

# A European concept for a single electricity market

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# IEA Report “Lessons from Liberalised Electricity Markets”

***“Electricity market liberalisation is not an event. It is a long process that requires strong and sustained political commitment, extensive and detailed preparation, and continuous development to allow for necessary improvements while sustaining on-going investment.”***

# **An urgent need for market integration**

# **EURELECTRIC vision towards a pan-European market**

- **Objective:**

**Create a sufficiently harmonised  
market framework**

- **Means:**

- Use **regional markets as an intermediary step**, taking care that they do not develop in different directions
- Use **expansion of liquid wholesale markets** as a driver for market integration

# The benefits of expanding wholesale markets

- Enhance price convergence
- Increase the number of market players
- Alleviate concerns of market concentration
- Stimulate liquidity on the trading markets
- Stimulate the need for common rules on transparency
- Reinforce trust in price formation and markets' abilities to deliver

# Prerequisites for a European wholesale market

- Liquid day-ahead and forward markets and open balancing and intra-day markets with trustworthy prices
- Sufficient number of market participants in the day-ahead and forward markets on both demand and supply side
- Transparent access to common sets of market information
- Set of sufficiently harmonised market frameworks to allow cross-border trading on all markets
- Coordinated and market-based mechanisms to manage congestion
- Develop interconnection where economically feasible
- Solid co-operation between Regulators, TSOs and power exchanges

