

# **E.ON's response to ERGEG's Draft Strategy for Delivering a more Integrated European Energy Market: The Role of the Regional Initiatives**

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The E.ON Group welcomes ERGEG's draft strategy which allows a fundamental discussion in which direction regional markets should further proceed and how changes through the 3<sup>rd</sup> package should be incorporated.

Although we see progress in the development of gas and electricity regional markets, we think that key drivers are not fully used to accelerate the overall integration process. Our comments reflect therefore the wish to promote an efficient internal market for gas and electricity by applying market-acknowledged best practice. We furthermore want to stress the need to focus on urgent priorities in order to proceed with concrete steps towards integration.

## **Set 1**

**Do you consider that a high level/strategic vision is needed to set the overall direction of market integration?**

We are convinced that a detailed vision on how to implement the political goal of an integrated European Energy market is absolutely fundamental for the overall direction of market integration although it might be difficult to be achieved. A common strategy is indispensable to guide issues like for example integration and convergence of markets, increase of cross border trading and security of supply. In the past the Regional Initiatives made valuable contribution to further regional market integration. Nevertheless, the speed between the regions was different. A continuously check of the current progress of each region and fit to the overall strategy would clearly promote the convergence of the different regions. Experiences the consideration of basic principles of markets like competition, unregulated prices, market-based promotion schemes for renewables and transparency are essential for further market integration. We feel that particularly the interference into price formation processes at the end-consumer level increases. This development leads to further deterioration of competition and prices on the wholesale level as well.

**Should this vision be the same in gas and electricity?**

In principle the vision could - but should not per se - be the same. The differences between the electricity and gas markets should be taken into account. In the electricity sector there is already a target model on key elements on congestion management and cross border trading along different time horizons (PCG process). Security of Supply aspects for gas markets e.g. are highly relevant due to the strong European import dependency and differs from electricity market needs by which wind infeeding plays a major role. Also the different maturity and geographical positions of gas markets lead to different infrastructure investments within the countries. Therefore, for the gas

sector there should be a shared vision of main believes regarding increased transparency, market based rules for balancing and capacity allocation and the management of congestions at cross-border points. However, some bottom up approach is needed.

**How do you think it should be formed, and who should be involved? Which sort of forum do you think would be appropriate for the development of such a strategic vision?**

We consider the involvement of market participants as a crucial issue to achieve practical solutions in line with overall European strategy. Additionally, an in-depth involvement of governments in strategic issues is indispensable. Many workstreams, which aim at achieving the strategic vision, will end up with some kind of required change of national laws, regulations etc. If national governments do not share the overall direction and are willing to adapt national legislation there will be no chance to achieve indeed full market integration. Member States are crucial by creating a level playing field in Europe. In order to keep process lean additional new groups for Member States or processes should be avoided.

At working group level it should leave sufficient freedom to pick and choose pilot projects and reach harmonized solutions on specific issues in all/some Member States or regions and to move forward at different speed.

Ideas could be submitted from the existing 'regions' but a small group, chaired by the EC and/or ERGEG, with EU-wide representatives of stakeholders should prepare the draft vision for approval by the next Madrid and Florence Fora (before the end of 2010).

We support the idea that "Stakeholders, as the users of the energy markets, must have a significant influence over the shape of the reforms needed to achieve a single European energy market, and on the overall direction of change" as stated in the consultation paper. As no formal institutional role is given to stakeholders in the third package, we consider essential their involvement in developing a strategy and in monitoring its implementation.

**Do you see a risk that developing a strategic vision may delay implementation in the regions under current structures, or that it could facilitate progress?**

Indeed, there might be a risk that ongoing projects need to be adjusted and re-directed or, simply, projects await the final outcome before they will be continued. However, the risk is more of theoretical nature as many projects serve the interest of market participants and market integration (e.g. secondary capacity platforms in electricity and gas, market coupling, continuous intra-day platforms, transparency). At the end a clear way forward will accelerate an integrated European market. Nevertheless it will be essential to stop the strategic vision expanding into a lengthy guideline.

## Set 2

### **Do you agree that Member States should be more closely involved in the work of the Regional Initiatives? If so, how should this happen?**

Yes, we fully agree with a closer involvement of Member States in all regions where this is not the case today. The Nordic energy council and PLEF e.g. are well functioning. As stated before, we expect from national governments an agreement to the strategic vision, political support for implementation steps and the willingness to harmonize the national legislation and to adapt national legislation to the need of the overall strategic direction. It's fundamental that Member States give their support to regulators, as institutions practically responsible to implement technically the overall design, in pursuing the objective of market integration on regional and EU scale. Practically national governments representatives should participate adequately, under the actual Regional Initiatives organization, at the Implementation Group (IG) meetings. But Member States should be not involved in regulatory details in market design such as the discussion of auction rules, products etc. but heavily when it comes to energy policy issues like end-consumer price regulation.

