

January 2010

Draft Strategy for delivering a more integrated European Energy Market: The Role of the Regional Initiatives

IFIEC Europe response to this ERGEG consultation document

General remarks

1. IFIEC Europe welcomes the opportunity to respond to this ERGEG consultation on the role of regional initiatives. The increased dialogue between regulators, TSO's, market parties and grid users such as industrial consumers and shippers is one of the great successes of the scheme. The discussions have led to a common understanding of principles and positions on a practical level. In some regions goals and priorities are being where one region is ahead of another region and that is quite natural, as regions are in different levels of market development.
2. Although you would expect all market parties to be in dialogue we must not forget that we have come from a situation where parties were 'dug in trenches', primarily defending their own interest on a legal battlefield. For instance, regulators and TSO's were standing opposite to each other having a great mistrust towards the other side. A bottom-up and practical approach shows to be a workable route to bypass this process.
3. Overall, IFIEC Europe is impressed with the progress made in the regional initiatives as presented in the Progress Report. In response to this report, IFIEC Europe would like to make the following remarks:
 - We highly recommend speeding up the process of regional initiatives in order to come to regional markets and ultimately single EU-wide energy markets as soon as possible. High, uncompetitive electricity and gas prices in Europe are a major cause for concern for European industry.
 - IFIEC Europe can accept that some regions advance faster than others in their process of market integration, on two conditions:
 - Progress made in one region does not complicate nor slow down the process of EU-wide market integration
 - All regions continue to make progress in order to come to single EU-wide energy markets as soon as possible.
 - The Regional Initiatives have proven to have the potential of overcoming difficulties and of making progress on a voluntary basis in areas where EU-wide solutions are not possible yet. The voluntary nature of the RI's however can slow down progress as NRA's don't have enough powers to speed up changes which are possible and effective in breaking down cross border barriers. Many deadlines are not met by TSO's, but what can the NRA's do about it? Stakeholder meetings are too much about informing each other about the processes, instead of discussing concrete proposals for removing cross border barriers and taking these proposals to the next level.
4. Finally, IFIEC Europe would like to refer to its earlier response to the ERGEG Consultation on Electricity Regional Initiatives (ERI Coherence and Convergence Report, Public consultation paper, 10 September 2008). In which all of its content is still very relevant to this consultation.

Issues

Following our more general comments please find IFIEC Europe's response to the more detailed questioned.

Questions set 1 Activities and initiatives on different levels

Do you consider that a high level/strategic vision is needed to set the overall direction of market integration?

5. GRI has a strategic vision for the NNW-region, in which the number of subjects is limited in order to make the GRI workable and results realistic (focus). These subjects are Transparency, Investments and Capacity Allocation. The subject of Gas Balancing is set aside in order to direct the assets towards a realistic result on the remaining three subjects. The model works as one party (one of the regulators in the region) takes responsibility in the effective running of the identified and chosen projects.

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

6. This vision should not necessarily be the same, as there are differences between the gas and electricity markets, but aligned as the electricity- and gas markets have interdependencies. For the gas market, the vision should be based on gas hub based trading and a decoupled entry-exit system.

How should it be formed and who should be involved?

7. The GRI NNW region vision is a good model, with the lead being taken by the regulators, appointing one of them to be project leader, advised by an independent party and last but not least (!) feed back from all relevant stakeholders.

Which sort of forum would be appropriate for the development of such a strategic vision?

8. IFIEC strongly favours the forum model chosen by GRI NNW region. It is a model that has shown to work and present results.

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?