# EURELECTRIC Roadmap towards a pan-European electricity market

Integration at  
European level

2007-12

Coordination between regions

2005-10

Development within regions

2005-09

Continued liberalisation  
of national markets 2005-07

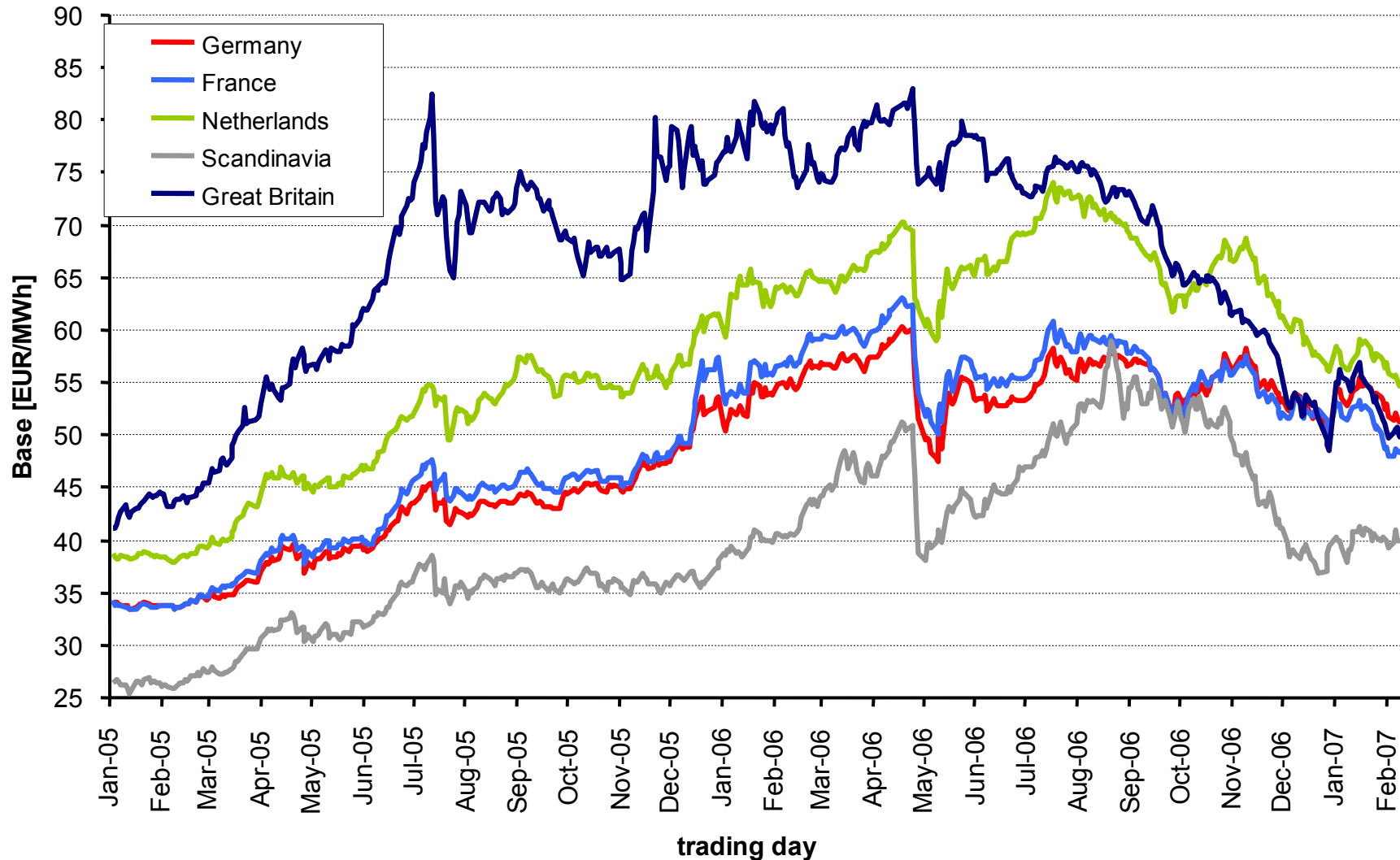
Pan-European market



# **Current progress with market integration**



# Wholesale market prices are converging



## Progress in some specific regions

- **A positive example: the pentelateral Forum of Central-West Europe**
  - **Strong political commitment** which delivers fast progress
  - **Market coupling agreed** for the whole CWE region **by 2009**
  - **Strong involvement of market participants proves fruitful:** participation in meetings and development of positions on key issues
  - **Linking the CWE region to other regions** ongoing, however more cross-regional coordination needed → **Need for harmonisation of market and regulatory framework**
- **Nordic energy Ministers investigate how to create a Nordic System Operator.**

## Progress in ERGEG regional initiatives

- **Noticeable progress** has been made
- BUT regional markets are developing at **different paces** and in different **directions**
- **Political will and commitment** are instrumental

### **Thus, it is necessary to:**

- **Further speed up** the process
- Build a **regional and European viewpoint**
- **Strengthen cross-regional coordination** on the basis of compatible market and regulatory frameworks
- **Strongly involve market participants**

# Integration of electricity markets

## EURELECTRIC priorities

- Maximised and coordinated **allocation of interconnection capacity**
- Integrated **day-ahead** and **intra-day** markets with harmonised gate closures
- Expansion of **day-ahead market coupling/** market splitting to all interconnectors
- Development of **secondary markets** for cross-border capacity
- Harmonised **balancing** rules and coordinated reserve capacity
- Harmonised **trading products** and principles
- Level-playing field on **market transparency**

# INTEGRATION OF WHOLESALE MARKETS

## WAY FORWARD

This requires **an appropriate framework** to be in place:

- a regional model for TSO cooperation (regional ISO)
- an efficient and consistent regulatory process
- no price cap/ control in the wholesale market and the removal of regulated prices in retail markets
- appropriate market monitoring

