



# **European Energy Regulators’ Work Programme 2007**

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## EXECUTIVE SUMMARY

2007 will be pivotal in further developing the energy regulatory framework given that on 1st July 2007 European retail energy markets will be fully opened and a new third package of energy legislation is expected. It is further hoped that through political commitment the Regional Initiatives will deliver real results in 2007 in terms of market integration and that a Common Energy Policy for Europe will start to take shape. There are four major themes in the 2007 CEER/EREG Work Programmes:

### **1. The Year of the Customer**

EREG will continue to build on its work on customer issues with a particular emphasis on retail market issues. Attention will be given to end-user price regulation (which can distort competition). The Customer Protection TF will also address consumer information needs in the context of fully liberalised retail markets. The Retail Market Functioning TF will work on obstacles to supplier switching in both the electricity and gas retail markets as well as on the regulators' view on smart meters. The South East European Customers TF will pursue its work on the guidelines on customer protection with a focus on vulnerable customers.

### **2. Regulators' Contribution towards a sustainable, competitive and secure energy**

A future energy strategy for sustainable, competitive and security can only be achieved by an effective single EU energy market. Regulators see the need the need for full implementation of the existing legislative as an imperative. To this end, regulators' work continues to focus on the consolidation and implementation of the current framework. Regulators hope that the European Commission's new legislative and regulatory measures will address the current "regulatory gap" that exists both in a national and cross border context. Regulators will monitor compliance with current rules (e.g. congestion management guidelines, and compliance with the Electricity and Gas Regulations). It is anticipated that in 2007 there may be further Guidelines or legislative amendments prepared by EREG. New guidelines under development by Regulators include guidelines on open season procedures, on unbundling, and on balancing and intra-day market integration. Already in 2006, EREG has advised the European Commission on the need for legally binding rules in certain areas (e.g. gas storage, transparency and operational security

rules). For example, an integrated EU grid requires an appropriate legally binding framework based on fully effective compliance, monitoring and collaboration. Regulators are ready to advise the European Commission on this and on other key issues such as reinforcing and harmonizing the powers of regulators.

An ERGEG Electricity Transmission Networks TF has been established to deal with the electricity internal market issues arising from the Energy Green Paper<sup>1</sup> such as the EU Grid, the Inter TSO compensation method, the significant need for new investments and infrastructures in the years to come and issues related to transmission tariffication. The ERGEG Electricity Market TF will also contribute to this process which is aimed at developing a more competitive functioning of energy markets by addressing, among other relevant issues, balancing and intra day market integration, transparency issues and congestion management procedures. Equally, similar objectives to deliver competitive gas markets will be pursued through the ERGEG Gas Infrastructure Investment TF and the ERGEG Gas System Operation TF. Key gas issues in the regulators' 2007 work programme include the regulatory treatment of new gas infrastructure, guidelines for open season, and achieving more harmonised cross-border tariffication across the EU. In parallel, topics directly related to the operation of the gas transmission system such as capacity and secondary markets, interoperability and the EU gas grid, transparency, gas storage and gas balancing will be addressed in 2007.

### **3. The Electricity and Gas Regional Initiatives**

The ERGEG Electricity and Gas Regional Initiatives, which are the catalysts to market integration, have the potential - if supported politically - to deliver real results. This challenge should not be underestimated. To this end, regulators are working at both a national and European level to make the regional initiatives a success story in our belief that they are the cornerstones towards a well functioning European energy market. The Regional Initiatives will be taken forward in 2007 in terms of delivering concrete results in the regions, while ensuring that developments in each region converge to a single energy market.

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<sup>1</sup> Green Paper "A European Strategy for Sustainable, Competitive and Secure Energy", Com (2006) 105, 8 March 2006.

Task forces have been set up -the ERGEG Electricity Regional Initiative TF and the Gas Regional Initiative TF - to take lead responsibility in ensuring a coherent and convergent approach by the different regions. The regional initiatives will be used as an effective tool to promote the implementation of the current electricity and gas regulations. For example, in 2007 through the Regional Co-ordination Committees (of the regulators) in each region, ERGEG will assess Member States' compliance with the Electricity and Gas Regulations in a transparent and effective way.

#### **4. Security of Supply**

Security of supply together with environmental objectives are also key issues for regulators in the year to come. New work for the CEER Environmental TF in 2007 arises from commitments in the European Commission's Action Plan for Energy Efficiency. On the other hand addressing regulatory aspects of security of supply represents a major challenge for European regulators. Security of supply, along with the competitiveness and liberalisation objectives, always underpin key elements of the Regulators Work Programme. This year, regulators have also set up a CEER Electricity Security of Supply TF on different internal regulatory issues related to security of supply such as generation adequacy, demand flexibility or information exchange in case of energy security threats. Regarding gas, the LNG TF will continue its work in 2007 given the growing role of LNG in this context.

European Regulators have fully endorsed the need, widely acknowledged by the EU Heads of State, to promote a common external energy policy. Coherence between the internal and external aspects of energy policy is crucial to ensuring the security of Europe's energy supply. Regulators will continue to pursue their work, via the Energy Community Working Group, in building a common regulatory space around Europe through the Energy Community process of South East Europe. Regulators will give attention also to the South Mediterranean countries given their importance in terms of security of supply; Algeria is the EU's 3rd largest supplier of gas and North Africa has the potential to become a major energy supplier. Through the International Strategy Group, European regulators will deepen international regulatory collaboration on prioritising areas of strategic importance including for example US/North America, Russia and neighbouring countries.

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## 1 INTRODUCTION

The Council of European Energy Regulators (CEER) is the organisation in which national European regulators of electricity and gas come together in order to pursue co-operatively issues of common interest and concern. The CEER prepares work for the European Regulators Group for Electricity and Gas (EREG<sup>2</sup>). The work of the European energy regulators is aimed at promoting effective competition in European gas and electricity markets through successful liberalisation and the establishment of a single European energy market.

European retail energy markets will be fully opened on 1 July 2007 and in a sense 2007 could be viewed as the “Year of the Customer”. While on the one hand market opening is going to be a reality, on the other hand regulators are the first to acknowledge that energy market liberalisation is a process, not an event. Through EREG’s Customer Focus Group, regulators have already been working on key customer issues at a European level (as well as on a national level) over the past 2 years. In 2007, EREG will continue to build on this work with a particular emphasis on retail market issues. Through its technical work aimed at making competitive liberalised markets a reality, the CEER and EREG represent in a truly independent way the interests of energy customers in Europe.

In parallel, 2007 will be pivotal in developing the energy regulatory framework since a new third package of energy legislation is expected. It is hoped that these new measures will address the current “regulatory gap” that exists both on a national and a cross border level in achieving an effective EU energy market. The European Commission’s Green Paper on a European Strategy for Sustainable, Competitive and Secure Energy as well as its Sectoral Inquiry report have paved the way for transforming the European energy policy into real and effective actions this year. The CEER and EREG will, as the common and independent voice of regulators in Europe, contribute fully to this process in assisting the European Commission in its proposed legislative package. High on the regulators’ agenda in 2007 are enhanced powers of energy regulators at both national and EU level, legislation to facilitate the development and operation of an integrated

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<sup>2</sup> EREG is the body in which regulators prepare formal advice for the Commission. It was established by Commission Decision of 11 November 2003 on establishing the European Regulators Group for Electricity and Gas (203/796/EC).

EU grid, and effective unbundling. The ERGEG Regional Initiatives are a core tool to deliver results on issues such as transparency and congestion management during 2007. Much effort will be dedicated to ensuring coherence and consistency across the 7 different electricity regions and the 3 gas regions.

Another challenge in 2007 is to address the growing concern in the EU about its security of energy supply. The security of energy supply is not just an internal aspect of energy policy. The extension of the EU energy regulatory framework to neighbouring regions is the key to achieving this goal. The CEER will therefore push forward their international cooperation activities in 2007. The Energy Community of SEE, the EU-Russia dialogue, and the following of the EUROMED process are key priorities. Of course the EU-US cooperation shall be deepened as well.

Thus, the major themes in the 2007 CEER/ERGEG work programme are:

### **1. The “Year of the Customers”**

On 1 July 2007 all customers and citizens in the EU will have the possibility to choose their electricity and gas suppliers. In addition to working with the European Commission on a Europe-wide campaign to explain to customers what full liberalisation means and the benefits it will bring, ERGEG will address issues that are important in order to create a secure and well functioning energy market. End-user price regulation, obstacles and barriers for switching, information and transparency gaps among other topics, are central to the regulators' 2007 work programme.

### **2. Regulators' contribution towards a sustainable, competitive and secure energy**

A future energy strategy of sustainability, competitiveness and security can only be achieved by an effective single EU energy market. In this process, the need for full implementation of the existing regulation is imperative. The CEER will pursue its work on the appropriate implementation of the requirements laid down in the second package of Directives (2003/54/EC



and 2003/55/EC) and in the Electricity and Gas Regulations<sup>3</sup>. The work already undertaken on TSOs' technical and economic interactions at the borders, capacity allocation mechanisms and congestion management procedures, balancing and secondary markets and transparency requirements will be pursued in 2007.

Regulators are also committed to assisting the European Commission in drafting new legislative measure and developing appropriate regulatory tools. The follow up to the European Commission's Energy Green Paper requires the detailed preparation of concrete measures on key themes by the CEER and ERGEG.

A cross border market requires an integrated EU Grid and network operators are vital in this process. ERGEG's 2007 work programme will look at European security and operational standards that should apply to transit and cross-border electricity and gas infrastructures, as well as at the responsibilities and potential binding requirements for TSOs. Major investments are needed to create the necessary interconnections and an appropriate regulatory framework will be the key for promoting economically feasible projects. Incentives to invest in network infrastructure, allocation of costs and risks in cross-border network investments and the regulatory treatment of new infrastructure will be covered by the regulators in 2007.

At the same time, the powers of national regulators need to be reinforced and broadly harmonised so that they are independent from both industry and government, and have the powers and a mandate to deal effectively with issues of a cross border nature. Finally, vigorous legislative measures to ensure effective unbundling of network business from the potentially competitive aspects of the business are necessary in 2007.

### **3. The Electricity and the Gas Regional Initiatives (ERI - GRI)**

The ERGEG Electricity Regional Initiative (ERI) and the Gas Regional Initiative (GRI) were launched in February and April 2006 respectively. In 2006, seven regions in the ERI and three

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<sup>3</sup> Regulations 1228/2003/EC and 1775/2005EC respectively.

regions in the GRI already set up their respective action plan and priorities for the coming years. The ERI and the GRI both bring together regulators, companies, Member States, the European Commission and other relevant parties and aim at identifying real barriers and obstacles that prevent the development of a competitive energy market.

After first preliminary outcomes, 2007 will be important to ensure that interim steps complement the final objective of full market integration across the EU. Monitoring of both the ERI and the GRI on a regular basis, exchanging experience among different regions and contrasting priorities in each region are concrete actions for this year.

In 2007 ERGEG will also look for synergies between the ERI and the GRI such as those related to strategic energy issues in the EU energy liberalisation process.

#### **4. Security of supply: Empowering the International Cooperation**

The security of energy supply is one of the most important concerns in the EU. Even though Europe is surrounded by almost 80% of the world's hydrocarbon resources, rising energy demand and diminishing domestic supply have led to increased concern about security of supply issues.

During 2007, the CEER and ERGEG will work on different internal regulatory issues related to security of supply such as generation adequacy or information exchange in case of energy security threats and liquefied natural gas (LNG) which is playing an ever more important role in this context.

The CEER fully supports the European Commission's view on the need to promote a common external energy policy. Coherence between the internal and external aspects of energy policy is crucial to ensuring the security of Europe's energy supply. Hence, the CEER will explore concrete ways to promote the international cooperation with neighbours of the EU. The Energy Community Treaty entered into force on 1 July 2006 and the CEER will continue to play a lead role in this region. The CEER will also give support to the EUROMED process and will explore concrete ways of cooperation with regulators of third countries.

## **2 ELECTRICITY WORKING AND FOCUS GROUP (EWG/EFG)**

### **Background**

In 2006 the EWG/EFG concentrated its work on improving the transparency of the electricity markets by preparing Guidelines of Good Practice for Information Management and Transparency, developing guidelines for balancing markets integration, contributing to the assessment of an Inter TSO compensation mechanism, actively supporting the European Commission in their efforts towards final adoption of the Congestion Management Guidelines through the Comitology procedure and launching the Electricity Regional Initiative.

The Work Programme 2007 reflects the issues of the European Commission's Energy Green Paper and the priorities identified by the regulators when assessing the pieces of work necessary to ensure and accelerate the development of the Internal Electricity Market. Accordingly, in the year 2007 the key issues will be the Electricity Regional Initiative, European Grid from the horizontal (i.e. TSO-to-TSO cooperation) perspective of the security and reliability rules (Security and Reliability Guidelines according to the Article 8 of the Regulation) and the vertical (i.e. grid access) perspective with the development of a pan-European Grid Code, security of supply, the extension and finalization of balancing markets integration guidelines, monitoring of transparency guidelines implementation and advising the European Commission on the binding legal framework for transparency and eventually, monitoring of the congestion management implementation according to and as required by the Regulation 1228/2003 and the related binding Guidelines. Additionally, issues related to transmission tariffication, energy efficiency, emissions trading scheme and quality of electricity supply will be reviewed.

