



ENTSO-E response to the public consultation on the ERGEG Draft Strategy for delivering a more integrated European energy market: The role of the Regional Initiatives

Brussels, 29 January 2010

ENTSO-E and its members welcome the opportunity to comment on the ERGEG Draft Strategy for delivering a more integrated European energy market: The role of the Regional Initiatives. This paper also includes general ENTSO-E views on the previous ERGEG Regional Initiatives progress report, and the 'From Regional Markets to a Single European Market' report prepared by Everis / Mercados.

The following comments are structured into the sections "General Remarks" and "Question Responses". For the purposes of this response, ENTSO-E is remarking on the proposals and questions put forward in the context of electricity only.

General Remarks

1. Third Energy Package processes

ENTSO-E considers that very good progress has been made by the Regional Initiatives to date, through TSOs, EC and Regulators and all the stakeholders that have been actively involved. However, ENTSO-E agrees that it may be timely to review this approach as per the below. In the first instance, ENTSO-E believes that these documents should be viewed in the context of the Third Energy Package and the requirements of the legislation and respective roles of each of the stakeholders involved. Therefore, we consider that the (bottom-up) progress to date has been highly beneficial, although needs to be re-focused in line with the package which provides the necessary high-level regulatory framework for the development of the internal energy market in Europe.

In terms of the Network Code development process, the EC, ACER and ENTSO-E all play a key role in facilitating the progression from one stage to the next. ENTSO-E and TSOs are key participants in the process from top to bottom, and play an active role in contributing to policy determination. In particular, the Third Energy Package establishes that TSOs should set up regional cooperation structures within ENTSO-E which ensures that developments at regional level are compatible with network codes at Community level. Indeed, the ENTSO-E structure, with specific regional groups, and management processes has been setup to help facilitate and link central policy and guidance with pragmatic implementation initiatives. The ENTSO-E governance process, committee structure and regional groups all contribute to this.

Taking this into account, ENTSO-E considers it most appropriate to utilise the Third Package processes as a driver for future policy determination and progress; with achievements of the ERIs to date, to a large extent driven by TSOs, serving as firsthand experience to draw conclusions from and the future work of the ERIs helping deliver implementation of the Third Package. In effect, ENTSO-E considers it most appropriate that the ERIs in future should act

as a bottom-up implementation forum whilst guided by a Top Down vision and policy provided by the Framework Guideline and Network code development process.

2. The interim period: the role of the Ad Hoc Advisory Group

In the interim period until the Third Energy Package is in application (i.e. March 2011), the Ad Hoc Advisory Group (AHAG) created in December 2009 Florence Forum should be the appropriate vehicle to steer progress and to ensure the convergence towards a European wide reference model. Three implementation projects, , i.e. groups delivering input that helps to design and eventually implement the mentioned Guidelines, will begin early 2010, and together with the AHAG, are expected to provide a key input on ERGEG's framework guidelines and subsequent ENTSO-E's network codes developments for capacity allocation and congestion management.

- ENTSO-E will chair a project to develop a European capacity calculation concept.
- ENTSO-E will also chair a project to develop the target model for intraday trade.
- The European Commission will chair a project that will design a governance framework for day-ahead market coupling.

3. The need of ensuring regional convergence

ENTSO-E is of the view that future Regional initiatives should be guided by and be consistent with a coordinated European objective and harmonised wherever possible. In line with the objective of contributing to the development of the IEM, local specific solutions should therefore be justified and variation minimised. Similarly, ENTSO-E considers it appropriate for specific regional approaches to be tested against European requirements and demonstrate clear objectives and aspirations towards the overall European goal.

It remains important that the progress of the current Initiatives is not impeded. However, the current Initiatives need to be necessarily consistent among them and have a European goal (such as the Day Ahead development work, for example).

In terms of developing work, we may wish to therefore categorise regional activity into four categories: a) Regional & Inter-regional technical Implementation projects, b) Designated Regional and Inter-regional Pilot projects, c) Development of regional specific solutions (where appropriate); and d) Local developments.

On the latter, ENTSO-E considers that regional governance is a challenging topic given that no formal governance is explicitly defined under the Third Package. Therefore coherence and consistency should be delivered via European Commission rather than through regional initiatives.

Lastly, it should be recognised that the final aim of an effective internal energy market necessitates a trans-European network enabling market players from all Member States to benefit from such market. Therefore, regional convergence should also encompass the interconnection and interoperability of national and regional networks, as well as the access to such networks.

4. Decision making processes at regional level

ENTSO-E also believes that the decision making processes of the future regional initiatives should be defined in such a way that allows a steady progress of the implementation process. It is important that the progress is guided by general efficiency criteria and its impact on the global social welfare of the electricity market at EU level. When no full consensus can be reached on some topics, clear and balanced criteria are to be defined within the EU energy regulatory framework, thus avoiding that any single group or party with

particular, e.g. commercial or individual strategic interests within the process could or should seek to dominate the process. Yet again, the European Commission should play a key role in providing coherence and consistency to the different decision making processes at regional level.