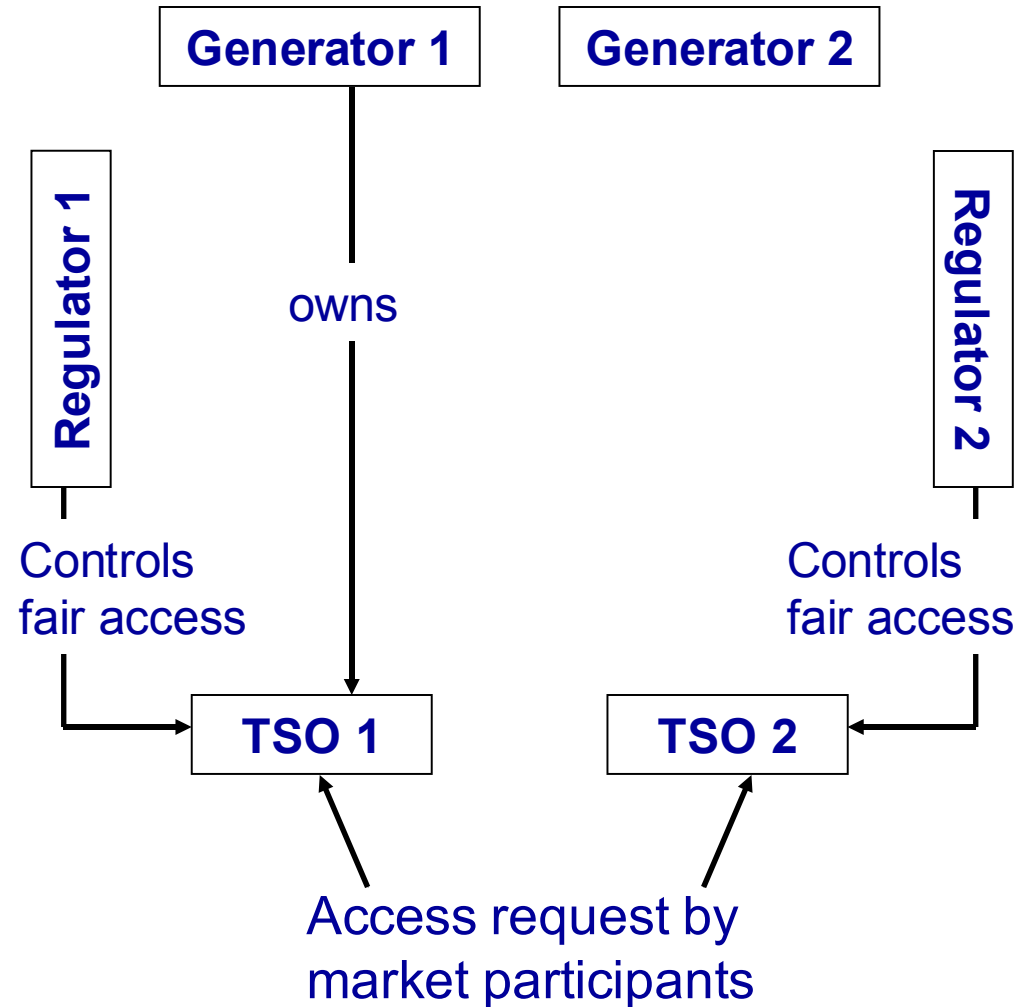
# **Towards Regional Independent Operators: a main driver for successful market integration**