## **2.1 ERGEG Electricity Focus Group (EFG)**

### **Issues to be addressed**

EFG-1: Member States' compliance with the Electricity Regulation 1228/2003/EC

### **2.1.1 Member States' compliance with Regulation 1228/2003/EC**

#### **Deliverable**

EFG-1: Report to the European Commission on ERGEG's experience with the different Member States' compliance with the Regulation 1228/2003/EC

#### **Justification**

Request from the European Commission.

#### **Approach**

The ETN TF and the ELM TF will collect the majority of information. The exercise itself is run and overseen at the level of the EFG.

As a first step a standardised evaluation report that shall apply within all Member States shall be prepared, to be completed by each regulator in each Member State. Each Regional Co-ordination Committee (RCC) of regulators within a region will put together the reports for its region, together with an overall evaluation report. These will be subject to consultation by each RCC for its region. The RCCs will forward their report together with the results of consultation to the EFG, in order that the EFG can report to ERGEG regarding compliance in each Member State. The outcome should be presented to the Florence Forum. The EFG will inform the European Commission in regular meetings on the work of and the progress achieved in the different regions.

#### **Next steps**

The Report on ERGEG's experience with Member States' compliance with the Regulation 1228/2003/EC shall be presented at the next Florence Forum in autumn 2007.

## 2.2 ERGEG Electricity Regional Initiatives Task Force (ERI TF)

### Issues to be addressed

- ERI-1: Electricity Regional Initiative (ERI) follow up (Internal reporting)
- ERI-2: Review of the progress achieved in the regions (External reporting)
- ERI-3: ERI convergence and coherence review and strategic vision

### Background

The ERGEG Electricity Regional Initiative, launched in February 2006, has seen the establishment and initiation of the 7 Regional Energy Market (REM) projects. For the most part, priority topics for further integration and promotion of trade between national markets comprised in each region have now been set. The ERI TF will take on a monitoring role, enabling collaboration between regions, and assess and oversee the coherence and convergence of regions bearing in mind the overall objective of achieving a single competitive market.

It will also be necessary to bear in mind that ERGEG is also pursuing a Gas Regional Initiative and that a number of high level issues common to both – such as engagement with policy makers, relations with stakeholders, and the connection with strategic questions of EU energy market liberalisation - will require oversight and review in the course of 2007.

### 2.2.1 Electricity Regional Initiative (ERI) follow up

#### Deliverable

- ERI-1: Monitoring of work plan in form of quarterly reports about measurable results and progress

#### Justification

This is a continuation and enhancement of the 2006 monitoring of the ERI. The ERI is a key element of ERGEG's strategy to integrate markets. Accordingly ERGEG needs to be kept informed and must oversee that progress is taking place. Moreover ERGEG should be able to illustrate that the ERI is producing concrete results and delivering on the expectations raised. This workstream is primarily intended as an internal ERGEG monitoring tool, although it may also

form the basis for external representations where ERGEG wishes. Information gathered may also be helpful as input to the proposed treatment of topics arising from the European Commission's Energy Green Paper.

### **Approach**

The TF will set out how progress might be measured and reported. This should include all elements of the process in each region, including consultation, the establishment of priorities, action plans and timetables. It will be particularly important to establish ways of monitoring progress against the action plan and timetable in each region. Collaboration and discussion with the Gas Regional Initiative will also be necessary in order to ensure a common approach.

Input from lead regulators will be sought on the basis of agreed measurable results. The TF will prepare quarterly monitoring reports on the basis of the information received. These will be presented to ERGEG.

Quarterly workshops will also be arranged in order to allow lead regulators (and any other interested CEER or ERGEG members) to compare and contrast experiences and approaches, discuss any impediments encountered, and consider convergence issues (see 2.1.3 below).

### **Next steps**

The ERI monitoring will continue in 2008.

## **2.2.2 Review of the progress achieved in the regions**

### **Deliverable**

ERI-2: Annual progress review of the ERI

### **Justification**

ERGEG needs to demonstrate that its ERI is producing actions and results as expected, and that appropriate procedures – particularly stakeholder consultation and involvement – are being followed. ERGEG made a full report to the XIII Florence Forum in September 2006 and will report again at the next Florence Forum in 2007.

## **Approach**

In order to be able to draft the overall report it is necessary to first initiate the work on quarterly monitoring (2.1.1). The ERI TF will collate quarterly monitoring reports and inputs from lead regulators into an overall report of publishable standard. The ERGEG Report to the XIII Florence Forum will serve as a basis for future reports. The report will contain the detailed action plans, deliverables and results of each region.

## **Next steps**

The annual progress review of the ERI will be continued in 2008.

### **2.2.3 ERI convergence and coherence review and strategic vision**

#### **Deliverables**

- ERI-3/a: ERI convergence and coherence review report: Review of ERI development with focus on the coherence and convergence of the individual REMs
- ERI-3/b: Presentation at Florence Forum, to include first view of features that in a single market will need to have
- ERI-3/c: Begin work on strategic Vision paper, outlining vision of single market plus roadmap on how to proceed from REMs to a true single market

#### **Justification**

The ultimate purpose of the ERI is to facilitate the completion of the single electricity market via the interim step of market integration at a regional level. It will be important to ensure that the interim step complements the final objective of full market integration across the EU. That is, that decisions, actions and solutions adopted at a regional level facilitate and do not impede the full integration of all regions to one single market at a later stage. It will be important to maintain an oversight that these developments are coherent in the longer run with a vision of what the single market might look like.

## **Approach**

The ERI TF will discuss and agree upon market integration topics that, if not treated in a coherent manner, have the greatest potential impact on the formation of the single market. Moreover it will compare and contrast priorities and solutions for these topics in each region and examine experiences and approaches of countries that are in more than one REM.

The TF will also monitor topics that have been treated at the EU level by making sure that issues that have an EU dimension are not being reopened or reinterpreted at the regional level. Issues here include congestion management guidelines, transparency, and balancing market integration.

A report making an initial assessment of the coherence of the 7 REMs shall be drafted by the TF and presented to the 2007 Florence Forum.

Work will begin on putting together a first view of the features that a single market will need to have. This will form the first stage in the writing of an overall strategic Vision paper, which will consider and map out proceeding from REMs to the single market. This work will need to be carried out in close co-operation with the GRI TF in order to ensure consistency of approach between them.

## **Next steps**

The TF will discuss and agree on market integration issues that have the greatest potential impact on the road to the single market. Additionally it will discuss experiences of countries which belong to more than one region. The strategic Vision paper shall be finalised in 2008 and will lead to an ERGEG public consultation.



## 2.3 ERGEG Electricity Transmission Networks Task Force (ETN TF)

### Issues to be addressed

- ETN-1: Developing EU grid
- ETN-2: Inter TSO compensation
- ETN-3: Infrastructure investments
- ETN-4: Transmission tariffication

### Background

Regulation 1228/2003/EC requires the establishment and amendment of several Guidelines and thus sets priority topics for the work of this TF. The Guidelines on Congestion Management have passed the 'Comitology' procedure during the year 2006, and the two remaining guidelines (harmonisation of transmission tariffs, and compensations to be paid to each Transmission System Operator (TSO) for hosting transmission flows originating in other TSOs' areas) are still pending. The Regulation also opens up the possibility of introducing pan-EU security and reliability standards for TSOs.

ERGEG, in delivering a text for the transmission harmonisation Guidelines in July 2005, also noted that there were some further issues to develop. The Regulation for example calls for consideration of locational price signals at the EU level in transmission pricing. Also, further studies on harmonisation of the tariff structures should be carried out. Regarding the Guidelines on inter-TSO compensation (ITC), ERGEG is at the European Commission's disposal to complete and implement the binding ITC Guidelines during 2007.

The CEER has stressed in its response to the European Commission's Green Paper on a European Strategy for Sustainable, Competitive and Secure Energy the need for an over-arching EU legal, regulatory and institutional framework, where "European" obligations on network companies are vital. A cross border market that safeguards supply to all Member States requires an integrated European Grid, which in turn requires significant investments in interconnection capacity and capability. Hence the role of the network operators is vital. It is the network operators who must develop an integrated grid, based on approved standards that work in the interests of European rather than only national consumers. There must be legal obligations on network operators to pursue the investments needed to meet these standards and they should be able to make a fair rate of return on those investments.

### 2.3.1 Developing EU Electricity Grid

#### Deliverable

ETN-1: An analysis and study/report of the need and ways to proceed towards harmonised or at least compatible rules for grid access and for adequate TSO inter-working and cooperation in terms of operational security and reliability within the context of the electricity market. A deliverable for 2007 is a study on the scope and details of the framework for the EU Grid Code, and the main contents of Security and Reliability Guidelines cf. Article 8 of the Regulation 1228/2003/EC. The study will be used as the basis for the possible ERGEG advice to the European Commission during 2008 and will be published by ERGEG after public consultation and public hearing.

#### Justification

Developing a European electric power grid as described in the Green Paper encompasses two key components: (i) the EU Grid Code and (ii) the Security and Reliability Guidelines cf. Article 8 of the Regulation 1228/2003/EC.

#### Approach

A study of the needs and ways to proceed towards harmonised or at least equivalent grid access rules and security guidelines shall be carried out. An interim report of the study shall be available in April 2007. In the study the following issues should be covered:

- EU Grid Code: the set of coherent and common grid access rules to be used EU-wide
- Security and Reliability Guidelines: the objectives and scope for, and set of coherent and common operational rules and standards for the interworking of the European TSOs, based on the existing technical standards and taking into account the needs of the market and operational security

Beyond that, the following issues should also be addressed as far as possible in the analysis:

- Concepts and organisational framework for the coordinated planning of the EU transmission grid
- Institutional issues (in the sense of the Green Paper request for the TSOs to operate their grids as the one single grid)

- European TSOs co-ordination Body
- TSO regulation and efficiency

In 2007 the issues of a pan-European Grid Code, and harmonisation of national standards by way of the Security and Reliability Guidelines cf. Article 8 of the Regulation 1228/2003/EC will be studied. In this respect the consultancy study financed by the European Commission on the scope and details of the framework for the EU Grid Code, and on the main contents of the Security & Reliability Guidelines should be launched. In the process, discussions with relevant stakeholders including ETSO, UCTE, Nordel, UKTSOA, Baltija, ITSOA will take place.

### **Next steps**

This task will continue in 2008 and 2009 with further focus on co-ordination and coherence issues: co-ordinated planning, TSOs co-ordination body, institutional issues and organisational framework as well as the TSOs' regulation issues.

## **2.3.2 Inter TSO compensation**

### **Deliverable**

ETN-2: ERGEG work on ITC Guidelines as requested by the European Commission

### **Justification**

ITC Guidelines under the Regulation 1228/2003/EC.

### **Approach**

ERGEG shall continue in 2007 its work on ITC Guidelines to implement an adequate method in line with the requirements of the Regulation on the basis requested by the European Commission. The European Commission started a consultancy study during autumn 2006 in order to provide a cost basis for the ITC mechanism. The first pilot exercise will set the basis for the work to define the cost base and afterwards annual updates for this cost base will be needed.

Discussion and co-operation with the European Commission, ERGEG and ETSO will be continued within the practical implementation process of the ITC Guidelines.

### **Next steps**

Further development of ITC Guidelines is foreseen in the coming years.

### **2.3.3 Infrastructure investment**

#### **Deliverable**

ETN-3: Report with recommendations on adequate incentives and framework for the investments in the EU grid infrastructure (based on existing analysis and results of public consultation)

#### **Justification**

The lack of sufficient transmission infrastructure is regarded as one of the real obstacles for market integration. ERGEG launched a public consultation in autumn 2006 and the results of this public consultation will be available at the beginning of 2007. As expressed in the Green Paper, the European Commission is also working on a Priority Interconnection Plan.

#### **Approach**

Based on the 2006 deliverables and public consultation on the ERGEG paper "Cross border framework for transmission network infrastructure", an analysis of barriers to transmission infrastructure investments will be carried out and shall contain concrete proposals to enhance investments.

Furthermore, specific measures to be imposed on all involved parties (including MS) to ensure that all non-necessary obstacles to the infrastructure projects have been removed shall be identified. The TF will then issue a proposal of the actions needed to be taken by the European Commission and by ERGEG. The following issues will be covered:

- incentives to invest in network infrastructure
- allocation of costs and risks in cross border network investments

The obstacles to infrastructure investments are multi-faceted, therefore it is proposed to undertake a study, financed by the European Commission, to review the problems and to make proposals for improvements. The study will expand ERGEG's understanding of how costs and risks of investment into transmission infrastructure that facilitates cross border flows are presently allocated and how they might be better treated in order to enhance cross border provision of infrastructure. The scope of the study includes both regulated and 'contract' assets as well as gas and electricity. This work should be combined with the work of the GFG. An interim report of the study shall be available in April 2007.

