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EREGG draft strategy for delivering a more integrated European energy market: The role of the Regional Initiatives

Dear Fey,

RWE Supply & Trading GmbH highly appreciates the opportunity to comment on the above consultation. Before we answer the specific questions of the consultation paper, we would like to give some general remarks on the draft strategy envisaged by the consultation documents:

RWEST acknowledges and embraces the progress that has been made in the integration of European markets during the last years as described in the study of Everis-Mercados. The conceptual and practical work of the Regional Initiatives has played an important role in this process.

As stated by EREGG, however, the limitations of the voluntary process have recently become more and more apparent in that:

- Regions have chosen a range of different models to facilitate cross-border trading (e.g. combination of implicit/explicit auctions, degree of emphasis on annual/day-ahead allocations etc). There is now a relevant risk that these different approaches will prove to be incompatible in the future and will cause an obstacle for further integration.
- Progress in the regions differs substantially. It appears that not all stakeholders in the regions have a full understanding of the next steps that are necessary to foster integration. As one consequence, some regional projects lack the necessary support and impetus.
- Some stakeholders do not appear convinced that harmonisation of market conditions is achievable or desirable. Existing restrictions on cross-border trading are in many cases deemed as "inevitable" under the given national frameworks. The long term benefits of improved integration are often either ignored or undervalued in relation to smaller short term impacts on national consumers. Compliance with agreed European law is incomplete as highlighted in the recent infringement cases adopted by the Commission, several of which relate to insufficient co-ordination within regions.

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We therefore agree that this review of the regional initiatives has come at an opportune moment and that improvements to the process for both electricity and gas are desirable.

We consider the following elements constitute a model process for the further integration of the gas and the electricity sector under the 3rd liberalisation process and where appropriate within regional initiatives

- **A strategic vision paper.** A clear and generally understandable "mission statement" for further consolidation at EU and/or regional level
- **Codification of target models.** A target model, such as that developed by the PCG process needs to be developed which can be swiftly advanced and then be codified.
- **Specific rules to harmonise around the target model.** A real single European energy market can only be reached if the conditions for cross-border trading are harmonised to the largest extent possible. Therefore, Framework Guidelines/Network Codes implementing the target model should be formulated as concretely as possible and substitute for national grid codes for cross-border points.
- **Implementation by the regions.** Regional Initiatives should become the vehicles for the implementation of the network codes in a consistent and effective matter. Regional Initiatives should develop a roadmap suitable for their individual needs in line with Framework Guidelines/Network Codes. In addition, it is important that there is a regional element to all consultation processes.
- **Limited national/regional exemptions.** Framework Guidelines/Network Codes must clearly define possible exemptions for national or regional special solutions. Wherever the European legislator gives scope to the regions/member states, different approaches will be realised – with a distinct tendency to keep the status quo. We agree that for some aspects regional/national solutions are inevitable. But these issues can only be an exception and should only be allowed where there is a compelling justification and where they do not blocking further European integration. Special arrangements for certain regions should need an exemption by regulatory authorities of the member states and be granted on a temporarily basis only. We think it important not to lose the ultimate goal of full harmonisation.
- **Clear timeframe.** Framework guidelines/network codes shall set out clear timeline for the implementation of the target models. It must be assured that even less advanced regions have enough time for implementation. On the other hand, however, the goals should be ambitious enough.
- **Core regions and test beds.** Regions should have the option to proceed at a faster rate, trialling new approaches. However, consistency with the target models must always be ensured.

- **Specific responsibilities.** For the purpose of clarity, Framework Guidelines/Network Codes should charge national regulators, TSOs and other stakeholders with clear responsibilities (who should do what by when?). The regional initiatives should give stakeholders a forum to coordinate their efforts. The informal (and overlapping) regional initiatives themselves should not be subject to own obligations.
- **Monitoring and coordination by ACER.** ACER should monitor progress and make it public. ACER should coordinate and supervise the efforts of the Regional Initiatives and the national regulating authorities. In the meantime, ERGEG and the Commission can fulfil this role.
- **Basic compatibility between regions as soon as possible.** Framework Guidelines/Network Codes should provide for a uniform definition of technical properties and commercial products (e.g. identical gate closures, capacity products, common grid model based on the same level of information, identical system security standards etc.).
- **Consultation of stakeholders.** Due to the complexity of the issues, it is crucial that the Regional Initiatives allow for an intensive debate with all relevant groups.

With respect to electricity, the PCG process recently endorsed at the Florence Forum has now demonstrated a realistic path to harmonise cross-border electricity markets in the foreseeable future. Therefore, we think the time has come to give more definitive guidance at European level, and that the PCG work should be used as a blueprint for an integrated European market as a whole and across all regions, based on experience in core regions where the target model is already being implemented. Future regional initiatives should therefore focus on the transition from existing frameworks to a common set of rules based on those in the emerging core regions.

Meanwhile for gas, although the separation of the EU market into three regions still appears appropriate, we believe there is no reason why a similar process should not be followed in regional initiatives towards compatible market rules.

As well as these general points, our answers to the specific questions are also attached. Do not hesitate to contact us should you have any questions.

Kind regards,

RWE Supply & Trading GmbH



Head of EU Power Market Design



Head of EU Gas Market Design

Questions:

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?