# From seamless TSO cooperation to regional system operators

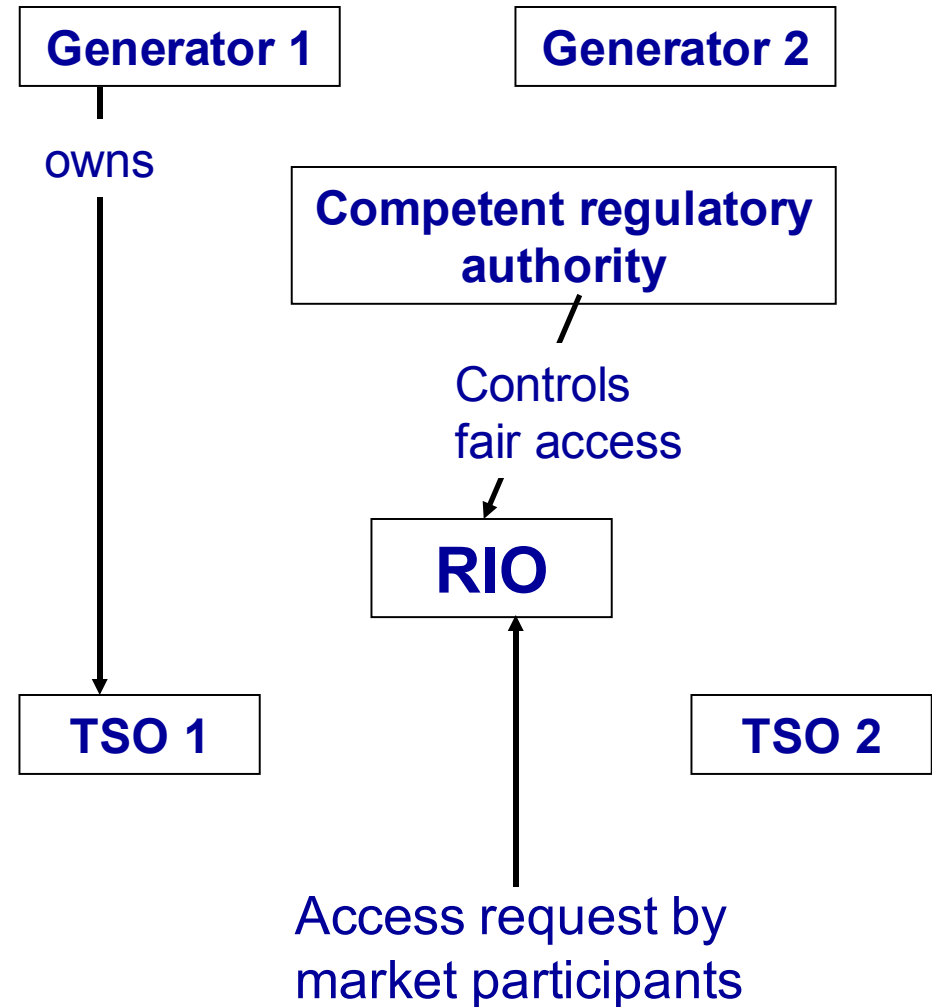
- **Seamless cooperation of TSOs** as one prerequisite of the EURELECTRIC road map and essential driver towards market integration
  - **Ownership unbundling or national ISO in itself NOT conducive to market integration + 2<sup>nd</sup> step needed to bring TSO activities together**
- Regional model of TSO organisation will drive market integration whilst at the same time ensure fair access to networks**

# Fair access to networks

## NOW



## With RIO





# Main features of a regional model for TSO organisation

- **RIO to be really independent**
  - Set-up of the RIO through legislation
  - **Independent Management and Supervisory Board**
  - Supervision by competent regulatory authorities on regional level
  - Regulated organisation
- **RIO defines capacity needs which have to be fulfilled by the TSOs** within a set timeframe
  - Approval by regulatory function on regional level
  - **Obligation of the TSO to carry out investments** which meet the capacity needs identified by the RIO
  - Concrete (technical) investment project decided by the asset owner (in close cooperation with RIO)

**Will the 3rd liberalisation package deliver market integration?**

# **Third liberalisation package – General comments**

**EURELECTRIC sees the package  
as an opportunity not to be missed to:**

- **Address current market shortcomings and speed up market development**
- **Establish a process conducive to market integration**
- **Achieve a pan-European energy market with regional markets as an intermediary step**

## **Positive elements of the third energy liberalisation package ...**

- **Independence and harmonisation of powers** for national regulators
- **Cooperation of regulators** through an EU Agency
- **A similar approach for electricity and gas**
- **A suggestion to establish a retail forum**
- **The use of congestion revenues as a matter of priority for network expansion**

## ... but the **European approach** of the package is too weak

- The package is dominated by grid issues but **it lacks clear means and processes to foster market integration**
- Experience shows that **TSO cooperation**
  - does **not deliver fast enough**
  - lacks a **market drive**
- **Mandating regional ISOs** would allow to “kill two birds with one stone”
- **Stakeholders** should only hold **responsibilities** where they **have skills and experience**

## A few proposals

- Enable the set up of **regional ISOs in one step** as a way to “kill two birds with one stone”
- Reconsider the **governance process** and the balance of powers between ACER/ ENTSO/ the Commission/ stakeholders
- Ensure a strong **involvement of market parties** in the development of codes
- Inscribe the role of **TSOs as market facilitators** in the package

# A few thoughts to consider

.../ ...

