

# European market integration – applying current legislation and developing a new framework



**Baltic REM**  
**Stakeholder Group Meeting**  
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# The outline of the presentation

- Regulators' European cooperation
- Recent reports
  - ERGEG Compliance Monitoring Report
  - ERGEG ERI Coherence and Convergence Report
- Some considerations on the Baltic REM
- Third package
- Green package



# European energy regulators' European level cooperation

## CEER

- Established in 2000
- Regulators' voluntary cooperation organisation (a not for profit association)
- Members are EU and EEA independent energy regulators (29)

## EREGG

- Established in 2003 with a Commission decision
- A channel for regulators to give advice to the European Commission
- Members are EU energy regulators (27) and the Commission, EEA regulators and EU candidate country regulators observers



# 2nd Compliance Monitoring Report

- An assessment of how the Regulation 1228/2003 and the annexed Congestion Management Guidelines have been followed
- First report presented at the Florence Forum in 2007, the Forum asked ERGEG to prepare a more detailed report and to work on the interpretations of the Regulation and the CM GL
- A criteria document published in December 2007
- Each NRA provided information, careful check, comparison and assessment of answers in ERGEG
- Public consultation underway until mid-October



## General remarks

- The Regulation 1228/2003 and the CM Guidelines have not yet been fully implemented
- A lot of progress has taken place since the First Report in 2007 (ERI)
- The changes needed in processes applied by TSOs, NRAs and other stakeholders will take time and in some cases amendments are needed in national legislation



# Congestion management

- As regards day-ahead allocation, approximately 2/3 are explicitly auctioned and 1/3 follow an implicit scheme
- Intra-day allocation is in place for roughly half of the borders analysed
- Intra- and inter-regional coordination and coherence in CM methods must be improved
  - This includes the set-up of the intra-day allocation mechanism as soon as possible



# Transparency

- A number of positive developments observed (this has mainly been achieved through active work within ERI)
- Still a number of improvements must be implemented
  - Publishing of information on forecast demand and generation and the ex-post realized values for the forecast information
- More detailed binding rules for transparency are needed to ensure a consistent implementation of transparency in Europe




## Other areas

- It has not been possible to evaluate compliance for a number of issues due to the lack of the criteria for their qualitative and quantitative evaluation (maximizing capacity, minimizing impacts to the neighbouring control areas, firmness, curtailment etc.)
- There exists conflicts between national legislation and the Regulation/CM GL mainly regarding powers of regulators to force the TSOs and stakeholders to implement routines needed
- GL on ITC and TT



# Recommendations I


- 
- EC/MSs should
    - Open old merchant interconnections to the market
    - Complement the existing provisions of Section 5 (Transparency) in CM GL → binding rules
    - Harmonize key regulatory issues in terms of governance
    - Explicitly assign responsibility to impose restrictions on certain issues to energy regulators
    - Anchor reporting by the TSOs in the amended CM GL
    - Adopt and implement the ITC and TT GL asap

## Recommendations II


- MSs should put in place a legal framework that is necessary to create efficient cross-border trade and to support the implementation of the CM GL (powers of NRAs and requirements for TSOs)



