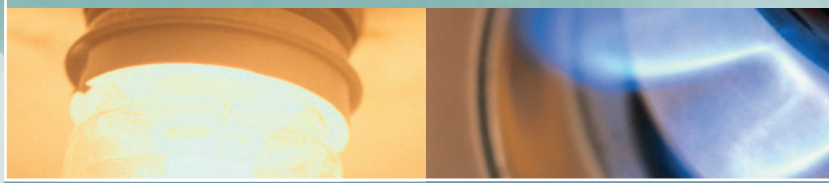
European Regulators Group for Electricity and Gas

2005 Annual Report



Report of the European Regulators Group for Electricity and Gas (ERGEG)

Annual Report of the activities of the European Regulators Group for Electricity and Gas for the period 1 January 2005 to 31 December 2005 to the European Commission, the European Parliament and to the Council.

This document comprises a report made under Article 3 (8) of the Commission Decision 2003/796[1] as set out in the Official Journal of the European Union.

Further information on the ERGEG and the public documents referred to in this Annual Report can be found on the ERGEG website (www.ergeg.org).

[1] Commission Decision 2003/796 of 11 November 2003 on establishing the European Regulators Group for Electricity and Gas, Official Journal L 296 of 14.11.2003, pp. 34-35.

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1. Introduction

What is the ERGEG?

The ERGEG stands for the "European Regulators Group for Electricity and Gas".

The ERGEG acts as an advisory group to the European Commission in consolidating the internal market for electricity and gas. Its members are the heads of the national energy regulatory authorities from the 25 EU Member States.

The European Commission is represented at a high level at the meetings of the ERGEG and it also provides the Secretariat to the ERGEG. The national energy regulators of candidate countries and European Economic Area (EEA) countries also participate in the meetings as observers.

Why was the ERGEG set up?

The ERGEG was set up on 11 November 2003 by a European Commission Decision 2003/796 to "give regulatory cooperation and coordination a more formal status, in order to facilitate the completion of the internal energy market".

The ERGEG was established to facilitate consultation, coordination and cooperation between regulatory authorities, and between those regulatory authorities and the European Commission so as to ensure a consistent application in all Member States of the new legislative framework.

The ERGEG's Chairperson and Vice Chairpersons

Chairperson

Mr Jorge Vasconcelos

Vice Chairpersons

Mr Jean Syrota

Sir John Mogg

A new enlarged Board of the ERGEG took effect from 7 December 2005, for a two-year appointment period. Sir John Mogg succeeds Mr. Vasconcelos as the Chair and five Vice-Chairs were elected: Mrs. Asta Sihvonen-Punkka, Mr. Walter Boltz, Mr. Alessandro Ortis, Mr. Istvan Pataki and Mr. Jean Syrota.

2. Chairperson's[3] statement

The European Regulators' Group for Electricity and Gas (ERGEG) is the focal point for interaction between EU energy regulators, EU institutions and all interested parties in the development of a well-functioning European energy market. It is more than just an informal forum for exchange of information (like the Florence and Madrid Fora), a laboratory for innovative ideas (like the Florence School of Regulation) or a club of regulators (like the Council of European Energy Regulators). The ERGEG is the factory where technical solutions to the old and new problems of integrating 25 electricity and gas markets are designed, tested and built within the complex EU legal and institutional framework.

The ERGEG is strongly committed to the development of a transparent, co-operative and efficient EU regulatory system aimed at facilitating the creation of truly integrated and efficient electricity and gas markets. Therefore, formal and extensive consultation with all relevant stakeholders is crucial. In 2005, the ERGEG enlarged the scope and improved the quality of consultation. For example, for the first time in the history of the internal energy market, EU public hearings on electricity network transmission tariffs and congestion management took place and the regulatory solutions adopted by the ERGEG were fully explained and justified, taking into account all comments received.

Integrating national energy markets into one single market serving 460 million citizens is a tough challenge. The technical, economic and institutional problems to be overcome are complex and the current industry structure does not always facilitate implementation of the best solutions. However, the ERGEG is confident that achieving a more integrated and competitive European energy market for the benefit of all consumers is feasible. Efficient regulation of this market will play an important role and we are aware of the need to adopt best regulatory practices, both at national and the EU level.

