

CONCLUSIONS

Twelfth Meeting of the European Electricity Regulatory Forum Florence, 1-2 September 2005

The twelfth meeting of the European Electricity Regulatory Forum took place in Florence on 1-2 September 2005, with the participation of representatives of the Commission, Regulators, Member States and all interested parties.

Representatives of the regulatory authorities and responsible ministries of candidate countries participated also in the meeting of the Forum, with a view to assisting these countries in preparing for full participation in the internal electricity market. In addition, representatives from Switzerland were also present.

Commissioner Piebalgs, responsible for Energy, participated on the second day.

The UK Presidency of the Council, in its introduction, underlined the need for continuous commitment to the ongoing process of creating a real internal market and to address rapidly the outstanding issues.

1. Evaluation of the European electricity market

Commissioner Piebalgs underlined the importance and the achievements of the Florence Forum and underlined its continued importance as a unique event providing an opportunity for all interested parties to discuss openly all issues relevant for the further development of the EU electricity market. He emphasized also the size of the task that the Community had set itself in developing a competitive electricity sector noting that, although a great deal of progress had been made, the task was not yet completed. Competition had clearly yielded benefits. Industry has improved its efficiency and prices have fallen in real terms for most consumer groups, even if notably the current working of wholesale markets merits careful consideration. The Commissioner pointed in this context to the competition sector inquiry that the Commission has launched in June 2005 and the internal market report on the effects of the regulatory framework which it will submit by the end of this year. The Commission would then examine what action needed to be taken by the Commission as a result. Commissioner Piebalgs also underlined other objectives of energy policy, notably security of supply and sustainable development. He referred in this context to the recent Green Paper on energy efficiency.

The Commission (DG Competition) presented the state of play of the energy sector inquiry based on the Commission's competitions powers. The inquiry is being undertaken in parallel with the preparation of the report to evaluate progress in creating an internal market under the electricity directive. It addresses the indications of possible market malfunctioning identified during the Forum's discussions. The Commission will present preliminary findings of the inquiry in December 2005.

Forum participants then presented their proposed input to the two reports of the Commission to be published on electricity market functioning. The Commissioner promised that these views would be addressed in these reports and that any stakeholder

wishing to discuss these views with him personally during this period would have the opportunity to do so. He went on to say that he hoped that the internal market report itself would allow for a further period of consultation and reflection before any further substantial measures would be prepared.

2. Development of regional markets

- a) The Commission presented a summary of the outcome of the *Mini-Fora*. These Mini-Fora been agreed at the last Florence Forum in September 2004, and took place in the end of 2004 and in the first half of this year. Overall the Mini-Fora delivered good results even though the target of co-ordinated day-ahead capacity allocation in the whole EU has not yet been achieved. Actions agreed in the Mini-Fora have been followed-up with only few exceptions. Firstly, there are plans now for all interconnectors with non-market based capacity allocation methods to move to market based methods by the beginning of 2006. Secondly, considerable improvement of the co-ordination of the congestion management methods is foreseen by the beginning of 2006, notably in Central Eastern, Southern and Western Europe. Finally an introduction of implicit auctions is foreseen between France, Belgium and Netherlands. Between the Nordic countries and Germany a pilot project based on implicit auctions will be launched.

The Forum supported an approach whereby the short term focus would be on the follow-up of the first round of Mini Fora and the organisation in 2006 of at least one new round of Mini Fora, with adequate participation of all market actors, and with an extended mandate.

- b) ERGEG presented a consultation paper on the development of regional markets in the EU electricity market. The deadline for the submission of written comments was 31 August 2005 and several papers had been received.

Participants generally welcomed the discussion paper that had been published by ERGEG and noted the open, transparent and professional consultation process that had been implemented. They provided the following comments:

EURELECTRIC presented its road map towards a pan-European electricity market. This road map advocates a process of parallel progress at European, national and regional level to achieve well coordinated regional markets, leading finally to integration at EU level.

ETSO expressed its support for the creation of regional market and underlined in this context the need for increased harmonisation of national legislation, equilibrium between rights and obligations for TSOs and further development of the network, which is mainly hampered by difficulties to obtain building permits. ETSO supports the Mini Fora process. The number of participants needs to remain small but input from all market participants should be considered.

IFIEC underlined that the only way to increase the degree of competition is stimulating cross-border competition in regional markets. In a regional market, congestion management should be based on re-dispatching and paid by general

transmission tariff, a view that was shared by GEODE. IFIEC, as a transitional solution, also presented an alternative process for capacity allocation through auctions. Loop flows need to be reduced to increase available transfer capacity. UNICE pointed out that electricity is the only commodity in Europe where transport is a serious problem and stressed the need to ensure actual technical expansion and better utilisation of cross-border capacities.

GEODE advocated the creation of a single TSO as a final step for the internal market. CEDEC underlined the need for a proper regulatory framework securing future investments for independent DSOs. CEDEC noted that the largest part of the network is distribution and DSOs play a crucial role in metering and consumer data exchange.

EFET argued all unnecessary administrative barriers should be removed and the importance of having both, explicit auctions for longer term capacity and implicit auctions for ensuring maximum utilisation of short-term capacities.

EUROPEX highlighted the importance of effective wholesale markets for regional market integration.

EPSU argued for a prudent approach, voiced its scepticism on the benefits of the internal market and the importance of addressing governance issues.