### **Next steps**

The work launched in 2007 will continue through 2008.

### **2.3.4 Transmission tariffication**

#### **Deliverable**

ETN-4: Study on the transmission tariff structures and the need and ways for their further harmonisation. Review of locational signals at European level.

#### **Justification**

ERGEG gave its advice on the Tarification Guidelines to the European Commission in July 2005. The objective of these guidelines was to serve as a first step to harmonise charges paid by generation on the transmission network level. The draft Tarification Guidelines stated the current position in the ranges of national tariffs as a starting point for harmonisation and that further work on this issue, notably with respect to the need for widening the harmonisation to the lower voltage levels and to the tariff structures, would be undertaken. The implementation of long-term locational signals and their interaction with short term locational signals should also be considered.

#### **Approach**

In order to continue the development of Tarification Guidelines the following pre-studies will be made:

- Pre-study of tarification structures among TSOs, causes of present structures and possibilities to harmonise them e.g. tariff components, division between network tariffs/system services (ancillary services)
- Pre-study of long-term locational signals and their implementation according to the Regulation and their interaction with short term signals and the need for more effective short term signals (besides Congestion Management or losses)

These studies will be based on previous studies made by CEER/EREG, stakeholders or research institutions. The result of the studies will be used to define Terms of Reference (TOR) for a consultancy study which shall be launched by 2008 to analyse the effects and possibilities of a more harmonised fee structure across the EU.

In order to develop the work in relation to the above mentioned issues, discussions are anticipated with different stakeholders. This includes dialogue with relevant stakeholders regarding the work on the tariff harmonisation issues.

### **Next steps**

The consultancy study will be launched in 2008 in order to analyse in more detail the effects and possibilities of a more harmonised fee structure for TSOs across the EU. Results of the consultancy study will be discussed and amendments to the Tarification Guidelines will be drafted by the end of 2009.

## 2.4 ERGEG Electricity Market Task Force (ELM TF)

### Issues to be addressed

- ELM-1: Balancing and intra-day market integration
- ELM-2: Transparency
- ELM-3: Congestion Management (CM)
- ELM-4: Electricity market design issues and harmonisation
- ELM-5: Transmission and distribution losses

### Background

Article 1.9 of the Congestion Management Guidelines, which were developed in accordance with Article 8 of the Regulation 1228/2003/EC (CM Guidelines), require mechanisms for intra-day congestion management (i.e. intra-day market capabilities) to be established not later than 1<sup>st</sup> January 2008 in a coordinated way and under secure operational conditions in order to maximise opportunities for trade and to provide for cross-border balancing<sup>4</sup>. Following the results of the 2006 public consultation on the ERGEG Guidelines of Good Practice on Electricity Balancing Markets Integration (GGP-EBMI), the presentation of the GGP-EBMI at the XIII Florence Forum and the Forum conclusions, the GGP-EBMI need to be complemented by considering intra-day markets integration and automatically activated reserves.

Following the results of the 2006 public consultation and public hearing on the ERGEG GGP on Information Management and Transparency (GGP-IMT), the GGP-IMT presentation at the XIII Florence Forum and the Forum conclusions, ERGEG advised the European Commission in 2006, to proceed to a formal and legally binding EU-wide framework for transparency and information management, on the basis of the GGP-IMT. At the same time, voluntary implementation of the GGP-IMT is encouraged and shall be supported as far as possible at the ERGEG ERI level and throughout the EU IEM.

CM Guidelines set the congestion management framework in the EU. The Guidelines will enter

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<sup>4</sup> See OJ L 312, 11.11.2006, p.59-65.

into force on January 1, 2007 at the latest. In line with the Regulation and as requested by the European Commission at the XIII Florence Forum (cf. Forum conclusions) the Regulators (EREG) are in charge of monitoring and reporting to the European Commission and the Florence Forum on compliance and compatibility with the Guidelines.

The significance of retail market design compatibility and harmonisation throughout the EU increases with the full retail market opening in July 2007 according to the Directive 2003/54/EC. Moreover, market design compatibility and harmonisation aspects are identified as the mid-term priority issues on the agenda of several EREG regional energy markets (REMs).

Analysis and recommendations on the incentives to the network operators for the methodologies for calculation and minimisation of losses in the electric power transmission and distribution grid are a high priority issue based on the Energy Efficiency Directive, on the recent requirements from the European Commission as well as closely related to the requirements and positions in the European Commission's Green Paper.

#### **2.4.1 Balancing and Intra-Day Markets Integration**

##### **Deliverable**

ELM-1: Concept and roadmap for balancing and intra-day market integration, also considering automatically activated reserves

##### **Justification**

The following policy issues call for a deeper integration of balancing and intra-day markets.

- Congestion Management Guidelines cf. Article 8 of the Regulation 1228/2003/EC;
- results of the 2006 public consultation on the EREG GGP-EBMI;
- presentation of the GGP-EBMI at the XIII Florence Forum and the Forum conclusions;
- Sector Inquiry and Green Paper consider insufficiently integrated markets – including balancing and intra-day markets – to be among the key impediments to the further development of the single European electricity market.



## **Approach**

The creation of the single market will as far as possible, and as a longer term aim, include the integration or at least full interaction of European balancing markets as far as technically possible and economically efficient (bearing in mind for example that the entirety of the EU is not synchronously connected) in order to optimize economic efficiency. As there are several obstacles, the integration of balancing markets is a long-term goal. To provide further guidance and direction for a process of evolution of balancing markets integration the GGP-EBMI will be amended with the additional guidelines of the intra-day market integration and the automatically activated reserves, with the objective of providing a concrete proposition and a roadmap. A dedicated study on interaction of balancing market with the intra-day markets and the relation to the automatically activated reserve will be conducted with the external consultant. The results of the detailed analysis of the EU balancing markets conducted by ERGEG in 2004 will be used as a further input for this task.

The study on the interrelationship of balancing and intra-day markets and the automatically activated reserves shall be completed with the external consultant by the end of June 2007; optionally the results of the study by the European Commission from 2005/2006 can also be used.

The GGP-EBMI with the additional sections on intra-day markets and on automatically activated reserves shall be completed and approved by ERGEG in due time for presentation at the XIV Florence Forum, presumably in September 2007.

The public consultation on the complemented GGP-EBMI with the sections on intra-day markets and on automatically activated reserves shall be conducted until the end of 2007.

If needed for the completion of this task, dedicated workshops and meetings with the stakeholders can be organised (e.g. ETSO, EFET, etc.).

## **Next steps**

The work will be continued in 2008.

## 2.4.2 Transparency

### Deliverable

- ELM-2: Monitoring report, roadmap for implementation on REM level, formal advice to the European Commission on a Regulation

### Justification

The following policy issues call for more transparency in the electricity market:

- 2006 public consultation and public hearing on the ERGEG GGP-IMT
- presentation at the XIII Florence Forum and the Forum conclusions
- ERGEG advice to the European Commission in 2006, to proceed towards a formal and legally binding EU-wide framework for transparency and information management, on the basis of the GGP-IMT
- Sector Inquiry and Green Paper put a strong emphasis on adequate transparency and information management as the key pre-requisites for the further development of the EU Internal Electricity Market
- At the same time, the implementation of the GGP-IMT shall be conducted at the level of the ERGEG Regional Initiatives and in the framework of the EU Internal Electricity Market.

### Approach

On the basis of the GGP-IMT the specific text / inputs for the legally binding transparency and information management framework shall be formulated and the results delivered to the European Commission according to the common time plan yet to be defined – it is expected to have this completed for ERGEG approval by Q2/2007. The TF shall work together with the European Commission in the working group on transparency with the stakeholders, in order to achieve the GGP-IMT implementation even before the legal framework, as far as possible. The TF shall follow-up closely the GGP-IMT implementation at the level of ERGEG ERI. The TF will prepare an initial assessment against the GGP-IMT in Q1/2007 and prepare a final report by the end of the year.

The Benchmarking and monitoring report on the GGP-IMT implementation in the ERGEG ERI is to be completed by the end of 2007.

## **Next steps**

The work will be continued in 2008.

### **2.4.3 Congestion Management (CM)**

#### **Deliverable**

ELM-3: Monitoring report on compliance with the Congestion Management guidelines

#### **Justification**

The following policy issues call for strong monitoring of the CM systems in place:

- CM Guidelines<sup>5</sup> (the Guidelines will enter into force on 1 January 2007 at the latest);
- In line with the Regulation and as requested by the European Commission at the XIII Florence Forum (cf. Forum conclusions) the Regulators (EREG) are in charge of monitoring and reporting to the European Commission and the Forum on compliance and compatibility with the CM Guidelines.

#### **Approach**

CM Guidelines compliance and monitoring reports will be prepared on an annual basis and presented to the European Commission and to the Florence Forum.

The CM Guidelines compliance and monitoring report for the year 2006 will be prepared and approved by EREG by Q2/2007; afterwards the report will be delivered to the European Commission and presented at the XIV Florence Forum.

#### **Next steps**

Follow-up of the CM Guidelines compliance and monitoring report for the year 2007 shall take place by Q2/2008.

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<sup>5</sup> The Congestion Management Guidelines were published in the Office Journal on 11 November 2006 - See OJ L 312, 11.11.2006, p.59-65.

## **2.4.4 Electricity Market Design Issues and Harmonisation**

### **Deliverable**

ELM-4: Guidelines and recommendations for harmonising retail market issues within the ERGEG regional energy markets (REMs)

### **Justification**

The significance of the retail market design compatibility and harmonisation throughout the EU rises with the full retail market opening in July 2007 which is required Directive 2003/54/EC. In well developed electricity markets, the area spot prices will have a huge impact on price setting, even for smaller consumers. This effect appears indirectly on the fixed price contracts since the spot price, and indeed the system price itself, is the most important reference for electricity market financial futures. In order to evaluate different offers by suppliers, customers need reference prices. A set of consistent local prices in case of significant congestion covering the relevant market area will be the best alternative. The direct effect is very clear where the customers have contracts for electricity supply with a price like the spot price plus a fee. As a regional integrated end-user market is the interim target, a much stronger harmonization of the national electricity markets should be emphasized.

The preliminary conclusions of the European Commission's Sector Inquiry state that there is high concentration both in the wholesale and retail markets in most member states. A rapid development of regional markets would increase the number of suppliers and create less concentration and a more efficient wholesale market. For this reason harmonisation of market rules and estimates of relevant reference prices both nationally and in regional markets is of great importance.

### **Approach**

A project plan and a detailed roadmap for the work to be finalised during 2007 shall be established.

ERGEG and CEER's EWG have made reports on Market Design, retail markets and the Role of Power Exchanges but the creation of a link to a relevant reference price for end-use markets is

missing. The Best Practice Proposition of Transparency of Prices focuses on the obligation to publish the prices offered by the suppliers and easy accessible price comparison as tariff calculation so real comparisons between suppliers are possible. The concept must be to make a simple comparison scheme to the national or regional wholesale market but how to find the relevant reference price is absent in these reports. Such price comparisons can only be made when power exchanges or wholesale markets are to some degree harmonised. There is a need to extend the EMD TF to cover these vital items. The TF shall develop and implement the guidelines and recommendations on the harmonisation of retail market design. These guidelines will include how simple comparisons can be made in order to ensure that customers can choose a supplier that according to their criteria will be the best choice. The TF shall also establish priorities and a time plan for the said implementation at the level of the Regional Initiatives and subsequently at EU level.

### **Next steps**

Work on harmonisation and compatibility of retail market design aspects will be undertaken during 2008.

## **2.4.5 Transmission and Distribution Losses**

### **Deliverables**

ELM-5/a: ERGEG internal: analysis and confidential report on national practices and experiences with the consideration of losses

ELM-5/b: ERGEG external: report (possibly proposals) to the European Commission on options for adequate incentives for the network operators and network users for the adequate treatment and methodologies for the consideration and reduction of losses in the transmission and distribution networks

### **Justification**

The analysis/report has been requested by the European Commission; Losses are also a priority in the Energy Efficiency Directive. Indirectly, the issue is important from the viewpoint of other framework inputs like the Green Paper.

Losses in electric power networks are a significant part of the overall inefficiencies / losses in the electric power supply, and whereas a number of different approaches for losses calculation / minimization and sustainable reduction exist in the member states, no in-depth analysis has been conducted so far on the best practices and recommended solutions for incentivising the network operators and users accordingly.

The purpose of this task is to gain ERGEG internal in-depth experience on this issue, and to inform (and possibly advise) the European Commission on the necessary steps and actions, also in line with the Directive on the appropriate incentives to the network operators and users; further benefits are expected for the Member States in implementing the Directive (due by May 2008).

