



ETSO Comments on ERGEG Convergence and Coherence Report

11 November 2008

ETSO welcomes the publication of the second ERGEG ERI Coherence and Convergence Report as well as the initiative to launch a public consultation. As ETSO and ERGEG share the overall objectives to integrate the European electricity markets and to develop the market ETSO is pleased to have the opportunity to provide some general feedback related to the topics addressed by ERGEG as well as more detailed comments concerning the questions raised by ERGEG.

Section A: General Comments

1. ETSO fully shares the conclusions from ERGEG that further progress on achieving harmonization of regional market arrangements has been made since the publication of the last review. ETSO would like to suggest, taking also into consideration the objectives of the Third Energy Package, a new definition of the geographical areas covered by the regional markets depending on the priorities and their progress.
2. The setting of different priorities in the various regions is in the very nature of a regional approach and doesn't necessarily represent an obstacle as it allows the different regions in the most efficient way. But ETSO agrees with ERGEG that it is essential that regions consider future harmonization and integration when implementing new systems and models. Although rules have to be adapted carefully as making provisions legal binding could hinder actual implementation phases if new obligations or new definitions arise.
3. ETSO would also like to stress the fact that the ERGEG Convergence and Coherence Report is not updated up to 10 September 2008. It can be observed that this report that is subject of public consultation does not take into account progresses made in several Regional Initiatives during last summer.
4. Furthermore ETSO would like to suggest that the ERGEG Convergence and Coherence Report should cover the SEE region as well. Therefore progresses and identified obstacles have been integrated in this comment as far as possible.

Section B: ETSO comments on the progress, obstacles and planned developments identified by ERGEG

ETSO is convinced that a single European electricity market cannot be achieved without a commonly shared objective of all market participants and other stakeholders. Therefore the following comments have to be seen as a basis for further discussion and ETSO would be pleased to enter in dialogue with all interested market participants and other stakeholders in order to refine the discussed concepts and to elaborate a joint proposition.

Central-South region

<i>"Criteria"</i>	<i>Progress, obstacles and planned developments</i>
Towards a regional single auction platform with harmonised auction rules, IT interface, and products for medium and long term allocation	Additional obstacles are governance issues as well as potential conflicts of interest of TSOs taking part in more than one ERI.
Towards a market coupling model for the day-ahead timeframe	Deep differences in the structure and in the liquidity of the energy market form another obstacle.
Integration of transparency requirements	Differences in the market structures (timing, rules etc.) are also identified as an obstacle.

Central-West region

“Criteria”	Progress, obstacles and planned developments
Towards coordinated capacity calculation and common transmission model	<p><u>Obstacle identified by ERGEG</u>: No demonstration of the added-value of the flow-based dimension Pre-congested cases (no capacity left for cross-border exchanges).</p> <p><u>Remark from ETSO</u>: This issue was realised and lead to the proposal/decision to start market coupling with an improved co-ordinated ATC-model, based on a common transmission model. This ATC-step is somewhat less ambitious than a full flow-based start but however still an important step towards coordinated calculation. Flow based calculation is still the objective, to be introduced after a test period.</p> <p>The missing/imprecise information about generation and load constitutes another obstacle. Consequently the common transmission model at D-2 can only be founded on best estimations.</p>
Towards a regional single auction platform with harmonised auction rules, IT interface, and products for medium and long term allocation	<p>The lack of a harmonised, unambiguous method for the financing of compensation payments in case of curtailments is presently the major identified obstacle towards fully coordinated LT auction rules.</p> <p>A missing central single entity constitutes another obstacle as the coordination between national Regulators with partly different country specific national legislation is very time-consuming.</p>
Towards a market coupling model for the day-ahead timeframe	<p><u>Obstacle identified by ERGEG</u>: Number of parties involved in the project.</p> <p><u>Remark from ETSO</u>: That's less an obstacle than the reason why this project takes more time than initially expected.</p> <p>The arising financial risks for some participants because of unclear cost recovery constitute also an obstacle.</p>
Towards an intraday mechanism, possibly based on continuous trading	<p><u>Remark from ETSO</u>: Since capacity calculation for an intraday model is strongly depending on the calculation principles for day-ahead capacity, the introduction of fully harmonised intra-day allocation schemes depends on the introduction of harmonised day-ahead allocation schemes.</p>
Integration of transparency requirements	<p>As data suppliers (especially generation companies) need exact definitions the lack of precision/definition in the Transparency Reports constitutes also an obstacle.</p> <p>The preparation of exact definitions which are necessary for a harmonised data-delivery and publication (e.g. for “outage”) takes much time and needs approval of national Regulators and ERGEG.</p> <p>In some cases the regional characteristics of the Transparency Reports are not extensive enough to cover regional differences.</p>
Integration of balancing markets	<p><u>Remark from ETSO</u>: Third priority after day-ahead and intraday allocation</p>

