

“Building an Integrated Pan-European Market: Challenges and Prospects”

Gunnar LUNDBERG

Chairman of EURELECTRIC Markets Committee

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Market integration is at the heart of EC Policies

Well-functioning and integrated electricity markets will ensure the basis for a **least-cost and efficient** achievement of EC **energy and environment goals** (deployment of renewables, Emission Trading Schemes, etc). This requires:

- The adoption of a **clear strategy towards the completion of electricity markets** followed by prompt implementation
- Market integration efforts should be accompanied with **prompt and massive grid investment** in accordance with the Member States' estimated RES targets
- The interlinks between the **Third Energy Package** and the **Climate Package** need to be properly identified and the challenges addressed

Integration of intermittent generation: an Opportunity or a Challenge for the Market?

Well-functioning and integrated electricity markets together with **timely execution of grid investment** is essential but other elements should also be considered:

- Member States to enter into joint agreements in order to allow **tradeability of RES certificates**
- **Subsidies to RES** should be phased out by 2020 when intermittent generation has become competitive
- After 2020, generation investments should be driven by **carbon price**
- Whether **energy only markets** are enough or some form of **capacity remuneration mechanisms** should be envisaged? If yes, how can they be made compatible with market integration?

ROAD MAP TO A EUROPEAN ELECTRICITY MARKET: A Parallel Approach

Integration at
European level

2007-12

Coordination between regions

2005-10

Development within regions

2005-09

Full liberalisation
of national markets

2005-07

Pan-European market

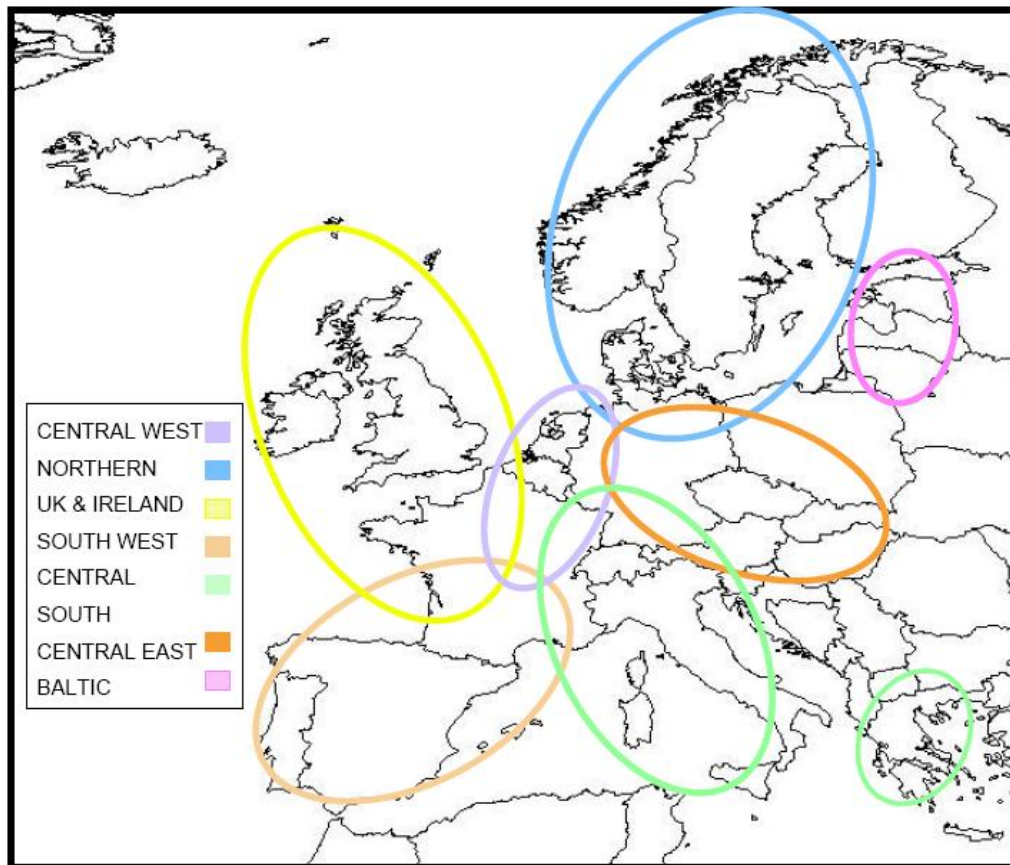


The Path towards an integrated pan-European Electricity market

Such a path should follow a clear Market Integration Strategy:

- base on an **oil spread approach** with CWE-Nordic as a core market
- be an **inclusive process** embracing **all European countries** (EU + NO + CH) whilst paying due attention to markets' advancement and individual traits
- focus on a **limited number of priorities** conducive to market integration
- build on **government commitment**, **market forces** and **best practices** in the regions (bottom-up)
- Ensure a **high level of coordination** between regions (top-down) allowing them to develop in a consistent manner on the basis of specific **target models** and following **well-defined roadmaps**

Building regional markets as an interim step towards a pan-European Market



Focus on the right priorities:

- Day-ahead price coupling
- Continuous trading of implicit allocation of intra-day capacity
- TSO-TSO model with common merit order model for balancing

