

Inveralmond House
200 Dunkeld Road
Perth PH1 3AQ

Mrs Una Shortall
By Email
Una.Shortall@ceer-eu.org

Tel: 01738 456400
Fax: 01738 456415

29 August 2005

Dear Mrs Shortall,

Creation of Regional Electricity Markets – ERGEG discussion paper

Scottish and Southern Energy (SSE) is one of the largest energy companies in the UK. It is involved in the generation, transmission, distribution and supply of electricity; energy trading; the storage distribution and supply of gas; electrical environmental and utility contracting; domestic appliance retailing; and telecoms.

In general, SSE welcomes the proposals of ERGEG for the further development of regional markets as an interim step towards the establishment of a single European energy market. In our view, regions which already have fully developed competitive markets should not have any additional regulatory burdens imposed on them. Only when these regional markets have reached a similar stage of development will it be possible to consider further developments to enhance trading opportunities between regions and so establish a single European energy market. As a consequence, we believe that the Commission should focus on securing Member States' compliance with the existing Directives, rather than pursuing further reforms at this stage.

A number of conditions are specified which would signal the existence of a regional market, in particular:

- Sufficient transmission capacity between the markets in the region;
- No distortions between local markets affecting the functioning of the regional market;
- Appropriate regulatory framework; and
- Close co-operation between institutions such as TSOs and regulators.

The consultation includes a number of case studies of regional markets and their features. This is helpful in identifying how these markets have evolved and where the difficulties may lie in the future in creating a single European energy market.

The introduction of GB wide trading arrangements (BETTA) in Great Britain is a good example. Prior to BETTA, there were local markets in Scotland and England & Wales but there were distortions caused by the pricing arrangements across the Anglo-Scottish interconnector. The expansion of capacity on this interconnector coupled with regulatory initiatives enabled the introduction of the BETTA trading arrangements earlier this year. This GB regional market involves co-operation between three TSOs to enable NGC to manage flows on the GB network. However, limited interconnections particularly between GB and mainland Europe mean that it would be impractical for GB to join a wider regional arrangement in the near future. Also the other conditions do not exist at present for this to happen.

While the limited interconnection might prevent a wider regional market, maximum economic use should still be made of the available interconnector capacity and this applies to the interconnections between each regional market. To facilitate this, we believe it important to move towards harmonisation of tariffs within the separate regions, and to this end would recommend that the average generator charge should be zero. It is also important to ensure there is no "pancaking" of charges at regional boundaries as this can be a barrier to efficient use of capacity.

It would also be helpful to move towards similar "gate closure" times in each regional market so that there are equal opportunities to market participants across each interconnector between regional markets.

I trust you will find these comments helpful and if you require any further information, please contact me at the above address.

Yours sincerely,

Rob McDonald
Director of Regulation