9. IFIEC does not see any delay necessary from a theoretic standpoint of view. If there is delay, it is most likely to be a result of crucial parties in the process frustrating the development for their own interests. A strategic vision will facilitate progress when the project leader is taking responsibility and has a clear focus on the way forward and is able to attract the right and required assets into the process. The project leader must succeed in arranging the required parties and people into the projects, and assess and monitor the project.
10. In regards to electricity, IFIEC Europe agrees that a target "blueprint" for single energy markets in Europe would be a very useful instrument. It is therefore indicated to draft a strategic vision to set the overall direction of market integration. This vision should be the same in general terms, but could be different in certain aspects linked to the specific characteristics of the products (e.g. role of storage, grid integrity, seasonal aspects, gas quality, aspects linked to security of supply ...). As for the appropriate forum to develop such a strategy, IFIEC Europe insists on a balanced composition and on the active involvement of all stakeholders, and more specifically end consumers, since the impact of the strategic choices will be felt most directly by them. IFIEC Europe hopes the development of a target model will not delay the progress of regional market integration and insists on fast implementation of a procedure and a forum for developing such a model. Furthermore, IFIEC Europe is convinced that the most important criterion for evaluating such a target model should be the effect of this target model on end consumers. After all, the final objective of market integration as a tool for improving competition is to reduce total costs – including distribution, transport and commodity - for industrial consumers, maintain or improve the level of security of supply and stimulate innovation, all for the benefit of the end consumer.

Questions set 2 Member States' interest

Should Member States be more closely involved in the work of the Regional Initiatives?

11. Member States have an important interest both in the Electricity and the Gas market. So, they are important parties that should be involved. As counts for other parties likewise, Member States

should understand that there is a common desire of market players and grid users to develop a single European (or at least supra-national, regional) electricity and gas market. This might not necessarily be in the direct interest of the Member State. However, that is not a determining reason to leave Member States out of the process.

If so, how should this happen?

12. Member States should take part in the process as other stakeholders, not in taking the lead as they are dependant, whereas a regulator is - or should be - independent.
13. More generally the active involvement of ERGEG/ACER, NRA's and national governments is of crucial importance for further market integration, be it at the regional or at the EU-wide level. IFIEC Europe therefore insists on:
 - the rapid implementation of the third directive in order to give ERGEG/ACE and NRA's the necessary powers to take key decisions;
 - NRA's and national governments to look beyond the specific situation on their national energy markets and to take into account the needs of rapid further regional and EU-wide market integration.

Questions set 3 Number of regions

How should the number of regions in the ERGEG Electricity Regional Initiative evolve towards a single market?

Should the number of regions be reduced?

14. Yes. Most important criteria: natural possibilities from infrastructure (connections), market places development, level of liberalisation.
15. The Gas perspective: there are three regions. IFIEC is involved in the North-Northwest Region and the South-Southwest Region, not in the Southeast Region. The choice for three regions works seems to work for the gas market. However, we do not have a view on developments in the Southeast region. The developments there might be low as the market developments are also low in this region. The North-Northwest region functions the best up till now. This region might present a blueprint for the two remaining regions.
16. The final goal of regional integration should be single EU-wide energy markets. IFIEC Europe prefers regional progress to no progress at all, but only on condition that progress made in one region does not complicate nor slow down the process of EU-wide market integration. Furthermore, all regions should continue to make progress in order to come to single EU-wide energy markets with appropriate mechanisms guarantying security of supply and competitive markets with competitive prices for end consumers.

Questions set 4 Incorporation of market initiatives

Should regional market initiatives which are outside the ERGEG Regional Initiative be incorporated in some way in the overall approach to achieving a single European energy market?

17. All initiatives that contribute to a better working of the market should be welcomed. If co-ordination inside an ERGEG RI is a contribution to the progress of this development, it should be considered.

How do you think this should happen?

18. The initiative should be taken by the ERGEG RI board and communicated with the stakeholders in the region.

If disagreed, what role should these initiatives have and how should European market convergence be achieved?

19. Please see answer to question 3.

Questions set 5 ACER co-ordination

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

20. From its position ACER has a formal top-down approach. The ERGEG RI has a bottom-up voluntary process approach. The formal approach has a legal outcome that should find follow up in the RI. ACER also has an overlook over the different identified regions and hence can co-ordinate developments towards a single European market.
21. In RI's, market parties come up with practical suggestions and solutions that should be incorporated in the formal route of Framework Guidelines and Network Code development.
22. IFIEC Europe agrees with the proposals on this issue. Overall, IFIEC Europe insists on keeping the processes of regional markets integration as lean as possible, and to speed up the decision and implementation process to the benefit of EU electricity and gas consumers.