



ERI Coherence and Convergence Report - Summary of responses received to the public consultation

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1 Background and purpose of this paper

On 18 July 2007, the 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.

This paper provides a summary of responses received as well as the general feedback received from the stakeholders participating in the public consultation.

2 Responses received

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.

Table 1

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

3 Summary of Comments

Issue	Who
General comments	
EREGG Consultation paper is welcomed/the opportunity to contribute to public consultation is appreciated/participants support the development of regional markets as a step towards the internal electricity market	CEZ, E.ON AG, EFET, VEO, ETSO, Eurelectric, EuroPEX, GEODE, Vattenfall, Nordenergi, IFIEC, Pownext, National Grid
More cross-regional coordination to identify best practice and reduce the gap between regions, so inter-regional convergence must be considered constantly	E.ON AG, Eurelectric
Too close and too detailed harmonisation between regions might currently hinder further developments in already advanced regions. Harmonisation between adjacent regions must therefore focus on the essential market elements.	E.ON AG
Latecomers should be assisted by EREGG in speeding up their developments of functioning wholesale markets.	E.ON AG
Regulators should present a common vision of the Internal Electricity market, identify best practices and facilitate visions and methods to enforce gradual convergence of policies	EuroPEX
Going a step forward might require stronger pan-European harmonisation of some basic features of national wholesale markets such as the spot market design (e.g. time frames) and the balance responsible arrangements as well as competences of regulatory authorities	ETSO
Creation of an eighth region for South-East region into the ERI process. Switzerland should be more involved in the regional process.	Eurelectric
Further synergies with stronger involvement of market parties by a positive contribution to the work of the Implementation Group (IG)	Eurelectric
Regulators must pressurise the parties involved in ERI to meet deadlines according to action plan	IFIEC
Increase the dialogue with and the support by the Member States where regulators do not have yet sufficient powers	Eurelectric
Strong need for incentives to increase the interconnecting capacity : ownership unbundling at the transmission level could be a good start	GEODE
Introduction of redispatching mechanisms to manage the lack of capacity in the interconnections	GEODE, IFIEC
Coordinated activities for security of supply and planning of investments for the development of the transmission system are important components for the successful and efficient market integration	Vattenfall
Grid investments in cross-border interconnections or other	IFIEC

Issue	Who
transmission lines that limit interconnection capacity need priority with using auctions revenues	
Support the responses sent by ETSO but addressed some remarks to annexes to the FUI region.	National Grid
Capacity calculation	
In cases of flow-based allocation, the capacity calculation methods should be harmonised not only within but also between regions. The exchanges information with TSOs outside the relevant region	E.ON AG, Vattenfall
Transparency: Calculation methodology, key input data and calculation results need to be transparent to the market./If a PTDF model is used the PTDF matrix should be published. TSOs are willing to consult market participants in order to align the transparency requirements and the market needs with the possible implementation techniques.	E.ON AG, EFET, VEO, ETSO, IFIEC, Eurelectric, EuroPEX
Full support for ERGEG's proposal for a common network model for capacity calculation to maximise available capacities. The PTDF model should be more accurate than the NTC model. By using PTDF model, capacity for trading activity is closer to the real load flow and the reserve margin for loop flows can be reduced.	VEO, GEODE, IFIEC
Flow-based allocations increase the level of ex-ante system security analysis for the entire region. The explicit capacity allocation on a flow-based basis as day-ahead options is seen as an interim solution towards implicit allocation.	ETSO
Irrespective of whether capacity rights are auctioned by TSOs as physical or financial it is important that they provide effective price signals related to the underlying power system.	ETSO
The PTDF-based calculation will not bring more realistic results than NTC-based methods due to uncertainties concerning its sources and drain and about the future topology	Vattenfall
A common model for capacity calculation would fail because of difficulties in the creation of networks model describing the same scenario for all affected TSOs and forecasting errors especially for wind power and scheduled power exchanges for medium and long term	Vattenfall
Many advantages related to flow-based allocation methods but many prerequisites to implement it successfully	Nordenergi
The markets needs publication of network capacity estimates on all time frames (Y-1, M-1, D-1)	Eurelectric
Flow-based should only be used with implicit auctions for the day-ahead	Eurelectric
Developing capacity calculation method does not delay other development i.e. capacity allocation (market coupling)	Nordenergi, IFIEC
Long and medium term capacity allocations	
The explicitly defined and harmonised capacity allocation procedures should be agreed by TSOs and published for whole market area	Eesti Energia AS