More generally we believe Member States should have a prominent role in harmonization. Their legislation concerning electricity and gas markets should move from a predominantly national approach towards the approach of establishing a single EU energy market. Namely the objective of integration should prevail on mere national issues that, in some cases, hinder the possibility to integrate markets and thus to reach wide competition and efficiency

## Set 3

### **How should the number of regions in the ERGEG Electricity Regional Initiative evolve towards a single market? Should the number of regions be reduced?**

This is mainly a problem for the electricity markets. Overlaps (Countries that are part of more than one Region) have led to a less effective approach, consumed high amount of resources, reduced coordination between regions or even some regional initiatives have been limited to solve issues between two countries. We suggest that some regions could be merged, so that it can be easier identifying clear commitments and focus on regional and cross-regional integration issues. The current number and geographical scope of gas regions seems appropriate.

Nevertheless – with weighting efforts and benefits - we would avoid a debate on the merger process. As this would probably consume resources, delay real progress and affect already started actions.

We think an alternative can be to identify some key topics relevant for the European market integration and to drive the relevant harmonization across the regions. An example is the co-ordination on a price coupling solution for day ahead markets for Nordic-, CEW- and Milbel- region. The more sensible alignment across Europe is achieved, the less the previous regional market structure is needed anymore. Anyhow,

it is clear that with binding network codes an overlap of different rules is no more possible.

**And/or should specific topics firstly be merged across the regions? Which regions do you think should be merged or topic areas reconfigured, and what criteria should be used in reaching a view? How many regions should result initially, and what topics might be reconfigured?**

Apart from aspects which should be part of the strategic vision as outlined further above, we believe that quick wins can be achieved through a merge of the following topics across Europe

- **Insurance of harmonized transparency standards across the EU** by mandatory implementation, definition of terms used to secure data consistency, and standards of frequency of updating.
- **Simplification or even abolishment of all wholesale trading license requirements** in Europe to avoid the need for trading companies to establish subsidiaries, branches etc. and to remove an obstacle to trade, particularly for smaller companies
- **Promotion of cross-border power and gas infrastructure investment** by more attractive and reasonable regulatory and permission practices

#### Related to electricity

- **Harmonized set of capacity products** with yearly, monthly, daily and intra-day allocations. In this light bi- or tri-annual products should be also considered.
- **Single set of auction rules** for explicit yearly and monthly, and where still in place, daily capacity auctions, particularly clarifying terms like force majeure, financial firmness with full compensation at market spread in case of post-allocation curtailment, provision of securities, use-it-or-sell-it (UIOSI) or use-it-or-get-paid-for-it (UIOGPFI) etc.
- **Elaboration of a single implicit intra-day trading platform** allowing continuous trading from one country to another by using remaining cross-border capacities

#### Related to gas

- **Harmonised transparency requirements** as a precondition for further market rules to be harmonized e.g. capacity allocation or balancing rules.
- **Harmonized set of capacity products** subject to market-base allocation practices with well-aligned rules
- **Balancing rules** including transparency provisions on balancing

## Set 4

**Do you agree that the regional market initiatives which are outside of the ERGEG Regional Initiative should be incorporated in some way in the overall approach to achieving a single European energy market? How do you think this should happen? If you disagree, what role do you think these initiatives should have and how do you think convergence of European markets should be achieved?**

For the time being, we feel that all countries are covered by any regional initiative in some way. However, it would be beneficial if the European Commission would conclude a contract with non-EU countries to incorporate them also formally in the ERI/GRI structures. Otherwise it could happen that voluntary and with a lot of effort agreed rules are at the end of the day worth nothing as they are not enforceable. Processes should be streamlined and parallel discussions for regions be avoided.

## Set 5

**Could ACER improve co-ordination across the regions in a better way than is proposed in this paper?**

In general greater coordination across regions is necessary. The creation of regions allowed different regions to work at various speed; this encouraged integration within some regions. But on the other hand gaps between regions have been increased and there's a high risk that an overall harmonized framework could be more difficult to achieve. ACER involvement is however necessary to make top-down (third package) and bottom-up (regional initiatives) approaches to be complementary, avoiding inefficient overlaps and to solve possible disputes between regulators as required in the 3<sup>rd</sup> package.

The primary focus of the regional initiatives shall remain practical implementation of the EU vision of a single energy market. We don't see the need to establish any new forum on a regional basis, neither between the structures provided with the third package (ACER, ENTSOs) nor with the stakeholders.

Finally, we believe that a concise strategy made of a few and clear points is needed to set the overall direction of market integration and, within this, the future role of Regional Initiatives. In this light, we propose:

- The improvement of governance in Regional Initiatives. In order to increase national regulators' commitment it is fundamental that Member States are asked to contribute to regional cooperation, through the involvement of national governments in the Implementation Groups.
- A better stakeholder involvement is necessary to ensure feedbacks on practical implementations and to highlight issues that still remain on the way to integrate markets.
- Operational and organizational improvements, in respect of the two abovementioned suggestions, establishing effective internal working arrangements within the Regions to ensure that the overall aims of legislation are implemented consistently and in a cost-effective way.

- Concerning Electricity, merging Regions could be useful to avoid overlaps and increase effectiveness even if coordination across regions should be even more important to ensure convergence on specific topics and thus strengthened.
- We suggest a pragmatic project approach to ensure further developments in market integration. Most developed Regional initiatives should work on how to integrate with other regions/countries, also on specific aspects; less developed Regions should concentrate on solving internal obstacles in the light of the best practices adopted in most developed regions to ensure convergence towards integration.