We have the view that an EU-wide strategic vision is crucial to bring regions to a common level. Indeed we would argue that a blueprint does exist and that its cornerstones are already laid - with the 3rd liberalisation package and the results from the Madrid and Florence Fora. However, this overall vision is only recognisable for a comparatively small group of people. In order to get broad political support on all European levels, a concise "mission statement" is needed. This should describe in simple words what the process is about and why it is necessary – the advantages for Europe citizens must be easily conceivable.

The vision should be in the form of a document that is agreed at the highest level possible. One possibility is that it is agreed in the form of a MoU between the Energy Commissioner and the Director General of ACER. The New Lisbon Treaty institutions may also provide an opportunity to give some more political drive to energy market integration. Obviously it should be the subject of an open consultation process with the main stakeholders and market participants. The document should contain clear objectives and deadlines and set out a clear action plan with responsibilities assigned.

A separate plan/strategic vision should be developed for gas and electricity recognising the differences between gas and electricity markets and the different stages on integration and regions. However the differences between gas and electricity should not be overemphasised and it is our view that these differences do not make a modification of the harmonisation process necessary. Given the success of the PCG work, we support the development of target models for the gas sector in similar framework. However, this target model process should not delay the currently ongoing process of drafting certain gas framework guidelines by ERGEG/ACER (e.g. the capacity allocation and congestion management guidelines).

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?

We see only a limited role of the Member States in establishing the details of a legally binding cross-border regulatory framework. Framework Guidelines/Network Codes should provide for the necessary legal basis for a harmonised access to cross-border lines. Based on this empowerment, the national regulators (independent under the 3rd package) should be in charge of the implementation of the Framework Guidelines/Network Codes and decide on special arrangement on the regional level. It is essential that regulatory authorities have sufficient powers for this process and are able to decide with other regulators on their own behalf on cross-border solutions. Regulatory authorities will be able to incorporate the national perspective in the process.

Nevertheless, it is important that the Member States are closely involved in the Regional Initiatives because the creation of one European electricity markets needs their strong support (for example for investment decisions and public planning issues as well as in the formal Comitology process where this is required). Political commitment on the part of Member States can also give additional momentum to regional projects (as e.g. proven in the Pentilateral Forum).

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?

The separation of Regional Initiatives has their justification in the regional differences of the transmission systems. As harmonisation advances, more and more Regional Initiatives could be combined. However, we do not think that lengthy institutional discussions on when and how merging Regional Initiatives are helpful. We think it is more important that Regional Initiatives work jointly on concrete projects whenever possible. Regional Initiatives should be encouraged to participate in the available existing projects as soon as they comply with the necessary requirements. By this cooperation, Regional Initiatives should eventually grow together without a set of formal mergers.

As far as electricity is concerned, we note that there are already initiatives that would lead to a natural reduction in the number of areas – in particular the Europex initiative “Price Coupling of Regions”. We believe this should serve as a vehicle for the progressive integration of almost all Member States’ electricity markets. So rather than reconfiguring the regions, we consider it is the right time to identify a core region in the European Union (which would be the Nordpool, CWE, OMEL block) with respect to the electricity market. Other regions could then progressively adhere to the core region once basic criteria were met such that market coupling could sensibly take place. For example, the GB market could be incorporated relatively quickly into this core grouping once Britned is operational and as day ahead markets become increasingly liquid and transparent.

For gas there needs to be better clarity when talking about regions of Europe for administrative convenience (the existing three gas regions) and the eventual number of balancing zones that could be operated on a regional basis. Currently there are three gas regions, but there are more than 20 different balancing zones. The optimum solution for the single European gas market is almost certain to be more than three and less than twenty regional balancing zones. To find a way forward for gas, a new focus and analysis is needed on how contiguous pipeline systems could be optimally operated (multi-system operation) bearing in mind their differing technical characteristics and topography. That said, we do not at this point see merit in changing the number of gas Regional Initiatives currently in force.

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?

To the extent that regional market projects outside of the Regional Initiatives are still in the development stage it makes sense integrating them within the Regional Initiatives to ensure compliance with the target models. Productive development work should be used in the further process. One possible way to achieve this would be for the regional initiative governance process to somehow endorse or sponsor efforts at integration being undertaken by other groupings provided they are consistent with the overall strategic vision.

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

We agree that it is one ACER's key role to coordinate the individual approaches of the Regional Initiatives, thereby avoiding inconsistent developments. There may be benefit in ACER drawing up a project plan for implementing the 3rd package through the Regional Initiatives and providing more detail about how and the extent to which intra/inter market integration is expected to develop or technically feasible. This will provide Member States with a better understanding of how integration will impact their market and what actions they will need to take when.

In addition, it is important that ACER acts as a "watchdog" ensuring that the target models will be reached in time as provided for in the Framework Guidelines/Network Codes. ACER shall monitor whether the stakeholders in the Regional Initiatives act with sufficient determination and devote sufficient resources to the process. ACER shall clearly name any monitored deficits in its reports.

Finally, ACER should be available to mediate any disputes between the stakeholders of the Regional Initiatives and between different Regional Initiatives as provided for in the Regulation 713/2009 (Article 8). ACER should arrange for meetings of competing projects in the regions and facilitate joint development whenever possible.