



# **ERI Coherence and Convergence Report - An EREG Conclusions Paper**

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## **1 Introduction**

### **1.1 Background and purpose of this paper**

1. On 18 July 2007, ERGEG launched a public consultation on a report on coherence and convergence across the seven Regional Energy Markets (REMs) of the Electricity Regional Initiative (ERI) and the convergence to a single market in due course. The report provided an overview of the overall progress within the REMs that were established in order to accelerate electricity market integration at regional level. In the report, ERGEG invited stakeholders to answer specific questions and to provide their own view on the progress achieved.
2. This Conclusions Paper recaps the main conclusions of the ERI Coherence and Convergence Report. It provides an overview of responses received as well as the general feedback received from the stakeholders participating in the public consultation. Finally, the Conclusions Paper provides some insights on the way forward and how ERGEG intends to address the stakeholders' main concerns.

### **1.2 Recap of ERGEG consultation paper**

#### **1.2.1 Considering coherence and convergence**

3. Broadly speaking, the descriptions and assessments from Chapter 2 of the ERI Coherence and Convergence Report indicate that approaches in each region are compatible with the eventual development of the single market. That is, most regions have chosen to address similar topics and as far as details are available, have chosen to address them in similar ways. Moreover, approaches for congestion management are underpinned by the Congestion Management Guidelines. Nevertheless there are a number of areas where potential obstacles to overall market integration could arise.

#### **1.2.2 Capacity calculation**

4. A number of regions are addressing the question of capacity calculation across the relevant region, although regional common models are yet to be developed by TSOs. This will need to be addressed given the requirements of the CM Guidelines concerning regional common models.

5. Capacity calculation using load-flow based methods for day-ahead timeframe is the route taken by the 'central' regions and on this basis would point to a reasonable degree of convergence where networks are meshed. Regions peripheral to the 'central' regions are beginning to address the questions but have not defined approaches to solutions yet, generally because they have less meshed networks and therefore less direct need to address these questions. Nordic countries have applied a common transmission network model since the 1990's.

### **1.2.3 Long term and medium term capacity allocation**

6. The current status quo of explicit auctions for the allocation of long and medium term capacity allocation will be for the near future in Europe. An exception is the Northern region where available long term hedging instruments are separated from the physical capacity of the network. Long term financial hedging instruments are available in the form of financial forward contracts and contracts for difference for different time frames up to three years ahead.
7. Several projects on harmonisation are under development in the regions focusing the target for a harmonised and improved set of auction rules for long and medium term capacity allocation. Regions that are addressing this topic appear to be doing so in reasonably coherent manners. Challenges in terms of the use of explicit auctions therefore will include the form of auction and the auction platform used. It will also be necessary to harmonise and improve the characteristics of allocated products (firmness, compensation scheme, hourly/daily, quarterly or only monthly, etc).
8. An important challenge for enhancing the efficiency of long and medium term allocations in Europe is also to agree on a single interface and single platform. Further convergence may necessitate appropriate market design harmonisation (cf. 10 January 2007 CE paper DG Competition report on energy sector inquiry<sup>1</sup>). It also raises the question of the regulation of the auction office, PXs or interconnector operator.

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<sup>1</sup> <http://ec.europa.eu/comm/competition/sectors/energy/inquiry/index.html#final>

#### **1.2.4 Day-ahead**

9. Approaches in terms of the day-ahead allocation of capacity are converging, with day-ahead implicit auctions in general being the preferred approach as being the most efficient. A particular issue that arises in terms of convergence is therefore the extent to which neighbouring regions or countries in two or more regions might participate. For pragmatic reasons, a stepwise approach should be privileged with, as a first step, implementation of market coupling arrangements in a limited number of countries, followed, as a second step by a progressive extension at regional level. For this purpose, the market coupling algorithm solution and the institutional framework that will be developed in the first step should be kept as flexible as possible in order to make future extensions easier. In the long run, a more centralised approach like the Nordic market's splitting may appear more efficient.