### **Approach**

The Energy Efficiency Directive sets ambitious goals for the Member States to reduce energy losses in general and increase energy efficiency.

An analysis shall be conducted and recommendations made on the methodology and solutions to incentivise the network operators towards improved calculation and minimisation of losses and incentives for network operators to minimise losses in electric power transmission and distribution grids in the sense of the Efficiency Directive requirements and other relevant inputs as indicated above. This will include a description of any use of locational transmission price signals and a first indication of their impact on losses through altered siting decisions.

An ERGEG internal analysis will be conducted and a confidential report drafted in Q3/2007.

### **Next steps**

ERGEG external report with a possible proposal to the European Commission on the adequate treatment and methodologies for incentives for the network operators for adequate losses considerations and minimisation in the electric power transmission and distribution grids will be prepared in 2008, based on the internal report.

## 2.5 CEER Electricity Security of Supply Task Force (SOS TF)

### Issues to be addressed

- SOS-1: Generation adequacy
- SOS-2: Information exchange on security of supply situation
- SOS-3: System adequacy forecasting
- SOS-4: Framework for regulatory consideration of Security of Supply

### Background

Security of electricity supply is the key issue and the main focus of most significant framework inputs of relevance for the EU electricity market and regulation, including not just legislation (Directives 2003/54/EC, 2005/89/EC) but also the Green Paper, the Sector Inquiry, as well as the inputs and discussions from the Florence Forum. It is therefore of top priority for the CEER to address the issue of security of supply in a coherent and systematic way, from the regulatory perspective and taking into account all relevant impacts and dependencies. The results of work and deliverables of the previous CEER WG Security of Supply shall be used where appropriate.

### 2.5.1 Generation Adequacy

#### Deliverable

- SOS-1: Internal report and recommendations on generation adequacy treatment

#### Justification

- Generation adequacy is a high priority issue.
- Article 4 of the Directive 2003/54/EC.

#### Approach

A comparative analysis of “market” versus “non-market” based solutions for ensuring generation adequacy is to be performed. An overview of generation adequacy practices in countries and regions shall be obtained from:



- 7 and 10 year statements
- System operation reports
- Winter outlook reports

Further information will be collected from national regulators. As an additional source a study from the European Commission on “the framework of the SoS Directive” will be used by the SoS TF.

### **Next steps**

The work shall be continued in 2008.

## **2.5.2 Information Exchange on Security of Supply Situation**

### **Deliverable**

SOS-2: Proposal for EU wide platform: internal information exchange on SoS situation

### **Justification**

The following policy issues call for better information exchange on the SoS situation:

- Article 4 of the Directive 2003/54/EC;
- Article 2.2 of the Energy Green Paper;

At present there is no reliable and independent platform for information exchange on all aspects of security of electricity supply in Europe.; The establishment of such a platform is a first step in that direction.

### **Approach**

A (possibly web based) platform for information exchange and repository on the security of supply situation in the European electric power grids (using also inputs from the synchronous areas' GB, NORDEL and UCTE system adequacy forecasts) and the European generation and primary sources shall be established. Depending on the contents of such a platform (to be defined by TF and approved by CEER), the information would need to be updated regularly by the CEER Secretariat and could be used for further development by the CEER / ERGEG members.

An initial workshop on the contents, framework and format of the SoS information platform shall take place for TF members by Q1/2007.

A proposal for the SoS information exchange platform shall be submitted to the CEER for internal approval (no external usage envisaged in the first step) by the end of 2007.

### **Next steps**

Based on the proposal prepared during 2007 the work on the establishment of the platform will continue during 2008.

## **2.5.3 System Adequacy Monitoring and Reporting**

### **Deliverable**

SOS-3: System adequacy monitoring report

### **Justification**

Article 4 of the Directive 2003/54/EC; Apart from the system adequacy assessments for each synchronous area (e.g. UCTE, Nordel) which in their nature tend to be a compilation of national inputs rather than a common view of the European situation, there is no reliable and overall generation adequacy assessment for the EU.

### **Approach**

The TF shall establish an overview of the current and desired practices of forecasting system adequacy. Regulators, other competent authorities and TSOs shall interact and cooperate in providing the forecast. The aim is to transfer system adequacy monitoring and reporting from a national to a regional level. The SOS TF will prepare a report on the basis of the information collected by national regulators.

### **Next steps**

System adequacy monitoring and reporting is to be outlined in a draft version report by the end of 2007 and shall be further developed and publicly consulted on (by ERGEG) in 2008.

## **2.5.4 Framework for Regulatory Consideration of Security of Supply**

### **Deliverable**

SOS-4: Internal report on a framework for regulatory consideration as the basis for all the considerations of security of supply within this TF

### **Justification**

At the beginning of the SOS TF work, the framework for regulatory consideration of security of supply shall be carefully studied and agreed upon, relying also on the experiences and results of work of the previous CEER WG Security of Supply.

### **Approach**

Elements to be discussed within the SOS TF include the balance between supply and demand and the overall, global view on the security of supply including also network aspects; moreover, the security of supply information will need to be addressed too.

The CEER internal report on the regulatory framework for addressing security of electricity supply shall be completed by Q1/2007.

### **Next steps**

The prepared report will represent the basis for all future work on security of supply in CEER.

## 2.6 CEER Environment Task Force (ENV TF)

### Issues to be addressed

ENV-1: Review of the Emissions Trading Directive

ENV-2 : Energy end-use efficiency

### Background

In January 2005 the European Union's Greenhouse Gas Emission Trading Scheme (EU ETS) commenced operation as the largest multi-country, multi-sector greenhouse gas emission trading scheme world-wide. The scheme is based on Directive 2003/87/EC, which entered into force on 25 October 2003.

Under the terms of this Directive the European Commission is required to submit a report, based on experience to date on the application of this Directive. This European Commission report should be concluded in 2007 after consultation. The CEER shall respond to this consultation to advocate that the longer term issues (such as those highlighted by the CEER in its response to the Green Paper) be adequately addressed in the review. Furthermore, the work from 2005 will need to be carried on in light of the CEER report on the interaction of ETS, energy prices and regulation.

A second major topic for the ENV TF is energy end-use efficiency. The "[Action Plan for Energy Efficiency: Realising the Potential](#)" (COM(2006)545 final) states that the European Commission will also cooperate with the CEER and ERGEG as regards the implementation or follow up of some issues related to energy end-use efficiency policies.

### 2.6.1 Review of the Emissions Trading Directive

#### Deliverable

ENV-1: Paper to the European Commission on the Review of the Emissions Trading Directive (2003/87/EC)

#### Justification

The EU Emissions trading scheme, which began on 1 January 2005, is of crucial importance for

the evolution of the electricity market in Europe. There will be a major impact on consumers through the effect on electricity prices. However other areas of interest to CEER regulators include the impact on new entry and closure and security of supply as well as patterns of use of existing power stations.

The results that have come to light from the reconciliation of first year's outcomes, revealing that most member states had over-allocated to their installations, are also of interest as price fluctuations and lack of liquidity in the allowance market have the potential to cause problems for the electricity markets.

### **Approach**

The events following the announcement of the first year's results highlight the need for attention to the longer term issues to be addressed. The [CEER response on the Energy Green paper](#) (C06-SEM-18-03, July 2006) highlights the key issues that need to be addressed in later phases of the scheme. The features of the EU-ETS which contribute to this uncertainty include:

- the organisation of the scheme in phases which span only five years – and the need to set new caps for each phase, resulting in the caps to be set only eighteen months in advance of the start the phase;
- the cap being set by the aggregate of the national allocation plans of 25 Member States rather than centrally;
- the scheme being relatively new and a number of the features evolving, e.g. definitions, coverage, market arrangements, relationship with Kyoto flexible mechanisms;
- the uncertain political environment, i.e. the Kyoto protocol and the lack of a successor agreement from 2013 onward;
- late information on actual emissions.
- Other design elements reducing the potential of the scheme include:
  - the restricted coverage of the scheme, which may prevent low cost abatement options from being exploited;
  - free allocation of allowances, which creates distributional impacts and may distort competition; and
  - new entry and closure rules, which may distort the incentives of the scheme and increase costs.

The CEER will respond to the European Commission's public consultation to advocate these

points.

### **Next steps**

As there is a strong interdependency between prices for electricity and CO<sub>2</sub> allowances, an analysis on the influence of the ETS scheme on the electricity market is needed as an ongoing action.

## **2.6.2 Energy end-use efficiency**

### **Deliverable**

ENV-2: Provide Regulators' input as regards the planned "Memorandum of Understanding on energy efficiency" of the European Commission's Action Plan

### **Justification**

The "Action Plan for Energy Efficiency: Realising the Potential" (COM(2006)545 final)" states that "The Directive on Energy End-Use Efficiency and Energy Services (2006/32/EC) adopted earlier this year provides a good framework for strengthening EU-wide co-operation on energy efficiency in areas where a clear potential for energy savings exists. Full collaboration from Member State authorities in implementing the Directive is required, in particular in so far as drawing up ambitious national Action Plans is concerned. Under the auspices of this Directive, the European Commission will prepare a Memorandum of Understanding in co-operation with the Council of European Energy Regulators (CEER) setting forth guidelines and a code of conduct on improving energy end-use efficiency in all sectors."

### **Approach**

The ENV TF will do all the preliminary work for the CEER GA as regards the steps that are necessary for the preparation of the above mentioned "Memorandum of Understanding".

### **Next steps**

Develop guidelines and a code of conduct on improving energy end-use efficiency in all sectors.

## **2.7 CEER Electricity Quality of Supply Task Force (EQS TF)**

### **Issues to be addressed**

EQS-1: Voltage Quality

EQS-2: Quality of service benchmarking

### **Background**

In 2006 the EQS TF focused on 3 work streams (voltage quality, severe weather events and handbook of quality regulation) whose importance has been recognised in the 3rd Benchmarking Report on Quality of electricity supply (2005). During 2006, a Handbook of Quality Regulation was prepared jointly by CEER and the Florence School of Regulation. In 2007 it will be published as part of a series of documents by the Florence School of Regulation. Work on the voltage quality regulation document will continue with the assessment of the results of the ERREG public consultation that will be conducted in early 2007. Internal work on the severe weather conditions will continue in 2007. Preparatory work will begin in 2007 on the 4th benchmarking report on quality regulation, which will be published in 2008.

### **Deliverable**

EQS-1: Report reviewing the (EN 50160) Voltage Quality standard

### **Justification**

Voltage quality is an acute issue for customers, especially industrial ones connected to distribution networks. Currently there is a European standard, EN 50160, which lags behind customer expectations and requirements applied in some EU countries. In 2006 a dialogue began with CENELEC (EU standardisation body responsible for EN 50160: two meetings with CLC TC8X took place on May 18th and November 27th-28th) and with academic experts (workshop in Milan on September 29th).

### **Approach**

An ERREG public consultation on a discussion paper "Towards Voltage Quality Regulation In Europe" will be carried out early in 2007, which calls for a revision of the voltage quality standard EN 50160 by CENELEC.

## **Next steps**

Following the ERGEG public consultation, Regulators will present their recommendations on voltage quality standard in light of the comments received from the public consultation, including potentially at the Cired conference on Distribution (May 2007). If necessary, a second workshop with relevant stakeholders will be organised during 2007.

### **2.7.1 Quality of service benchmarking**

#### **Deliverable**

EQS-2: 4th Benchmarking Report on Quality of Service

#### **Justification**

So far, the CEER has prepared three benchmarking reports on quality of electricity service. The 3rd Benchmarking Report on Quality of Service was issued in 2005.

#### **Approach**

The 4th benchmarking report on Quality of Service is scheduled for the year 2008. Hence the TF will start its work on the preparation of this report in mid 2007.



### **3 GAS WORKING AND FOCUS GROUP (GWG/GFG)**

#### **Background**

In 2006 the GWG/GFG assessed potential problems linked to various aspects concerning the operation of gas systems, especially covering interoperability, transparency, balancing, storage and LNG. Work in 2007 will build on these market assessments and develop recommendations for regulatory treatment of identified problems.

Additional work will address the concept of a European Gas Grid (Code) covering the different aspects of this approach raised in the European Commission's Green Paper and progress monitoring of the GRI.

Special focus will be provided on investment in infrastructure: work in 2007 will address regulatory questions linked to treatment of cross border infrastructure and investment in infrastructure. This will cover tariff treatment, open season procedures and regulatory treatment of cross border, domestic and non domestic investment – either in a regulated context or referring to Article 22 exemptions.