- Add some **better regulation principles** for Regulators' activities (proportionality etc.)
- Ensure the development of the grid on the basis of **socio-economic welfare criteria**
- Clarify provisions on **record keeping, regulated tariffs** etc.

## **Climate Change package: balance of objectives**

- 20 – 20 – 20 targets extremely challenging
- How to make sure that a balance is ensured and greenhouse gas emissions are reduced at least cost?
- How to use European synergies?





# Link between GHG and renewables policies

	2020		
	Renewables share	Compared to 1990	
		CO2 emissions from energy	Total GHG emissions
Baseline projections	12.9%	4.9%	-1.4%
20% RES achieved	20.0%	-5.6%	-9.0%
20% GHG achieved	14.7%	-14.6%	-20.0%
20% RES and GHG achieved	19.9%	-16.9%	-20.0%

Source : Primes

## Performance of scenarios

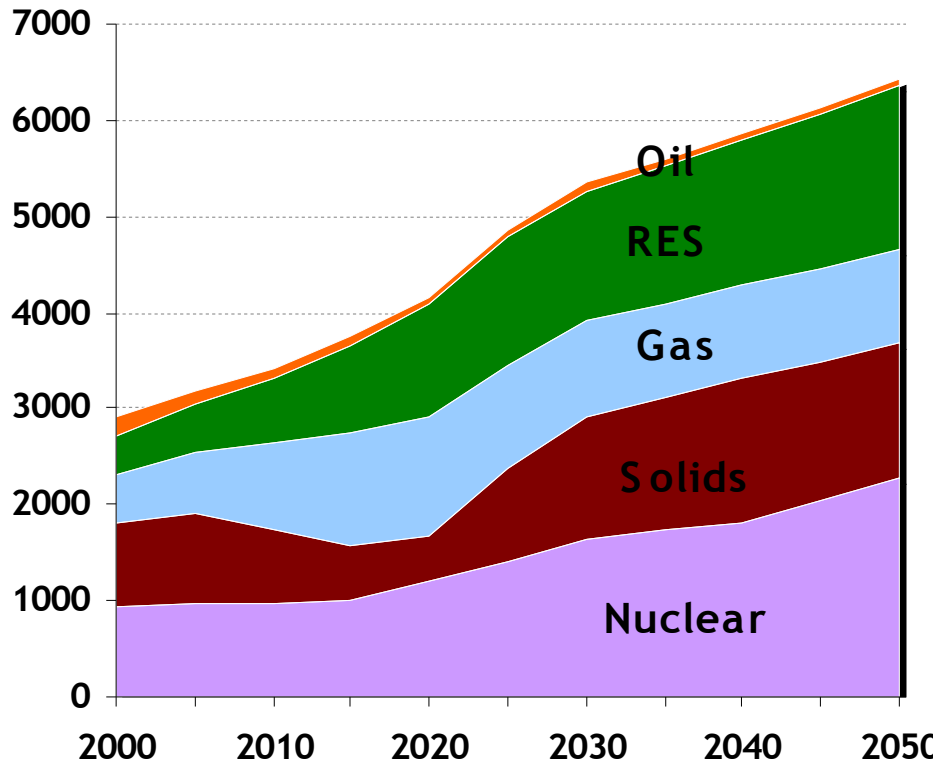
Scenario results for 2030 (2005=100)	Baseline	Supply Scenario	Efficiency & RES	Role of Electricity
CO2 Emissions	110	70	70	70
Total Cost of Energy	146	161	156	147
Oil&Gas Import Dependency	126	115	128	105