#### **1.2.5 Intra-day**

10. Except in the Nordic countries, at most of the French interconnections (French-Belgium, French-German, French-Swiss and French-Spanish borders), and at the German-Swiss border, and partly at Czech borders, no intra-day allocations are in place. Where this issue has been addressed and new intra-day mechanisms are planned to be implemented, continuous trading platforms have been opted for.
11. Further convergence may necessitate appropriate market design harmonisation (cf. 10 January 2007 CE paper).

#### **1.2.6 Balancing**

12. Integration of balancing markets is of crucial importance for integration of electricity markets. However, balancing market integration has not been targeted as a first priority issue by many regions that are not really stimulated to do so since the principles of the guidelines for Balancing Market Integration are not yet binding. Those regions that plan to address this topic have not yet set out details about how national markets might be better integrated. In principle coherence at the EU level is pursued since the topic is being addressed in a manner consistent with the ERGEG guidelines on balancing market integration.

13. ERGEG guidelines of good practice exist for balancing market integration and further work on the interrelationship between balancing market, intra-day market and automatically activated reserves is planned to continue in 2008 to consider further in principle how national markets might better be integrated. Further convergence may necessitate appropriate market design harmonisation (cf. 10 January 2007 CE paper).

### 1.2.7 Transparency

14. Quick and coherent implementation of the existing transparency requirements is important. Regions that have identified transparency as an issue to be pursued are addressing it in terms of the Congestion Management Guidelines and the ERGEG guidelines of good practice on information exchanges and transparency, and this should produce a reasonable degree of coherence of approach across the EU.

15. Nevertheless a few regions have chosen not to pursue this topic immediately and to that extent there is a risk that differences in wholesale market transparency appear across the EU, if the provisions not covered by the Congestion Management Guidelines do not become binding soon.

## 2 Responses received

16. The ERGEG consultation closed on 14 October 2007 and 16 responses were received, one of which was confidential. Table 1 lists the respondents. All non-confidential responses have been published on the ERGEG website. ERGEG would like to thank all these organisations for their valuable contribution towards coherence and convergence issues in the electricity market.

17. A synthesis of the comments received has been prepared and is also published (*ERGEG Public Consultation on ERI Coherence and Convergence Report* : [http://www.ergreg.org/portal/page/portal/ERGEG\\_HOME/ERGEG\\_PC/ARCHIVE1/ELECTRICITY/ERI%20Convergence](http://www.ergreg.org/portal/page/portal/ERGEG_HOME/ERGEG_PC/ARCHIVE1/ELECTRICITY/ERI%20Convergence))

**Table 1 – List of respondents**

Respondents		Country
<b>CEZ</b>	Czech electricity company	Czech Republic
<b>Eesti Energia</b>	Estonian electricity company	Estonia
<b>EFET</b>	European Federation of Energy Traders	EU
<b>E.ON AG</b>	German energy company	Germany
<b>ETSO</b>	European Transmission System Operators	EU
<b>Eurelectric</b>	Union of the Electricity Industry	EU
<b>EuroPEX</b>	Association of European Power Exchanges	EU
<b>GEODE</b>	The association of European independent distribution companies of gas and electricity.	EU
<b>IFIEC</b>	International Federation of Industrial Energy Consumers	EU
<b>National Grid</b>	UK TSO	UK
<b>Nordenergi</b>	Cooperation of Nordic Energy Industry Associations	Nordic
<b>Powernext</b>	French power exchange	France
<b>Vattenfall Europe Transmission</b>	A German TSO	Germany
<b>VEOE</b>	Association of Austrian Electricity sector	Austria
<b>VERBUND-APG</b>	Austrian TSO (part of a vertically integrated electricity company)	Austria
<i>Confidential</i> <b>ENEL</b>	Italian electricity supplier	Italy