### **3.1 ERGEG Gas Regional Initiative Task Force (GRI TF)**

#### **Issues to be addressed**

- GRI-1: Gas Regional Initiative (GRI) follow up (internal reporting)
- GRI-2: Review of the progress achieved in the regions (external reporting)
- GRI-3: GRI convergence and coherence review and strategic vision
- GRI-4: Member States' compliance with Regulation 1775/2005/EC

#### **Background**

The ERGEG GRI, launched in April 2006, has seen the establishment of 4 Regional Energy Market (REM) projects. For the most part priorities for achieving further market integration and development have been identified and work is now underway in taking forward the respective workplans. The GRI TF will take on a monitoring role, establishing collaboration between regions and assess and oversee the coherence and convergence of regions bearing in mind the overall objective of achieving a single market.

It is also important to consider issues common to the Electricity Regional Initiative – such as engagement with policy makers, relations with stakeholders, and the connection with strategic questions of EU energy market liberalisation. This will also require oversight during 2007.

#### **3.1.1 Gas Regional Initiative (GRI) follow up**

##### **Deliverable**

- GRI-1: Monitoring of the Gas Regional Initiative work plan in form of quarterly reports about measurable results and progress within regions

##### **Justification**

This deliverable is a continuation and enhancement of the 2006 monitoring of the GRI. The GRI is a key element of ERGEG's strategy to integrate markets. Accordingly ERGEG needs to be kept informed and must oversee that progress is taking place. Moreover ERGEG should be able to illustrate that the GRI is producing concrete results and delivering on the expectations raised.

This workstream is primarily intended as an internal ERGEG monitoring tool, although it may also form the basis for external representations where ERGEG wishes. Information gathered may also be helpful as input to the proposed treatment of topics arising from the European Commission's Green Paper.

### **Approach**

The TF will set out how progress might be measured and reported. This should include all elements of the process in each region, including consultation, the establishment of priorities, action plans and timetables. It will be particularly important to establish ways of monitoring progress against the action plan and timetable in each region. Collaboration and discussion with the Electricity Regional Initiative will also be necessary in order to ensure a common approach.

Input from lead regulators will be sought on the basis of agreed measurable results. The TF will prepare quarterly monitoring reports on the basis of the information received. These will be presented to ERGEG.

Quarterly workshops will also be arranged in order to allow lead regulators (and any other interested CEER or ERGEG members) to compare and contrast experiences and approaches, discuss any impediments encountered, and consider convergence issues.

### **Next steps**

GRI monitoring will continue in 2008.

## **3.1.2 Review of the progress achieved in the regions**

### **Deliverable**

GRI-2: Progress review of the Gas Regional Initiative (GRI)

### **Justification**

ERGEG needs to demonstrate that its GRI is producing actions and results as expected, and that appropriate procedures – particularly stakeholder consultation and involvement – are being followed. ERGEG will make a full report to the next Madrid Forum in February 2007 and will be required to do so again at any subsequent Madrid Forum in 2007.

## **Approach**

In order to be able to draft the overall report it is necessary to first initiate the work on quarterly monitoring (GRI-1). The GRI TF will collate quarterly monitoring reports and inputs from lead regulators into an overall report of publishable standard. The ERGEG report of the GRI to the February 2007 Madrid Forum will serve as a basis for future reports. The report will contain the detailed action plans, deliverables and results of each region.

## **Next steps**

The annual progress review of the GRI will be continued in 2008.

### **3.1.3 GRI convergence and coherence review and strategic vision**

#### **Deliverables**

- GRI-3/a: GRI convergence and coherence review report: Review of GRI development with a focus on the coherence and convergence of the individual REMs
- GRI-3/b: Begin work on strategic Vision Paper, considering and mapping out proceeding from REMs to single market

#### **Justification**

The ultimate purpose of the GRI is to facilitate the completion of the single gas market via the interim step of market integration at a regional level. It will be important to ensure that the interim step complements the final objective of full market integration across the EU. That is, that decisions, actions and solutions adopted at a regional level facilitate and do not impede the full integration of all regions to one single market at a later stage.

It will be important to maintain an oversight that these developments are coherent in the longer run with a vision of what the single market might look like.

## **Approach**

The GRI TF will discuss and agree upon market integration topics that, if not treated in a coherent manner, have the greatest potential impact on the formation of the single market. Moreover it will

compare and contrast priorities and solutions for these topics in each region and examine experiences and approaches of countries that are in more than one REM.

The TF will also monitor topics that have been treated at the EU level by making sure that issues that have an EU dimension are not being reopened or reinterpreted at the regional level – such as storage and balancing guidelines.

A report making an initial assessment of the coherence of the 4 REMs shall be drafted by the TF and presented to a second Madrid Forum of 2007 (if this occurs).

Work will begin on putting together a first view of the features that a single market will need to have. This will form the first stage in the writing of an overall strategic Vision paper, which will consider and map out proceeding from REMs to single market. This work will need to be carried out in close co-operation with the ERI TF in order to ensure consistency of approach between them.

A study from the European Commission on “Analysing the Effectiveness of the Implementation of Current Legislation” shall be used as an input to the monitoring activity of the GRI TF.

### **Next steps**

The TF will discuss and agree on market integration issues that have the greatest potential impact on the road to the single market. Additionally it will discuss experiences of countries which belong to more than one region.

The strategic Vision paper shall be finalised in 2008 and will lead to public consultation.

### **3.1.4 Member States' compliance with Regulation 1775/2005/EC**

#### **Deliverable**

GRI-4: Report to the European Commission on ERGEG's experience of the different Member States' compliance with the Gas Regulation 1775/2005/EC

#### **Justification**

Request from the European Commission.

## **Approach**

Information gathering should only cover those issues that have not been already covered by other TF's. As a first step, the TF will prepare a standardised evaluation report that shall apply within all Member States, to be completed by each regulator in each Member State. Each Regional Co-ordination Committee (RCC) of regulators within a region will put together the reports for its region, together with an overall evaluation report. These will be subject to consultation by each RCC for its region. The RCCs will forward their report together with the results of consultation to the GFG, in order that the GFG can report to ERGEG regarding compliance in each Member State. The outcome should be presented to the Madrid Forum.

The TF will inform the European Commission in regular meetings on the work of and the progress achieved in the different regions.

## **Next steps**

ERGEG will report to the Madrid Forum in February 2007 on the process. The Report on ERGEG's experience with the different Member States' compliance with the Regulation 1775/2005/EC shall be presented at the Madrid Forum in autumn 2007.

## **3.2 ERREG Gas System Operation Task Force (GSO TF)**

### **Issues to be addressed**

- GSO-1: Capacity (GSO-CAP)
- GSO-2: Interoperability (GSO-INT)
- GSO-3: Transparency (GSO-TRA)
- GSO-4: Secondary market (GSO-SM)
- GSO-5: EU Grid (Code) (GSO-EUG)

### **Background**

In 2006 the GWG/GFG assessed potential problems linked to various aspects to the operation of gas systems, especially covering interoperability, transparency, balancing and storage. Work in 2007 will build on these market assessments and develop recommendations for regulatory treatment of identified problems.

Additional work will address the concept of a European Gas Grid (Code) covering the different aspects of this approach raised in the European Commission's Energy Green Paper.

### **3.2.1 Capacity**

#### **Deliverable**

- GSO-1: Guidelines for Capacity Calculation (GGP CAP)

#### **Justification**

The development of competition and the convergence to an internal European gas market require that capacities in gas transmission networks are calculated and provided in a consistent manner both over time and across networks. The network users must be informed about the ability of a network to transport and corresponding transportation services must be offered to meet the market needs.

TSOs still have large flexibility in calculating available capacities and there is no guarantee that networks are always efficiently operated and that capacity is offered on a fair and non-

discriminatory basis to all network users: incumbents and new entrants, large and small (see e.g. European Commission Sectoral Inquiry).

Adequate calculation of available capacities under all circumstances is a key aspect for effective application of capacity allocation mechanisms and congestion management principles (Regulation 1775/2005/EC). The 11<sup>th</sup> Madrid Forum addressed the “role of capacity calculating principles in order to ensure that maximum capacity is offered to the market”<sup>6</sup>.

The CAP Workstream (WS) builds on the work started in 2005 and continued in 2006. The scope of the WS CAP will focus on principles to enhance consistent and adequate calculation of available capacity and the maximum provision of transportation services for sale. The work will address principles and incentives to ensure that the right amount of capacity is made available to market participants.

### **Approach**

Meetings with relevant stakeholders shall take place in order to consult them in a first step on a bilateral basis. Based on the work and the analysis of the TF a Capacity Paper will be published for public consultation. Based on the results of the public consultation, guidelines on capacity calculation (GGP-CAP) will be drafted in order to achieve a minimum level of consistency in capacity calculation practices in Europe and to ensure that the adequate amounts of capacity is made available to market participants.

The draft GGP-CAP will be published for public consultation in Q3 2007. The final GGP-CAP will be presented to the 14<sup>th</sup> Madrid Forum.

### **Next steps**

- The GGP-CAP shall be implemented by European TSOs
- 2008: possibly monitoring of the GGP-CAP implementation

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<sup>6</sup> 11<sup>th</sup> Madrid Forum, final conclusions, para 12.



### **3.2.2 Interoperability**

#### **Deliverable**

GSO-2: Final interoperability report including recommendations to be fed into the development of legislation for advice to the European Commission. This will include an impact assessment of the proposal covering why the proposal is necessary; what are the advantages and disadvantages and including the option of not taking any further measures.

#### **Justification**

Interoperability remains a priority for gas to gas competition; availability of conversion/blending facilities is a requirement for non discriminatory TPA. Interoperability is a priority topic at the EU level (European Commission study on interoperability, EASEE-Gas activities).

The work to be undertaken builds on the work done in 2006.

#### **Approach**

Following consultation by the end of 2006 a final report addressing the following questions will be produced by the end of Q1 2007:

- What regulatory framework needs to be in place to secure that access arrangements to gas blending/conversions are non-discriminatory?
- How to ensure that costs are allocated appropriately?
- How to secure the necessary investment?
- How to ensure regulatory oversight across more than one jurisdiction?

The report will include recommendations to be fed into the development of legislation for the European Commission. Draft recommendations on interoperability will be published for public consultation in Q1 2007. Based on the results of the consultation final recommendations will be delivered by end of April/early May 2007. The TF will take into account the DG TREN interoperability project.

#### **Next steps**

The recommendations shall be finally fed into EU legislation.

### **3.2.3 Transparency**

#### **Deliverable**

GSO-3: Transparency guidelines for advice to the European Commission (proposal for amendment to Regulation 1775/2005/EC, annexed guidelines). This will include an impact assessment of the proposal covering why the proposal is necessary; what are the advantages and disadvantages and potential costs/benefits including the option of not taking any further measures.

#### **Justification**

Transparency of information is crucial to the development of a competitive market – particularly in the absence of effective unbundling in many Member States. The work to be undertaken builds on the work done in 2006<sup>7</sup> assessing the status of compliance with the transparency requirements of the Gas Regulation and the possible need for more detailed transparency requirements and/or the modification of existing provisions of the Gas Regulation for advice to the European Commission.

#### **Approach**

The work in 2007 is subject to the results of the work in 2006 which will indicate the market demand for additional transparency provisions. Based on this 2006 analysis recommendations for transparency guidelines for advice to the European Commission (proposal for amendment to Regulation 1775/2005/EC, annexed guidelines) will be developed in Q1 2007 following an ERGEG public consultation procedure. Based on the results of the public consultation final recommendations will be delivered by end of April/early May 2007.

#### **Next steps**

The recommendations shall be finally fed into EU legislation (amendment to Regulation 1775/2005/EC).

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<sup>7</sup> GFG TF "Transparency" and Gas Regional Initiative.

### **3.2.4 Secondary market**

#### **Deliverable**

GSO-4: Secondary market guidelines for advice to the European Commission (proposal for amendment to Regulation 1775/2005/EC, annexed guidelines). This will include an impact assessment of the proposal covering why the proposal is necessary; what are the advantages and disadvantages including the option of not taking any further measures.

#### **Justification**

Rules for secondary market trading are necessary given the potential for discrimination in the absence of such guidelines.

#### **Approach**

Market demand in principle with regard to secondary market trading will be assessed on a general level, while detailed assessment should be done within the GRI<sup>8</sup>. These results will feed into the preparation of guidelines for secondary market trading for advice to the European Commission (amendment to Regulation 1775/2005/EC). First overall recommendations will be prepared by end of April/early May 2007 preceded by a public consultation in Q1 2007. Based on the results of the public consultation detailed guidelines will be delivered by Q4 2007.

#### **Next steps**

The Recommendations shall be fed into EU legislation (amendment to Reg. 1775/2005/EC).

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<sup>8</sup> To the extent defined in the priority action plan of the single regions (e.g. region N/NW).

### 3.2.5 EU Gas Grid

#### Deliverable

GSO-5: Report on the possible role of a European Gas Grid

#### Justification

The topic of a European Grid has been discussed by the European Commission's Energy Green Paper and has been positively recognised in the CEER's response paper. The CEER however noticed that further analysis of this topic is necessary. The report shall assess the possible role of a European Grid including recommendations on a European Grid Code.

