



AEP¹ Response to ERGEG consultation “Draft Strategy for delivering a more integrated European energy market: The role of the Regional Initiatives”

General

The Association of Electricity Producers welcomes ERGEG’s consultation on regional markets. It is timely to examine the role of the regional markets initiative in the light of the Third Package, and AEP can endorse many of the conclusions drawn in the paper.

AEP agrees with ERGEG that top-down and bottom-up approaches will have to be combined if a truly integrated EU energy market is to be achieved and that regional fora will remain appropriate for dealing with implementation issues. It will not be practical to harmonise all aspects of market design at European level, and local specificities will need to be taken into account, e.g. differences in national energy policy, fuel mix and network topology. At the same time, it is important that all regions move in the direction of a more integrated market.

However, the strategy paper in AEP’s view does not focus sufficiently on the involvement of market players in the process. While there are extensive sections on the role of national governments, stakeholder engagement is dismissed in one paragraph (4.20). It is stated that “The involvement of stakeholders as central participants in the development of reform proposals is a major success of the Regional Initiatives”. AEP believes that this is an overstatement. Stakeholder engagement has been more satisfactory in some regions than others and AEP perceives that in some cases there has been too much emphasis on TSO/regulator discussions.

While ERGEG is to be congratulated for implementing a consistent process for written consultation, AEP has concerns about elements of the proposed future approach:

- an apparent reluctance to involve market players in the important early stages of consultation;
- ERGEG’s preference to select the members of its expert panels; in AEP’s view, industry should select its own representatives.

¹The Association of Electricity Producers (AEP) represents large, medium and small companies accounting for more than 95 per cent of the UK generating capacity, together with a number of businesses that provide equipment and services to the generating industry. Between them, the members embrace all of the generating technologies used commercially in the UK, from coal, gas and nuclear power, to a wide range of renewable energies.

AEP therefore urges ERGEG to give renewed consideration to involving stakeholders more extensively, both in relation to Framework Guidelines and in the implementation phase of regional activities.

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?

AEP agrees that a strategic vision is necessary to ensure that the regional markets move towards the final goal of full EU market integration. AEP welcomes the work done by the PCG in producing a target model and also supports the decision to launch a number of follow-up projects.

“Target models” and “roadmaps” are needed, but it must also be emphasised that establishing a standard market design for Europe is likely to be extremely difficult and time-consuming. As pointed out in the draft Strategy, the USA, after considerable efforts, now seems to have abandoned the objective of harmonising state energy market arrangements. Any attempt to harmonise all aspects of European markets without setting priorities is likely to “run into the sand” fairly rapidly. In any case, the EU’s energy markets face considerable challenges over the next ten years:

- Ambitious climate change targets, which will require rapid progress towards decarbonising the electricity sector;
- The need for unprecedented levels of investment in new power generation to replace ageing plant and meet the renewables targets; this will also require major reinforcement of energy networks;
- An increased trend by some governments to intervene in the energy sector on a variety of policy grounds.

Energy markets in ten or even five years’ time are likely to look rather different from today. It follows that a strategic vision is necessary to promote convergence across the EU as markets adjust to the changing policy agenda, but this vision should be implemented in a pragmatic way, not as an objective to be pursued whatever the circumstances. In particular, full regulatory impact assessment and cost-benefit analysis should accompany all significant proposals for change to existing arrangements.

While much effort has gone into discussion of cross-border trade issues, it must be remembered that greater physical interconnection is needed if a true single market is to be achieved. This is particularly the case for regions such as France-UK-Ireland, where there is relatively weak interconnection and where the costs of market integration could well outweigh the benefits unless more physical infrastructure is put in place.

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

The case for a strategic vision is as strong in gas as in electricity and arguably stronger, given the need to transport gas over longer distances, involving more cross-border flows and transactions. Of course the detail of the vision should take into account the specific features of the two energy forms, e.g. inability to store electricity in bulk, relatively higher weight of infrastructure investment in gas, presence of emergent gas markets etc.

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?

The key point here is that market players must be fully involved both in developing and implementing the strategy. The PCG has achieved some useful results and provides a model for further strategic discussions, provided that some refinements are made. For instance, more reasonable timescales for stakeholder comment must be built in, while ensuring that adequate momentum in the process is maintained.

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?

A strategic vision should not delay progress provided that it is implemented in a pragmatic and realistic way. In particular all significant proposals for change should be subject to regulatory impact assessment and in particular cost-benefit analysis (CBA). If the results of CBA are positive for individual regions, revised arrangements should be introduced, whereas if they are negative there will be a case for reviewing how the strategy is implemented

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?

It is clear that Member States have to be closely involved in the process, since national legislation will sometimes be required to implement changes and because Member States are important players in the comitology process. Those regions with more active government involvement have so far tended to achieve more positive results. National governments should therefore be given regular reports and be able to participate in meetings, as is proposed.

The suggestion in para 5.10 that Member States should be invited to Implementation Group (IG) meetings confirms the fact that this is the major forum for discussing practical change in regional markets. The IG, however, brings together only regulators and TSOs, and excludes market players. In AEP's view this is unsatisfactory and will become even more so, as the regions come to have a greater impact on market players. This fact reinforces the need to extend the involvement of stakeholders into the area of practical implementation.

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?

In practice there are significant differences between the existing regions: some have considerable interconnection and similar market arrangements, others, such as France-UK-Ireland, are essentially separate markets with weak interconnection. In AEP's view, there is no benefit in aiming per se for a reduced number of regions; instead the regions should reflect the underlying physical and market realities. Level of interconnection and convergence of wholesale prices are clearly two important criteria for merging regions. As further interconnection is built, e.g. the forthcoming Netherlands-UK link, the regional structure should adapt to reflect this.

AEP accepts that the current structure with overlaps between regions introduces additional workloads for those countries which are involved in several regions. However, unless it is accepted that some markets such as GB and Ireland will remain "islanded", which does not seem desirable, it is difficult to see any practical alternative.

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?

As mentioned above, AEP does not support an arbitrary reduction in the number of regions. There could, however, be benefits in tackling some issues across regions. Some topic areas, e.g. transparency, will in future be covered by detailed EU Network Codes and here it should be relatively straightforward to bring regions together. In other cases, collaboration on a thematic basis could be promoted for those issues having the greatest impact on cross-border trade.

3. 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?

This issue should not pose a major problem. The Third Package extends the powers of national regulators and aligns them to a large degree at European level. In addition, regulators have various duties to take account of the European and regional dimensions. Consequently, it is difficult to envisage a regional initiative without the close involvement of the regulators.

In some cases, cooperation may cover areas with different boundaries from the regions, e.g. the All-Island market bringing together the Irish and Northern Irish systems. There does not seem any reason to bring these activities formally within the RMI, but clearly they should be well coordinated with what is happening in the wider region or neighbouring regions.

5. Question 5

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

It is difficult to disagree with the proposition that the activities of ACER, the RCCs, ENTSOs, and regional TSO bodies should be well coordinated. Similarly, it is obviously sensible to build on existing structures and avoid excessive burdens. In AEP's view the problems are likely to come not with designing structures for coordination but with their practical implementation. To ensure that the tasks are manageable, the most important thing is that ACER should set clear and achievable priorities. In particular, as suggested in the paper, the regulators should not seek to over-harmonise issues which do not have a major impact on trade and can be dealt with at other levels.

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