, some TSOs have on occasion expressed some reservations about ambitious timetables for some elements of the work.

Involvement of countries outside the EU/EEA

16. Electricity REMs adjacent to Switzerland have sought to involve relevant parties in the ERI. The Central-South electricity REM chaired by AEEG, for example, has undertaken to maintain contacts with the Swiss Federal Office of Energy and to involve it in the stakeholders group meetings. The involvement of Switzerland as an observer without voting rights at RCC meetings has been proposed by AEEG but so far agreement on this matter has not been reached within the RCC.
17. The South East Europe electricity market and its links with the electricity markets of the EU are also being developed, particularly through the Athens process. The Central-South electricity REM has therefore noted the importance of maintaining contact and a deep exchange of information.

Priorities and action timetable

18. Most regions have now discussed and agreed the broad set of priority topics to be addressed in the region, together with some form of timetable and actions needed to produce remedies. The identified priority topics in general fall under the headings congestion management, interconnections, transparency, balancing, and regulatory issues. Topics have generally been assigned as a first or second priority, and the time horizon needed to address the issue has also been considered (short, medium, long).
19. Table 2 summarizes the priority topics and timetables across the seven electricity REMs.

Table 2 – Priorities and timetables

Electricity REM	Congestion Management	Interconnections	Transparency	Balancing	Regulatory	Other	Timetable
<u>Central-West:</u> Belgium , France, Germany, Luxembourg, Netherlands	<ul style="list-style-type: none"> • ‘Road maps’ – facilitate functioning of explicit auctions (1st) • Implement flow based co-ordinated auctions (2nd) • Sound cross border redispatch across 5 countries (2nd) 	<ul style="list-style-type: none"> • ‘Road maps’ – maximize use of and increase transfer capacities (1st) • Common cross border capacity calculation for 5 countries (2nd) • Single auction office (2nd) 	<ul style="list-style-type: none"> • Increased transparency in entire region (2nd) • Harmonization and improvement of data exchange (2nd) 		<ul style="list-style-type: none"> • ‘Road maps’ – regulatory monitoring and cooperation (1st) • Enhanced regional market monitoring (2nd) 	<ul style="list-style-type: none"> • Implement ‘road maps’ (1st) 	<ul style="list-style-type: none"> • Timetable set out to oversee implementation of ‘road maps’. • TSOs to submit plan for flow based allocation • Further action plan for other priorities
<u>Northern:</u> Denmark , Finland, Germany, Norway, Poland, Sweden	<ul style="list-style-type: none"> • Optimizing use of interconnectors (1st) 	<ul style="list-style-type: none"> • Cooperation on investment in new interconnectors (2nd) 	<ul style="list-style-type: none"> • Transparency in wholesale market (1st) 	<ul style="list-style-type: none"> • Consider need for joint intra-day and balancing markets (2nd) 		<ul style="list-style-type: none"> • Cooperation on integration of major shares of wind energy (2nd) 	<ul style="list-style-type: none"> • Timetable and road map to be decided at 31 August RCC
<u>France, UK, Ireland:</u> France, Republic of Ireland, Northern Ireland, Great Britain	<ul style="list-style-type: none"> • Implement CM Guidelines (1st) 	<ul style="list-style-type: none"> • Coordinate auctions (1st) • Investment in new interconnectors (2nd) 	<ul style="list-style-type: none"> • Implementation of EREG GGP on Transparency (1st) 	<ul style="list-style-type: none"> • Introduce reciprocal access to balancing markets (1st) • Consider coherent imbalance pricing (2nd) 		<ul style="list-style-type: none"> • Consider coherent transmission tariff charging (2nd) 	<ul style="list-style-type: none"> • Initial timetable mapped out to deal with 1st priority issues

Electricity REM	Congestion Management	Interconnections	Transparency	Balancing	Regulatory	Other	Timetable
Central-South: Austria, France, Germany, Greece, Italy, Slovenia	<ul style="list-style-type: none"> Improvement and harmonization of cross border CM methods (1st) 	<ul style="list-style-type: none"> Development of new interconnector infrastructure (2nd) 	<ul style="list-style-type: none"> Transparency and wholesale market data publication (2nd) 	<ul style="list-style-type: none"> 'Road maps' – implementation of cross-border intraday and balancing trade (1st) 	<ul style="list-style-type: none"> 'Road maps' – regulatory monitoring and cooperation (1st) Enhanced regional market monitoring (2nd) 	<ul style="list-style-type: none"> Implement 'road maps' (1st) Trilateral Market Coupling Fr-NI-Be (1st) 	<ul style="list-style-type: none"> 'Road maps' – implementation of cross-border intraday and balancing trade (1st)
South-West: France, Portugal, Spain	<ul style="list-style-type: none"> Improvement of cross border CM methods (1st) 	<ul style="list-style-type: none"> Availability of transmission capacity (1st) 	<ul style="list-style-type: none"> Transparency issues (1st) 	<ul style="list-style-type: none"> Cross border balancing of traded volumes (1st) 	<ul style="list-style-type: none"> Compatibility of market rules (1st) 	<ul style="list-style-type: none"> Analysis of measures adopted in region to improve security of supply 	<ul style="list-style-type: none"> All topics to be included with framework and timetable of MIBEL project
Central-East: Austria, Czech Republic, Germany, Hungary, Poland, Slovakia, Slovenia	<ul style="list-style-type: none"> Improvement of efficiency and monitoring of cross border CM methods (1st), implementation of CM Guidelines requirements, load flow based capacity calculation 		<ul style="list-style-type: none"> Improvement of wholesale market and cross border access transparency situation in line with ERGEG GGP on Transparency and Information management (1st) 	<ul style="list-style-type: none"> Balancing markets (2nd) 	<ul style="list-style-type: none"> Consideration of regulatory gap and responsibilities of regulators for cross border issues (1nd) 	<ul style="list-style-type: none"> Consideration of barriers to entry (traders and generators) (1st) 	<ul style="list-style-type: none"> To be mapped out
Baltic: Estonia, Latvia, Lithuania		<ul style="list-style-type: none"> Cooperation between network operators (including cross border issues and availability of transmission capacity) (1st) 	<ul style="list-style-type: none"> Availability and control of information (1st) 		<ul style="list-style-type: none"> Consideration of access to grids, balancing rules in national legislation (1st) 	<ul style="list-style-type: none"> Market developments and compatibility with national legislation (1st) 	<ul style="list-style-type: none"> Initial timetable set out to deal with priority 1 issues

