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European Regulators' Group for Electricity and Gas  
Council of European Energy Regulators ASBL  
28 rue le Titien  
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29 January 2010

Dear Fay

**Draft Strategy for delivering a more integrated European energy market: The role of the Regional Initiatives**

EDF Energy welcomes this Draft Strategy paper and its overall intent to review the role of the Regional Initiatives (RI) in implementing the 3rd package and strive towards creating a fully integrated single energy market.

EDF Energy is one of the UK's largest energy companies with activities throughout the energy chain. Our interests include nuclear, renewables, coal and gas-fired electricity generation, combined heat and power, electricity networks and energy supply to end users. We have over five million electricity and gas customer accounts in the UK, including both residential and business users.

EDF Energy responded to ERGEG's Regional Initiatives Progress Report in December 2009 where we supported the work of the RIs which in our view has been beneficial in expediting the integration of markets by implementing the objectives of the 2nd and 3rd EU Energy directives. We agree that it is a good time to review the role of the RIs, as well as other institutions mentioned in the consultation. We believe that that the 3rd energy package is a key step towards the European single energy market and that the priority should be to implement it as efficiently and effectively as possible before going any further. There is presently no common view on what a "single energy market is" or should look like let alone the strategy for getting there.

There is a significant amount of work to do in implementing not only the 3rd package but also in implementing and delivering other EU targets on Renewable Energy, Energy Efficiency and emissions. All of these are intrinsically linked in terms of the type and level of investment needed. Therefore, we believe that an overarching strategic vision would be useful, but only as a guide. It should detail exactly what a single energy market should look like to ensure that the large investment needed in the next 10 to 20 years is not undermined or delayed. With this in mind, we have the following points:

- The overall objective and focus should be to implement the 3rd package as efficiently and effectively as possible to remove barriers to trade rather than aim to create a single energy market, which may be too ambitious and distracting at this time. We believe effective implementation of the former should lead to progress on the latter;
- An overarching strategic vision of the route to a single European energy market should be developed and maintained to provide a clear direction for the technical reforms which must be undertaken. However, this should serve as a guide only to avoid restricting market development;

- A clear and predictable regulatory environment is needed. Any changes in market arrangements and any strategy should promote investment in energy assets in line with promoting a low carbon European economy;
- An effective governance framework is needed so that all stakeholders are engaged at all levels through an efficient set of simple rules. This is of paramount importance to ensure the best solutions are identified and are implemented smoothly in a clear and transparent way;
- A review of the “bottom up” and “top-down” initiatives is needed to identify which best meet the requirements of the target model and to ensure their most efficient combination;
- A review and rationalisation of all the institutions involved across the EU is needed;
- We continue to believe the RIs can play a vital role in implementing the 3rd package and any strategy for a single energy market;
- A separate forum for both gas and electricity should be formed combining all the workgroups and committees under one roof for simplicity to coordinate the activities of the various workstreams in line with any milestones contained in any roadmap;
- The seven electricity regions have made good progress in the PCG and the number should only be reduced where a clear benefit has been identified and it is economic to do so. We stress the importance of not joining markets that are not ready to be coupled (i.e. where there are technical, operational and physical differences) to avoid inefficient costs being passed to consumers unnecessarily;
- To assist the markets using BritNed and the potential UK-Belgium link, we believe there would be clear benefit in either merging the FUJ RI into the CWE RI or including the Benelux countries within FUJ;
- The three gas RIs are working well and should only be changed where a clear benefit has been identified;
- Clear roles and responsibilities for the various regulatory stakeholders will ensure better cooperation and working relationships at local and central levels;
- The remit of ACER has to be specified. We do not agree that ACER should take over the central role for controlling the activities of the RIs however we do believe its representative could chair separate gas and electricity fora that may be needed to implement the strategic vision towards a single energy market.

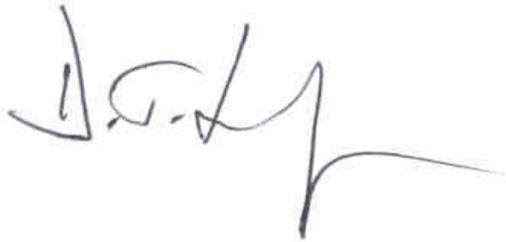
We highlight the importance of drawing on experience from already liberalised markets and the use of “best practice” principles in determining the most appropriate set of market, governance and trading arrangements. In this respect, without creating a new body, we believe a separate over-arching gas and electricity forum should be set up to coordinate and develop the various work strands. This could be either chaired by a representative of ACER or alternate between National Regulatory Authorities (NRAs). However, the aim would be to review and coordinate the activities of the various work-streams ensuring compliance with any strategic view of a single energy market.

We note that communication with Member States is essential and engagement with interested or affected stakeholders should be promoted to ensure an efficient process and outcome; this process of identifying and involving relevant stakeholders should be the responsibility of NRAs.