EU Market Integration Strategy

EURELECTRIC recommends an inclusive process following a pragmatic “oil spread” model:

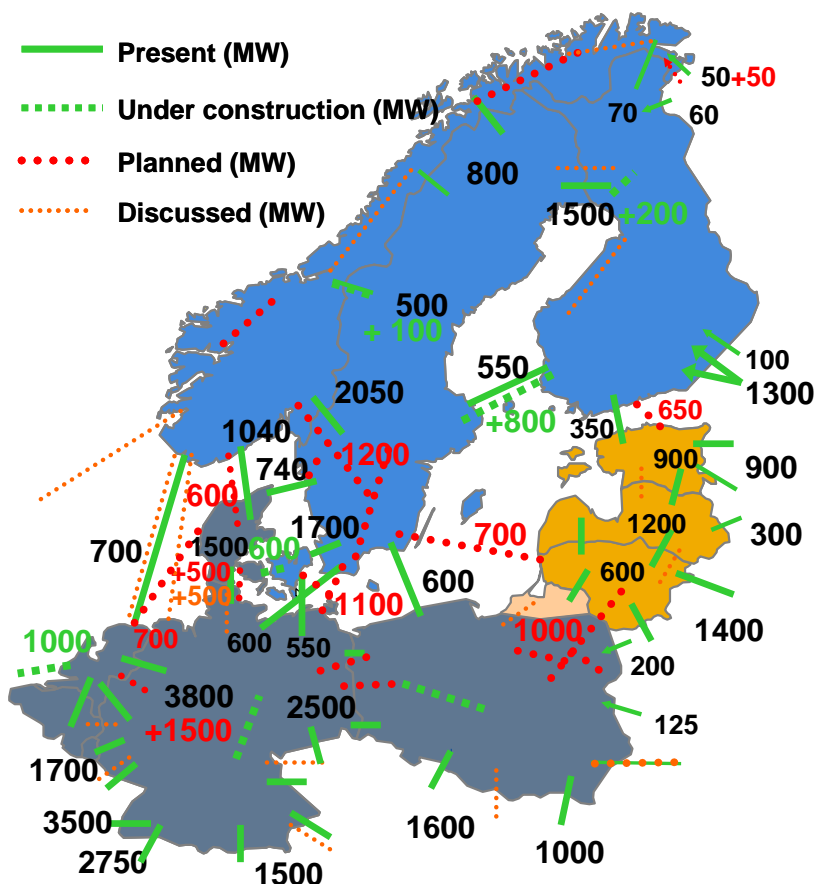
- Step-by-step **expansion** or **replication** of successful pilot projects and existing best practices
- Starting with a **core market (CWE + Nordic)** expanding to a pan-European scale: **most advanced markets/regions join first**, less developed ones progressively link up to it
- Build **liquid and robust wholesale markets** in not so well advanced countries (ie. fulfilment of **market fundamentals**’ list) in order to help them to join core countries in a later phase

EU Market Integration Strategy

List of Market Fundamentals

1. **Legal framework:** TSO independence, formal/real market opening, removal of subsidies, legal obligation to cooperate on regional level)
2. **Regulatory framework:** removal of price regulation & long-term contracts, non-discriminatory network access and licensing, co, coordinated and market-based c/b capacity allocation
3. **Wholesale Market functioning:** market places, trading in various timeframes, harmonisation of market rules, liquidity, available products, market transparency
4. **Retail Markets:** free choice of supplier, no retail price regulation

Nordic-Baltic electricity market integration is becoming a reality..



- BEMIP launched in June 2009:
 - Market design model as in the Nordic
 - Interconnectors (Estlink 2, NordBalt, LitPol)
- Price area Estlink in April 2010
- Integration of the Baltic market – (day-ahead and intra-day) – during 2011
- Objective: full integration in the Nordic and the EU market

.. and will require changes in trading rules with the neighbouring non-EU countries

- Market trading rules should be based on the principle of **reciprocity** and made **compatible**
- Agreement on the common principles for short term cross border trade will
 - ensure predictability of the market
 - create new business opportunities for EU companies
 - pave the way to new investments in the infrastructure in the region
- Speaking with one voice” is crucial to build a strong EU position vis-à-vis non-EU countries

What do we mean with compatible market rules?

- Non-discriminatory 3rd party access to the interconnectors
- Clear distinction between system services and electricity trade
- Clear definition of TSOs and market players' roles
- Market-based congestion management and capacity allocation -> efficient use of interconnectors
- Harmonisation of the environmental legislation (CO₂ emissions, emission limits for SO₂, NO_x and particles, nuclear safety)

For further reference: EURELECTRIC Markets Report



- Sets out the challenges and identifies the solutions for the 7 European regional markets (NORthern-CWE, FUI, CEE, SWE, CS, Baltic)
- Underlines the importance of greater coordination between regions (implementation of the Target Models for the European wholesale electricity markets by 2015, coordination of projects on the ground, dialogue between market players and decision-makers)
- Calls for a comprehensive EU market integration strategy to be placed at the centre of EC energy and environmental policies

Thank you for your attention



Representing the European Electricity Industry