The active support we received from the European institutions, in particular the Commission, the Council – in December 2005 and in March 2006, Energy Ministers underlined the role played by regulators in delivering liberalised energy markets across the EU- and the Parliament, as well as the encouraging co-operation we had with consumer groups and the energy industry shows that the ERGEG is moving in the right direction and applying the right regulatory instruments.

We were also pleased to note that "enhancing cooperation and cooperation between regulators" is included in the indicative list of actions for the new Energy Policy for Europe (EPE) set out by Heads of State or Government meeting for the Spring European Council held in April 2006.

We thank the institutions and the stakeholders for their support and invite them to carry on with their much needed support in the future.

Jorge Vasconcelos
ERGEG Chairperson

[3] Mr. Vasconcelos was appointed the first Chairperson of the ERGEG on 17 December 2003, a position he held until December 2005. He is succeeded by Sir John Mogg.

3. Overview of 2005

At the request of the European Commission, the ERGEG has developed several guidelines related to electricity cross-border trade. Guidelines on Congestion Management at electricity interconnectors will, early in 2006, go into the comitology process foreseen in Regulation 1228/2003[4] . Guidelines on Transmission Tariffication, and on Inter-TSO mechanisms, which have to be adopted at the same time, will follow in 2006.

When preparing the Guidelines on Congestion Management and on Transmission Tariffication, the ERGEG ensured the highest degree of transparency, according to best practice:

- draft guidelines were published and submitted to public consultation in accordance with ERGEG's established consultation procedure;
- all written comments which were received were published on the ERGEG's website www.ergeg.org;
- stakeholders had the opportunity to discuss the draft guidelines first at the European Electricity Regulatory Forum (Florence Forum) and subsequently at a public hearing in Brussels, in the presence of regulators and the European Commission;
- all comments received were analysed and reasons for their acceptance or rejection were given in written form;
- stakeholders have publicly indicated their positive evaluation of both the contents and procedures adopted by the ERGEG. Indeed, the best possible consideration was given to the technical and economic arguments submitted by all stakeholders.

Work on electricity balancing was also advanced well in 2005.

The focus in gas in 2005 was on the Guidelines for Good TPA Practice for Storage System Operators (GGPSSO), network charges and balancing rules. A first objective was the introduction of the GGPSSO by April 2005 and the subsequent monitoring of their implementation. The monitoring exercise not only provided valuable information about the implementation of the GGPSSO, but also pushed those Storage System Operators (SSOs) who lag behind on implementation to take measures.

A study of the gas network tariff methodologies and costs was initiated in 2005, the results of which will be available in 2006.

As part of a public consultation process, the ERGEG presented a paper on gas balancing to the participants of the Xth European Gas Regulatory Forum (Madrid Forum) in 2005. The work will be finalised in 2006 with the development of Guidelines for Good Practice for Gas Balancing.

The lack of integration of national markets is recognized as a key impediment to a competitive EU energy market. In 2005, ERGEG developed the concept of regional energy markets as a practical and achievable way of delivering step-wise progress towards a competitive single European energy market. To this end, ERGEG engaged in an extensive public consultation with stakeholders on the ERGEG Roadmap papers for both electricity and gas. The *Creation of Regional Electricity Markets – an ERGEG Discussion Paper* was launched for public consultation in June 2005, and presented to and discussed with stakeholders at the XIIth Florence Forum in September. This received a very positive reaction from market participants, the EU institutions and governments. The result is the launch by the ERGEG of a major EU-wide Electricity Regional Initiative (ERI) in Spring 2006, which creates Regional Energy Markets (REMs), each of which must tackle the key cross border impediments within their region through defined action plans. This initiative aims to involve all stakeholders in furthering market integration. In November 2005, ERGEG publicly consulted on a Roadmap for a Competitive Single Gas Market in Europe. A Gas Regional Initiative (GRI) will also be launched by the ERGEG by end-April 2006.

This year has also witnessed the creation of the Customer Focus Group. This new endeavour by the ERGEG came as a consequence of the regulators' belief that customer awareness of changes in the electricity and gas markets is vital both for the legitimacy and the success of the process. Customer choice is, after all, the starting and conclusive point for energy market liberalisation. Transparency, simplicity and user-friendliness are prerequisites for an informed choice. The Customer Focus Group initiated work on three areas: customer protection, customer switching and transparency of prices. This work will continue in 2006 with the publication of best practice propositions in each of these three areas.

