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Brussels, 31 August 2005
AMG/EdH/nh

Dear Mrs. Shortall,

We welcome the initiative taken by ERGEG to draft a road map for the creation of regional electricity markets in Europe and in this respect we appreciate very much the possibility to participate in this public consultation process.

As you are aware, EURELECTRIC engaged in a similar exercise which has led to the development of a road map towards a pan-European wholesale market. The ERGEG paper focusing primarily on network operations, we see our work being complementary and our visions developing in a similar way. To a large extent, we invite you to refer to the EURELECTRIC road map which sets out in details our comments concerning the way forward towards a pan-European market with regional markets as an intermediary step in this development. In addition to our road map, we would like to put forward in this letter further comments to the ERGEG discussion paper.

1. We agree with ERGEG on the issues raised in relation to networks and market transparency. Harmonisation of transparency and data exchange rules across national borders as described in the EURELECTRIC road map is necessary as the different markets interact with each other and information held by a market participant in one market can have a substantial impact on adjacent markets.

2. In order to achieve a pan-European electricity market as the ultimate goal of the regional developments, the wholesale market structures should be sufficiently harmonised to be compatible with each other. This entails that the way a wholesale market is organised, i.e. whether it is based e.g. on a bilateral market structure, on power exchanges, a pool system or a mixture of a bilateral market and power exchanges, should be similar within a region in order to enable efficient cross-border trade. (The volumes traded within the wholesale market, however, may be different in the different regions.) The objective should be that the market price is drawn from efficient interactions of supply and demand, and based on this market driven system the transparent market prices should reflect the market value of electricity at every moment of time. Special attention should be given to markets belonging to more than one regional area. Where single price areas exist they should not be put at risk.

EURELECTRIC welcomes that the ERGEG discussion paper does not suggest one single market model but leaves the choice open. However, in our view, each model has to allow and promote that also large consumers have the possibility and inducement of a direct participation in the wholesale markets as this is important for the proper functioning of the market and brings by this way e.g. more demand elasticity to the market and increases the liquidity of these markets. In contrast with these efforts a pool model like it is described in ERGEG's paper is a **one sided pool** with only supply side participation and without the possibility of demand side participation. In this respect it does not completely fulfil the requirement that prices are drawn from efficient interaction of supply and demand. One implication from this is that there will probably be more price peaks compared to a two sided bidding structure where demand elasticity can reduce price peaks.

It is also important to note that the choice of the wholesale market structure has implications on cross-border trading and congestion management. For example: Implicit auctions (or market coupling) assume the existence of power exchanges on both sides of the congested interconnection. If the market is organised exclusively as a bilateral market, congestions can be managed by explicit auctions only, preferably on a co-ordinated basis.

3. Within the overall discussion of creating regional markets and the internal electricity market respectively, it should also be pointed out again that further integration is possible if there is genuine co-operation and commitment to this process between all actors. The framework established by the existing European legislation and joint efforts by all relevant stakeholders will drive the further market integration without the need for additional European or regional legislation.

EURELECTRIC agrees with ERGEG on the significance of investment decisions for TSOs.

4. EURELECTRIC agrees with ERGEG that a high number of TSOs across Europe requires effective interaction and communication processes which are continuously enhanced but still need to be improved, while taking issues concerning security of supply into account.

We are looking forward to the conclusions drawn from the public consultation process and to engage in further in-depth discussions on the issue of regional and European integration with representatives of ERGEG/CEER.

Sincerely yours,



Tony Cocker
Chairman, WG "Trading"
Co-Chairman, TF "Market Development"



Gunnar Lundberg
Chairman, WG "Market Regulation"
Co-Chairman, TF "Market Development"

Encl.

- EURELECTRIC Report "Integrating Electricity Markets through Wholesale Markets: EURELECTRIC Road Map to a Pan-European Market"