For equal emission mitigation, “Role of Electricity” performs better :

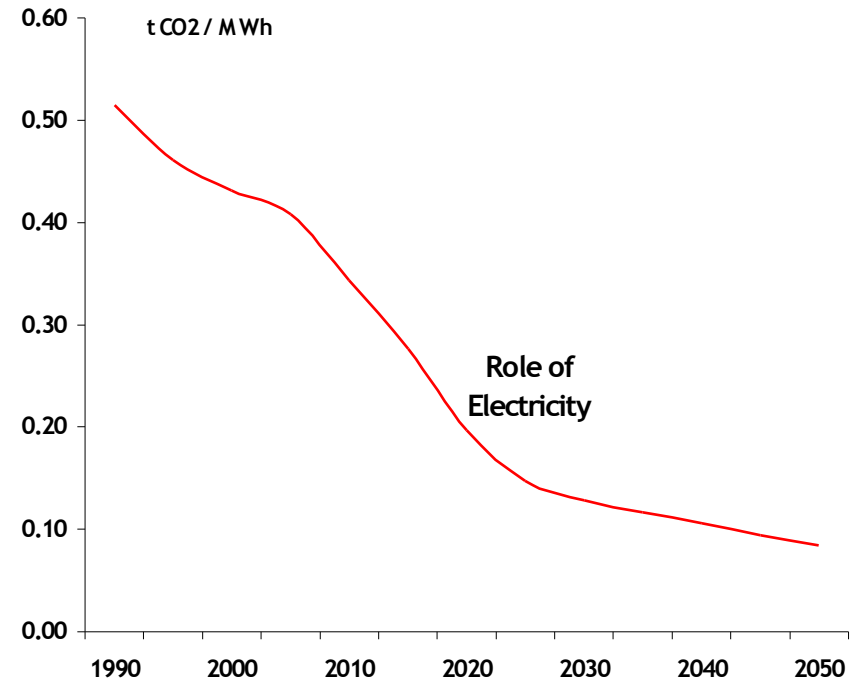
Additional Costs are the lowest and reduction of Dependence is the highest

# Projections for 2030, EURELECTRIC Role of Electricity Project

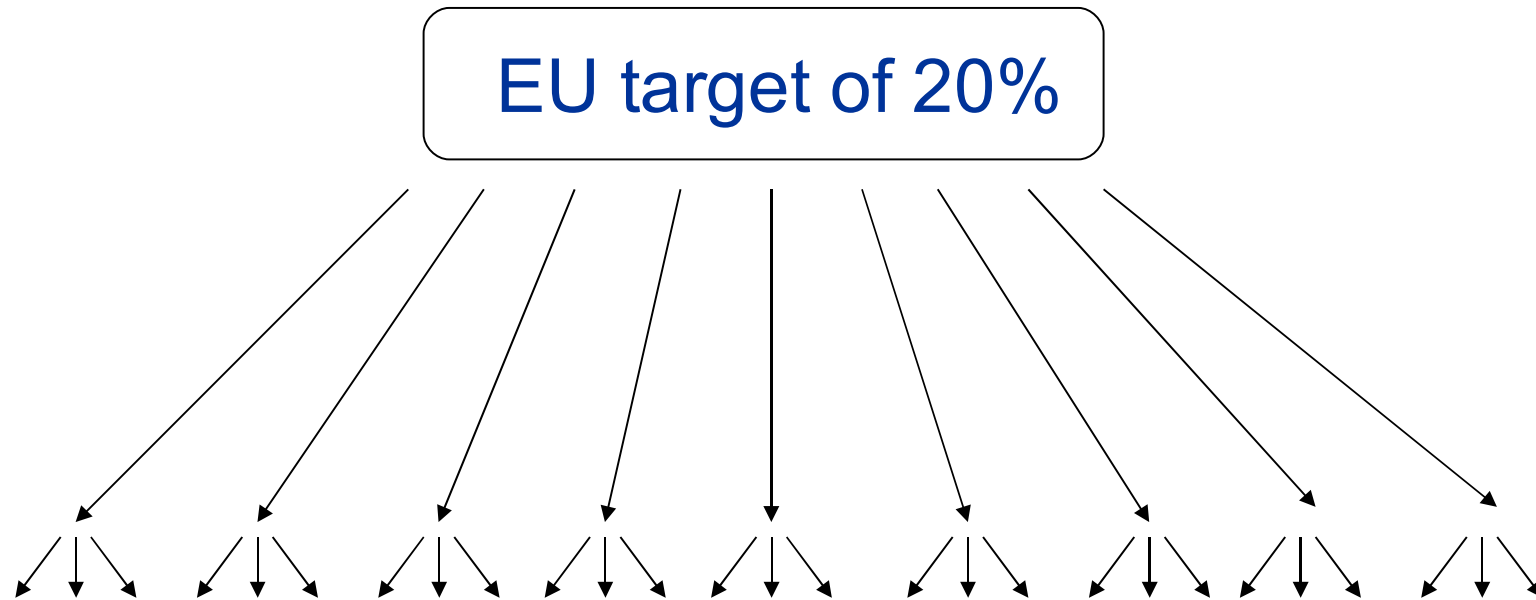
Electricity generation by fuel under the “Role of Electricity” scenario