[4] Regulation 1228/2003 of the European Parliament and of the Council of 26 June 2003 on conditions for access to the network for cross-border exchanges in electricity.

4. Electricity

Introduction

In 2005, the main electricity issues for the ERGEG related to cross border trading and the lack of market integration. The ERGEG focused on three sets of electricity Guidelines on Congestion Management; Inter TSO compensation; and Transmission Tariffication respectively. Related work was also carried out on balancing markets and operational standards. One significant result of the ERGEG's work in 2005 is that regulators – through an extensive public consultation process - led the industry, stakeholders and Member States to the launch of a major EU-wide Electricity Regional Initiative (ERI) in early 2006 that will accelerate the development of a single European market for electricity.

Congestion management

The regulatory framework for cross border electricity trade and congestion management is set out in electricity Regulation 1228/2003, which is applicable since July 2004. One significant requirement of the Regulation is that all cross border network congestion problems should be addressed with non-discriminatory "market based solutions".

The ERGEG continued throughout 2005 its collaboration with the European Commission in the organisation of regional mini-fora on congestion management. This activity informed the already advanced Congestion Management Guidelines in order to ensure the operational compatibility between different regions. ERGEG consulted publicly on the Congestion Management guidelines and held a public hearing before formally providing its advice to the European Commission in July 2005. The comitology process for the Congestion Management Guidelines starts in early 2006.

Inter TSO compensation

For the past number of years, a temporary system - based on the European Transmission System Operators (ETSO) model - to address the costs of hosting cross-border electricity flows has been in place. Regulation 1228/2003, which took effect in July 2004, enables the European Commission, working within a comitology process, to set binding Guidelines for an inter-TSO compensation (ITC) mechanism. That is, Transmission System Operators (TSOs) in all EU Member States and relevant EEA Member States (i.e. Norway) will be required to be party to the mechanism once the binding ITC guidelines are adopted.

The European Commission presented draft ITC Guidelines at the XIth Florence Forum (September 2004). The Commission's proposal was based on the 2004 scheme, but with a revision to reflect the Regulation's requirements that costs are based on Long Run Average Incremental Costs (LRAIC). Regulators expressed a wish to make further revisions, and called for examination of further network models, clarification of the LRAIC, and no significant increase in the size of the compensation fund.

During 2005 the European Commission engaged consultants to evaluate and make recommendations regarding the definition of LRAIC and cost allocation among TSOs. ERGEG continues to work closely with the European Commission and ETSO, with the common goal of having a new ITC mechanism in place for 2007. To this end ERGEG will in 2006, following appropriate public consultation, advise the European Commission on Guidelines that would govern the new ITC mechanism.

Network tariff harmonisation and locational signals

The electricity Regulation 1228/2003 also provides for a set of Guidelines for transmission tariff harmonisation. The ERGEG submitted to the European Commission its proposed draft Guidelines on Transmission Tariffication in July 2005 after an open consultation, and a public hearing, with stakeholders.

The ERGEG is of the view that to avoid distortions, some harmonisation of the charges for Generators (G) rather than Demand (or Load, L) for access to the networks is desirable. It was therefore proposed that G charges at the transmission level be harmonised on the basis of the national average level of the G charge which will be specified within a range for each Member State. The Regulation requires that the Guidelines on Transmission Tariffication must be adopted at the same time as Guidelines on inter-TSO compensation and so the timing here will be determined by the later of the two.

Electricity Regional Initiative (ERI)

On the basis of work which originated in the CEER[5] , the ERGEG launched in June 2005 a consultation paper, The Creation of Regional Electricity Markets - an ERGEG Discussion Paper, which advocated a regional based approach to address the current lack of market integration. It identified four action areas; availability of transmission capacity; availability and control of information; co-operation between network users and compatibility of wholesale market arrangements. It also highlighted that the support of Member State governments would be crucial. This ERGEG public consultation exercise was enhanced through an inclusive process of dialogue and information exchange with stakeholders on a bi-lateral basis and also through the inputs received at the Florence Forum and from the series of congestion management mini-fora.