### **3 Insight from the public consultation and ERGEG views**

#### **3.1 General comments**

18. The consultation on coherence and convergence was welcomed by the parties as illustrated by the high number of responses received. Stakeholders expressed their general appreciation for the ERGEG ERI process and agreed that priorities and solutions adopted in each of the ERGEG ERI regions need to be coherent with each other to enable convergence of the single market.
19. In this respect, the ERGEG Regional Initiatives are seen as an instrumental tool and should play a major role in fostering regional integration. It is also widely recognised that regional markets will pave the way for an integrated pan-European market provided that they do not diverge.
20. Most respondents showed their full support for the Commission's and ERGEG's view that a regional approach is a "practical and achievable way of delivering progress on the move towards a single electricity market". They also declared their full support to the pragmatic and step-by-step approach adopted by ERGEG in its position paper on the ERI coherence and convergence.
21. Stakeholders highlighted that since the Regional Initiatives were launched important progress has been made in managing access to European interconnections. However, it is also noted that results vary from one region to another. Concern has therefore been expressed about the potential increase of gap between regions.
22. As regards the possible reasons for delays, IFIEC considered that several regions adopted different action plans that include certain deadlines for proposals and for implementation of different measures. IFIEC notes that these deadlines have in many cases not been met by the parties involved, mostly TSOs and PXs. Regulators are therefore invited to pressurise the parties involved as well as to publicise the names of organisations failing to provide their full support to the process.



23. Many respondents also highlighted the crucial role that ERGEG will have to play in coordinating their regional initiatives. Some stakeholders also invite ERGEG to foster even further cross-regional coordination by issuing recommendations and identifying best practices as a basis for the development of compatible and sufficiently harmonised solutions for all regions, following discussions with all involved stakeholders.
24. As political support is seen as crucial to speed up progress in regions lagging behind, some respondents invite ERGEG to actively seek dialogue with Member States.
25. In some responses, stakeholders identified obstacles that might delay further progress in the development of Regional Initiatives. The absence of “an overarching oversight of interregional coordination” able to define priorities is considered by some respondents as one of the major hindrances for progress (e.g. for market coupling).
26. In addition, some respondents considered that going a step forward might require stronger pan-European harmonisation of some basic features of national wholesale markets such as spot market design (e.g. time frames) and balance responsible arrangements.
27. Linking the coordination and harmonisation issues, some stakeholders note that cross-regional coordination is also a basic condition to harmonise the regulatory frameworks of countries belonging to the same regional market, in a way that allows market participants to operate in a truly level playing field without discriminatory (legal) limitations among competitors. In addition, there is also a need to harmonise the roles and responsibilities of different market actors in a regional and ultimately European environment. Harmonisation of regulators’ competences is seen as especially important for ERI to progress.

### **3.2 Capacity calculation**

28. The Coherence and Convergence Report indicated that the calculation of cross border transmission capacities using load-flow calculations based on a common network model is an essential contribution for maximising available transmission capacities under secure network conditions. Current practices consist of calculations between neighbouring TSOs with different levels of coordination.

29. Several initiatives are in progress and the common denominator of those new improvements is the new CM guidelines (article 3.5) that require the use of a common transmission model.
30. Respondents consider that current methods for capacity calculation are not transparent, and that this transparency would increase the confidence of the market in published values. Key input assumptions, such as reference base cases, need to be transparent.
31. Transmission rights of longer maturity are crucial for several market players. One respondent from the Nordic market indicates that there is no need for long term capacity rights.
32. Concerning flow-based capacity allocation, PTDF values, BC capacities and the applied methodology need to be published. One respondent indicates that, if a PTDF model is used, a computer model for network analysis should be proposed. Another respondent indicates that, in some implementation scheme of PTDF, some methods may imply that cross-border day-ahead capacities forecast would not be available anymore.
33. One respondent indicates that flow-based allocation should be used for implicit auction in day-ahead.
34. More generally, respondents have further indicated that uncertainty linked to the location of injection and demand and increased wind generation constitute major difficulties for the implementation of improved and coordinated calculation methods. Harmonisation between regions is also considered important by several respondents. In particular, in cases of flow-based allocation, capacity calculation methods should be harmonised not only within but also between regions, especially between the Central East and the Central West regions.
35. ERGEG appreciates that the respondents' views on capacity calculation support the analysis of the Coherence and Convergence Report. ERGEG also shares most respondents' concerns regarding lack of transparency in current calculation methods.