France-UK-Ireland region

“Criteria”	Progress, obstacles and planned developments
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Towards coordinated capacity calculation and common transmission model	<u>Remark from ETSO:</u> There is no obstacle in the FUI Region. IFA has firm connections to the GB and French markets for the full capability of the interconnector. Internal transmission network congestion never affects NTC or ATC.
Towards a regional single auction platform with harmonised auction rules, IT interface, and products for medium and long term allocation	<u>Remark from ETSO:</u> There is only one interconnector between Member States in operation in the FUI Region (IFA). There are few obstacles to creating a future regional Auction Office. Other interconnectors are under construction and owners will make their own decision on which system to adopt. National Grid & RTE are finalising the detailed design for the new IFA Capacity Management System with the software supplier. Go-live is due summer 2009. Harmonisation opportunities are being explored with Britned also.
Towards a market coupling model for the day-ahead timeframe	<u>Remark from ETSO:</u> The main perceived obstacle towards market coupling is having proven software. National Grid and RTE have discussed the potential for multi-lateral market coupling on IFA coincident with the planned introduction of market coupling on Britned. National Grid and Tennet are investing heavily in a market coupling software solution.
Towards an intraday mechanism, possibly based on continuous trading	<u>Remark from ETSO:</u> There are no current obstacles to intraday arrangements in the FUI Region. IFA CMS will deliver intraday market-based allocation (explicit auctions) on go-live. Continuous trading could feature in the consideration of multi-lateral market coupling above.
Integration of transparency requirements	<u>Remark from ETSO:</u> There are no obstacles regarding transparency of the GB market or IFA in the FUI Region. National Grid & RTE have defined an ETSO Vista specification for transparency and are seeking to include this in the specification for IFA CMS.
Integration of balancing markets	<u>Remark from ETSO:</u> There is one perceived obstacle to further integration of balancing markets which is avoiding free use of necessary interconnector infrastructure in the provision of balancing energy. National Grid responded confidentially and in detail to the formal regulators request. Cross-border balancing arrangements have existed on IFA since 2001 and will be enhanced by National Grid and RTE in two stages through 2009, with additional pricing granularity for example.

Northern region

“Criteria”	Progress, obstacles and planned developments
Towards a regional single auction platform with harmonised auction rules, IT interface, and products for medium and long term allocation	<u>Obstacle identified by ERGEG:</u> Long-term products within the Nordic markets provided by the financial markets <u>Remark from ETSO:</u> whereas in continental Europe physical products are auctioned.
Towards a market coupling model for the day-ahead timeframe	The challenge of volume coupling vs. price coupling is also identified as an obstacle. <u>Remark from ETSO:</u> Market Coupling via EMCC (between Germany and Denmark) has been launched and then for the time being delayed due to need for improvements in the auction algorithm. Further, Baltic Cable (Germany-Sweden) has announced that they will implement implicit

	auction via EMCC when this coupling is active again.
Integration of transparency requirements	<i>Obstacle identified by ERGEG: Need and feasibility for monitoring the quality of the data under discussion</i> <i>Remark from ETSO:</i> Nordel is currently working on implementing the objectives defined in the transparency report issued by ERGEG's Northern ERI. Discussions have started on how to provide better and more accurate TSO data beyond that report.

South-East-European region

"Criteria"	Progress, obstacles and planned developments
Towards coordinated capacity calculation and common transmission model	A common transmission model is used, but different approaches from the TSOs in relation to the security margins are applied. There is no strict common calculation procedure applied by all TSOs.
Towards a regional single auction platform with harmonised auction rules, IT interface, and products for medium and long term allocation	Different approaches by the TSOs in relation to the scope of the region exist. The national markets are at different level of development. A lack of harmonization in respect of market design and rules for market operation exists. The lack of robust commercial IT software, based on a common method for different time horizon application is identified as another obstacle as well as the revenue distribution keys.
Towards a market coupling model for the day-ahead timeframe	The day-ahead market is not yet implemented in all countries and there are no sufficient liquidity/price signals. In some countries the regulated market segment still exists.
Towards an intraday mechanism, possibly based on continuous trading	Differences in market design also constitute an obstacle. The intraday mechanism is the second step after market coupling on a day-ahead basis.
Integration of transparency requirements	There are not commonly agreed criteria of what exactly transparency means and what is transparent behaviour and what is no transparent behaviour.
Integration of balancing markets	First steps in this direction are already achieved within a SETSO project. The balancing markets within the region are operating under different rules, which in most of the cases are not market based. There is still a lot of work to be done on a national level, before some actions for harmonization and integration to be taken by the TSO's..