The result of this process is an EU-wide Electricity Regional Initiative (ERI) launched by ERGEG in Spring 2006. It creates seven electricity Regional Energy Market (REM) blocks as an interim step towards a fully functioning internal energy market. Each REM will identify the key cross border issues within the region and how these will be tackled through a concrete action plan. The ERGEG will report on progress to the Florence Forum. This initiative will involve all stakeholders, and is aimed at driving the European energy markets towards efficiency, transparency and competitiveness.

Operational standards

In 2005, the ERGEG sought to deliver high quality policy propositions, from a regulatory perspective, on the issues under discussion in the Union for the Co-ordination of Transmission of Electricity (UCTE) Operational Handbook (which deals with technical rules in an interconnected power system). The ERGEG acted and reacted appropriately and in a timely manner on all the proposed standards, rules and other definition documents coming from UCTE and/or other stakeholders, concerning the operational standards and system interconnection in general, and especially in the areas where market requirements must be taken into account.

At the same time, draft proposals were prepared on the basis of comparative ("peer review") and scientifically sound analysis. The result was the delivery of accurate and valid advice to the European Commission on key aspects of the Operational Handbook. The ERGEG is ready to advise the Commission on the preparation of possible "fourth Guidelines" on minimum safety and operational standards for the use and operation of the network, should the Commission decide to introduce any such guidelines under (Article 8) of Regulation 1228/2003.

Balancing markets

In 2004, regulators (through the CEER) undertook preparatory work (i.e. an internal report containing a detailed comparative analysis) of electricity balancing systems in Europe. The ERGEG took over this work in 2005 with a focus on transparency and aspects of merging/harmonisation (security and reliability Guidelines - Article 8 of the Regulation). This is expected to result in 2006 in Guidelines for Good Practice on Electricity Balancing. In addition to this, ERGEG's work will be extended with the discussion of a more formal framework concerning balancing markets and especially inter-dependencies between balancing and congestion management.

[5] The Council of European Energy Regulators (CEER) is a not-for-profit association of European Regulators which works closely with the European Regulators' Group for Electricity and Gas (ERGEG).

5. Gas

Introduction

The main areas of work in gas for the ERGEG were the monitoring of the implementation of the Guidelines for Good TPA Practice for Storage System Operators (GGPSSO), and transmission tariffs. Additionally, work carried out by the CEER on gas balancing and the preparation of a Roadmap for a competitive single gas market in Europe were developed into ERGEG public consultation papers in 2005.

Gas storage

On foot of a request from the European Commission, and after an extensive and transparent consultation process, the ERGEG presented to the Commission a set of Guidelines for storage operators which took effect from 1 April 2005. These Guidelines for Good TPA Practice for Storage System Operators (GGPSSO) are designed to set out the minimum requirements for non-discriminatory and transparent access conditions to storage facilities, in line with the gas Directive 2003/55/EC[6].

The ERGEG prepared an initial report Monitoring the Implementation of the GGPSSO which was presented at the Xth European Gas Regulatory Forum (Madrid Forum) in September 2005. This report identified a number of serious concerns with regard to the level of implementation of the GGPSSO across the EU and sought views. A final report on the implementation of the GGPSSO was published in December 2005. This called on all Storage System Operators (SSOs) to implement the GGPSSO without delay and indicated that the ERGEG would do further work on monitoring in 2006. This is with the intention of providing the European Commission with advice on what measures (including the possibility of further legislation) are needed to ensure that access to storage services and facilities is fair and non-discriminatory.

Entry-exit transmission tariff monitoring

At the July 2004 Madrid Forum, the regulators presented the Entry-Exit System Guidelines Monitoring Report, which was based on a check list and roadmap for entry-exit capacity. The report showed a significant move towards entry-exit systems in Member States. In 2005, regulators began work to better understand what drives differences in the tariffs charged by TSOs for use of their networks and started a comparison of "all-in" transmission tariffs for standard consumption patterns.

The work has focused on a benchmarking of the tariff structures and levels of various TSOs, and also on costs of the networks. First benchmark calculations were carried out on tariff structures and levels. An efficiency benchmarking model is being developed with the support of external consultants. Interim results were discussed with stakeholders in 2005 and a final report will be delivered in 2006.