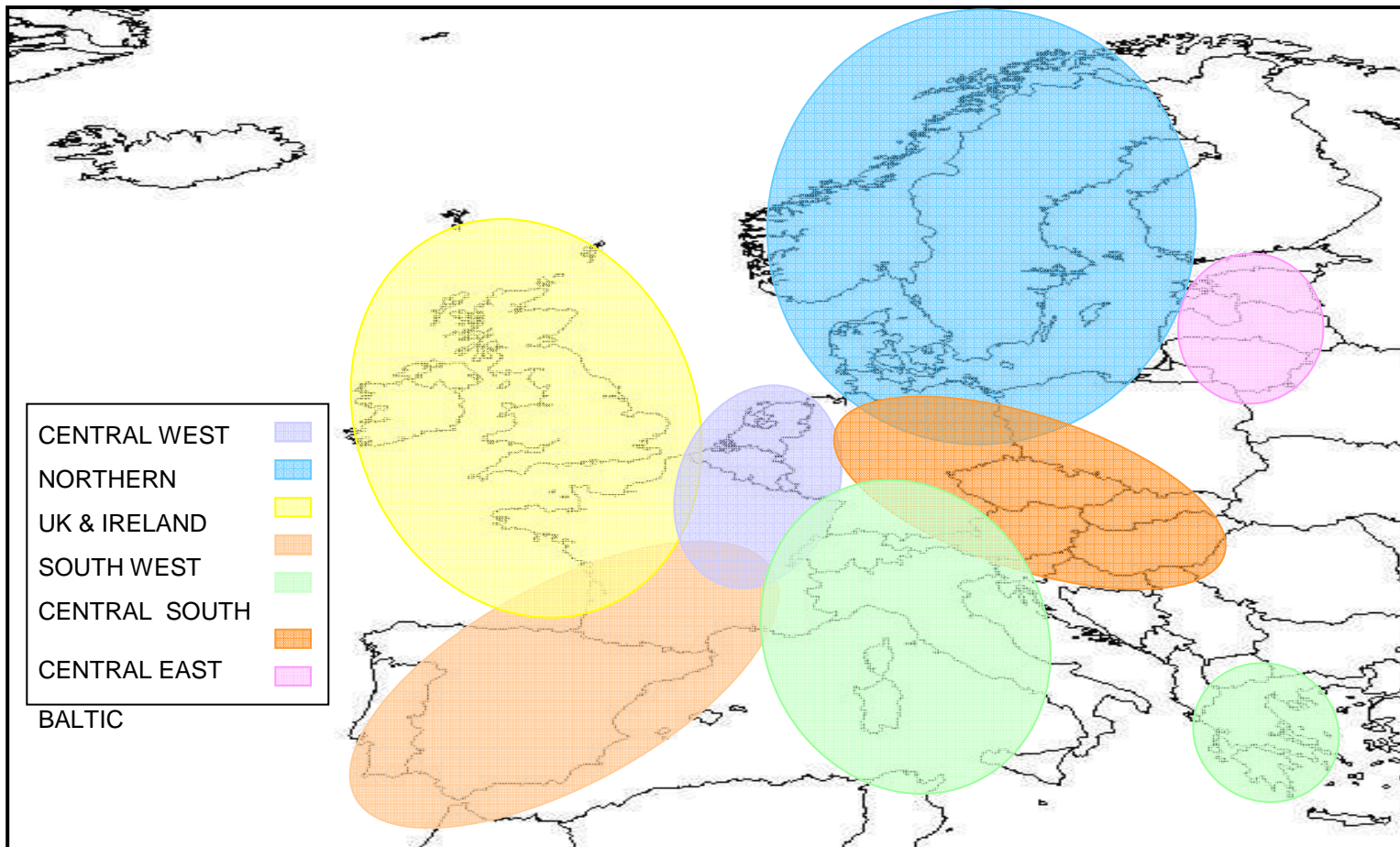
# Recommendations III

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- TSOs should
    - truly commit and implement the agreed projects as they are the key players and market facilitators and have the highest responsibility for implementing the Regulation and the CM GL
    - define and agree on a common approach and detailed rules for solving internal and cross-border congestion throughout Europe and in line with the provisions of the Regulation and the CM GL

## Recommendations II

- 
- Regulators/ERGEG should
    - define and put in place concrete measures to speed-up implementation process of CM GL
    - assess economic efficiency of CM methods
    - advise the EC on amendments to the Regulation and the CM GL (firmness, curtailment, capacity maximization, use of redispatching and counter trading, CM income use)

# 2nd ERI Coherence and Convergence Report



## General remarks

- Further progress on achieving harmonisation of regional market arrangements
- Focus has started to shift to common practices that may help permit the future integration of neighbouring regions
- Common legal and advisory documents have helped direct the path towards harmonisation (CM, transparency)



## The challenge faced

- Significant progress needs to be made
- Regions have differing priority levels for the identified work streams → progress is disjointed
- There are many region-specific work streams assigned short term priority → regions should consider future harmonisations and integration when implementing new systems and models



# Substance areas

## ➤ Capacity calculation methods

- use of load flow based methods and the specification of common power system models will need to be appropriately coordinated

## ➤ Capacity allocation

- Medium and long term allocation: harmonisation of auction rules and compatibility of different auction methods and platforms between regions
- Day-ahead: most regions are developing implicit day-ahead auctions, which are in principle compatible, but care is needed in the detailed design and implementation



## Substance areas (continued)

- Intra-day allocation: issues include the extent to which continuous trading platforms can be or should be extended across national markets and regions

- Balancing

- Further integration of balancing markets being pursued, desirability to use continuous trading platforms

- Transparency

- Needs to be addressed in all regions simultaneously and to implement the GGPs on a consistent basis



# The Baltic REM – some considerations



- The Baltic market is relatively isolated and small → integration with the surrounding countries' electricity markets is the key issue to create a functioning market
- There is a promising development underway to start to integrate the Baltic market with the Nordic/Northern market (Price area Estlink)
- However, a prerequisite for the integration is market based pricing at least at the level of wholesale market

# Transparency

- An important condition for electricity wholesale market to develop is a sufficient level of transparency
- The ERGEG GGP on Information Management and Transparency and the ERI Transparency reports define the information to be set available
- The main responsibility lies with the TSO
- The message from the 2<sup>nd</sup> ERI Coherence and Compliance Report → all the regions should work on transparency



# Balancing

- The Baltic REM has been among the first REMs to work on balancing market integration
- The CM GL require the existence of cross-border balancing since the beginning of 2008
- Already now Estonia and Latvia belong to the same balancing area
- This is an important topic to continue work on and to achieve results in the forefront



