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Per email:
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EREG public consultation on “Draft Strategy for delivering a more integrated European energy market: The role of the Regional Initiatives” (Ref: E09-RIG-04-03)

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Dear Ladies and Gentlemen, dear Mrs Geitona,

EnBW welcomes the opportunity to comment on ERGEG’s Draft Strategy Paper on the role of the Regional Initiatives.

Generally, we believe that as the basis for an integrated market harmonised uniform rules and standards are absolutely essential. Across the European markets, we still observe different levels regarding e.g. the level of market opening, the regulatory approach (e.g. regulated end customer prices) and market transparency. Still, harmonised rules and standards throughout Europe are the basis for a common market as they build the basis for competition. Furthermore, we see different levels of maturity in the wholesale markets; thus already existing regions and markets with strong liquidity need to be maintained, building the basis for the further development of the common market in Europe. Therefore, we also consider the Regional Initiatives as a pragmatic and important approach towards a common internal energy market. Since the launch of the Regional Initiatives, some very good progress has been made in various regions. While we recognise that there is still quite some way to go, we believe that this progress should not be underestimated as in order to reach the goal of an European internal energy market fundamental changes and adjustments need to be made to the entire system.

Against this background and with the respective regulatory framework of the 3rd energy package in place (with an array of measures and tools adopted) to further foster the integration of the regional markets, we welcome ERGEG’s initiative to start a discussion on a strategic vision on energy market integration and specifically to revisit the role and the set-up of the Regional Initiatives within this strategy. Considering that the process of drafting Framework Guidelines has already started which will soon be followed by the development of Network Codes, we think that this is the right

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time for this exercise. We also agree with ERGEG that there needs to be a clear view on how best to interlink these two measures, the regional bottom-up approach and the European top-down approach, in order to keep the momentum and also to ensure that the integration process is continued in an efficient manner. That is why we encourage ERGEG to take the experience made since the start of the Regional Initiatives and particularly the already tangible results of this process on board, as it should be the case with the ongoing electricity market coupling projects just to mention one example. At the same time, it must be ensured that the necessary level of harmonisation needs is being achieved.

As regards the specific questions ERGEG has posed to explore the respondents' views on its suggested approach, EnBW responds as follows:

First set of questions

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?

Generally, the overall direction of the developments in the regions and in Europe is clearly given by the central aim of having an integrated energy market in Europe. By maintaining this central vision all ongoing initiatives should work on bringing this central vision to life.

In our view the focus should now lie on developing concrete steps and targets which then should be implemented towards an internal energy market. This seems a pragmatic approach as we are already in the middle of such projects and starting a (theoretical) discussion on high level visions does not seem to be efficient at this moment in time; rather this may even hamper the momentum we see in the various regional initiatives. Generally, we believe that the bottom-up driven process has proven to be a good measure to achieve quick tangible results while in-cooperating all stakeholders. For electricity markets, the target models that have been developed within the Market Design Implementation Project and adopted by the recent Florence Forum provide a clear target model and efforts should be made to (further) develop roadmaps with concrete steps on how to reach them in the different regions. When drafting the Framework Guidelines and Network Codes this should be an important point to be recognised.

At the same time emphasise should be on a coordinated approach, i.e. avoiding diverging developments in the regions. Thus the developments in the regions should be closely monitored and we encourage regulators to work closely together and carefully monitor the projects. It has to be ensured that the experiences made in the different regions are actually shared across all projects and to strongly encourage all parties involved within the different projects to develop each project while having the

others in mind. This implies joint knowledge about visions, strategies and processes. Certainly, this should be done in a way that does not stop the dynamics of ongoing projects.

Generally, we see a practical, hands-on approach as being more fruitful than creating complex decision taking-processes and bureaucratic means to foster further integration. Thus, we would like to confirm the view in 4.12 that a step-by-step approach towards completing a single energy market should be continued rather than considering a single step to a fully harmonised market.

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

In principal, we believe that the general overarching vision should be the same for both electricity and gas, i.e. formulating clear targets and associated roadmaps to achieve the overarching goal of integrating the energy markets.

At the same time it has to be recognised that, besides different levels of market maturity, there are structural differences between electricity and gas which have to be recognised and may require to adjust and specify the overarching approach. Other than the electricity sector the gas markets are characterised by a large import dependency from a few producing countries which intensifies through the ongoing decline of the indigenous production. Additionally, the increase of the LNG share in the EU will lead to intensified competition with other gas consuming regions in the global market particularly within the Atlantic basin but also with Asia.

Generally, structural differences should not hamper the development of a non-discriminatory, market-based and competitive single European gas market.

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?

We like to stress that it is important to involve all relevant stakeholders into the process. By all relevant stakeholders we mean both, those already included in the formal decision-making process of the EU as described in the 3rd Package (Member States, the EU Commission, the ENTSOs and ERGEG/ACER) and especially market participants. As stated by ERGEG under 2.4, the latter do not have an formal institutional role in the 3rd package and therefore special focus must be to properly recognise their views and needs. Thus, as stressed in 4.20, market participants must have a significant influence over the shape of the necessary reforms to complete the European energy market.

We believe that a forum where all relevant stakeholders are involved is a necessary tool. For the electricity markets, the MIDP process with the Project Coordination Group has been a good such approach delivering tangible results (i.e. target models and roadmaps) for the recent Florence Forum. Yet, improvements may be necessary to even structure this process even further. Having said this, it should be seriously considered whether a similar (PCG-orientated) process should also be initiated for the gas markets. As there are structural differences between the different regions

(e.g. regarding gas we see varying penetration grades of gas consumption, import dependency, number of market participants, role of regulators) coordination between the projects is vital.