Gas balancing principles

Regulators, in the Council of European Energy Regulators (CEER), have been working during 2005 on the way in which gas balancing regimes work across the EU. This gave rise to an ERGEG public consultation on Gas Balancing in July 2005 (for further details, see the CEER Annual Report 2005). Detailed Guidelines for Good Practice for Gas Balancing will be developed in 2006.

Roadmap for a competitive single gas market in Europe

In September 2005, the ERGEG presented an introductory gas Roadmap at the Xth Madrid Forum. This was developed into a *Roadmap for a competitive single gas market in Europe. An ERGEG Discussion Paper* which was launched for public consultation in late 2005. The paper describes the current state of European gas markets and regulators' views of the eventual goal of a competitive single European market for gas. It sets out priorities and a process for making practical improvements to European gas markets (interoperability, TSO co-operation, gas balancing and maximization of available capacity). Following the public consultation process, the ERGEG will launch a Gas Regional Initiative (GRI) by end April 2006.

[6] Directive 2003/55/EC of the European Parliament and of the Council of 26 June 2003 concerning common rules for the internal market in natural gas and repealing Directive 98/30/EC.

6. Customer Issues

Introduction

One ultimate objective of the liberalisation process is to enable choice of suppliers for final customers. Directive 2003/54/EC (the electricity Directive)[7] and Directive 2003/55/EC (the gas Directive) establish the final dates for the various stages of market opening (July 2007 for all electricity and gas customers) and also emphasize, among other goals, the protection of small and vulnerable consumers. The ERGEG considers customer issues to be very important and consequently created a Customer Focus Group (CFG) at the beginning of 2005. During its first year of operation the CFG undertook to review the major issues affecting customer protection, customer switching and price transparency in the retail electricity and gas markets. At a workshop in Helsinki in October 2005, the ERGEG engaged in an open dialogue with representatives from customer watch-dog associations and industry associations on its findings on these customer issues.

Customer protection

The Customer Protection report touches, among other things, upon commercial quality of supply, dispute settlement, supplier of last resort and how Member States (which participated in the survey) manage these issues. It is worth noting that many countries do not have official standards for commercial (or customer service) quality. Furthermore, the standards are very country-specific and vary greatly across different countries. In most of the countries which replied to the questionnaire, suppliers must ensure the public availability of the terms of sale, prices, pricing principles and other contractual terms. There are similar basic approaches to dispute settlement and in the majority of cases, the energy regulators have a role in dispute settlement.

As regards the issue of the supplier of last resort, in most countries surveyed, the local distribution company or the incumbent supplier is the one who has an obligation to take care of supply for all customers in the network area. The terms of the service are usually regulated. Not all countries have special provisions concerning the supply to vulnerable customers and in these cases, state social assistance is used as a form of economic last resort to help such customers to pay for their energy bills. Another issue related to the supplier of last resort is the supply to default customers, i.e. eligible customers who do not choose. In most of the countries who replied to the questionnaire, eligible customers who do not use their option to choose a supplier automatically continue to be served by the local supplier.

Customer switching

The Customer Switching Process report covers the rules and practices characteristic of the customer switching processes. There are large differences between the levels of switching activity. Despite many similarities between the switching processes across countries, some key differences relate to the time it takes to switch; the number of parties who need to be contacted by the customer in the event of a switch; the ability of the customer to switch at a suitable time without the need for additional meter readings; the capabilities of the switching process IT infrastructure; the quality of consumption/load profiling and essential switch-related information and its availability to competing suppliers. The report also identifies a number of apparent obstacles to switching including incumbent (e.g. supplier of last resort and default supplier) privileges, obstructive practices and the regulation of end-user prices.

Transparency

The Transparency report examines in a detailed manner issues relating to the transparency requirements of energy prices, bills and contracts. Findings of the report highlight that the degree of market opening affects price transparency. Additionally, many types of prices (regulated prices, incumbent list prices, offer prices etc.) exist and the requirement to publish prices is a critical issue affecting transparency. This is also the case with access to price information and the availability of tariff-related information. The report also addresses the legal framework governing the transparency of bills including aspects such as the itemization of bills and the separation of energy and network prices and charges.

