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The Creation of Regional Electricity Markets EREG Discussion Paper for Public Consultation

Sir,
Madam,

We would like to thank for the opportunity of commenting to the EREG consultation paper "The creation of regional electricity markets", to which we submit our comments as follows:

General

Making progress, the development of the Internal Electricity Market (IEM) needs careful design of the market rules, where some important additional framework conditions are needed in order to make the IEM a success.

Compatibility of wholesale market structures (6.17 ff) / of national market rules within a regional market (6.18), based on sufficient harmonization of the framework conditions to be applied, is a fundamental base for the further development to a pan-European electricity market. Further integration of markets does not require one standard framework for all issues but a sufficiently harmonized regulatory framework and sufficiently harmonized trading rules. Regulatory involvement may be required to a higher degree in relatively immature markets whereas in more developed markets, market participants will play more of a leading role in shaping developments.

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EREGG introduces into the discussion on the creation of regional markets the need for further regulation, that one being extended even to the markets and competition itself. Generally, related regulation were to be considered with moderation and adjusted to the real needs; that considering

- its cost-efficiency and proportionality to the expected benefits
- areas which can be covered by multilateral agreements in a more efficient way
- single issues which need to be dealt with on national regulatory level as a first step
- the market powers itself, which represent the main drive of development to an IEM, via an intermediate step of „regional markets“
- a clarification of the role of regulators and authorities in regional markets, which needs consideration of the cross-border characteristic of regional markets (2.57 – 61, s. u.)
- the cutting down of distorting, individual tariffication systems, with taking into account specific regional conditions as well as the needs of security of supply and investment security.

Regional electricity markets (1.11 ff)

Without finding a clear definition of the term „Regional Market“ in the Discussion Paper, we recognize its meaning as a market area,

- consisting of several market participants operating under identical framework conditions and market rules ensuring compatibility
- spanning across political/member State borders
- which, concerning its local extent, is non-static, variable according to the market powers and developing to the envisaged pan-European market.

The development of regional electricity markets will need to harmonize the regulatory framework, the transmission charging principles and other issues crucial for the functioning of a transparent and non-discriminatory market, and the experiences gained from this development will have to be considered in further development of the regulatory conditions.

Some issues concerning the market design need to be solved at least on the level of synchronous areas, especially on the level of UCTE, which is the largest synchronous electricity area in Europe. Among these issues are especially:

- the assessment and forecast of load flows between control zones and available border capacities for congestion management
- the design of allocation procedures and the rules for sharing the congestion rents
- the coordination and assessment of the need for new lines, especially tie-lines

With regard to these issues, common information tools and procedures are to be developed at European level, in order to enhance the opportunities of the IEM by ensuring the undisturbed operation of the grids at the same time, for which each individual TSO is responsible.

Cross border issues (e. g. 5.8 - 11)

The availability of sufficient transmission capacity is an indispensable prerequisite for the electricity trade between regional markets as well as for the future IEM. Therefore the focus of the discussion paper on this need is welcomed. At present, the existing regulatory framework does not sufficiently cover this aspect; based on a regulation, focussed on national benefits, there may not be seen any advantage of investing into additional cross-border capacities.

The proposals for multinational cooperation of TSOs, Regulators und Authorities for ensuring maintenance respectively establishment of investment security for the extension of (cross border) transmission capacities are welcomed.

Governments and regulators need to take up their responsibility to ensure the financing of investment in transmission lines between countries as well as inside a country which are crucial for the creation of regional markets but may not be of that importance for the national electricity market.

Authorisation procedures and their impact on infrastructure

We miss the dealing with the critical role of lengthy authorisation procedures required to obtain the necessary permissions for the construction of interconnections or transmission lines. Almost all such projects are suffering from a tremendous burden of bureaucracy and strong opposition from local communities.

As this is the case also for other infrastructure networks, we urgently recommend the striving for a harmonised European approach to this problem.

Information provision (e. g. 2.62 – 65)

In the discussion paper ERGEG addresses several times the question of information provisions to market participants as a key factor in an effective market (6.10). Ensuring the exchange of information between different markets as well as between different market participants is

- necessary for normal operation, as the different markets or market participants interact with each other and information held by one market participant can have a substantial impact on another one or adjacent markets
- – from the technical point of view -- essential for normal electricity supply and for avoidance of outages (e. g. in congestion cases) in particular.

For an appropriate acting together of markets and their participants there is need for harmonization of which data are to be exchanged and in what way; that by considering

- a careful check of needs for data availability, for ensuring
 - undisturbed electricity supply as far as possible and
 - taking of appropriate measures in congestion or pre-outage situations, for avoiding a blackout
- adequate transparency while taking into account competitive elements
- reciprocity of data availability
- clarification concerning the bearing of costs for the data exchange – related to its consideration in the relevant tariffs.

The approach of communication / data access between regional markets on all levels (Fig. 1) appears as being useful, but several essential preconditions within a regional market and for its participants (network operators, producers, traders) are still to be clarified respectively to be appropriately regulated as it concerns e. g. consideration of the costs for the data exchange in the relevant tariffs.

Sharing services

Sharing services such as balancing, reserve and other ancillary services between TSOs reduces trading volumes as the capacities reserved for these services have to be firm. The same is true for emergency assistance. Regulatory initiative is required to give room for action to TSOs.

Technical and operational specifications

Regulation 1228/2003 empowers the Commission to set binding EU wide guidelines on technical and operational standards for transmission systems.

UCTE and others have already developed such standards (e.g. UCTE Operation Handbook), which are crucial for secure operation of the grids. Instead of creating new operational requirements and standards on European level, support to the implementation of these already existing standards by Regulators to implement these agreed standards would be recommended.

Case studies (Annexes 1 – 5)

From our point of view, the lessons to be learnt from the case studies in the discussion paper are quite limited as most of the cases are referring to special (island- or almost-island-) situations, with either uniform or largely harmonized legal and regulatory frameworks.

Differing from that, the European IEM is politically divided into national markets while the grid systems are already more or less integrated and synchronized, where the load flows do not respect any political borders and trading contracts.

Asking for consideration of our comments, we remain,

with best regards,

AUSTRIAN ASSOCIATION OF ELECTRICITY COMPANIES

President

Dipl.-Ing. Gerhard Bartak

Deputy Secretary General