



FLORENCE SCHOOL OF REGULATION

CONCLUSIONS OF THE WORKSHOP “EREGG’S REGIONAL INITIATIVES AND THE EU 3RD LEGISLATIVE PACKAGE ON ENERGY”

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Workshop Conclusions

Summary

The workshop has focused on the question of how the Regional Initiatives (RIs) process, essentially a bottom-up approach, can be made consistent and compatible with the framework introduced by the 3rd legislative package on energy, which envisages a more top-down approach to the creation of the IEM. Its purpose was to retrospectively review the achievements of the RIs and determine their potential for further accelerating the creation of a single EU energy market (*Session I*). Emphasis was given to the quest for a reference model for the internal energy market (*Session II*) as well as to the implementation of the 3rd legislative package in particular with respect to regional cooperation (*Session III*).

A record of the workshop presentations as well as the related working papers can be found on the web at www.Florence-School.eu.

Highlights

Session 1: Regional Initiatives. Achievements and Future Strategy. The first session has reviewed progress and achievements of the RIs. The discussion was based on two documents: the “Regional Initiatives Peer Review - From Regional Markets to a Single European Energy Market” commissioned to Mercados EMI/everis by DG-TREN of the European Commission and the ERGEG Consultation Paper on RIs. Both documents conclude that the RIs process has delivered significant benefits in terms of developing a culture of regional cooperation, of permitting progress at different speeds as well as pilot testing and finally by facilitating benchmarking of different approaches and thus the spread of best practices. A number of concrete results have also been achieved, in the area of transparency and capacity allocation/congestion management. In some regions, the RIs process has progressed in parallel with other initiatives, mostly led by Governments.

However, the RIs process has also been characterised by a number of shortcomings. In some areas, the process has suffered from the lack of a clear and sufficiently detailed vision which would have guided the regional development (most notably in congestion management) and the lack of a format for the proper involvement of Government.

For the future, the Mercados EMI/everis report recommends the implementation of a two-tier approach: where a vision needs to be developed, top-down guidance may be required, with the regions contributing through pilot testing; where instead a vision is already shared, the regions should focus on implementing and adapting the Reference Model to their regional specificities. Most of the issues identified as required for the development of the IEM still call for central direction and a top-down approach. The involvement of governments, whose support is crucial to the success of market integration, could be improved by the establishment of a proper forum. With regard to the geographical structure of the regions, some streamlining seems appropriate, especially in electricity, in parallel with the development of the IEM.

Session 2: The Quest for a Reference Model for the Internal Market. The second session assessed whether a Reference/Target Model exists, based on the current EU legislation, the conclusions of the Florence and Madrid Fora, contributions from stakeholders such as e.g. ETSO/EuroPEX and the work of the PCG. In this context, the work of the PCG on the Target Model was presented.

The PCG, established by ERGEG in 2008, was given the task of elaborating a reference/target model to harmonise inter-regional and then EU-wide congestion management. The PCG has established a “target model” for each electricity market (Forward, Day-ahead, Intraday and Balancing markets) as well as for the capacity calculation and the governance. The second step will be to allow these guidelines to be transformed into network codes and development projects. The PCG shows *inter alia* that even without legal basis, important improvements can be expected when the key players are willing to work together and find a consensus. Crucial disadvantages are related to the lack of sufficient transparency of data concerning use and availability of power sector infrastructure which have been rather neglected. Progress regarding release of data in some important countries has nonetheless been evident. However, to be implementable, the Target Model still requires the definition of a few final aspects, mainly related to governance and technical implementation.

The issue of whether the Nord Pool model could have the potential to be a prototype for an IEM was also addressed. The main problems in this respect relate to regulation and governance issues.

The relationship between cross-border and internal congestion management was also considered. Internal congestion has not been an aspect on the European electricity integration agenda yet. Internal congestion management solutions which are not harmonised may lead to distributive effects among countries and market participants and to distortion of cross-border competition. The coordination is difficult because it has a political impact where uniform national prices are part of the national policy and also where the price impacts negatively affect some market participants (e.g. for producers located in the low prices area). The 3rd Package asks ENTSO to elaborate network codes for cross-border exchange, but nothing is said on national congestion management. Regarding the actual situation in law and in practice, there is a necessity to elaborate a rule for binding coordination.

Session 3: The 3rd Legislative Package and the Regulatory Challenge. The third session was devoted to regional solutions/ integration under the 3rd Package. The discussion mainly focused again on the issue of how congestion management and true market coupling can be implemented. The presentations compared two alternative models: a decentralised approach with the use of a single algorithm but several Power Exchanges operating in the different market areas; and a more centralised approach. The pros and cons of the two approaches have been discussed, and it is evident that it is still premature to define which model will be best suited for the IEM.

The 3rd package contains both elements of a top-down approach (Comitology) and possibilities for bottom-up solutions (regional cooperation). It defines a new regulatory framework providing for increased coordination requirements between TSOs and regulators (ENTSO and ACER), and furthermore the harmonisation and enhancement of regulators powers and competencies as well as entirely new tools such as e.g. the Framework Guidelines and Network Codes, to promote the development of cross-border trade. Therefore, there will be a change of context within which the RIs operate: from voluntary to binding and enforceable rules and the involvement of governments through Comitology. In this context, the new Directives on Electricity and Gas contain an explicit promotion of regional cooperation: Member States and NRAs shall cooperate with each other for the purpose of integrating their

national markets at one or more regional levels as a first step towards the creation of a fully liberalized internal market.

The “Pentalateral Energy Forum” (PLEF) experience is an example for the success of Member State cooperation on the way to an harmonised internal market. Based on two case studies referring to the PLEF and the Central-Eastern European Electricity Forum (CEEE Forum), the value of the bottom-up approach can be demonstrated. Both fora succeeded in signing memoranda of understanding among all players whereby the assigned tasks are fulfilled even today. The latest development is the North Sea grid initiative, a political declaration between all EU North sea countries and Luxembourg from December 2009 with the intention to sign a Memorandum of Understanding at Ministerial level in autumn 2010 which shall identify work packages and define how to further proceed in offshore grid issues on an international base. All these cases demonstrated the importance of the leadership of the Member States in the development of regional cooperation.