### **3.3 Long and medium term capacity allocations**

36. The report sought views in relation to differences in current auction procedures as well as in the auctioned products. It was also asked to what extent the harmonisation of auction procedures and products could contribute to a convergent development.
37. Respondents considered the harmonisation of auction procedures and products as an important improvement of present capacity allocation systems. Most respondents were in favour of harmonisation as they consider the actual complexity and variety in auction platforms or rules as a potential deterrent to cross border market entry, especially for smaller or distantly situated new entrants.
38. Most stakeholders, including traders, producers and power exchanges, shared the view that the harmonisation of procedures and products for capacity allocation per region could contribute to the development of cross-border competition on a European level. The ultimate effect would be lower transaction costs for market players with a positive impact on market liquidity.
39. A dissenting opinion was expressed by ETSO, who considered that the harmonisation of auction procedures contributes only to a limited extent to convergent development. According to ETSO, the harmonisation of spot markets should deliver higher benefits. Some respondents, however, point at the difficulties of harmonisation in market design and recommend a step by step approach.
40. A number of market players also highlighted that it is particularly important to harmonise the degree of firmness of capacity with a view of reducing trading risks. In their view, harmonisation of product specifications would also increase liquidity of secondary market in transmission capacity rights. However, harmonisation of present rules is mainly seen by operators only as a preliminary step towards full market integration achievable by implementing market coupling with financial transmission rights (issued by TSOs) hedging.
41. The report asked about the implications of the potential coexistence of physical transmission rights (PTR) and financial transmission rights (FTR) on different borders. In

particular, stakeholders were asked to comment on how this could affect the degree of hedging for market players who wish to or must trade over more than one interconnection. Only a few respondents commented on this issue.

42. EFET could not identify any obvious conflict in the co-existence of PTRs and FTRs where some borders are subject to day-ahead implicit auction and some are not. According to EFET, FTRs like PTRs must be issued by TSOs as fully firm rights exchangeable for financial compensation in market coupling processes, right up to the day-ahead gate closure time. This implies that both PTRs and FTRs should be issued and traded in the same way, and fully harmonised in terms of contractual structure.
43. EuroPEX considered that the co-existence of PTRs and FTRs is possible provided that a full contractual harmonisation is foreseen (same firmness, same issue and trade procedures).
44. Conversely, according to one respondent, PTRs and FTRs might hinder effective market integration while a uniform use of FTRs could allow operators to manage their portfolio more efficiently.
45. ERGEG welcomes the positive feedback on the ongoing initiatives towards harmonisation and improvements of explicit auction procedures. ERGEG also acknowledges that further development might require compatibility in market designs especially if, as pointed out by some respondents, convergence is towards implementing market coupling with FTR (issued by TSOs) hedging.

### **3.4 Day-ahead allocations**

46. The report reviews the methods of day-ahead capacity allocation used and concludes that:
  - implicit auctions are more efficient than explicit auctions and should be the target mechanism for all regions;
  - regions seem to be heading for implicit auctions, in a couple of cases via a stage of increasingly coordinated explicit auctions.