[7] Directive 2003/54/EC of the European Parliament and of the Council of 26 June 2003 concerning common rules for the internal market in electricity and repealing Directive 96/92/EC.

Issues in 2006

In 2006, the ERGEG shall build on the work launched in 2005 to develop best practice propositions on customer protection, customer switching and price transparency. It will also address end-user energy price regulation, pre-contractual information, automated meter reading and supplier switching obstacles in the gas retail market. The issue of vulnerable customers in South East Europe is a new area of work for 2006.

7. Reporting Activities

Under the electricity Directive 2003/54 (Article 23) and gas Directive 2003/55 (Article 25), national energy regulatory authorities are required to publish an annual report on the outcome of their monitoring activities related to the functioning of electricity and natural gas markets. The European Commission is also required to submit to the European Parliament and the Council an annual report concerning the application of the above mentioned directives and a detailed report outlining progress in creating the internal electricity and gas markets.

A strong collaborative activity between DG TREN and regulators already existed on the European Commission's annual benchmarking report on the implementation of the electricity and gas internal markets. In order to ensure appropriate coherence and consistency among the national reports, the Commission invited the ERGEG to:

- agree on a common structure for all national reports;
- coordinate the preparation of the national reports, namely ensuring the consistency of the data provided;
- co-operate in the analysis of the individual reports in order to enable an overall assessment of the functioning of the internal energy market.

The ERGEG assisted the European Commission in preparing a structure for reporting at the national and European levels, and identifying the relevant indicators and statistics to be used while the national regulatory authorities collected the data and executed the quality control. ERGEG also assisted the European Commission in the interpretation and analysis of the national data.

In November, in conjunction with the launch of the Commission's report on progress in creating the internal gas and electricity markets, the ERGEG published on its website both the individual national reports and an ERGEG Preliminary Assessment of the European Energy Market. These reports by the regulators complement and should be read in conjunction with the Commission's own progress report (Report on progress in creating the internal gas and electricity market).

The following critical key factors are identified in the ERGEG report as delaying or hampering the development of more efficient and integrated electricity and gas markets in Europe:

- inappropriate or insufficient legal and/or regulatory provisions:
  - unbundling provisions have not been implemented in accordance with the spirit of the Directives;
  - legal provisions prevent effective regulation of the network companies and/or incumbent market players, by being too detailed or prescriptive.
- excessive market power:
  - the lack of new entry by non-incumbents and the slow development of cross-border competition suggest that market power on the wholesale level is still significant in many Member States;
  - there are encouraging switching rates in several Member States but also significant difference between large and small customer markets;
  - the concentration ratio on retail markets is above 70% and at the same time very few really independent suppliers have successfully entered the market;
  - keeping regulated end-user tariffs impedes the development of retail competition and weakens consumer confidence in the competitive market;
  - gas competition is practically impossible in many Member States because of the lack of wholesale gas supplies available to new entrant retailers;
  - also in electricity, new entry is hampered which has the effect of strengthening the market position of the incumbents;
  - there are high concentration ratios in the natural gas markets in combination with a lack of organized trading facilities;
  - there is a lack of efficient and non-discriminatory access to transport infrastructure;
  - there is a lack of transparency concerning electricity generation and also the transport (transmission) systems in gas and electricity;
  - there is a lack of regional integration, which could be a key remedy for high concentration levels at the national level.

- insufficient independence and/or capacity of regulatory authorities.

The ERGEG welcomes the clear message in the European Commission's 2005 progress report that energy regulators must be given clear responsibilities in national legislation and sufficient authority in order to fulfill their tasks. It is the ERGEG view that energy regulatory authorities must have the powers and resources to:

- exercise appropriate regulatory oversight (and control, where appropriate) over key rules which may influence the operation of the (national and, where appropriate, regional) market;
- monitor activity within the market (including having information-gathering powers), notably in order to detect regulatory non-compliance and to assess the success of liberalising measures;

Furthermore, energy regulatory authorities must:

- be empowered to impose sufficient sanctions to deter and penalise non-compliance;
- within their regulatory competences, be sufficiently independent to drive forward the liberalisation agenda agreed by national governments;
- be independent of governments in exercising their regulatory powers. In some Member States key regulatory decisions are taken (or subject to overrule) by governments. Such government control risks undermining economic principles and bringing regulatory uncertainty to the market, inhibiting investment and market confidence;

Besides fulfilling their legal duty, energy regulatory authorities wish to provide reliable, objective and useful sources of information to the European institutions, Member States, energy consumers and all interested stakeholders. Thus regulators individually and through the European Regulators' Group for Electricity and Gas (ERGEG) will continue to work with the European Commission in improving the national reports for the years ahead.