# Third package

- Unbundling of TSOs
- The proposal for a new European regulatory framework
  - Setup of TSO organisations
  - Setup of Agency for the cooperation of energy regulators
  - The process for preparing and implementing European level minimum rules for a number of key areas
- Harmonisation of the powers of energy regulators

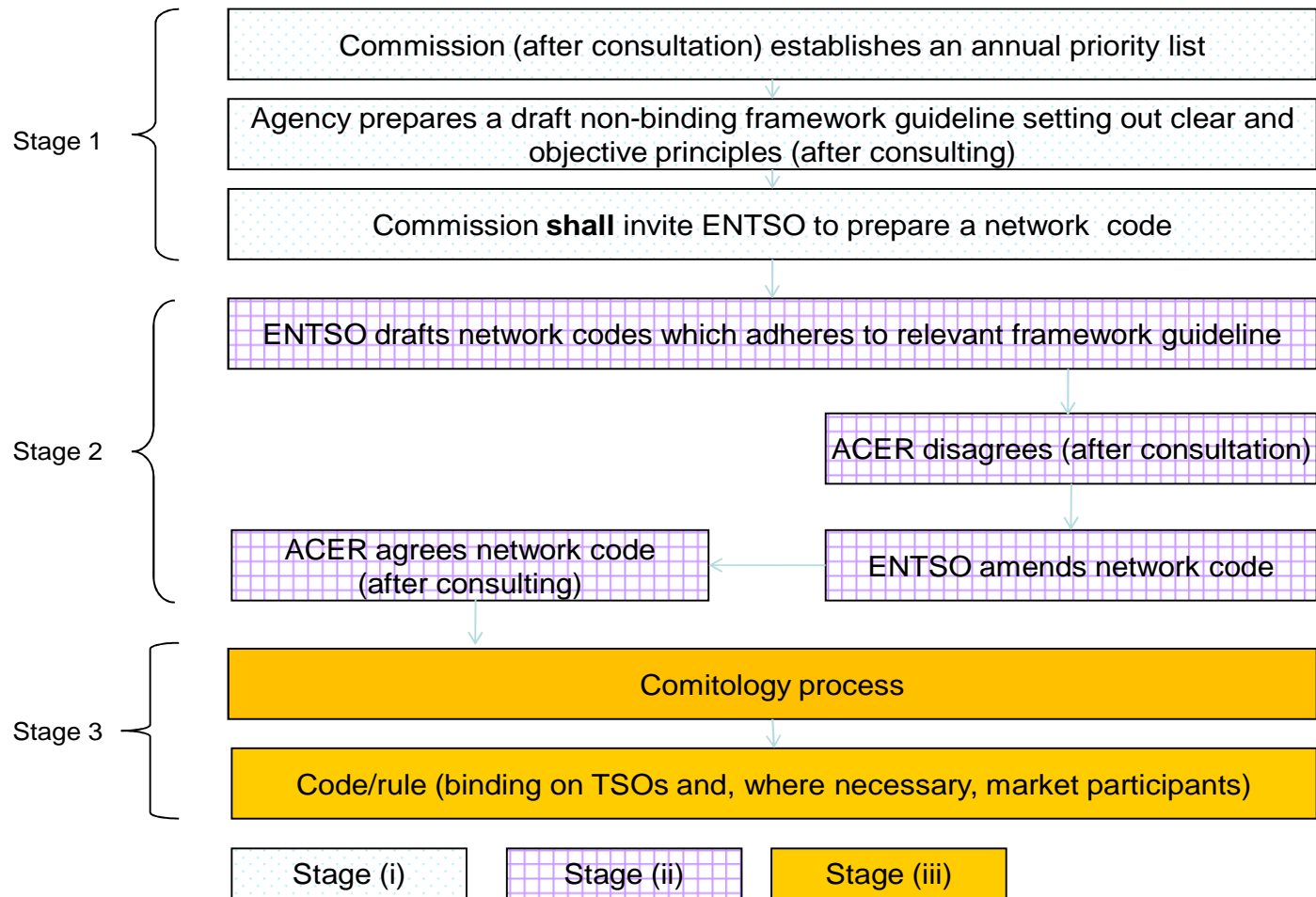


# Current status

- The Energy Council on the 10th of October
- EP Second Reading
- Issues to be agreed:
  - Unbundling of electricity TSOs
  - Powers of the agency – the regulatory process
  - Decision making in the Agency's Board of Regulators (voting procedure)
  - Efficient sanctions for infringement
  - Level playing field clause
  - Use of congestion rents



# The European regulatory framework





## Green package

- Binding targets for greenhouse gas emissions
  - Impact on prices, generation mix
- Binding targets for renewables (20% share of renewables in the EU energy mix)
  - Market functioning → support schemes
  - Security of supply
  - Network investment
  - Operation → intermittent generation
- Binding targets for energy savings (to reduce primary energy use by 20 %)



# Thank you for your attention

More information on the CEER and ERGEG issues  
available at

[www.energy-regulators.eu](http://www.energy-regulators.eu)