47. The analysis of compatibility of different day-ahead capacity allocation methods indicates that basically different explicit auction methods as well as explicit auctions and implicit auctions on different interconnectors are mutually compatible. However, concrete differences might imply potential obstacles. Coexistence of different methods of implicit auctions requires a high degree of harmonisation of gate closure times, “algorithms” and products, while in principle market splitting, market coupling and flow-based market coupling might be compatible.
48. The market coupling principle of volume coupling might be a flexible, transitional solution on the way to harmonised “price coupling”.
49. Finally the report addresses the governance aspects of PXs engaged in day-ahead implicit auctions and proposes further analysis concerning the need for convergence, including convergence of regulatory aspects.
50. Generally the views expressed on day-ahead market coupling converge to a high degree. These views basically support the analysis of the report. Most respondents believe that day-ahead NTC-based allocations and day-ahead flow-based (PTDF) allocations can coexist on different interconnections, but basically as a transitional solution. Some explicitly call for flow-based solutions in the long run. One sees NTC as a fall back option even in a flow-based solutions, when data access temporarily fails. Another respondent generally questions the added value of flow-based methodologies compared to NTC-based. One calls for introduction of day-ahead NTC-based implicit auction without delay, waiting with the more complicated PTDF based solutions until a later stage.
51. All respondents having addressed the issue of coexistence between market coupling and market splitting find that they can coexist – as experiences already show. The two methods basically give the same results. A couple of respondents point to the advantage of market coupling in allowing efficient trade between different markets with different designs, however regarding market splitting as more efficient. There is a tendency among respondents to regard coexistence of day-ahead market coupling and market-splitting as a transitional situation on the road to one common European system – probably with one common PX (and market splitting). One respondent stresses that market coupling must be supported by countertrade to handle temporary congestions and another addresses the

question of “overlapping regions” and calls for use of a model with European “Dome Coupler” and hierarchical market coupling.

52. Generally the respondents believe that full – or a high degree of – harmonisation is needed when linking or merging regions using implicit auctions. Linking without full harmonisation is only possible by use of explicit auctions. One points to “sequential market coupling” as a second best option. Another regards – conversely - a general agreement on implicit auctions as the preferred allocation method for day-ahead allocation as a most important driver for general harmonisation. One respondent calls for an extended use of redispatching and limiting the use of implicit auctions to a few severe structural congestions.
53. All respondents who have addressed the issue regard volume coupling as an option for a transitional period. One seems to have great expectations in relation to volume coupling – even in the long run. This respondent finds it important to analyse how close actual results of volume coupling versus price coupling will be, while others explicitly regard price coupling as the longer term solution.
54. Few respondents addressed the question of PX governance. One, however, questions the view of the report that implicit auctions give PXs a monopoly position in relation to utilisation of transmission capacity.
55. Despite some diverging views on more detailed questions, the main views of respondents are quite similar and basically support the analysis of the report. The longer term goal of day-ahead capacity allocation is some version of a pan-European market splitting system based on one common power exchange. The road map from the present situation will include various converging steps according to point of departure including:
- Increased coordination of day-ahead explicit auctions;
  - NTC-based market coupling – initially in the form of flexible volume coupling;
  - PTDF-based market coupling in meshed systems;
  - Gradual merger of power exchanges for physical spot trade and establishing market splitting.
56. All initiatives taken should take into account this road map to avoid incompatibilities and “stranded” costs.

### 3.5 Intra-day

57. The ERI Coherence and Convergence Report concluded that except in the Nordic countries, at most of the French interconnections (French-Belgium, French-German, French-Swiss and French-Spanish borders), and at the German-Swiss border, and partly at Czech borders, no intra-day allocations are in place. Where this issue has been addressed, regions have opted for planning to implement continuous trading platforms. Further convergence may necessitate appropriate market design harmonisation (cf. 10 January 2007 CE paper).
58. The report sought views as regards intra-day trading platforms: whether continuous trading platforms should be pursued and its optimal geographical scope. The report also asked about the convenience of setting up one or more intra-day platforms over the same territory and who should offer this service (TSO, PX, other).
59. Most stakeholders welcome the idea of continuous intra-day platforms. Nevertheless, ETSO stated that “continuous trading might be inappropriate due to specific conditions in some regions” and EuroPEX specified that “it may also be valuable to explore other options such as a combination of a series of implicit auctions each followed by continuous trading implicit allocation session”.
60. As for the optimal geographical scope of the continuous intra-day platforms, the answers are very diverse. The range goes from price area, to national, regional and Europe-wide scope. Some answers specify the scope in terms of the underlying day-ahead market or control areas.
61. Most stakeholders think that several competing intra-day platforms may be detrimental to liquidity. Two answers prefer to leave this particular question to the market. Only one states clearly that this competition would not be detrimental to liquidity.
62. A majority of responses felt that only PXs should offer this service and that it should be regulated. Emphasis is made on the necessary coordination with TSOs. Only two answers dissent from this position.