8. The ERGEG and the Council of European Energy Regulators (CEER)

Energy regulators have for several years been advocates of the liberalisation process and, alongside the European Commission, have taken a lead role in the establishment of the European Electricity (Florence) and Gas (Madrid) Regulatory Fora. Even before the constitution of the ERGEG, European energy regulators provided advice to European Commission (principally DG TREN) outside any formal framework.

European energy regulators had already joined ranks, through an independent association, called the Council of European Energy Regulators (CEER), to foster the creation of competitive, efficient and sustainable internal markets for electricity and gas. As witness to this work, the European Commission formally established the European Regulators' Group for Electricity and Gas (ERGEG) in November 2003 to put the work of regulators on a more formal footing and to create a transparent platform for co-operation between energy regulators and the Commission.

While the ERGEG is the route by which European regulators provide formal advice to the European Commission, the CEER will continue to provide advice on other relevant issues through the development of policy positions on Internal Energy Market matters. In this way regulatory co-operation and co-ordination should flourish and hopefully lead to an appropriate regulatory framework that supports the practical and consistent implementation of the legislative framework which is necessary for the realisation of a single energy market.

While many of the members are common to the two bodies, there is a clear distinction between the ERGEG and the CEER. There is in no duplication of work by Regulators across the ERGEG and the CEER, with each having separate working groups (which in the ERGEG are called Focus Groups) and they work to separate work programmes. For full details of the work of CEER and the ERGEG, see the work programmes and further information on their activities on the websites **www.ceer-eu.org** and **www.ergeg.org** respectively.

CEER itself does not engage in public consultation. Instead, papers initiated by CEER which are deemed by the ERGEG and the European Commission to be of wider general interest, may be channelled as discussion papers through the now established ERGEG public consultation process and the Florence and Madrid Fora as appropriate. Several examples of this are already mentioned in this report.

Appendix 1: The ERGEG's performance against 2005 deliverables

Description of Action/Issue	Expected Deliverable	Outcome
Electricity system operation	Discussion & position on UCTE Operational Handbook (OH)	ERGEG Position and Recommendations on the UCTE Operational Handbook. This was presented at the XIIth European Electricity Regulatory (Florence) Forum (September 2005).
	Comparative analysis of the operational rules in: UCTE, Nordel, UKTSOA, ITSOA	Inputs to the European Commission on minimum safety and operational standards for the use and operation of the network. This work will continue in 2006.
	Development of Guidelines for Good Practice on electricity balancing markets	ERGEG Position on Balancing Mechanisms Compatibility, distributed at the XIIth Florence Forum (September 2005). This work will continue in 2006 in the form of Guidelines for Good Practice on electricity balancing markets.
	Compilation and presentation of the results of congestion management "mini-fora" ERGEG proposal to the European Commission on congestion management guidelines	Formal advice to the European Commission, by way of ERGEG Guidelines on congestion management, July 2005. The process included a public consultation and a public hearing.
Cross border trade and Inter TSO Compensation (ITC)	ERGEG proposal to the European Commission on draft ITC Guidelines	This work continues into 2006.
	ERGEG proposal to the European Commission on draft Guidelines on tariff harmonisation	Formal advice to the European Commission by way of ERGEG Guidelines on transmission tariffication, July 2005. The process included a public consultation and a public hearing.
Electricity regional markets	ERGEG Electricity Roadmap public consultation paper	*The Creation of Regional Electricity Markets an ERGEG Discussion Paper for Public Consultation, June 2005.* This was presented at the XIIth Florence Forum. This work continues in 2006 by way of the launch of Electricity Regional Initiative (ERI).