5. Definition of regions

As for the definition of the electricity regions, ENTSO-E believes that regional geography/footprint should be determined on a case-by-case basis depending on the subject (e.g. in the case of an interregional market coupling project the candidate regions should be merged in the day-ahead area to provide a common governance mechanism). The composition of the regions should be expected to be different for different subjects. As shown by experience, one size regions are unlikely to work well for all issues. For instance, day-ahead markets of CWE and Nordic will soon merge; however in the field of capacity calculation, a single D-2 grid model would prove useful for CWE/CEE/CSE, but not for CWE/Nordic since Scandinavia is not AC-connected to the other mentioned regions.

In any case, appropriate cooperation structures between existing and new regions must be created so that convergence of the different implementation projects can be ensured. In this context, the existence of observer members attending to other regions meetings might be also contemplated for a better understanding of the progresses made.

6. Efficient deployment of existing resources

Whilst a good progress has been made by the Regional Initiatives to date, through TSOs, EC and Regulators and all the stakeholders that have been actively involved, this process has not provided results in accordance with the efforts made and the considerable resources consumed (numerous meetings, studies and position papers).

It is therefore important to bear in mind, when defining the future regional initiatives processes, the need to take into account the factual limitation of resources in the involved parties which should necessarily lead to a prioritisation of the different projects/working groups/actions.

It is essential that scarce resources are deployed in the most effective manner into priority areas and that duplication of effort is avoided.

To ensure the implementation of prioritised projects, realistic road-maps and the adequate involvement of NRAs and Governments will be needed.

Question Responses

ERGEG Draft Strategy: Role of the Regional Initiatives

Please find outlined below the responses to the questions as outlined in the consultation document

Question 1 – ‘Blueprint’ for achieving a single energy market

Our view on the high level and strategic approach is outlined in the section ‘General Remarks’ above.

Question 2 – Involvement of Member States

ENTSO-E is of the opinion that Government involvement would be most appropriate in two key stages:

- At high level supporting the policy determination stage. This would be most appropriate in relation to the Framework Guidelines and Network Codes development, enabling greater understanding and support through the Comitology process. This could be facilitated by the EC as part of the wider Code development process.
- At the local/regional level in a facilitating role where Governments should continue to track current projects in ERI and other existing regional initiatives, , also serving as last escalation level in case of difficulties that are blocking projects.

Question 3 – Electricity Regions approach

ENTSO-E is of the view that where beneficial, regional geography shall be determined on a case by case basis depending on the subject.

In the case of congestion management and market integration, inter-regional progress and co-ordination would indicate that significantly larger ERI footprints and common implementation governance arrangements are required. The definition of regions should follow functional criteria and be compatible with the geographic formation that the current bottom up approach has helped create. For example, it might be essential to redefine the day-ahead regions by merging existing regions.

Furthermore, as proposed at the December 2009 Florence Forum, in some specific cases it could be beneficial to create one pilot region. As proposed earlier, this shall be done by forming regions depending on the subject matter.

Question 4 – Inclusion of other regional initiatives into the ERGEG regional initiative

ENTSO-E is of the opinion that the focus should be on making the European processes work and using this to define what work might need to be done at a regional level. We also need to recognise that there may also be opportunities where collaboration between market players, Regulators, TSOs and Member States might be helpful and that such freedom to act shall be maintained; This collaboration should be highly transparent, inclusive and demonstrate consistency with European goals. In this respect, an overall approach should be adopted when defining future regional initiatives and other regional projects so that the necessary consistency among them can be ensured. If this is the case, the link to the ERGEG Regional Initiatives is implicit and it has to be decided on a case-by-case basis whether formal inclusion is needed.

Question 5 – ACER improving co-ordination across the regions

ENTSO-E considers that the co-ordination of regional activities should be done via the normal processes envisaged by the Third Package. The 3rd package Framework Guideline and Network Code development processes ensures a balance of collective responsibility and accountability between the EC, ACER, ENTOSs (and Governments/Parliament). ENTSO-E also believes that the Third Package pilots provide the opportunity to implement and improve the envisaged processes where and if necessary.

Specific remarks on the Everis / Mercados Draft final report on regional initiatives commissioned by the EC

ENTSO-E welcomes the report on the Regional Initiatives developed by Everis and Mercados. We note that the document summarises the strengths and weaknesses of the current RIs, and then analyses them in the context of the Third Package.

As a general comment, ENTSO-E considers that the analysis of the changes to be brought by the Third Package is not comprehensive enough and should be refined in light of to the processes defined in this new legislation between the EC, ACER and ENTSOs, in particular for the definition of network codes (see General Remarks section above).

ENTSO-E would also like to point out that inaccuracies in some areas should be corrected in the final version of the report:

- p.17 scope of Regional Mini-Fora: PL missing in Nordic; Slovenia and Greece missing in 'Italy' Region
- p.27 Denmark - Germany Market Coupling has been operative since November 2009, not 2010 as sketched in the graph (also p. 36)
- p.31 e.a. the color scale on top of the graph is not self-explaining
- p.35 ... the relaunch of the volume -based coupling: indeed there was a de-coupling on the second day, but this was the only one, since then it's running un-interrupted
- p.39 intra-day platform D/DK has been running since mid 2008 and still is, not only briefly

It is also important to highlight the significant progress achieved over the last three years in the field of transparency and publication of information which helps to prepare the required level playing field for market actors. ENTSO-E has been and remains fully committed to the improvement of transparency through its transparency platform entso.net (formerly ETSOVista) where relevant information on cross-border energy markets is published on a European level.

Yours Faithfully,

European Network of TSOs for Electricity, Brussels