The report will cover an analysis of the need and ways to proceed towards harmonised or at least compatible rules for grid access for adequate TSO interworking and co-operation in terms of operational security and reliability within the context of the gas market. A deliverable for 2007 is a feasibility study on the EU grid code. It will be important to ensure consistency, where appropriate, with the development of the EU Gas Grid Code in the electricity market.

Key topics/issues will include:

- EU Grid Code – a description of the content of a European Grid Code – its scope/objectives and content: the set of coherent and common grid access rules to be used EU wide including development of co-ordinated planning for the European Grid (excluding supply and production activities); and development of objectives/scope for set of coherent/consistent rules and standards for interworking of TSOs.

Beyond that the following issues should be considered as far as possible in the analysis:

- Feasibility of possible development of regional entry/exit arrangements
- Feasibility of possible development of “train ticket” arrangements – including institutional and organizational requirements for TSO co-ordination and related TSO regulation
- Feasibility of possible development of inter-TSO compensation arrangements for cross-border flows
- Feasibility of co-ordinated planning for European gas infrastructure

## **Approach**

A first assessment of results will be published in early May 2007. A public hearing shall take place mid 2007 in order to discuss these results with stakeholders at. The final recommendations will be published in Q4 2007 and presented to the 14<sup>th</sup> Madrid Forum.

## **Next steps**

The recommendations shall be finally fed into EU legislation.

### **3.3 ERGEG Gas Infrastructure Investment Task Force (GII TF)**

#### **Issues to be addressed**

- GII-1: Cross Border Tarification (GII-CBT)
- GII-2: Open Season (GII-OS)
- GII-3: Treatment of new infrastructure (GII-TNI)

#### **Background**

Investment in infrastructure is a key requirement for the availability of sufficient transport, storage and LNG capacities representing a precondition for the development of liquid gas to gas competition. Industry has already addressed the need for an “investment-friendly and stable regulatory framework“. Work in 2007 will address regulatory questions linked to treatment of cross border infrastructure and investment in infrastructure. This will cover tariff treatment, open season procedures and regulatory treatment of cross border, domestic and non domestic investment – either in a regulated context or referring to Article 22 exemptions.

#### **3.3.1 Cross Border Tarification**

##### **Deliverable**

- GII-1: Guidelines for tarification for advice to the European Commission (proposal for amendment to Regulation 1775/2005/EC) concerning cross border flows. This will include an impact assessment of the proposal covering why the proposal is necessary.

##### **Justification**

Tariff methodologies for cross border trade have to be developed in accordance with the new Gas Regulation 1775/2005/EC. Based on the general requirements for tariff setting as explained by the European Commission's draft explanatory note, detailed methodologies of tarification have to be developed. The objectives of Regulation 1775/55/EC include the setting of harmonised principles for tariffs (Art 1.1) to be applied by national regulators (Art 3); the extent to which tariffs and charging principles should converge, and the degree to which harmonisation is needed, will be studied by ERGEG in 2006. The guiding principle is the need to avoid distortions to cross-

border trade. Work will focus on the issues of tariffs/extent of harmonisation necessary for tariff setting principles.

### **Approach**

The work in 2007 will build on the results of the 2006 report on “Transmission Pricing (for Transit) and how it interacts with Entry-Exit Systems”<sup>9</sup> which recommend developing guidelines for the tariffication of gas transmission. Draft guidelines for consultation will be developed by the end of Q1 2007. Based on the consultation results, interim results will be presented by end of April/early May 2007; final recommendations will be presented to the Madrid Forum. A public hearing will be held in 2007 after a public consultation was carried out in order to discuss the preliminary positions with stakeholders

### **Next steps**

The Recommendations shall be finally fed into EU legislation (amendment to Regulation 1775/2005/EC).

## **3.3.2 Open Season**

### **Deliverable**

- GII-2: Guidelines on open season procedures (GGP OS) for advice to the European Commission (proposal for amendment to Regulation 1775/2005/EC). This will include an impact assessment of the proposal covering why the proposal is necessary.

### **Justification**

The availability of sufficient transport capacities remains a key requirement for gas to gas competition; open season procedures are a necessary tool for TSOs to assess the market's

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<sup>9</sup> Based on the 10<sup>th</sup> Madrid Forum invitation to CEER “to present a report to next Forum, on how transit and regulated entry-exit systems could encourage competition and support a competitive market for natural gas”.

capacity demand and fulfil their legal obligation (Directive 2003/55/EC) to meet the market's demand. The 11<sup>th</sup> Madrid Forum assigned ERGEG with the task of developing guidelines on the implementation of open season procedures in consultation with the relevant stakeholders<sup>10</sup>.

### **Approach**

The 2007 work will build on the results of the public consultation on draft open season guidelines. Based on the consultation results final guidelines will be prepared by end of April/early May.

### **Next steps**

The Recommendations shall be fed into EU legislation (amendment to Regulation 1775/2005/EC).

## **3.3.3 Treatment of New Gas Infrastructure**

### **Deliverables**

- GII-3/a: Report on the role of regulators in financing investment in gas infrastructure including recommendations on regulatory treatment of cross border, domestic and non domestic investment including an impact assessment of the recommendations
- GII-3/b: Guidelines for the regulatory treatment of Article 22 exemptions.

### **Justification**

Investment in infrastructure is a key requirement for the availability of sufficient transport, storage and LNG capacities representing a precondition for the development of liquid gas to gas competition. Industry has already addressed the need for an “investment-friendly and stable regulatory framework” with respect to investments. The European Commission has noted its view on Article 22 procedures<sup>11</sup> and linked it to open-season procedures<sup>12</sup>. This has to include

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<sup>10</sup> 11<sup>th</sup> Madrid Forum, final conclusions, paragraph 12.

<sup>11</sup> Note of DG TREN on Directive 2003/54/EC and 2003/55/EC and Regulation 1228/2003/EC, 30.1.2004.



guidelines for the regulatory treatment of Article 22 exemptions.

### **Approach**

Report on the role of regulators in financing investment in gas infrastructure including **recommendations on regulatory treatment of cross border, domestic and non domestic investment**: The work will take account of that being undertaken on investment issues in gas (work done within the Energy Community) and electricity and should avoid duplication of work being undertaken at a regional level. New infrastructure is being built which will not be granted Article 22 exemptions. This includes fully regulated investments. Member States may have different ways of dealing with such investments: rates of return granted can vary and so can the level of regulation which investments are exposed to. Institutions in charge of approving or regulating also vary, along with the degree of their powers. It is important for ERGEG to have a clear and updated picture of the full range of investment regimes existing across the EU.

Varying or uncoordinated investment regimes can have an impact on investments. CEER's response to the Energy Green Paper points out that regulators must be able to oversee the operation of the European grids in order to ensure that necessary investments are made, and made in the interests of European consumers, that markets are operating efficiently at a European level and that monitoring and enforcement occur effectively across European markets. The paper stresses that this is becoming all the more urgent as EU energy markets become increasingly integrated and as the impact of decisions of regulators, network operators and market participants increasingly transcend national boundaries. CEER's response to the Energy Green Paper suggests that appropriate monitoring and oversight across national boundaries will be required but that at present, the regulatory and legislative framework is not sufficient for the development of a more integrated energy market.

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<sup>12</sup> Draft Explanatory note of DG Energy & Transport on Article 5, paragraph 1 and 2 as well as Annex 2.1. of Regulation 1775/2005/EC of the European Parliament and of the Council of 28 September 2005 on conditions for access to the natural gas transmission networks, p. 11.

The work will address the link to the deliverables of GII-1 and possible barriers to new investment (e.g. Regulatory gaps with respect to investment; link between new infrastructure investment and Article 22 considering possible barriers to investment, such as the lack of harmonised regulatory treatment with respect to Article 22).

**Guidelines for the regulatory treatment of Article 22 exemptions:** A "state-of-play"-questionnaire will be sent to regulators who have conducted Article 22 procedures in order to prepare a report and draft guidelines. In Q2 2007 a report on the results of the questionnaire with a first draft of guidelines as an annex will be submitted for public consultation and followed by a public hearing. The final guidelines will be presented to the 14<sup>th</sup> Madrid Forum.

Interim results with respect to possible barriers to new investment including an impact assessment of the recommendations will be delivered in April/early May 2007.

#### **Next steps**

The work will be finalised in 2008 for presentation to the 14<sup>th</sup> Madrid Forum.

### **3.4 ERGEG Liquefied Natural Gas Task Force (LNG TF)**

#### **Issues to be addressed**

LNG-1: LNG

#### **Background**

LNG growth is important for the EU market and it is likely to have a significant impact on the development of competition. GTE/GLE has already presented some proposals, which included LNG business rules (roles and responsibilities, capacity definition, services offered, scheduling procedures and general principles for tariffs) as well as LNG terminal approval procedures. At a GIE conference on 3rd November 2005 the gas industry called for regulatory harmonisation in the same LNG market basin. Regulatory arrangements have been put in place by various European countries to ensure that facilities are used efficiently and that access is fair and non-discriminatory. Also different operational procedures are used in different terminals across Europe.

#### **3.4.1 LNG**

##### **Deliverable**

LNG-1: Guidelines for Good Practice on TPA to LNG facilities (GGP-LNG) including an impact assessment of the proposal covering why the proposal is necessary; what are the advantages and disadvantages including the option of not taking any further measures.

##### **Justification**

ERGEG wants to ensure that there is no barrier for the contribution of LNG to achieving a competitive gas market.

##### **Approach**

2007 work will build on 2006 results: based on the LNG study prepared by external consultants in 2006, the TF will assess whether guidelines on LNG are necessary.

If so, draft LNG guidelines will be prepared by early Q2 2007 for public consultation. Based on consultation results the Final GGP-LNG will be presented to the 13th Madrid Forum.

**Next steps**

- The GGP-LNG shall be applied by LNG terminal operators
- 2008: possibly monitoring of GGP-LNG

## 4 CUSTOMER FOCUS GROUP (CFG)

### Background

2007 is an important year for the internal integrated market in the European Union. On the 1<sup>st</sup> of July Member States are supposed to have electricity and gas markets opened to competition, allowing customers the possibility to select their supplier.

In addition to working with the European Commission on a Europe-wide campaign to explain to customers what full liberalisation means and the benefits it will bring. ERGEG will address issues that are important in order to create a secure and well functioning energy market. End-user price regulation, obstacles and barriers to switching, information and transparency gaps among other topics, are central to the regulators' 2007 work programme.

## **4.1 ERGEG Customer Protection Task Force (CPR TF)**

### **Issues to be addressed**

- CPR-1: End-user price regulation (ERGEG position paper based on status review)
- CPR-2: Consumer information in open market
- CPR-3: Market organisation and customer issues

### **Background**

Customer protection is an important issue particularly when the energy markets are opened up to competition. Customer protection is assigned to a specific TF, the CPR TF.

The TF will continue its work on end-user price regulation and pre-contractual information. Adequate customer information is a key focus of the Electricity and Gas Markets Directives. The TF will also work on the issue of “Market organisation and customer issues”.

### **4.1.1 End-user price regulation (position paper)**

#### **Deliverable**

- CPR-1: A status review of existing end-user price regulation schemes will form the basis of an ERGEG position paper

#### **Justification**

According to the Electricity and Gas Directives, Member States are supposed to have electricity and gas markets opened to competition on 1 July 2007. In a free market there still might be a need to protect in particular “vulnerable customers”. At present in some Member States vulnerable customers receive protection through the social welfare system. Some other Member States have strengthened or re-introduced regulated end-user price for customers (or certain categories of industrial or commercial customers). Protecting vulnerable customers should not be confused with regulated energy prices for all customers or certain categories of industrial or commercial customers. Regulated end-user prices often distort competition and should be abolished, or at least brought into line with market conditions. Why? Regulated end-user prices offer the customer the possibility to continue (with the incumbent supplier) on a regulated tariff

(which is often kept artificially low). This tends to result in low customer switching rates as the customer has no incentive to switch to a new supplier, thus deterring new entry into the market and distorting competition.

It can be foreseen that even after the 1 July 2007 (when customers should be purchasing electricity/gas on the open market) Member States may seek to use end-user price regulation arguing that it is a tool to protect vulnerable customers. ERGEG considers that interventions in the market forces as a general principle distort competition and that the market forces are the best way to guarantee competition. Hence the task is to find alternatives (to end-user price regulation) for vulnerable customers which are compatible with an open, competitive market.

### **Approach**

In 2006 consultants were engaged to conduct a state of play status review (the Ecorys survey) which maps out retail price regulation currently in existence in Member States. ERGEG will build on this work in 2007 in preparing a ERGEG position paper on End User Price Regulation in Spring 2007.

### **Next steps**

Based on the position paper, further steps may be considered.

## **4.1.2 Consumer information in the open market**

### **Deliverables**

CPR-2/a: Workshops for regulators and stakeholders in cooperation with the European Commission based on the energy regulators' handbook for good practice for pre-contractual customer information.