Our detailed responses to the open questions are contained in the attachment to this letter.

EDF Energy is willing to contribute where necessary to help develop a more harmonised and integrated European energy market. We hope you find our comments useful. If you have any queries regarding this response, please contact my colleague Michel Tocher on +44 20 7752 2167, or myself.

Yours sincerely

A handwritten signature in black ink, appearing to read "D. Linford".

**Denis Linford**  
Corporate Policy and Regulation Director

## Attachment

### Draft Strategy for delivering a more integrated European energy market: The role of the Regional Initiatives

#### EDF Energy's Detailed Response

##### 1. Questions - set 1

There is no 'blueprint' for achieving a single energy market, and yet activity towards that goal is taking place across a number of levels. Do you consider that a high level/strategic vision is needed to set the overall direction of market integration? Should this vision be the same in gas and in electricity? 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? 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?

1.1 It is not clear what a "single energy market" or model looks like and trying to design one at this early stage may be "putting the cart before the horse". We believe robust markets grow both organically and in response to external market influences. We do not believe that this should be compromised by a speculative vision that has not been properly assessed. We believe that a high-level vision could be useful but only as a guide so as not to detract from or add more pressure onto the implementation of the 3rd package. We consider this to be the main priority so that barriers to trade such as cross border constraints, lack of capacity release/ utilisation, investment and transparency, are minimised to allow the free flow of energy and emergence of liquid trading hubs. The RIs have made good progress in this respect in finalising the implementation of the 2nd Gas and Electricity directives as well as much of the 3rd package objectives and this momentum should continue.

1.2 Any design of a target model for a single energy market needs to demonstrate successful promotion of competition and protection of consumer interests. For example, it is not clear whether a single European energy market with one Notional Balancing Point (NBP) price and one point-to-point transportation price for example, could create competition and real benefits for consumers. The existence of several well functioning, competitive and liquid regional markets could be just as successful and efficient as one single market, as is the case in the USA where there are 29 gas markets with a single reference price at Henry Hub. Any design or vision of a single energy market must ensure there are economic benefits to be had in line with the original objectives of the Common Market and European Economic Free Trade area, and should be supported by some form of cost benefit analysis.

1.3 We do not believe the vision should necessarily be the same for both the electricity and gas markets as they are fundamentally different products and industries. We note the work the PCG has done in electricity, creating target models and roadmaps and we recognise these markets are in a more advanced liberalised state than gas being a more homogenous product with fewer barriers to trade. We do not believe that gas has to follow the same route with the coupling of markets and harmonisation of rules across all regions noting the inherent physical differences in gas quality and type. This does not mean there are no principles that should be adhered to and attained in the design of a single energy market. However, we would expect these to be drawn out through industry dialogue and consultation rather than the application of high-level road-maps which may not be based on practical or proven best practice.

1.4 Any vision developed needs the engagement of all the NRAs and major energy industry stakeholders and should be based on current examples of properly functioning and integrated markets such as that in the UK. We do not believe that any more workgroups

should be set up although we do believe that clarity is needed and some form of rationalisation of the many different workgroups to provide a clear and simple picture of all the governance structures. A separate forum for gas and one for electricity would be useful to combine all the associated work-streams and stakeholders. This would provide clarity and transparency to the work that is going on rather than it being spread across several different types of workstreams with little or no proper governance. These fora could then be the places to develop any strategic vision of a single energy market as it would take into account the views of all the pertinent stakeholders in that workstream. Any strategic overview should be loosely formed through a set of common high-level principles that needs to be attained in the route to a single energy market. This should serve as a guide only so as not to constrict or constrain market development but be detailed enough to allow the industry to understand the implications of change and of course to invest. These fora could sit under ACER who could chair and coordinate the meetings. However, the engagement of all the major stakeholders will be time consuming in an already packed EU Energy agenda and therefore we would recommend concentrating on resolving the bottom up issues first to be efficient and remove barriers to trade in the best interest of customers.

1.5 ERGEG must agree a very clear vision of what is needed to benefit the long term interests of the consumer. It has to also be consistent with developments to date. In our view this must not be purely based on academic thoughts, but on what can be realistically achieved from the current position of each Member State and its power system(s). We do not believe it necessary for every Member State to have exactly the same planning and operational arrangements, including security standards, as well as the same market trading arrangements as long as there are effective cross border rules and regulations that allow Member States to rely on one another for different products and services. The identification of such a blueprint, along with a full cost benefit analysis to justify it for each Member State, will not be an easy task; indeed it may be (and we suspect it is) an almost impossible task. Notwithstanding our current uneasiness with the concept, it may be possible, once the current round of RIs have taken place, to develop such a blueprint, because so much will have been learnt about each other's systems. As EDF Energy has said before, once the regional programme has been concluded, the methodologies and systems that have been adopted within each of the seven regions can then be fully analysed and compared. This would be to assess if:

- any are worthy of being transposed into other regional markets;
- they can be transposed practically into regulation of other Member States;
- there is an overall benefit for that power system or the overall EU market.