CO2 per MWh under the “Role of Electricity” scenario



# RES objectives and support schemes



**27 national targets and support schemes**

+ national sub-targets and support schemes:  
- biofuels  
- heating and cooling  
- electricity

# RES support in the internal market - risk of current systems

- Separation of RES to a non-market segment in most countries (feed-in tariffs) does not lead to cutting of RES costs
  - RES producer does not have to sell the product → taken automatically into grid
  - Subsidising production, not technological development!
  - Danger of “boom and bust”: support levels produce unsustainable levels of cost to consumers

# **RES support in the internal market - where to go? (1)**

## Costs must come down:

- No separation to a niche market, but RES to become part of the IEM
- Development of technologies is key to cutting costs
- Move from support of production to support of technological development
- RES support to favour technologies close to market-maturity

# RES support in the internal market - where to go? (2)

## Allow RES-trade across borders

- Full implementation of standardised Guarantees of Origin
- Certified imports to count to national targets
- As the following step, a move towards harmonised support systems is indispensable in the IEM
  - As called for also by BusinessEurope, IFIEC, ECOSOC, regulators, ETSO, etc
  - Start process in 2007!

## **EU-ETS review**

- **Power sector looking for long-term predictability**
  - **On targets**
  - **On allocation methodology**
  
- **Both have significant impact on investment decisions**



# Auctioning

- **PRO: solves most harmonisation issues**
  - New entrants / closures
  - Distortions between MS (when associated with centralised cap setting and allocation)
  
- **ANTI: 24€ billion pa out of the industry**
  - Impact on investment ability
  - Need to look urgently into impact on auctioning methodology on industry and operation of power markets

# Carbon Capture and Storage

- Regulatory framework: establish sound rules for capture, transport and storage
  - work well under way -> no major comments
  
- Demo financing: 5-12 billion €
  - Conditions imposed by IEM and EU-ETS
  - Industry favours investment support
  - Allowances for CCS plant an issue
  - Auctioning revenues and technology fund
  - NO feed-in tariffs

## Carbon Capture and Storage (2)

- Long-term: CCS must be driven by carbon price
  - For the moment CO<sub>2</sub> price too low to get CCS up and running
  - CCS must be competitive with other technologies
  - No political interference with carbon price
  - Aid to technological development at start-up

# Conclusions

- **20 – 20 – 20: too many twenties?**
  - Prioritisation of targets needed
- **EU-ETS**
  - Ensure long-term predictability
- **RES**
  - Integrate in the IEM and promote RES-trade across borders
- **CCS**
  - Demo support not to disturb market and ETS

**Thank you for your attention.**



**Representing the European Electricity Industry**