CPR-2/b: Assistance to the European Commission on customer awareness campaign

## **Justification**

2007 being the year of market opening for residential energy customer, ERGEG and the national regulators shall work in partnership with the European Commission to better improve the information available to customers. The information tools that are being developed by the CFG should help end consumers to better understand the rules of liberalised energy markets, facilitate the choice of their suppliers and help them to know their rights as consumers.

## **Approach**

Firstly in January 2007 ERGEG will publish a Handbook on Customer Information, for use by regulators. It sets out a range of communication tools recommended by the countries that have already opened their residential markets to competition. It covers three categories of pre-contractual customer information; access to customer information service units; general information (e.g. in relation to the choice of an energy supplier, on bill components, on fees that can be applied to particular types of consumers); and information on suppliers (prices, duration of contracts, quality of service etc). ERGEG will present their Customer Information Handbook at a Consumer Awareness Day organised by the European Commission. The Consumer Awareness Day is dedicated to energy regulators and stakeholders.

Secondly, ERGEG will work with the European Commission in developing a general customer awareness campaign in Europe and specific tailored “posters” on market opening in each Member State. The country specific countries, which will be in national languages, will include information such as available suppliers, how often the customer can change supplier and whom to contact. ERGEG will provide assistance at the European level, and national regulators at the country level, in developing and dissemination this customer awareness information.

## **Next steps**

The next step for the individual countries is the adoption of the best practices for pre-contractual information, and the dissemination of the customer information.



### **4.1.3 Market organisation and customer issues**

#### **Deliverable**

CPR-3: Monitor and review the transposition of ERGEG's three Customer Best Practice Propositions in Member States.

#### **Justification**

In 2006 ERGEG published three Best Practice Propositions (BPPs) dealing with Customer Protection, the Supplier Switching Process and Transparency of Prices. These set out a number of recommendations in view of the opening of retail markets (household customers and small enterprises) to competition in July 2007. The Propositions identify strategic priorities, highlight best practice, make recommendations and establish basic principles for each subject. The Propositions aim at helping with the practical implementation of the Electricity (2003/54/EC) and Natural Gas (2003/55/EC) Directives.

It is of general interest to know if and how these three Best Practice Propositions have been taken into consideration in opening up the energy markets to competition or in the work on improving already opened energy markets in different countries.

#### **Approach**

In order to obtain country specific information, a questionnaire will form the basis of a report on whether the Best Practice Propositions have been adopted in countries.

#### **Next steps**

The Best Practice Propositions can be monitored again in the future.

## **4.2 ERGEG Retail Market Functioning Task Force (RMF TF)**

### **Issues to be addressed**

- RMF-1: Obstacles to supplier switching in the gas retail market
- RMF-2: Obstacles to supplier switching in the electricity retail market
- RMF-3: AMR/AMM (Automatic Meter Reading / Automatic Meter Management)

### **Background**

The establishment of the Retail Market Functioning TF will put a special focus on many pressing issues in the light of opening up the energy markets to competition. The main issue for the TF will be to create good conditions for well functioning electricity and gas markets for customers and market actors. The TF will continue the work of 2006 concerning possible obstacles to supplier switching in the gas retail market and the work concerning Automatic Meter Reading. New tasks for 2007 will be to study whether there are similar obstacles to supplier switching in the electricity market. The TF will also define indicators, which can be used in forthcoming monitoring work.

### **4.2.1 Obstacles to supplier switching in the gas retail market**

#### **Deliverable**

- RMF-1: Best Practices Report and recommendation for removing obstacles in gas retail markets

#### **Justification**

Directives 2003/54/EC and 2003/55/EC, full market opening by July 2007.

#### **Approach**

Based on the answers to a questionnaire sent to regulators during Q2 2006.

Best Practice Proposals will be prepared in Q1 2007 following an ERGEG public consultation.

## **4.2.2 Obstacles to supplier switching in the electricity retail market**

### **Deliverable**

RMF-2: Best Practices Report and recommendation for removing obstacles in electricity retail markets

### **Justification**

Directives 2003/54/EC and 2003/55/EC, full market opening by July 2007

### **Approach**

Based on a questionnaire that will be sent to regulators during Q1 2007 (similar to the gas exercise), a status review report will be drafted in Q3 2007. Best Practice Proposals will be prepared during Q4 2007.

### **Next steps**

A public consultation shall be conducted in early 2008 before the BPPs will be finalised.

## **4.2.3 AMR/AMM (Automatic Meter Reading / Automatic Meter Management)**

### **Deliverable**

RMF-3: Regulators view on AMR/AMM paper

### **Justification**

Directive 2006/32/EC on end-use energy efficiency and energy services.

### **Approach**

A position paper on smart meters will be published during Q1 2007.

### **4.3 ERGEG South East European Customers Task Force (SEC TF)**

#### **Issues to be addressed**

SEC-1/2: Customer related issues in South East Europe (SEE) energy markets

#### **Background**

SEC TF is drafting Guidelines on Customer Protection and the Protection of Vulnerable Household Customers which are due in Q1 2007.

#### **4.3.1 Customer related issues in South East Europe (SEE) energy markets**

##### **Deliverables**

- SEC-1: Guidelines on customer protection with a focus on vulnerable customers
- SEC-2: Monitoring Report (follow up – implementation of Guidelines on customer protection with a focus on vulnerable customers)

##### **Justification**

The monitoring, as well as the drafting and the implementation of the principles from the Guidelines, requested by the Athens Forum, will strive to reach an equivalent level of customer protection in the region of South East Europe. As the Energy Community will in due course be integrated into the Internal Energy Market (IEM), an early and serious debate on the topic will be an essential prerequisite for the well functioning of the IEM.

##### **Approach**

SEC-1: Before publishing the Guidelines a public consultation is envisaged in spring 2007.

SEC-2: Starting at an early stage the SEC TF will work closely together with the Energy Community Secretariat and the Energy Community Regulatory Board (and its Secretariat) on appropriate date for starting the monitoring. These institutions concern themselves with information about whether or not progress has been made towards market opening and customer protection. First results shall be ready by July 2008.

### **Next steps**

The monitoring results shall be published and presented to both, the Athens Forum (Electricity) and the Gas Forum of the Energy Community, as well to the Ministerial Council

### **Enforcement**

In order to ensure that deficiencies detected are followed up by government, it is envisaged to meet with the Ministerial Council to discuss the results and to draw up an action plan which will need to be followed by the relevant national authorities.

## 5 HORIZONTAL TASKS

### Background

The tasks of a horizontal dimension across both electricity and gas (such as the evaluation of the national reports) require special organisational treatment within the CEER. The Unbundling, Reporting and Benchmarking Task Force (URB TF) reports directly to the CEER Board and the General Assembly.

## 5.1 CEER Unbundling, Reporting and Benchmarking Task Force (URB TF)

- URB-1: Implementation of guidelines for unbundling
- URB-2: Treatment of unbundling in the electricity and in the gas sector
- URB-3: Follow up work on European Commission Benchmarking Report
- URB-4: CEER database

### Background

TF URB has been created to deal with issues related to regulation and monitoring. It combines work streams which seek to improve regulatory practice, which are not specific to gas or electricity.

URB 3 and URB 4 will further develop the regulator work on reporting and benchmarking exercises (e.g. the national reports), whereas some internal work will be done to improve regulatory practice for regulators participating in benchmarking exercises. Somewhat separate is the exercise on unbundling (URB1 and URB2), where the TF will build on the work already begun on unbundling guidelines in 2006.

### 5.1.1 Implementation of Guidelines for Unbundling

#### Deliverable

- URB-1: Follow-up report on recommendations about the implementation of Guidelines for Unbundling

#### Justification

In 2006, in the absence of effective unbundling, ERGEG publicly consulted on Guidelines on Accounts Unbundling. ERGEG also prepared Guidelines on Informational and Management Unbundling, which will be subject to an ERGEG public consultation early in 2007. These Guidelines already touched the issue of how to implement these Guidelines during the period until new legal provisions are provided by the EU. Implementation may be done via Governance Codices or quality standards. Some recommendations on how to implement the Guidelines are necessary for a harmonised approach.

## **Approach**

The TF will work on possible means to implement guidelines for management and information unbundling under the current legislative framework. In the beginning the TF will be assisted by consultants who will provide consultancy on international company law (corporate governance) and quality standards.

Based on comments received to the public consultation, the TF will draft an Evaluation Report and make recommendations on the implementation of the Guidelines on Informational and Management Unbundling.

## **Next steps**

The Guidelines should be implemented either with European associations or individually on a national basis.

### **5.1.2 Treatment of unbundling in the electricity and in the gas sector**

#### **Deliverable**

URB-2: Strategy Paper on the (different) treatment of unbundling in the electricity and in the gas sector

#### **Justification**

The European Commission invited ERGEG to assess the question of whether there would be any reason to treat electricity and gas differently with respect to unbundling.

#### **Approach**

In detail the URB TF will analysis the differences of the electricity and the gas sector with respect to the relevance of the involved parts of the production, transmission, storage, distribution and supply chain, in a Strategy Paper on unbundling in the electricity and gas sectors.

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## **Next steps**

EREG will advise the European Commission.

### **5.1.3 Follow up work on the European Commission's Benchmarking Report**

#### **Deliverable**

URB-3: Assessment Report and strategy plan for 2007 and 2008 (including monitoring of unbundling practices in Member States)

#### **Justification**

The contribution of national regulators to the annual benchmarking report of the European Commission on progress towards internal markets in electricity and gas constitutes an essential element. In 2006 the technical annex was provided by regulators.

#### **Approach**

The TF will coordinate the content of the National Reports with DG TREN and will provide the blueprint structure for the reports.

The TF will draft an Assessment of the European Energy Markets 2007 based on the National Reports of the regulators.

#### **Next steps**

The TF will coordinate the Assessment paper with the European Commission's benchmark report.

### **5.1.4 CEER database**

#### **Deliverable**

URB-4: Upgraded version of the CEER Database

## **Justification**

The CEER Database was developed in 2006. It is a web based tool for creating questionnaires, entering data into these questionnaires and accessing data.

The CEER-Database was first used in 2006 for the compilation of the indicators for the National Reports. Access is granted exclusively to the European Commission for the use of data in its annual benchmarking papers. Before entering new data in 2007, the functionalities of the data base shall be assessed using the 2006 experience and proposals for its improvement shall be made.

## **Approach**

In a workshop to be organised in early 2007 proposals for improvement and the extension of the data base functionalities shall be elaborated.

The implementation of the functional changes in the CEER-Database shall be completed by May 2007 at the latest.

## **Next steps**

The requirements on the CEER database shall be evaluated annually.

## 6 CEER ENERGY COMMUNITY WORKING GROUP (ENC WG)

### Issues to be addressed

ENC-1: Energy Community South East Europe (SEE) development

ENC-2/3: Energy Community Regulatory Board (ECRB)

### Background and Justification

The Energy Community Treaty entered into force on 1 July 2006. The Energy Community Regulatory Board, established by the Treaty, will be operational in 2007. A delegate of the European Commission shall represent the European Community in the ECRB. As foreseen by the Treaty, the European Commission shall be assisted by the Regulatory Authorities of the Member States having the status of participants, as well as by a representative of ERGEG without voting rights. The representation of ERGEG and regulators of the participants within the ECRB will ensure the active involvement of European regulators in the Energy Community developments.

Under the Council Decision on the conclusion of the Energy Community Treaty, the positions of the European Community to be taken within the Regulatory Board shall be determined after consultation with ERGEG. ERGEG will therefore officially advise the European Commission with respect to their representation and views on behalf of the European Community.

Given the specific role of the regulatory authorities of the Member States directly affected by Title III of the Energy Community Treaty (Austria, Bulgaria, Greece, Hungary, Italy, Romania, Slovenia) they will form the CEER WG on the Energy Community (ENC WG). The ENC WG will follow the developments in the Energy Community, formulate the common position of its members and communicate it to the CEER General Assembly. Thus the work of the ENC WG shall facilitate the formulation of the advice of ERGEG to the European Commission on all issues related to the ECRB.

On an ad hoc basis the ENC WG may also prepare documents in order to promote or support the work of the ECRB.

The ENC WG is open also to participation to other CEER members.

## **Deliverables**

- ENC-1: Follow the developments in the ECSEE and report to the CEER General Assembly
- ENC-2: Provision of input for the formulation of the advice of ERGEG to the European Commission on issues related to the Energy Community Regulatory Board.
- ENC-3: On an ad hoc basis prepare documents in order to promote or support the work of the ECRB

## **Approach**

The members of the ENC WG, along with the regulators of the other participants and the representative of ERGEG, will participate in the work and the meetings of the ECRB. It will be the task of the ENC WG members to follow the work of the ECRB closely and provide relevant input to CEER and ERGEG in order for the latter to formulate its response to the regulatory developments in the Energy Community and, consequently, its advice to the European Commission in accordance with Decision 2003/796/EC.