Issue	Who
The procedures for capacity allocation must be harmonised especially between regions that are closely interconnected. The same applies to auction products to allow for a more efficient trading and to achieve maximum liquidity on secondary markets. Complexity and variety in auction platforms or rules may deter cross border market entry.	E.ON AG, EFET, ETSO
Long-term physical transmission rights are one possibility to reduce the risk for cross-border trading. There is a clear need for long term transmission rights (one year or longer) for visibility and long term contracts. It's important that terms and rules are harmonised within each region	IFIEC, Eurelectric, Powernext, VEO
As a long-term target a one-stop-shop for traders should be envisaged.	E.ON AG
The need for explicit auctions depends on the structure and liquidity of the market. Where markets are not liquid explicit auctions for mid and long-term maturities are still needed. A harmonisation of this aspect not sensible across the whole of Europe for the time being.	E.ON AG
The issuance and scope to trade in long-term capacity rights are crucial.	EFET
No conflict in the coexistence of PTRs and FTRs as long as some borders are subject to day ahead implicit auction and some are not but FTRs like PTRs must equally be issued by TSOs as fully firm rights exchangeable for financial compensation in market coupling processes.	EFET
The most flexible and efficient cross border congestion management scheme should be based on day ahead implicit auctions to allocate physically available capacity and long term (year ahead, month ahead) financial transmission rights or CfDs to hedge price differentials volatility. FTRs are preferred to PTRs.	EuroPEX
Long-term physical transmission rights are one possibility to reduce the risk for cross-border trading, therefore long term capacity allocation should be available.	EuroPEX
Prefer to have one auction per region. All the procedures would be handled by one operator and the auction rules for all borders would be similar.	VEO
Explicit auctions means temporary solution	GEODE
The use of explicit auction to be an intermediate step towards full market coupling (implicit auctions). There is no need for long term rights (physical or financial) in a well developed power market, there a need for financial instruments e.g. constructs for differences (CfD)	Nordenergi
Explicit auctioning is a transitional method until a single electricity market without borders is realized.	IFIEC
Day-ahead allocations	
The key element to be achieved first is the implementation of market coupling as a key driver for market integration. As a long-term goal price coupling is desirable in all regions.	E.ON AG, ETSO
The preferred solution for cross-border congestion management	Verbund-APG

Issue	Who
implicit auctions involving power exchanges. In the CWE region, TSOs and PXs have developed a vision of how to combine different regional solutions via a European “Dome coupler” which leads to a hierarchical market coupling in two steps all over Europe.	
Day-ahead NTC-based allocations and flow-based allocations can coexist as the introduction of true flow-based calculation and allocation must be a rolling target. NTC-based allocations could be used as a substitute element within a PTDF model in situations where the generation of the flow-based parameters fails.	EFET, ETSO
The coexistence of a flow-based and NTC-based allocation makes no sense because this would reduce the advantage of flow-based allocation.	VEO, Nordenergi, Eurelectric
Market splitting and market coupling can coexist. Competition between power exchanges is currently desirable as is competition between PEXs and OTC trading. Complete harmonisation of the wholesale power market model and probably a corresponding unification of power exchange operations across Europe is required in the long run.	EFET, ETSO, EuroPEX
Depending on the cross-border congestion situation, volume coupling can be an acceptable solution.	EuroPEX
Implicit auction should be a solution exclusively for severe structural bottlenecks.	GEODE
Advantages of market coupling are possible if there is sufficient liquidity in the respective market places of the trading zones.	Vattenfall
Sequential interregional market coupling between homogenous regions is probably the most promising medium term mechanism for interregional coupling.	Powernext
The use of implicit auctions presupposes some degree of harmonisation between the markets: harmonised gate closure times are vital.	Nordenergi, Eurelectric, Powernext
Market coupling and market splitting may coexist as a step towards developing integrated electricity markets.	Nordenergi, Eurelectric
Volume coupling to be an intermediate solution towards price coupling. In any case, it needs to be an iterative process.	Nordenergi
Managing the trend for day ahead implicit auctions there is a risk of having too many initiatives, the risk of an increasing number of parties (consensus harder to find). Ambitious deadlines could be counterproductive.	Powernext
Support to a dynamic extension of implicit auctions. Without the emergence of a single power exchange covering a specific region it would become a real challenge to extend market coupling.	Powernext
Intra-day	
The emphasis must lay on a harmonisation within regions first	E.ON AG
Regions should pursue the implementation of (cross-border) continuous trading platform. Support continuous trading	E.ON AG, EFET, Nordenergi, Eurelectric

