
Response to ERGEG's Public Consultation on the Draft Strategy for delivering a more integrated European energy market : The role of the Regional Initiatives

Note : In this document the term "Regional initiatives" stands for both ERGEG and non-ERGEG initiatives and ERIs/GRIs stand for ERGEG regional initiatives in the field of electricity and gas.

EDF welcomes the consultation process on Regional Initiatives as far as it considers this topic to be of the utmost importance and as its ranking among the top priorities in the ERGEG work programme shows. In this regard, EDF strongly recommends that the Regional Initiatives works (whether ERGEG or non-ERGEG) be driven by a strategic vision. France's participation to four different Regional Initiatives enhances EDF willingness for a strategic vision, that will help for coherence between various Initiatives.

For the initiatives in the field of electricity, this strategic vision should be in line with the Project Coordination Group (PCG) target models. We believe this model is a positive development and it should be the basis to make further progress. Moreover, works should be based on a clear roadmap, driven by pragmatism, with concrete objectives and with a supervision of results. We would also like to stress the importance of Member States' involvement, as political will is needed to set up the legal and regulatory framework for market integration.

EDF also believes that, in the frame of the implementation of the Third Energy Package, a particular attention should be granted to a well-balanced interplay between the bottom-up approach of the ERIs-GRIs and the top-down approach of the framework guidelines and network codes, as those will also support market integration. Finally, EDF wants to point out that ERIs and GRIs work program, timing and achievements cannot be expected to be exactly the same because of local specificities and different market maturities. Therefore the ERIs and GRIs' pragmatic approach is welcome and will probably remain an important driver, mainly in defining priorities, in tackling with local obstacles and in dealing with implementation modalities. Lessons must be learned from the experience with regional markets development.

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?

- ✓ Regional markets match the current reality of energy markets. They are the main stepping stone to further market integration. EDF believes that a high level/strategic vision, with clear milestones and deadlines, is needed to set the overall direction of market integration for the following reasons : First, the current situation shows this need. There is an urgent need of coordination between the various initiatives, for example between the pentilateral CWE price coupling region and the Nordic region for which improper volume coupling has been implemented. A common strategic vision taken into account at a very early stage (at the conception of the projects) would have helped and facilitated the correct coupling of these two major regions. It is now important to ensure that the PCG price coupling model is implemented between the two regions, with a single one step matching algorithm in order to ensure coherence and correct competition of order books (in this respect sequential volume coupling is probably less efficient than explicit auctions).
- ✓ Then, as regards electricity, this strategic vision should be based on the PCG works. Indeed, the PCG work on target models is largely considered as the correct reference model by all market players. The PCG has stressed the fact that a strategic vision needs involvement of NRAs, TSOs, but also Member states governments and market stakeholders (Eurelectric, EFET), whose early involvement is absolutely necessary and will help defining pragmatic approaches.
- ✓ Additional structures for such an involvement would be an inefficient solution. The use of existing structures, like the Florence and Madrid Fora, the ERI-GRI structures and the recent setting-up of the AHAG would on the contrary help.
- ✓ Finally, a development first seen as positive may have a negative impact on the medium term if not in coherence with the targets of a strategic vision. Therefore, “transitory solutions” should be carefully looked at since they might become an obstacle if not fully coherent with the strategic vision. They might at the end delay the overall implementation of the target model if improperly designed or implemented.

EDF fully supports the need for a target model in order to achieve market integration. There are however differentiated market maturities between regions or between gas and electricity. Therefore, this strategic vision should follow a pragmatic approach and integrate the ability of each region to move progressively but fastly towards market integration. It should also be based on a well-balanced approach, combining both a top down guidance (that will come also with the Framework Guidelines and Network Codes provided by the 3rd Energy Package) and a bottom-up approach (leaving room for flexibility while maintaining consistency with the target model).

We also believe that this strategic vision should be accompanied by clear instructions for each of the Regional Initiatives, with defined objectives and a monitoring process in order to ensure an effective implementation and to be able to regularly assess the compliance of the decisions with the overall objective.