## **Next steps**

The future evolutions in the Energy Community and, in particular, the developments regarding the ECRB and in particular the ECRB Work Programme will form the agenda and determine the concrete next steps to be taken by the ENC WG. It is therefore necessary for it to closely follow the relevant developments in order to identify and begin action on immediate next steps.

## **Indicative areas of work**

Organised into three broad areas, the work of the ENC WG is likely to cover among others the following fields:

### **Electricity**

In this broad domain, two high-priority areas are likely to stand out:

Regional Market Development, including, notably, market design: This will in turn involve guidelines on regional market design, participation in the work on the development of regional balancing mechanism and collaboration with other stakeholders, as well as follow up of evolutions regarding the development of regional trading platform(s).

Network operation and tariffs, with the establishment of a SEE-ITC mechanism as the main

priority (including work on the merging of the EU-SETSO funds; follow up of the anticipated developments at the level of the EU; potential development of ITC guidelines in the SEE region, as well as coordinated auctions and capacity allocation)

## **Gas**

Work in this area shall concentrate on gas infrastructure (with the main focus on issues such as the Guidelines for the Development of New Gas Infrastructure in the SEE, including a possible synergy with relevant work of the GWG/GFG), as well as the regional gas market developments.

## **Energy Community Establishment**

Among the focal issues falling under the scope of this area, the following may be identified: Customer protection and protection of vulnerable customers (customisation and implementation of ERGEG Guidelines), legal support (in issues like cross border disputes, the efficient operation of the ECRB and its collaboration with other institutions under the Treaty as well as legal advice to the ECRB members regarding the interpretation of the Treaty), unbundling, electricity networks and planning, monitoring and reporting, and national reporting issues.

## **7 INTERNATIONAL STRATEGY GROUP (ISG)**

### **Issues to be addressed**

ISG-1-3: International cooperation

ISG-4: Training policy

### **Background and justification**

The International Strategy Group (ISG) is to be established to coordinate CEER's activities in the field of international co-operation.

### **7.1 International cooperation**

#### **Deliverables**

ISG-1: Review the overall international collaboration strategy of the CEER

ISG-2: Establish proposals for the priority tasks and actions attached to each geographic area

ISG-3: Maintain relations with DG RELEX and DG TREN on international issues and generally represent CEER (e.g speeches at conferences) on notably international dimension.

#### **Approach**

The first task of the ISG is to prepare a comprehensive review the overall international collaboration strategy in terms of CEER's bilateral and multilateral relations. The focus is on prioritising areas of strategic importance to CEER including for example US/North America, Russia and its neighbours and on following the developments in the Euro-Mediterranean process (MEDREG). In particular on MEDREG issues, the MEDREG chair will report to the CEER General Assembly. The ISG is responsible for ensuring that the policies being developed and agreed for any of the particular agreed areas mesh together to form an overall strategic approach to regulatory collaboration.

The ISG will establish proposals for the priority tasks attached to each geographic area and propose what initiative actions might be undertaken to strengthen regulatory links, to ensure that political decisions taken elsewhere are consistent with the Europe's regulatory ambitions and that the CEER is fully involved in any future collaborative arrangements.

The ISG will also maintain relations with the European Commission (DG RELEX & DG TREN). ISG, together with the President of CEER and the Board will generally represent CEER (e.g. speeches at conferences) on notably international dimensions.

The ISG mandate excludes the policy areas related to the Energy Community Treaty which is dealt with the ENC WG.

## 7.2 Training

### Deliverables

ISG-4: Develop a suitable training policy for CEER

### Approach

Training on regulatory issues is a basic tool of enhanced international cooperation with our counterparts elsewhere, itself a core element of the IERN website ([www.iern.net](http://www.iern.net)). CEER has decided not to engage in training activities itself: instead our own training needs have to date in large part been addressed by the Florence School of Regulation, with CEER being directly involved in shaping the FSR's annual training programme. CEER provides speakers and advice to ERRA's training activities.

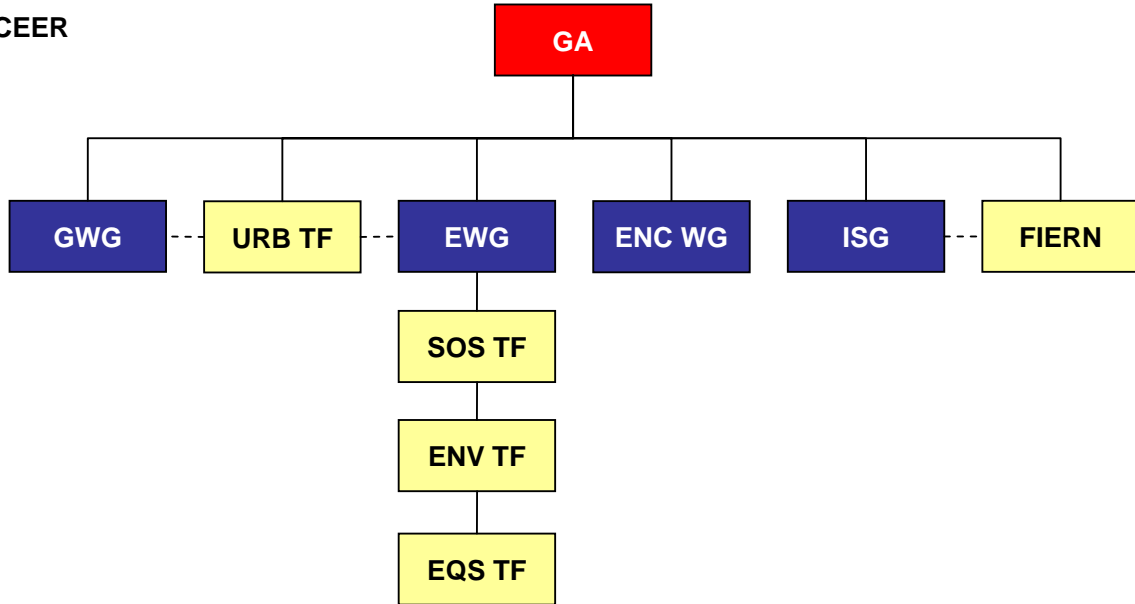
As our organisation matures and the breadth of our ambitions grows, CEER may choose in the future to undertake our own training initiatives including running joint workshops with other international organisations (such as ERRA). It will be the task of the ISG to develop a suitable training policy, using the FSR and other service providers as appropriate. Thus, while the IERN and Florence Group (FIERN) will concentrate on developing these tools, ISG will take overall responsibility for managing future CEER training requirements.

Should CEER choose in the future to undertake our own training initiatives including running joint workshops with other international organisations (such as ERRA), it will be the task of the ISG to develop a suitable training policy and manage future CEER training requirements.

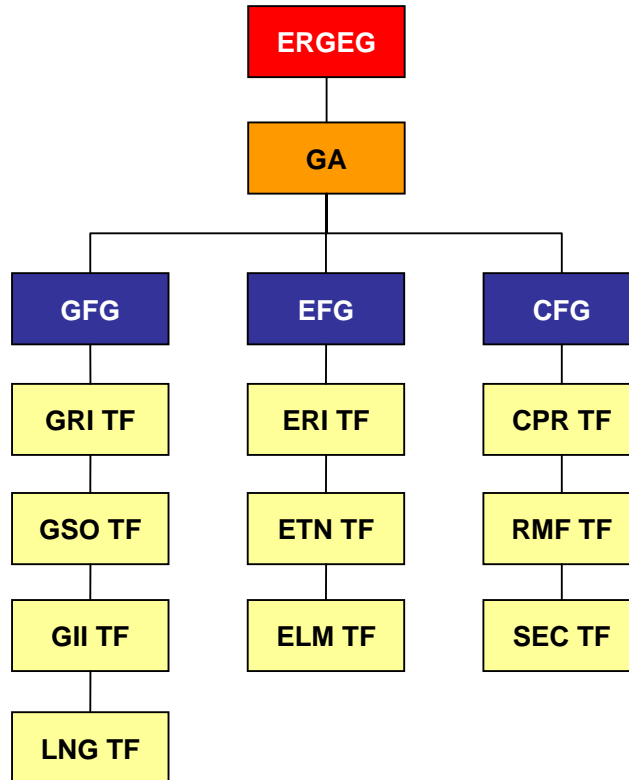


## ANNEX I: ORGANISATIONAL STRUCTURE

CEER



EREGG



## ANNEX II: LIST OF ABBREVIATIONS

AMM	Automatic Meter Management
AMR	Automatic Meter Reading
Baltija	Dispatch Centre Baltija
BPP	Best Practice Proposition
CEER	Council of European Energy Regulators
CENELEC	European Committee for Electrotechnical Standardization
CFG	EREG Customer Focus Group
CM	Congestion Management
CPR TF	EREG Customer Protection Task Force
DG COMP	Directorate-General for Competition
DG SANCO	Directorate-General for Health and Consumer Affairs
DG TREN	Directorate-General for Energy and Transport
DSO	Distribution System Operator
EASEE-gas	European Association for the Streamlining of Energy Exchange
EC	European Commission
ECRB	Energy Community Regulatory Board
ECSEE	Energy Community of Southeast Europe
EFET	European Federation of Energy Traders
EFG	EREG Electricity Focus Group
ELM TF	EREG Electricity Market Task Force
EMOS	Energy Market Observatory System
ENC WG	CEER Community Working Group
ENV TF	CEER Environment Task Force
EQS TF	CEER Electricity Quality of Supply Task Force
EREG	European Regulators Group for Electricity and Gas
ERRA	Energy Regulators Regional Association
ERI	Electricity Regional Initiatives
ERI TF	EREG Electricity Regional Initiatives Task Force
ETN TF	EREG Electricity Transmission Networks Task Force
ETS	Emissions Trading Scheme
ETSO	European Transmission System Operators
EU	European Union
EWG	CEER Electricity Working Group
FIERN	CEER Florence and IERN Group
FSR	Florence School of Regulation
GA	CEER General Assembly

GFG	ERREG Gas Focus Group
GGP OS	Guidelines of Good Practice on Open Season Procedures
GGP-B	Guidelines of Good Practice on Gas Balancing
GGP-CAP	Guidelines of Good Practice on Gas Capacity Calculation
GGP-EBMI	Guidelines of Good Practice on Electricity Balancing Markets Integration
GGP-IMT	Guidelines on Good Practice on Information Management and Transparency
GGP-LNG	Guidelines of Good Practice on TPA to LNG Facilities
GGPSSO	Guidelines of Good Practice for Storage System Operators
GII TF	ERREG Gas Infrastructure Investment Task Force
GII-CBT	Cross Border Tarification workstream within the GII TF
GII-OS	Open Season workstream within the GII TF
GII-TNI	Treatment of New Infrastructure workstream within the GII TF
GLE	Gas LNG Europe
GRI	Gas Regional Initiatives
GRI TF	ERREG Gas Regional Initiatives Task Force
GSO TF	ERREG Gas System Operation Task Force
GSO-BAL	Gas Balancing workstream within the GSO TF
GSO-CAP	Capacity workstream within the GSO TF
GSO-EUG	EU Grid (Code) workstream within the GSO TF
GSO-INT	Interoperability workstream within the GSO TF
GSO-SM	Secondary Market workstream within the GSO TF
GSO-STO	Storage workstream within the GSO TF
GSO-TRA	Transparency workstream within the GSO TF
GTE	Gas Transmission Europe
GWG	CEER Gas Working Group
IEM	Internal Energy Market
IERN	International Energy Regulation Network <a href="http://www.iern.net">www.iern.net</a>
ISG	CEER International Strategy Group
ITB WG	CEER Information, Training and Benchmarking Working Group (2006)
ITC	Inter TSO Compensation
ITSOA	ITS Officers Association
JWG	Joint Working Group of the Madrid Forum
LNG	Liquefied Natural Gas
LNG TF	ERREG Liquefied Natural Gas Task Force
NRA	National Regulatory Authority
NORDEL	Association for Electricity Cooperation in the Nordic Countries
PRET	Peer Review Expert Team
PRR	Peer Review Report
REM	Regional Energy Market (i.e. region of the Regional Initiatives)

RCC	Regional Coordination Committee of the ERGEG Regional Initiatives
RMF TF	ERGEG Retail Market Functioning Task Force
SEC TF	ERGEG South East European Customers Task Force
SEE	South East Europe
SEM WG	CEER Single Energy Market Working Group (2006)
SETSO	Southeast Europe Transmission System Operators
SoS	Security of Supply
SOS TF	CEER Security of Supply Task Force
TF	Task Force
TOR	Terms of Reference
TPA	Third Party Access
TSO	Transmission System Operator
UCTE	Union for the Co-ordination of Transmission of Electricity
UKTOSA	United Kingdom TSO Association
URB TF	CEER Unbundling, Reporting and Benchmarking Task Force
WG	Working Group
WS	Workstream