Coherence and convergence

20. Bearing in mind the overall long term aim of creating a single EU wide competitive electricity market, it is important that the seven electricity REMs adopt coherent solutions to the identified issues and that regional integration converges towards overall EU market integration. EREG has therefore sought to put in place mechanisms to monitor these issues and so encourage coherence and convergence. EREG consultations and Guidelines for Good Practice for example set broad frameworks for the treatment of certain issues across the EU, for example concerning balancing market integration and transparency. Overall monitoring, discussion and exchange of experience is also maintained at the EREG and working group level. EREG plans to address coherence issues more directly during 2007.

Impediments encountered

21. Although the TSOs have in the main been fully engaged and have been fully supportive, EREG notes that the current difficulty faced by the Central-South RCC in finding a common agreement on the involvement of the Swiss TSO (Etrans) in the Central-South REM represents a serious issue to be solved in order to finalize a road map for the Central-South Electricity Market.

4. Summary

22. In summary :

- Six out of seven electricity REMs have been fully established, including involvement of the European Commission and Member State governments
- Consultation practices are running
- TSOs have in the main been fully engaged and have been fully supportive
- Priority issues have been identified, but not everywhere yet consulted with stakeholders
- Timetables for action to address the priority issues have been established in some regions but not in others
- Further action therefore remains to complete the identification of priorities and establishment of action plans

Annex - Summary description Electricity Regional Initiative

23. EREG identified 7 regional electricity markets, each with an identified lead regulator :

Region	Countries	Lead Regulator
Central-West	Belgium, France, Germany, Luxembourg, Netherlands	CREG (Belgium)
Northern	Denmark, Finland, Germany, Norway, Poland, Sweden	DERA (Denmark)
UK & Ireland	France, Republic of Ireland, UK	Ofgem (GB)
CentralSouth	Austria, France, Germany, Greece, Italy, Slovenia	AEEG (Italy)
South-West	France, Portugal, Spain	CNE (Spain)
Central-East	Austria,Czech R,Germany,Hungary,Poland,Slovakia,Slovenia	E-Control (Austria)
Baltic	Estonia, Latvia, Lithuania	PUC (Latvia)

24. EREG's intention is that each of these regions forms a platform where relevant parties - regulators, market participants, consumers, Member States, the European Commission, and other stakeholders – can be brought together in order to identify and remedy barriers to progress towards competitive electricity markets in each region. Action and input will be required from all these parties if progress is to be made.
25. The focus is on the practical issues that are most important to the further development of effective competition. Progress under the ERI is also intended to recognize the over-riding principle that regional markets must be compatible with the eventual goal of a single European market.
26. Accordingly, the regulators in each region plus a representative of the European Commission have formed a "Regional Co-ordination Committee" (RCC), chaired and administrated by the lead regulator. The RCC has a primary role in bringing together the other relevant parties, ensuring that all parties have a voice and are consulted, and in pushing forward the necessary actions to agreed timetables.
27. In each region, groups have also been established for stakeholders and for network operators. The Stakeholders Group in each region is intended to act as an arena and focal point for collecting and disseminating views from all interested stakeholders regarding the ways in which the regional market may be further developed. Formal meetings of the Stakeholder Group will be a principal forum for the expression of stakeholders' views. Formal written consultation exercises and bilateral contacts between stakeholders and regulators are also envisaged.
28. Given the principal role of TSOs and the likely need for them to undertake action to implement solutions to market problems in a region, an Implementation Group ('IG') comprising TSOs and other market operators as necessary, as well as regulators, has also been established in each region.
29. The electricity REMs build on existing work, including the 'minifora'. They are not intended to replace existing regional projects (such as Nordpool, Mibel and Belpex), but will develop projects in other regions, and provide an opportunity for existing projects to be enhanced and extended. The electricity REMs will operate alongside other initiatives which are underway or are proposed in South East Europe and in the Euromed area.