



Key interactions and potential trade distortions  
between regional electricity markets

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**Rome, 16 September 2004**

# Introduction: the paper

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High level views on:

- Identification of key areas of interaction between regional electricity markets
- Priority areas for action to help integrate markets
- Mechanisms to facilitate progress

Initial conclusions on:

- Roles of TSOs and Regulators
- Possible "regulatory gap"

And proposals for action

# Approach

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## Methods of analysis

- 'stylized trades'
- use of existing analyses
- talk to industry / interested parties

## Key areas of interaction

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Analysis focused on:

- Wholesale markets
- Transmission access and tariffs (including investments)
- TSO-TSO co-ordination
- Balancing mechanisms

Retail markets not considered in depth because not yet fully open across EU. However, it is recognised that retail markets can be a source of market distortions.

## Initial conclusions (1): Priority areas of interaction

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Priority areas identified:

- Interconnector capacity and investment cost recovery
- Transmission access rights
- Tariffs
- Market design issues
- Capacity allocation across borders
- TSO to TSO interactions
- Balancing market interactions

# Network interactions

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## Connection and use of system charges

- Many principles, few 'correct' ways to set charges

## Access rights

- 'firmness' and duration of rights vary

## Investment

- TSOs rarely obliged to take into account Regions outside their zone of operation

## Cross border charging

- Covers only a subset of required arrangements

## Transparency

- Differences may distort trade

# Wholesale markets & TSO to TSO

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Choice of wholesale markets varies markedly, e.g. mandatory Pool versus bilateral trades

Ad hoc measures may introduce further differences e.g. Price caps, policies on security of supply

TSO to TSO co-ordination – stronger co-ordination could facilitate inter-Regional trade by, for example, allowing TSOs to foresee, allow, and accommodate commercial transactions against operational needs. Also crucial for security of supply.

# Balancing

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## Gate closure / operation window

- Constrain trade where these are different

## Pricing mechanisms

- Differences can introduce inefficient arbitrage opportunities

## Cross border balancing

- Interconnector inflexibilities

## Initial conclusions (2): 'regulatory gap'

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- Normal role of TSOs and regulators can break down at borders:
- Obligations on TSOs (eg to build infrastructure) may not exist at borders
- Regulators may not have powers to ensure TSOs get a fair return on cross border investments
- Regulators may not have powers to oversee operations of TSOs at borders (such as collecting data or enforcing compliance)
- Concept of 'regulatory contract' can break down

## Next steps

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Pragmatic approach building on existing competencies:

- Refine understanding of priority areas of interaction
- Develop approaches to overcome possible distortions to trade in priority areas
- CEER would welcome input and advice from ETSO, EFET and others

# Summary

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CEER supports regional markets approach in Commission strategy paper

There is no clear definition of regions. Development depends on bottom up approach and initiatives from member states

Political support and close co-operation between regulators and TSO will be crucial

A clear framework – including a regulatory framework covering border issues – needs to be established