

COMMENTS ON

THE ROLE OF THE REGIONAL INITIATIVES

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General considerations

Iberdrola welcomes ERGEG public consultation on the role of the Regional Initiatives. Iberdrola supports these initiatives as a necessary tool for the integration of national energy markets.

Iberdrola hopes besides that this consultation could be used to encourage the participation of National Governments in these Initiatives so that they can speed the pace towards a single energy market.

In this task, ACER will play an important role as supervisor of the works of each Regional Initiative and also in the definition the Target Model to be implemented throughout the whole European Union.

On the one hand, ACER can help to remove all regulatory restrictions that are hampering an efficient use of existing mechanisms. This is for example the case of the SW Region, where a ban prohibits the main players in the Spanish electricity market to import energy from France. Such a ban is an obstacle to the efficient use of the interconnections. Therefore, it contradicts the main objective pursued by Regulation 1228/2003/EC.

On the other, ACER can help to solve the problems of coordination among Member States that prevents to progress in market integration. For example, fostering the construction of new and necessary interconnection facilities, and avoiding delays such as those occurring in gas interconnection between Spain and France which are needed to improve security of supply at European level.

B. Particular responses

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?

Iberdrola agrees with a high strategic vision to set the overall direction of market integration. This vision should help to avoid national solutions that are far of the objective of a single energy market.

ACER is the main candidate to develop this task, but the work should be based on the work already done by the Electricity Regional Initiatives. RIs should continue with their works and ACER can follow and also encourage higher cooperation among Member States, PXs, TSOs, Regulators and Market Players where this is not enough.

The development of a strategic vision should not delay the implementation in the regions under current structures, and it could facilitate progress forward a single energy market, because in Regions where the RIs are working, most of the works are valid and in Regions where RIs are not working so well, this vision will help to speed them.

The criteria should be different for gas and for electricity. Gas requires greater EU coordination as several Member States share the same infrastructures (pipelines cross many countries). In the case of electricity, a large part of the generation will be produced in every Member State to supply its own consumption, although exchanges can take place with other countries for commercial (price) or security reasons.

Nevertheless, both markets must be highly coordinated since the connection between gas and power markets has increased a lot lately (most European countries have heavily invested in gas fired plants to produce electricity in the last years). Moreover, both markets should work under the same levels of transparency

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?

Iberdrola agrees that Member States should be more closely involved in the work of the Regional Initiatives, as far as this involvement makes easier the market integration, in particular, in countries like Spain, where the National Government is the main regulator.

ACER should promote that Governments follow the discussions in RIs Meetings and create a Governments Committees for each RI to coordinate how to establish the legally binding cross-border regulatory framework.

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 electricity regions is adequate in the current situation. When the regional markets of a RI will achieve most of these objectives, some regions can merge to integrate its regional solutions. If a high level strategic vision is developed, this last step will be easier. One important issue to the success of this strategy is that the countries should treat each RI in which are involved with the same interest to avoid penalizing a third country.

It is necessary to bear in mind that the integration of regional markets is often complex. It requires the existence of sufficient interconnection capacity, and in many cases it is difficult to reach political agreement among the countries involved.

In the cases where the setting up in the short term of a regional market is not possible, it is desirable to maintain the current regional markets as experience gained, should enable faster progress in its integration

In the cases in which regional markets are well developed, it is necessary to make a preliminary study to determine whether there exists conditions to allow for a suitable integration at higher levels, such as sufficient interconnection capacity and favorable market conditions that will allow such an integration.

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?

The ultimate goal of each RI should be to create regional markets, thereby constituting as a prelude to their subsequent integration into the Single European Energy Market.

Iberdrola agrees that these regional market initiatives which are outside of the ERGEG Regional Initiative should be integrated among themselves or with other regional markets within the ERGEG, according with the strategic vision and general criteria approved. In other case, the harmonization of these initiatives could be difficult if the model applied is far from the Project Coordination Group Target Model.

The integration of regional markets will follow a rather similar, although more complex process. In the integration of domestic markets, some problems that prevent integration have been detected (regulatory incompatibilities, lack of interconnection infrastructure, etc.), so the involvement of National Governments in RIs (Question 2) can help to integrate markets outside of the ERGEG RI.

5. Question 5

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

Target Models defined at Project Coordination Group should be in some way implemented by ERIs. But, there is a high risk that Target Models are discarded by ERIs because “our region is different”. Any difference from the target model should be clearly motivated, and if possible, verified by an interregional organization that could be ACER. So ACER could improve co-ordination across the regions.

In this sense, we believe that ACER should take the regulatory initiative when the Member States concerned cannot reach agreement on important issues to the formation of regional markets. For example, when deciding to build new interconnection infrastructures, or when their execution is delayed without reasonable reasons, or when deciding the overall regulatory framework.

We encourage ACER to define clear deadlines for binding key milestones. We also encourage monitoring the real achievement of these key milestones.