63. ERGEG welcomes the growing interest in intra-day trading platforms and its contribution to regional integration. ERGEG also considers that PXs should be in charge of intraday energy trading. With regard to the design of intraday markets, the question is still open, particularly whether it should be necessarily continuous or discrete, or continuous and discrete platforms may rather coexist.

### **3.6 Balancing**

64. The ERI Coherence and Convergence Report concluded that integration of balancing markets is of crucial importance for integration of electricity markets. However, balancing market integration has not been targeted as a first priority issue by many regions that are not really stimulated to do so since the principles of the GGP for Balancing Market Integration are not yet binding.

65. Where this issue has been addressed (Nordic countries and France-UK-Ireland region), regions have opted for implementing a TSO-TSO model based cross-border balancing platform.

66. The report sought views on the potential needs of harmonisation required for further integration of balancing markets (remuneration schemes for balancing bids/ offers, the share of automatically activated reserves and manually activated reserves in the balancing reserves, TSO-TSO and Actor-TSO models) and on the interaction between intra-day and balancing trades.

67. TSOs consider the harmonisation of remuneration schemes for balancing bids/offers (pay-as-bid versus pay-as-cleared) as a pre-requisite for the integration of balancing markets. Opinions are more divergent among producers on this issue, as well as on the need to harmonise the methods which determine the share of automatically activated reserves and manually activated reserves in the balancing reserves procurement.

68. Stakeholders globally agree on the fact that:

- more liquidity in intra-day trading will help reduce balancing needs and,
- where intra-day and balancing markets overlap, TSOs and market players should be treated equally and no capacity should be reserved for balancing needs but



used according to the same terms for both trading products and balancing products.

69. There is no consensus about the possible co-existence of “TSO to TSO” balancing trades with “Actor to TSO” balancing trades and their interaction using a common balancing trade platform. The main limits to the merger of balancing control areas mentioned in the answers are :

- the difficulties in controlling a larger area,
- the management of transmission constraints.

In addition, the answers identified a common generation plant-dispatching model as a pre-requisite to the merger of control areas.

70. The ERGEG ENM task-force is assessing the previous questions and intends to give some recommendations when developing further the Guidelines of Good Practice for Balancing Market Integration. These Guidelines should be finalised by end-2008 or at the very beginning of 2009. In addition, a joint proposal from National Grid and RTE to develop cross-border balancing exchanges between UK and France, based on a TSO-TSO model, should be implemented in mid-2009 with an interim solution implemented from mid-2008. This proposal might allow a good level of compatibility with other markets and could be of great benefit for reciprocal access to balancing markets in the Central-West but also in the South-West and Central-South Regions.

### **3.7 Transparency**

71. In the report it was stated that the guarantee of transparency is one of the most important features for the liberalisation process and needs to be accompanied, monitored and enforced by the regulatory authorities, as such a common approach is of high importance.

72. Possible obstacles for harmonisation of the transparency requirements were identified; such as: different market designs, different market sizes, and different market liquidity levels in the European countries were identified. Also, different definitions of the several information items in the national markets and the current practice of publication (different legal obligations between countries) were seen as a challenge for harmonisation. This point was also mentioned by the stakeholders during the public consultation of the report.