As a general point, we fully agree with ERGEG's view in 4.20 that this should not substitute formal public consultations on the specific regulatory proposals.

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?

All initiatives currently ongoing in the regions have the aim of a common market in Europe. This work is already linked to limited resources which has to be taken into account when thinking about the next steps. We surely see risks as the development of a new vision connected to the competition of attention between ongoing work and parallel development of visions has the risk of slowing down all processes in the end. Furthermore, there is the risk of potential lack of transparency of what is going on in the regions (topics and in the numerous committees) and who is involved. Defining a strategic vision is an exercise in which all relevant stakeholders must be involved in order to come to a successful implementation stage – as far as a vision beside the central vision of a common market needs to be developed. Thus “re-vitalising” the regional Stakeholder Group meetings would be very much appreciated.

As mentioned before we are of the opinion that the ongoing intra-regional integration and its specific projects should not be slowed down in order to start a discussion on developing a strategic vision. This seems even more important as it is essential that scarce resources are deployed in the most effective manner into priority areas and that duplication of work is avoided.

Second set of questions

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?

Generally, we very much value the approach taken by Regional Initiatives which allows Member States to choose their degree of involvement. Progress in Regional Initiatives is from our perspective sustainable if the involvement is an active one and hence we support any means by which more Member States become aware of the important role they play for further market integration in Europe. Thus, as successful market integration also very much depends on the political will and support, we agree that Member States, particularly within the different regions, should be more involved and improve the coordination among each others. Certainly there are good

examples where Member States have been actively involved in a supportive manner in the process (e.g. in CWE electricity market through the Pentalateral Energy Forum). This is not only important to see progress but also to have the necessary political commitment to adjust national rules (including better coordination of the regulatory policies) which are necessary in order to fully integrate the energy markets. As a general point we would like to mention that we have observed that recently the Stakeholder Group meetings within the ERIs have only been held infrequently or not at all.

Third set of questions

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?

It is important to always keep in mind the target to move towards a single European energy market. Although two regions could theoretically merge as soon as two regions are compatible in terms of rules, processes and market products we think that this could also take place on a “micro-level” by applying the successful features on specific topics from one region to another. The aim is therefore not necessarily the formal merger itself but an integration and harmonisation in terms of market rules, processes and products. Against this background we do not think that there should be a discussion on the optimal number of regions.

For the GRI we think that the current number of three regions is sufficient, particularly as they are already rather large (especially for NWE) and there is no overlap between the regions. Regarding the ERI we see a main difficulty that some countries are members in two or more regions which creates some overlapping activities. However, we are not convinced that it would make sense to start now thinking about to create an “ideal scenario” with one country only being member in one region as it would also mean a “reshuffling” of the existing regions. In our view this would obtain the great risk of significantly delaying the actual integration progress and even the stopping of some projects. Therefore, we support ERGEG’s approach under 4.10. that also from an efficiency point of view, the focus should be on close cooperation on specific topics across the regions rather than merging the regions.

In our view the focus should be on a consistent development within the regions and particularly between the regions. Regarding the GRI such a target model still needs to be developed. At the same time we would like to mention that it should also be possi-

ble to have projects on a more micro scale, e.g. projects taking place between fewer countries than comprised by the Regional Initiatives.

Overall the topics being dealt with by the Regional Initiatives should clearly be coordinated with the topics being worked on within the Framework Guideline and Network Code definition process. For GRI, for example, as the first pilot framework guideline is being set up on capacity allocation management followed by the respective network codes and a comitology process for congestion management, activities on the GRIs should also focus on these issues.

Fourth set of questions

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?

Generally speaking, we think that all initiatives taking which also take into account market players' views and needs are valuable. As an example we like to mention the Pentalateral Energyforum which facilitated significant progress in the CWE electricity region, having particularly the commitment of the involved Member States. However, the coexistence should always speed up the integration process (which can be guaranteed after the above mentioned assessment). If there is an overarching target model in place, we believe that both, Regional Initiatives and initiatives outside the quasi-formal process, must aim in the same direction. Also we think that market initiatives should also be possible at a smaller scale than the one set through the Regional Initiatives. The fact that all relevant stakeholders should ideally be integrated in the Regional Initiatives will further guarantee that all other or additional activities will go into the right direction. Again coordination is important to ensure consistency, although we do not see the need for the creation of setting up formal coordination processes on a larger scale.

How do you think this should happen?

Ideally, we have an effective structure of Regional Initiatives comprising all relevant stakeholders and their views and needs. Regional Initiatives are an essential element to test the implementation of network codes with a bottom-up perspective. At the same time there can be the need to work on some issues on a smaller scale than set by the Regional Initiatives, e.g. implementation of certain cross-border or cross-system processes and products which would take longer to implement on the Regional Initiative scale. The key is to have the right mix of flexibility and commitment to achieve the overall target. Coordination between different approaches should be done according to the needs of the stakeholders. We do not think that setting up a special coordination structure would be helpful at this time.

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

We think that significant effort should be made to coordinate activities across the regions. In general, the process envisaged by the Third Package should provide the means for proper co-ordination as the Framework Guideline and Network Code development processes ensure the balance of responsibility and accountability of the parties involved. Still it is essential to also recognise the needs of the market participants as they do not have a formal institutional role in the 3rd Energy Package.

EnBW hopes that its comments contribute to answer ERGEG's open questions in the context of its consultation paper "Draft Strategy for delivering a more integrated European energy market: The role of the Regional Initiatives" and we remain at your disposal should you have any further enquiries.

Yours sincerely

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