This process may show that a single system with unified methodologies can be identified and, in which case, it could become the target model.

1.6 Trading arrangements need not be the same in every Member State; they could be, but the important point is that the overall vision is sufficiently flexible to recognise that differences can be allowed to co-exist, as long as they deliver identifiable and agreed objectives. Instead of one overall harmonised model, there could be a number of harmonised reference models covering specific topics. The prime objective in our view is that each power system is designed to deliver an efficient, economic and secure energy supply to its national customers, but it also has to allow fully flexible trading arrangements with neighbouring power systems to ensure greater overall Europe-wide efficiency. In this way, we believe it would be possible to reconcile some of the fundamental system design differences that exist within the FUI Region with those of the other Regions. If the objective as proposed above is achieved, then the EC will have an integrated European energy market for both gas and electricity that will deliver very positive benefits for all its citizens.

## 2. Questions - set 2

**Member States have an important role in establishing a legally binding cross-border regulatory framework, as well as in relation to their own Member State's interests.**

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

2.1 Member States have to be closely involved at all stages in our view to ensure that the vision is consistently described in policy documentation and that it is being delivered. This involvement would also ensure that governmental departments are aware at the earliest possibility of any need to make legislative changes. Member States have a key responsibility in the overall process, notably through the Comitology procedure, and thus should be involved with both the top-down and the bottom-up approaches. The NRAs of Member States should ensure that the relevant interested and affected stakeholders are identified and involved at all times in this project. This will ensure a more efficient and beneficial outcome for all parties concerned.

## 3. Questions - set 3

**There are currently 7 electricity regions in the ERGEG Regional Initiative, and 3 in gas whereas the overall target is to create a single region – the Single European market. How should the number of regions in the ERGEG Electricity Regional Initiative evolve towards a single market? Should the number of regions be reduced? 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?**

3.1 The 7 electricity regions and the 3 gas regions have been designed according to defined criteria. The relevancy of these criteria can be discussed; this applies particularly to the overlapping of electricity regions which is supposed to favour better rule harmonisation. This appears now quite difficult to manage. The current regions are a starting point in testing the current procedures and processes against the EC requirements. They have worked well up until now in progressing the implementation of both the 2nd and the 3rd Energy Packages and should only be changed or reduced where it can be proven that there are significant benefits to be had. To assist the markets using BritNed and the potential UK-Belgium link, we believe there would be clear benefit in either merging the FUI RI into the CWE RI or including the Benelux countries within FUI.

3.2 We note the work that the PCG has done in coupling market models and stress the point that markets should only be merged or coupled where they are technically and operationally ready. This is because more constraints and trading barriers could arise; creating inefficient costs that will ultimately be borne by the consumer. The merging of the England and Wales electricity market with that of Scotland under BETTA is a classic example of where existing cross border constraints were further exacerbated by the linking of two markets. In this example the TSO's balancing costs increased further with the consumer bearing the cost of this.

3.3 Once the RIs have completed their current programme of work and there has been some analysis done, then there will be opportunities to test one Region's solution with another. It may then be possible to rationalise still further through identifying different ways to address similar problems across boundaries for technical, regulatory or commercial reasons. This goes back to our preliminary comment on the un-clarity of the single integrated market concept: a single unified system with unified methodologies or an integrated market of different system and market methodologies? We therefore believe a common terminology needs to be developed and signed off by the stakeholders so that everyone is speaking the

same language. For instance, “harmonisation of rules” may actually mean harmonisation of principles rather than detailed regulations.

#### **4. Questions - set 4**

**Not all regional market projects are part of the ERGEG Regional initiative, and yet the achievement of a single European energy market is the goal of all such regional projects. 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?**

4.1 All the regional market projects are important; they have been identified by those regions to improve planning, operation, trading and information transparency. Ultimately, they are all the areas that affect the energy market. The Forums have been a very positive feature of the RIs and they should not be constrained on what they should discuss and coordinate. However they do need to address whatever is decided to be the common agenda for delivering the shared vision.

We agree that any projects outside the ERGEG RIs should be brought in scope of this project.

#### **5. Question 5**

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

5.1 EDF Energy believes ACER will prove very influential to resolve disputes or to provide clarity to Member States and stakeholders on whether a particular process and procedure fits the vision of the single market. It is important that it plays an advisory and monitoring role rather than a policy making role. We do not believe that ACER should take over the control and review of how the RIs are working unless it can be proven that this will have benefit or that something needs to be improved over and above what the RIs have achieved to date. However, we do believe that separate gas and electricity fora could be created to coordinate workstream activities or the guide towards a single energy market if and when such a vision is developed. This could either be chaired by an ACER representative or alternatively by NRAs who could chair it in turns. We believe that this can be achieved without change in the current organisational structure.

**EDF Energy  
January 2010**