Issue	Who
Advocates plug-in, non-exclusive platforms for continuous intra-day trading. Platforms competition will be efficient and not detrimental to liquidity as long as each platform links to the same TSO matrix system.	EFET
An efficient and liquid intra-day platform should be usable for market parties as late as one hour (in some markets even 45 minutes or 15 minutes) before real time, and in this manner should eliminate a significant proportion of existing balancing requirements.	EFET
It may be valuable to explore other options besides continuous trading platforms, such as the combination of a series of implicit auctions each followed by continuous trading allocations sessions.	EuroPEX
The implementation of continuous trading platforms should be actively pursued where its implementation can demonstrate significant incremental cost benefit improvements. The geographical scope should be at least the same as that of the underlying day-ahead market. Whoever offers the service must respect the requirements the TSOs in case of an emergency.	ETSO
Power exchanges should also be the platforms for commercial intra-day products. TSOs should make cross border intra-day trading possible.	VEO, EuroPEX
Misses in the document the discussion of the interaction between congested borders and intra-day markets. Proposes that there is an obligation to integrate intra-day market procedures into the coordinated flow-based allocation systems and link these procedures to the regional auction offices responsible for the regional allocation.	Verbund-APG
Development of several competing intra-day platforms in the same geographical area may be detrimental to the development of liquidity.	Nordenergi
Intra-day markets must be organised in close cooperation with the TSOs and should be regulated.	Nordenergi
The operation of intra-day markets should be provided by power exchanges or brokers and not by TSOs.	Eurelectric
Balancing	
Stress the importance of common balancing procedure. Without common balancing procedures the electricity supply from another MS to end-customer in another country is hardly possible.	Eesti Energia AS
RI currently focuses on transparency and CM, to extend the process to integration of balancing markets would probably slow down the work on the two core issues.	E.ON AG
TSO to TSO balancing could coexist with Actor to TSO balancing trades as long as regulators are satisfied that TSOs have not retained “free options” by reserving cross-border capacity for themselves in case of their mutual balancing needs.	EFET
Apart from the cross-border capacity sharing between intra-day and balancing markets during the time both markets overlap, the interaction is possible to a very limited extent. Intra-day and balancing markets differ significantly and both markets should be operated in parallel, if their trading times overlap.	EuroPEX

Issue	Who
Harmonisation of remuneration schemes for reserve products are not considered to be relevant as market drivers in a pan-European sense.	VEO
The harmonisation of the methodologies by which bids and offers are prioritised and activated in balancing timescales is more important than the harmonisation of remuneration schemes.	ETSO
Misses from ERGEG clear advice on how to treat effectively the problem of the implementation of cross-border balancing markets in the existence of potentially congested borders.	Verbund-APG
The efficiency of transportation of balancing power over long distances or changing location of production of balancing power within larger control zones should be investigated.	Verbund-APG
The harmonisation, or at least the compatibility, of remuneration schemes for balancing bids/offers is necessary.	Nordenergi, ETSO
The harmonisation, or at least the compatibility, of the share of automatically activated reserves and of manually activated reserves in the balancing reserves procurement is necessary.	Nordenergi, ETSO
Efficient intra-day markets help reducing balancing needs	ETSO, EFET
There should not be reservation of cross-border capacity for balancing purposes. Market players offering balancing power should not be obliged to acquire capacities on congested borders.	EFET APG
When both intra-day and balancing markets overlap, TSOs and market participants should be treated on equal terms.	Nordenergi, Europex
Both TSO-TSO and Actor-TSO models can not co-exist on the same border.	ETSO, Nordenergi
A high degree of integration and cooperation between TSOs is necessary. TSOs should develop a common and interactive generation plant-dispatching model.	Nordenergi EFET
Transparency	
Transparency is of the utmost importance for the liberalisation process, to promote efficient trade.	GEODE, Nordenergi, IFIEC, Eurelectric
Harmonisation of market information in neighbouring power markets is needed with equal information. Transparency requirements should be identical across the EU in order to avoid competition distortions.	E.ON AG, EFET, VEO, GEODE, IFIEC
While EU-wide harmonisation might be difficult to obtain in the near future, an alignment between the large and central regions is necessary as a first step.	E.ON AG, EFET, VEO,
The current discussion process in these regions within the ERI is fully supported by E.ON.	E.ON AG
Some current initiatives like the EEX transparency initiative or the ETSOVista platform are granting a valuable basis for intensified and harmonised transparency. They should be supported more broadly by the regulators.	E.ON AG

Issue	Who
Fundamental issue is the definition of transparency details.	ETSO
Transparency report issued by the regulators of the Northern or Central-West is a good basis for data transparency.	IFIEC, Nordenergi, Eurelectric
Individual data of consumption units should not be published in a disaggregated way.	IFIEC
The statement is very superficial, it does not take into consideration the different developments of the respective market regions.	Vattenfall
Other issues	
Romania and Bulgaria as the new EU MSs should be integrated into one of the ERI regions.	CEZ
Trading licences, seat of company's branch: to conduct business in certain countries a trading licence required which is granted only with a local presence.	CEZ
The ultimate goal should be the evolvement of a single European power exchange. The establishment of a central "Market Operation Office" for market coupling and intra-day trading in Central-West could serve as a nucleus for such a development.	E.ON AG
A central auction office is not necessarily required.	EuroPEX
There is an urgent need for a more regional or even European focus of regulation to deal with cross-border issues. The scope of this cross-border regulation must be clearly defined so as to avoid overlap and inconsistency with national regulation.	E.ON AG
Retail issue: Some national markets remain closed due to persisting national end-customer tariff regulation.	E.ON AG
Austria should be included in the Central-West region.	VEO
Strongly plead for a European harmonisation of competences of regulators.	Verbund-APG
There should be one European scheme for congestion revenue distribution and the congestion revenues should be reserved only for investment and congestion relief.	Verbund-APG
The statement that implicit auctions give PXs a monopoly is misleading (PXs are competing with brokers, PXs provide services to TSOs). PXs are regulated in several ways (surveillance, control of allocation arrangements)	Powernext