

# Comments on the ERGEG discussion paper "The creation of Regional Electricity Market"



2 September 2005

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Nordel welcomes the initiative of ERGEG to release the discussion paper. We agree on the vision that a Single European Electricity Market can only be reached by interim steps establishing and developing regional markets. The key market design features and next steps to be taken in the regional markets vary a lot depending on the phase of the market development.

Nordel has identified TSO-related key market design features where further steps are needed to enhance effectiveness of the Nordic electricity market. These are summarised in the attached report that Nordel has released in February 2005 ("Enhancing Efficient Functioning of the Nordic Electricity Market"). The report is also available at Nordel's website [www.nordel.org](http://www.nordel.org).

## 1) Issues that may need legislative changes:

- Common definition of the system responsibility and TSOs' role in enhancing effective functioning of the electricity market
- Clarification of the roles of market players, TSOs and Governments in maintaining reliability of the power system
- Clear distinction between the system responsibility and other duties performed by TSOs

## 2) Issues that are related to practices of the TSOs

- Harmonisation of operational rules and practices like
  - Balance control
  - Settlement of imbalances
  - Capacity allocation and congestion management
  - Provision of system services
  - Connection terms
- TSOs' co-operation in disturbances and shortage situations
- Actions in strengthening of the market mechanisms in peak load situations
- Financing and organising Nordic grid investments

We will further highlight specific areas that ERGEG should focus on in developing efficient European electricity market.

### **Regional focus**

We agree on the regional approach, as it is too ambitious to go ahead directly to a pan-European market. The regional minifora are useful to keep the national authorities, regulators, the TSOs and the Commission focused on the important market issues. These bodies are responsible for the market design and only they should participate in the fora. A necessary consultation process with the market participants should be scheduled prior to the fora. The Member States should have a more active role in the development of regional markets due to their responsibility for national legislation.

### **Unbundling of the TSOs**

Access to information about the transmission grid should be equal for all market participants. Companies responsible for both monopolistic and competitive activity can have better information on the transmission grid compared to companies with competitive activity only. Complete unbundling of the TSO activity and competitive activity will contribute to more transparent and symmetric information for all market participants and to more efficient functioning of the market. Unbundling contributes also to the TSOs' role in market design. We propose that the future legislation will be more specific on unbundling of the TSOs.

### **Transparency**

In the Discussion Paper, ERGEG addresses several times the transparency of information to the market participants. Transparency is the key issue for market sustainability through confidence. Currently for example, the regulatory framework restricts many TSOs to release data about generation (outputs, maintenance schedules etc.). ERGEG and national Regulatory Authorities should take immediate actions in order to secure more transparent and symmetric information by implementing the necessary changes in the existing regulatory framework.

### **Efficient use of the grid and market based congestion management**

The Nordic countries have chosen market splitting to handle structural congestions. The prices in and the exchanged volumes between congested areas are fixed simultaneously. Market splitting is more efficient than explicit auctions.

Explicit auctions have been used between Denmark and Germany. From October 2005 the border between Eastern Denmark and Germany will have a new trading model based on market coupling where the prices and exchanged volumes are fixed simultaneously. Market coupling will also be used in the case of the new DC interconnector between Norway and Netherlands (NorNed) in order to maximise the efficiency in the trade and to give the best possible signals for the market participants.

Further integration of the markets will make it necessary to have more harmonised and market based principles for congestion management. ERGEG and the national regulators should have an increased emphasis on this area.

**Grid investments**

ERGEG's report has a strong focus on cross border investments. Not only interconnectors but also the investments inside the countries are important for the market development. The TSOs should make common regional investment plans and agree on the financing of the projects. These plans would take into account the interdependencies of the various projects and probably reduce the total amount of investments. Harmonisation of the licensing procedures would contribute to a timely implementation of the plans.

**Demand response**

Nordel has seen demand response as an important element in developing well functioning electricity markets.

Demand response can be defined as a voluntarily adjustment of electricity demand as response to a price signal. This encompasses e.g. reductions in demand as response to high spot prices or adjustment of demand for regulating power. Price driven use of back-up generation can also be considered as demand response.

Demand response improves competition thus decreasing incentives for generators to abuse market power. Furthermore demand response provides an alternative to investments in peak-load generating capacity. In addition demand response act as short-term energy storage, thus reducing the economic impact of congestion between regional markets.

Many stakeholders in the sector have a share in developing demand response. Consumers, TSOs, authorities, regulators, distribution companies and retailers are all important players. It is often not clear who has the main responsibility for developing demand response. This entails a risk that the economic potential for demand response is developed at a too low pace. For the above reasons developing demand response requires particular attention and coordination between the actors involved.

Nordel and Nordic TSOs have been active in enhancing demand response as a tool in strengthening of the market mechanisms. For more information we refer to the enclosed report and its background report "Nordic TSOs' Action Plans in enhancing and monitoring Demand Response". This report is available at Nordel's website [www.nordel.org](http://www.nordel.org). In addition to the referred action plans Nordel will focus activities also on pre-requisites for dissemination of intelligent interval meters and on developing of new products in the markets.

I hope you will find Nordel's assessments useful in your future work.

Yours sincerely,

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