

European Regulators Group
for Electricity and Gas
Rue le Titien 28
B-1000 BRUSSELS
convergence@ergreg.org.

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Nordenergi Comments on ERI Convergence and coherence report

Introduction

Nordenergi is a joint collaboration between the Nordic associations for electricity producers, suppliers and distributors. Nordenergi's main objective is to address issues of common interest, regarding the development of the Nordic electricity market in a European perspective. We welcome the opportunity to comment on the second ERGEG ERI Convergence and Coherence Report which was published by ERGEG on September 10, 2008.

The consultation report gives an overview of the progress made by each regional initiative while identifying obstacles to further harmonisation of rules and integration of regional markets. In addition there are some recommendations for further convergence within the regions. Generally, we support the recommendations in the report, but we had hoped for clearer and more detailed recommendations along with suggestion on possible timeframes and milestones.

When commenting on the ERGEG report, we have chosen to focus on the key issues in our region and on overall coordination of the planned initiatives. The Nordic region has come a long way in the market harmonisation and integration process. From our standpoint, one of the main challenges for the future is how to bridge different regions in an efficient and harmonised manner. This is one issue that we hoped ERGEG would have elaborated on in greater detail.

In order to contribute to intra-regional convergence in the future, Nordenergi has established a working relationship with our sister organisation North-West European Market Parties Platform (NWE MPP). Together, Nordenergi and NWE MPP have agreed on several main principles for intraday markets, congestion management and transparency. We recommend that these principles should be applied when further integrating our regions and when integrating other regions as well. We have enclosed three documents that describe our common views in these matters.

Capacity calculation methodology

As stated in our comments to the first ERGEG ERI Convergence and coherence report, Nordenergi recognises many of the advantages related to flow based allocation methods. However, experiences from other regions with flow-based methods have shown that there are many important prerequisites that must be in place in order for flow-based allocation to be implemented successfully. If these prerequisites are not in place in the relevant markets, moving from NTC to flow-based methodology will not provide sufficient benefits.

Considering that loop flows are not today an issue of concern in the northern region, our main priority is to maximise the use of available capacity, and the hourly NTC so far seems to function rather well in this regard.

Long-term capacity allocation

Nordenergi does not believe that long term physical capacity rights are needed between and within well developed power markets. Any basis price risk should in our opinion be handled by purely financial instruments. We believe that any physical allocation of capacity to market players could harm the liquidity for any financial substitute product, reduce transmission capacity utilisation and quite possibly harm competition in the power markets.

However, in order to move forward on intra-regional market integration and to promote harmonised solutions on interconnectors all over Europe, we have together with NWE MPP accepted and agreed on some basic principles for how to financially handle the forward price difference risk between markets divided by interconnectors. We hope that by promoting these principles, we can contribute to the development of a methodology that could serve as a reference model for intra-regional integration in a pan-European scale, see enclosed paper.

Day-ahead capacity allocation

The Nordic countries have implemented implicit auctions on all our internal interconnectors with the use of the market splitting mechanism. There seems to be emerging a general consensus between European stakeholders that the use of implicit auctions optimises capacity utilisation, transparency and power market liquidity. Nordenergi support all efforts that lead to the introduction of implicit auctions in and between other regions.

We believe, however, that there is an urgent need to coordinate the various European market coupling projects. When looking at current projects that are developing, we see that developments are not harmonised. Nordenergi believes that this may create obstacles to define a target model which can be implemented in a broad European scale in the future. In the report, ERGEG proposes to make a cross-regional roadmap for the implementation of market coupling. We recommend that this plan should include guidelines and principles for the market coupling methodology.

In our comments to the previous ERGEG ERI Coherence and Convergence Report, Nordenergi put emphasis on how different gate closure times prevent market coupling to take place and recommended that ERGEG address this issue in greater detail. Nordenergi believes this issue will create obstacles for

other regions in the future as well, and we urge ERGEG to give recommendations on how this issue may be resolved.

Intraday allocation

The intraday trading platform ELBAS will be introduced in Norway on January 1, 2009. From this date, all the Nordic countries will have a harmonised trading platform. Also, ELBAS fully complies with the Congestion Management Guidelines in Regulation EC 1228/03.

There are many different market models currently under development in Europe. In order to avoid obstacles when integrating regions, all implemented models should be built on the same basic principles. As an effort to harmonise our trading platforms and pave the way for intra-regional integration, Nordenergi and NWE MPP have agreed on some main requirements for a cross border intraday mechanisms. We suggest that ERGEG adopt and recommend these requirements in order to boost pan-European harmonisation, see enclosed paper.

Balancing

Common Nordic balance settlement will be implemented from January 2009 in the Nordel area. The harmonised model will price imbalances depending on generation or load. Production will have a two-price system and load will have one price. Although this new harmonised model is not perceived as ideal for all countries, it is considered as an important step facilitating a common retail market and also paving the way for further European harmonisation in balancing.

Transparency

Transparency is one of the most important prerequisites in order to create a level playing field and to promote efficient trade and competition. European market developments and the introduction of market coupling on interconnectors push us towards intra-regional integration. In order to preserve a level playing field when coupling regions, the same transparency requirements should be applied in all coupled markets.

Nordenergi has together with NWE MPP agreed on some basic requirements for transparency and information disclosure. We recommend that these are to be implemented in a pan-European scale, see enclosed paper.

Governance issues

When looking at the historical developments in the Northern region, and more specifically the Nordic countries, we see that the harmonisation and integration in the Northern region has been initiated by TSOs and power exchanges with the appropriate support from regulators and market parties. However, further progress seems to have stagnated, and it seems that a bottom-up approach will not be sufficient when aiming for further regional market integration. It is our belief that measures for harmonisation

must be implemented by a stricter top-down approach, where the obstacles for development are removed by political, legal and regulatory measures.

Nordenergi has called for reinforced policy statements from the Nordic energy ministries, asking them to instruct the national regulators and TSOs to implement harmonised solutions and regulatory framework. We ask that ERGEG keep this in mind as well, when considering the need for stricter regulatory measures in other regions.

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Members of Nordenergi



Steinar Bysveen, Chairman of Nordenergi
Norwegian Electricity Industry Association

On behalf of:

Juha Naukkarinen, Finnish Energy Industries

Hans Duus Jørgensen, Danish Energy Association

Kjell Jansson, Swedenergy

Eiríkur Bogason, Samorka, Icelandic Energy and Utilities

Enclosures:

- Nordenergi and NWE MPP statements on congestion management
- Nordenergi and NWE MPP statements on transparency
- Nordenergi and NWE MPP statements on intraday markets