

## **E.ON AG response to the ERI Convergence and Coherence Report**

E.ON appreciates being given the opportunity to comment on ERGEG's report on inter-regional convergence. We strongly support the regional initiative – as initiated by the European Commission and by ERGEG – and believe it is the best route to European market integration. Accordingly, E.ON is contributing actively to the development of five regional markets (Central-West, Central-East, Central-South, UK, and Northern). We also have tabled detailed proposals for establishing fully independent Regional System Operators, which we believe can integrate regional markets most efficiently.

Of course, the regional approach is an intermediate step that must not evolve into a barrier to truly European market integration. Therefore inter-regional convergence must be considered constantly.

However, too close and too detailed a harmonization *between* the regions might currently hinder further developments in already advanced regions. Trying to align all regions in every detail would unnecessarily increase the complexity of the discussion process and could well slow down development in regions like Central-West, Northern, and UK which are already quite advanced and serve as examples to other regions. Regional projects close to implementation (e.g. market coupling D-DK) must thus not be stopped from realization by opening up the discussion with slower regions. Instead “latecomers” should be assisted by ERGEG in speeding up their developments of functioning wholesale markets.

In this context it is also important to keep in mind that wholesale market designs do not necessarily need to be fully identical for markets to integrate. The degree of convergence and the timing of the alignment should be determined according to the impact of the particular issue on the functioning of the market. Some issues will need earlier alignment because otherwise the effect on trade would be very detrimental – whilst other issues can be allowed to run in parallel over a longer term because the cost of a short-term alignment would outweigh the benefits to the market.

Harmonization *between* adjacent regions must therefore focus on the *essential* market elements. Concrete examples are given below:

### Transparency of electricity market data

- Transparency requirements should be identical across the EU in order to avoid competition distortions arising from different levels of transparency in different countries or regions.
- Another reason for avoiding different degrees of transparency and different definitions of data to be published is to avoid serious misinterpretations that can easily arise from such differences.
- While an *EU wide* harmonization might be difficult to obtain in the near future (unless only minimal requirements are defined), an alignment between the large, central regions (which are intensively interconnected like Central-West, Northern, and Central-East) is necessary as a first step.
- The current discussion process in these regions within the ERI initiative is thus fully supported by E.ON.
- Some current initiatives, like the EEX transparency initiative or the ETSOVista platform, are already granting a valuable basis for intensified and harmonized transparency. They should be supported more broadly by the regulators.

#### Calculation of available capacity at congested interconnectors

- In case of flow-based allocation the capacity calculation methods should be harmonized not only within but also *between* regions.
- This holds true especially for regions that are physically closely interconnected, as e.g. Central-West and Central-East. (It is probably less important for the integration between Nordic and Central-West as these regions are mainly connected by DC and the value of flow-based allocation is lower in the Nordic market area due to fewer problems with loop flows.)
- Calculation methodology, key input data, and calculation results need to be transparent to the market.

#### Capacity auction procedures and products

- Just as capacity *calculation*, also the procedures for capacity *allocation* must be harmonized especially between regions that are closely interconnected.
- The same applies to auction products to allow for a more efficient trading and to achieve maximum liquidity on secondary markets.
- As a long-term target a one-stop-shop for traders should be envisaged.

As stated before, adjusting every last detail would mean unnecessary time and effort. This applies in particular to the UK market: Being an island market with – for the time being – comparably little inter-connection to the rest of Europe, a rapid and full alignment with continental European markets might result in too high and thus inefficient transition costs.

Examples for market elements that do *not* immediately need to be aligned *between* all regions are given below:

#### Cross-border intra day trading

- For intra day trading, the emphasis must lay on a harmonization within regions first.
- Here, all design elements of intra day trading (e.g. gates) should be harmonized. We clearly support continuous trading – ideally on a single platform.

#### Cross border balancing markets

- The work within the Regional Initiatives currently focuses on transparency and congestion management.
- To extend the process to the integration of balancing markets – especially with the aim of inter-regional harmonization – would probably slow down work on the above core issues.

#### Share of capacity allocated explicitly/implicitly

- The need for explicit auctions depends on the structure and liquidity of the respective market.
- Especially where markets are not liquid to a broad extent, explicit auctions for mid and long term maturities are still needed to allow for hedging of generation and sales portfolios across borders. (With future developments and also fully liquid markets for capacity rights this might be less important.)
- A harmonization of this aspect across the whole of Europe is thus not sensible for the time being. Appropriate solutions should be implemented at borders between regions with different arrangements.

#### Volume versus price coupling

- The key element which should be achieved first is the implementation of market coupling as a key driver for integration of market. As a long-term goal, price coupling is desirable in all regions.

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- However, there are barriers to such a development which have to be removed in particular by a harmonization of national rules as e.g. set by local authorities supervising exchanges.
- Against this background volume coupling is acceptable for the time being.

Summarizing, transparency requirements and the rules for congestion management should be harmonized not only *within* regions but also *between* adjacent, well connected regions in order to create integrated markets that are as large and as liquid as possible. The ultimate goal should be the evolvement of a single European power exchange. The establishment of a central “Market Operation Office” for market coupling and intra-day trading in Central-West could serve as nucleus for such a development.

We agree that there is an urgent need for a more regional or even European focus of regulation to deal with cross-border issues. The scope of this “cross-border regulation” must be clearly defined so as to avoid overlap or inconsistency with national regulation. This is a key requirement for allowing the ongoing integration initiatives to be successful. Also an overlap with existing financial regulation has to be avoided. Thus an extension of regulation to commodity markets – as proposed by the European Commission in the draft 3<sup>rd</sup> legislative package – is surely not advisable.

Finally, there is a retail issue which needs to be addressed, although the Regional Initiative is perhaps not designed to work on retail issues directly. Some national markets remain closed due to persisting national end-customer tariff regulation. New competitors on these markets without own generation need to source energy on the wholesale markets resulting in costs which can often be in excess of the low regulated retail prices. To really achieve a European energy market ERGEG and the European Commission should consider ways of delivering a level playing field also in the retail sector.

We trust that the above comments help ERGEG to set the right priorities in promoting market integration. E.ON will continue to intensively support the European integration process.