73. The issue of transparency was subject to comments in 11 of the 16 answers from stakeholders. All of these comments stressed the importance of transparency in the electricity markets. Most of them referred to the need for a common level playing field in which all relevant data are available for all market parties equally and in due time. Transparency was considered to be an important topic for the integration of the electricity markets in Europe. On the other hand one comment stated that transparency would be a means of developing trust in the market and of monitoring possible abuse of market power by dominant players. It was stated that transparency should be dealt with as an important issue for further work in all regional initiatives.
74. To assure a common level of transparency and sufficient access to information most of the comments highlighted the need to find harmonised transparency requirements. It was explained that only common definitions of the information that need to be published create a sufficient standard of transparency. It was therefore the common view that harmonised approaches in price zones but also within and among the regions of the Electricity regional initiatives are an essential condition for further work on this topic.
75. In that context, some contributions referred to the approach taken by the Northern REM. The Implementation Group of Transparency developed a detailed list of harmonised definitions of the publication requirements for information on the load, the interconnectors, generation, balancing and wholesale market information according to the rules of the Congestion Management Guidelines but also taking into account the recommendations of the ERGEG Guidelines of Good Practice on Information Management and Transparency in Electricity Markets. This report on transparency also includes the means for its implementation and was subject to consultation with the market and finally published on 24th September 2007.
76. The Northern REM report has also been the basis for the work on the issue of transparency in the Central-West and the Central-East REMs. One respondent encouraged lead regulators of other regions to take this report as a basis for their further work on transparency. The idea of having an identical basis of publication requirements in several countries and regions was seen as the initial step to harmonising the level of transparency in Europe.

77. Based on the approach harmonising the definitions and the publication details, the work should be started also in those regions that are not as yet addressing the transparency issue. The cited Northern REM Transparency Report might provide a good basis for such work. In those regions that have already agreed on the common report, implementation will be the focus in 2008. Additionally, ERGEG is devoting a workstream to the issue of transparency in the year 2008.

#### **4 The way forward**

78. The outcome of the public consultation on the first ERI Coherence and Convergence Report confirms that the ERGEG ERI process constitutes a “practical and achievable way of delivering progress on the move towards a single electricity market”.

79. One of the main concerns expressed by stakeholders in this consultation is that regions are progressing at a different pace, with achievements varying from one initiative to the other. Concern has therefore been expressed about the potential increase of gap between regions, which might seriously hinder the ultimate goal of market integration at European, rather than just regional, level. Stakeholders mentioned a number of reasons that might explain this gap and advocated for an additional ERGEG engagement in cross regional coordination.

80. ERGEG shares the stakeholders’ concerns as regards the existing gap between regions and intends to commit even further to investigating reasons for delays in regional convergence to a single European market and to ensure, as explicitly requested by stakeholders, a cross-regional coordinating role. While striving for improvements in each region, the opportunity to have compatible, coherent and converging developments has to be carefully considered.

81. In order to acknowledge specific regional issues and to find appropriate solutions for each region, with a view to integrating regions, ERGEG will encourage each REM to elaborate action plans that identify obstacles towards the implementation of the congestion management target methods identified in the “ERI Coherence and Convergence Report”, namely:

- a common transmission model with regionally-calculated PTDF matrix, especially for regions with highly meshed networks,
- a single auction platform with harmonised auction rules, IT interface, and products for long and medium term allocation,
- a market coupling model for the day-ahead timeframe,
- an intra-day mechanism, possibly based on continuous trading.

82. On the basis of these identified region-specific obstacles, each RCC will complete its action plan, with all involved parties, explaining for each obstacle which remedies could allow for reaching the implementation of target congestion management methods.

83. ERGEG acknowledges that obstacles might also stem from lack of cross regional coordination with several projects involving overlapping regions competing for resources and effort from all the involved parties. ERGEG therefore intends to foster its oversight of regional action plans with a view to prioritising projects at a cross- regional level, issuing best practices and ensuring overall convergence and the inherent coherence of actions taken at regional level.

84. These more elaborated and cross-regional coordinated action plans will be included in the second ERI Coherence and Convergence Report that will be presented at the XVth Florence Forum. In the meantime, ERGEG will continue to meet with stakeholders who provided responses to the public consultation in order to discuss the main topics of further market integration. ERGEG aims at extensive cooperation and communication between stakeholders and regulators within the context of improving Europe's electricity markets. The 2<sup>nd</sup> RI Annual Conference on 27<sup>th</sup> February 2008 represents an opportunity for continuing such a dialogue.