South-West region

"Criteria"	Progress, obstacles & planned developments
Towards coordinated capacity calculation and common transmission model	<i>Remark from ETSO:</i> There is a great progress in this regard and no significant obstacles might be overcome. There is an existing and coordinated methodology for cross-border capacity calculation within the region on the basis of the minimum values determined by each TSO at different timeframes calculated by means of an ATC approach. A flow-based approach is not necessary for the SWE region since flows at one of the two borders (FR-SP & SP-PT) are not significantly affected by those on the other border. REE and REN have formalized the utilization of this methodology with an agreement reached in January 2008 for the calculation of commercial interchange capacity. REE and RTE are also working on an analogue document

	<p>which will be signed soon.</p> <p>As a response to regulators' request, TSOs have also provided the RCC with a historical of the NTC values and of localisations and explanations on the most limiting constraints.</p> <p>TSOs have agreed as well the structure for the allocation of capacity between different timeframes in the French-Spanish and Spanish-Portuguese borders, and informed the RCC.</p> <p>TSOs have also addressed the two following issues:</p> <ul style="list-style-type: none"> • Publication of coordinated NTC values in each time horizon • Exchange of the best information available.
<p>Towards a regional single auction platform with harmonised auction rules, IT interface, and products for medium and long term allocation</p>	<p><u>Remark from ETSO:</u> The main challenge for the region is the launching of the long-term explicit auctions on the Spanish-Portuguese interconnection in order to be fully compliant with CM Guidelines and to foster the trading of energy within the Iberian Peninsula. The implementation of these auctions is pending since the end of 2007. An effort for reaching a higher degree of harmonization between Spanish and Portuguese Regulations must be done.</p> <p>Once implemented the auctions between Spain and Portugal, the next step is the regional integration of the explicit auction systems of the French-Spanish and Spanish-Portuguese interconnections. In this regard, the TSOs have proposed several solutions that vary from decentralized to centralized ones, and will continue working for regional integration.</p> <p>More operating issues for improving the current explicit auction mechanisms at the French-Spanish interconnection have been identified and a new version of the IFE Rules will shortly be made public.</p>
<p>Towards a market coupling model for the day-ahead timeframe</p>	<p><u>Remark from ETSO:</u> Market Coupling between MIBEL and TLC/CWE is a key milestone in development of the IEM but is not an easy task and should be developed in coordination with other ongoing projects. For this purpose, there is need of a cross-regional plan for the implementation of market coupling at European level coordinating the different Regional Initiatives.</p> <p>TSOs and Power Exchanges have already identified needs for harmonisation to implement market coupling between MIBEL and the Central Western region, although there is still no common position. Stakeholders have expressed the need to define a road map for the integration of the different regions.</p> <p>The main goal for the region is to harmonize the differences in market model design between France and the MIBEL in order to advance in real integration of day-ahead markets.</p>
<p>Towards an intraday mechanism, possibly based on continuous trading</p>	<p><u>Remark from ETSO:</u> There is an existing intraday mechanism already in place at French-Spanish interconnection consisting of two explicit auctions. The main obstacle for the evolution towards a continuous trading platform in intraday is the existence of two very different intraday market models in France and Spain: continuous in France and with predefined matching sessions in Spain.</p>

<p>Integration of transparency requirements</p>	<p><u>Remark from ETSO:</u> An in-depth comparative analysis of the state-of-the-art as regards information management and wholesale market data handling across Member States in the region has been carried out. As a result from this study, different actions are being raised by the TSOs in order to advance in the degree of transparency and publication of information at each country.</p>
<p>Integration of balancing markets</p>	<p><u>Remark from ETSO:</u> The SW region is addressing this topic. Firstly, the possibility of creating balancing perimeters in Spain has been contemplated. Currently, the TSOs are working on the identification of the current barriers to cross-border access to balancing markets in SWE region as well as the choice of the model to be implemented in the region.</p> <p>However, the main difficulties for balancing trade are those related to the differences in markets design, balancing products and payments. Also, its interrelation with intraday markets, which model is also under discussion, is another issue to be tackled.</p>