Taking into account the specificities of natural gas, a specific PCG work could be started for the gas market in order to analyze and establish the priorities for harmonization and coordination with the objective of starting defining a common target model.

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?

Yes, we do agree. National political involvement is a key factor to boost initiatives mainly for two reasons. The first one is that past experiences have shown that the Regional Initiatives that were the most supported by Member States proved to be the ones that progressed the most. The second one is that the effective implementation of Regional Initiatives decisions will also depend on Members states ability to take the appropriate legal acts and the earlier they are involved in the process the better it is.

However, if we agree that Member States should be more closely involved in the work of the Regional initiatives, we would not support the idea of creating new authorities or proceedings. We rather recommend for efficiency and transparency purposes to focus on the existing structures and organisations, with a clear vision which would be defined at a European level.

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?

The number of ERIs - and their overlapping, which is resource consuming for countries involved in various ERIs - could be considered as a source of difficulties, but experience shows that the current number of ERIs and their size helps for good coordination between countries within a region. Larger ERIs could lead to a less effective bottom-up approach. Moreover, the number of ERIs is not a drawback if each ERI follows a clear target route. In a same manner, it should not be a drawback to handle projects involving several ERIs. This allows for flexibility in implementing the projects. And they can then be merged at a later stage.

Nevertheless, ERIs definition should not impede on larger projects. Organisation must be adapted so that some topics are assessed by several regional initiatives. A typical case is price coupling : implementation should not be dependant on ERIs definitions, but on the readiness of the various countries to implement a larger scale design. Regions may be merged once the common design is achieved or close to be achieved. In this respect we see a clear necessity for increased cooperation between CWE, South West and Northern regions for example where price market coupling and continuous intraday trading (allowing OTC trades and multiple cross border OTC trades) should be implemented within the coming years.

Switzerland, though not member of the EU, is at electrical European crossroads (central position, high interconnection capacities) : market integration cannot be done without including Switzerland which should join the current CWE region at very short notice in order to implement price coupling, coordinated explicit capacity auctions and also join a common intraday trading platform.. We strongly support the ongoing bilateral negotiations between the EU and Switzerland in the field of electricity so that we can share the same regulatory framework.

We also support either the enlargement of the current France-UK-Ireland region to a larger Northern West region including Benelux, or the merger between this region and Central West Europe. This region will have to face various important questions, such as the integration of wind power and off-shore generation sites, the development of new interconnections (possibly connecting off-shore wind farms) and the potential interest and feasibility of a “supergrid” model. At short term this region will need to succeed in implementing an efficient use of the Britned cable and to prepare for the correct price coupling of this region with the larger SW-CWE-Northern region. The removal of TRIAD and losses charges from all the interconnection Rules will be a prerequisite condition to allow non hindered cross border trades and market integration.

As regards the GRIs, their perimeter proved to be relevant since it has led to identify some effective issues regarding gas market integration. The development of interconnections between France and Spain is an example of a decision made further to GRI works. Concerning gas, the key issue is that works are carried out at European level to achieve an integrated market whereas within countries the gas cannot sometimes be supplied everywhere on the territory without significant economic impacts, mainly because gas balancing zones are not merged. For instance, in France, two separate zones still exist : the North zone and the South zone and it remains very hard for new entrants to access the South zone. Local decisions to merge gas balancing zones should also be a priority for Member States.

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?

It is recognised that private initiatives may be helpful to ERIs-GRIs, in particular when they participate to market integration.

However, any initiative, whether ERGEG or not, should be in line with the strategic vision (including PCG targets for electricity), and not be potentially in conflict with some ERI/GRI initiatives. If these two conditions are met, any initiative should be welcome.

ERIs/GRIs should include the relevant private initiatives representatives.

5. Question 5

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

ACER's role should be focused on ensuring the compatibility of regional initiatives with the market integration target. For example, ACER should ensure that current or future market coupling projects do not jeopardize the price coupling target model achievement (e.g. EMCC volume coupling interfering with pentilateral price coupling).

ACER should also play a role when two RI works although both in line with the strategic vision to propose two different solutions, and when ERI or GRI fail to converge towards a common solution.

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