Description of Action/Issue	Expected Deliverable	Outcome
Guidelines for gas storage	Introduction and subsequent monitoring of Guidelines for Good TPA Practice for Storage System Operators (GGPSSO)	*ERGEG Guidelines for Good TPA Practice for Storage System Operators (GGPSSO)*, March 2005, were adopted with effect from 1 April 2005. An interim report was presented at the Xth Madrid Forum (September 2005). The final 2005 ERGEG report on Monitoring the Implementation of the GGPSSO was published in December 2005.
Gas balancing	ERGEG Position Paper on Gas Balancing Rules	Gas Balancing: An *ERGEG Discussion paper* for Public Consultation, July 2005. This was presented at the Xth Madrid Forum (September 2006). This work will continue in 2006 in the form of Guidelines of Good Practice on gas balancing. Recommendations for common tariffication rules for cross border gas flows and a more harmonised approach for cross border trade.
Customer issues	Reports on Customer Protection, Customer Switching and Transparency	The findings of the questionnaires to ERGEG members were presented in the form of three reports: ■ *ERGEG Report on Customer Protection, September 2005;* ■ *ERGEG Report on the Customer Switching Process, September 2005;* ■ *ERGEG Report on Transparency of Energy Prices, Bills and Contracts, September 2005.* This work continues in 2006 in the form of best practices propositions.
The new reporting requirements imposed on the European Commission and the Member States under the Directives and Regulations in 2005 and beyond	National country reports and coherent follow up for input into the European Commission's report	National Reports of each of the energy regulatory authorities of the the Member States and Norway, November 2005. A Preliminary Assessment of the European Energy Market by the European Regulators Group for Electricity and Gas (ERGEG), November 2005.

Appendix II: 2005 ERGEG Reports, Studies and Position Papers

Note: All the public documents referred to in this ERGEG Annual Report 2005 can be downloaded from the ERGEG website: www.ergeg.org.

ERGEG Reports and Papers

- ERGEG Guidelines for Good TPA Practice for Storage System Operators (GGPSSO), March 2005.
- ERGEG Global Assessment of the Results of the 1st Series of Mini-fora on Congestion Management and Potential Impacts on the Draft Guidelines, March 2005.
- The Creation of Regional Electricity Markets – An ERGEG Discussion Paper for Public Consultation, June 2005.
- ERGEG Guidelines on Transmission Tariffication, July 2005.
- ERGEG Guidelines on Congestion Management, July 2005.
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Appendix III: Membership of the ERGEG

Members

Austria	Energie-Control GmbH (E-Control)
Belgium	Commission de Régulation de l'Electricité et du Gaz (CREG)
Cyprus	Cyprus Energy Regulatory Authority (CERA)
Czech Republic	Energy Regulatory Office (ERU)
Denmark	Danish Energy Regulatory Authority (DERA)
Estonia	Estonian Energy Market Inspectorate (EEMI)
Finland	Energy Market Authority (EMV)
France	Commission de Régulation de l'Energie (CRE)
Germany	Federal Network Agency for Electricity, Gas, Telecommunications, Posts and Railway (BNetzA)
Greece	Regulatory Authority for Energy (RAE)
Hungary	Hungarian Energy Office (HEO)
Ireland	Commission for Energy Regulation (CER)
Italy	Italian Regulatory Authority for Electricity and Gas (AEEG)
Latvia	Public Utilities Commission (PUC)
Lithuania	National Control Commission for Prices and Energy (NCC)
Luxemburg	Institut Luxembourgeois de Régulation (ILR)
Malta	Malta Resources Authority (MRA)
The Netherlands	Office of Energy Regulation (DTe)
Poland	The Energy Regulatory Office (ERO)
Portugal	The Energy Services Regulatory Authority (ERSE)
Slovakia	Regulatory Office for Network Industries (URSO)
Slovenia	Energy Agency of the Republic of Slovenia (AGEN)
Spain	The National Energy Commission (CNE)
Sweden	Swedish Energy Agency (STEM)
United Kingdom	Office of Gas and Electricity Markets (Ofgem)

Observers:

Bulgaria	State Energy Regulatory Commission (SERC)
Iceland	Orkustofnun
Norway	Norwegian Water Resources & Energy Directorate (NVE)
Romania	Romanian Electricity and Heat Regulatory Authority (ANRE)
Romania	National Regulatory Authority in Natural Gas Sector (ANRGN)
Turkey	Energy Market Regulatory Authority of Turkey (EMRA)

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