UNICE suggested a structured monitoring process of all cross-border interconnection projects by the Forum. UNICE, CEFIC and IFIEC expressed their concerns about the impact of emission trading on electricity prices and proposed that these should be discussed at the next Florence Forum meeting.

UCTE explained that not only development of lines is important but also the pattern of generation with the objective to get a balanced amount of competitive generation in all areas.

Germany pointed out that regional integration measures should not undermine existing single price regions.

- c) The Swiss representative gave an overview on the state of the legislative process in Switzerland with respect to market opening. The respective draft laws are likely to be adopted by Parliament by the end of this year and in 2007 the Swiss market would be organised in a similar way as the EU market. First discussions on the conclusion of an agreement with the EU on a participation of Switzerland in the internal market have taken place. Swissgrid has been set up and is supposed to become the single Swiss TSO under the new legislation. Currently a new balancing system, based on EU standards, and auctions at the Swiss-German border are under preparation, intended for introduction on 1 January 2006.
- d) The Forum stressed the need for increased and accelerated harmonisation or compatibility of rules, as well as national legislation, and involvement of and cooperation between governments and between governments and regulators in the development of regional markets.

Participants also highlighted the need for increased transparency, in view of creating a functioning and fair market. ETSO promised to provide, by November 2005, a list of the data TSOs need to ensure an optimal use of the existing infrastructure, as an input to the consultation process on the ERGEG discussion paper on regional markets. EURELECTRIC agreed to provide a list of information that it considers market agents need to have in order to trade efficiently, where possible in co-ordination with traders, power exchanges and customers, with the aim to provide this list by November 2005.

Taking into account these inputs as well as other comments received in the course of the consultation round, ERGEG will further develop the paper on regional markets.

The Forum confirmed the importance of different regional activities and Mini-Fora, and welcomed the results achieved thus far. While praising single and pragmatic approaches on a case by case basis, the Forum underlined the need to monitor progress and compatibility of regional solutions, in the perspective of a single EU market.

3. Guidelines to be adopted under the electricity Regulation

The Commission gave an overview on the state play of preparation of the guidelines to be adopted under the electricity Regulation.

Concerning congestion management and transmission tarification, it was noted that ERGEG had already submitted its advice to the Commission at the end of July 2005, following consultation of all interested parties. The Commission explained that it is currently establishing the final draft version of the guidelines on congestion management and intends to adopt the text of the congestion management guidelines by the end of this year via the Comitology procedure.

Forum participants congratulated ERGEG on the work done. The Commission was encouraged to adopt guidelines on congestion management on this basis as soon as possible. Future evolution should be encouraged, especially in relation to any outcome of the above discussions relating to regional markets. Increased compatibility was considered to be necessary to develop functioning regional and European markets. ETSO also raised the issue of correct incentives to be given to TSOs to make available firm capacity.

Participants raised the question of the recent judgement of the Court of Justice on priority allocation of cross-border network in favor of pre-liberalisation contracts. The Commission noted that it is currently examining the practical consequences of the judgement and has already asked CEER position on this matter and the practical consequences, including coordination of the Regulators. In any case, the congestion management guidelines that the Commission intends to adopt under comitology procedure will take account of the judgement.

The Regulation requires the guidelines on inter-TSO compensation mechanism (ITC) and tariff harmonisation to be adopted at the same time. A report on ITC being prepared by a consultant for the Commission, which will be an input to ERGEG's advice, will not be ready before end of September 2005. After receipt of ERGEG's advice, the comitology

procedure could be launched at the end of the year and adoption in early 2006. The Commission explained that it had requested ETSO to continue applying the 2005 mechanism for a part of 2006, awaiting the entry into force of the guidelines.

ETSO agreed that the current mechanism could be extended into 2006 if regulators agree. ETSO also highlighted the necessity for a participation of Switzerland and the need for the mechanism to be compatible with developments in the Energy community of South East Europe.

EURELECTRIC expressed their disappointment with the degree of harmonisation proposed by ERGEG in the tariffication guidelines and called for further, rapid progress in the area of harmonisation in general.

4. Security of electricity supply and network operational standards

The Commission presented the Directive on Security of electricity Supply, for which an agreed text now existed between the Council and Parliament. The Commission noted the various interactions between the new Directive and existing legislation. It also set out the new requirements on Member States that would result from its entry into force. The Commission announced its intention to produce an interpretative note.

UCTE presented the progress it had made on the Operational Handbook. A multilateral agreement on phase 1 of the handbook (sections 1 to 3) was signed by the UCTE members on 1 July.

The remaining part of the handbook (sections 4-8) should be agreed by the end of 2005. An important part of this section will be the application of the N-1 contingency analysis on a regional basis. An expert team is currently working on this issue.

A Compliance Monitoring and Enforcement Programme is also an integral part of the multilateral agreement. A formal procedure to verify compliance will be set up by the end of 2005.

ERGEG referred to the paper it had issued on the UCTE Operation Handbook with recommendations concerning the implementation and further development of operational rules, in order to ensure the required compatibility between the rules and the overall regulatory framework.

The Forum congratulated the work of the UCTE in this area. Participants stressed the need for compatibility between these operational standards and guidelines relating to congestion management as well as compatibility with the regulatory framework. Effective procedures are also required to update the operational rules as markets develop. EFET in particular, noted that effective operation of the network requires a high level of communication between TSOs of forecast network use.

EPSU underlined the need for effective maintenance and training of staff to prevent that skill shortages appear, referring to the study of the social dialogue committee with EURELECTRIC.