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# **European Regulators Group for Electricity and Gas (ERGEG)**

## **Work Programme 2006**

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## 1. INTRODUCTION

### Goals and Themes

The European Regulators Group for Electricity and Gas (EREG)<sup>(1)</sup> is the route by which the European Regulators provide formal advice to the European Commission. The work of the regulators is aimed at promoting effective competition in European gas and electricity markets through successful liberalization and the establishment of a single European energy market.

The EREG work programme for 2006 builds upon the previous year's work and anticipates the Commission's demands on EREG during the year. The work of the regulators comprises: the development of high level policy; detailed technical advice on regulation and rules; and the monitoring and reporting of the actual state of implementation on the ground and compliance with, and effectiveness of, the relevant rules and guidelines, and the state of competition, in energy markets.

The 2006 EREG work programme reflect two strands: the regulators' strategic vision of the road map to a competitive single European energy market; and the implementation and consolidation of the current regulatory framework. The five themes selected for the work programme underpin these two strands:

#### **1. Regional Initiatives - making regional energy markets a reality**

The CEER vision of a European electricity market based on regions, and gas markets organised around gas hubs, as the basic building blocks for a competitive single energy market needs to be developed further and mechanisms for making it a reality established. An important part of the EREG work programme will be to build on the EREG Roadmap Papers, published for consultation in 2005, and the launch of "regional initiatives" to remove barriers to energy competition. This will build on existing work, including ongoing local initiatives to bring national markets together. The EREG work will include the technical issues which must be addressed as well as the organisation of structures necessary for implementation. This should provide the foundation against which concrete progress can be made with the willing co-operation of the central parties and involvement of market participants.

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<sup>(1)</sup> EREG is the body through which regulators prepare formal advice for the Commission and was established by Commission Decision of 11 November 2003 (203/796/EC). CEER is the regulators' group which prepares material for EREG and facilitates informal co-ordination and co-operation between national regulators.

## **2. Cross border trade**

The ability to trade energy across more than one TSO's network and across national borders is fundamental to the establishment of a competitive single European energy market. Regulators' objective is to ensure that the regulatory framework facilitates the maximum use of available interconnect capacity and the investment in new capacity where that is needed. Technical rules relating to cross border flows of gas and electricity need to be developed further. The ERGEG 2006 work programme therefore includes a continuation of work already begun. This work includes the development of an appropriate long term inter-transmission system operator compensation mechanism (ITC mechanism) in electricity. Further work in electricity will include transmission tariff structures, access rights, locational signals, balancing and imbalance arrangements and co-ordination between TSOs. In gas the work programme includes items on gas interoperability, cross border trade and the charging arrangements for transit and other cross border infrastructure.

## **3. Monitoring of Regulatory and Market Developments**

The Electricity and Gas Directives (2003/54/EC and 2003/55/EC) provide for increased reporting activities at both the European and national level from 2005 onwards. The European Commission closely monitors the implementation of the Directives through their annual benchmarking reports on the implementation of the internal market. The regulators assist the Commission in monitoring and reporting activities. This includes careful monitoring of: the implementation of relevant legislation and voluntary agreements and compliance by market players with any guidelines/recommendation issued by the ERGEG; of the extent to which non discriminatory network access is reality on the ground; and the actual level of competition in energy markets. ERGEG's monitoring work in 2006 will include the ongoing monitoring of the gas storage guidelines (GGPSSO).

## **4. Transparency of Information**

For competition to operate effectively it is of central importance that information is provided to the market place in a timely and efficient way so that market players can understand the basic forces which influence prices and can seek to anticipate future events. In this way they can make informed and efficient decisions. It is therefore important that information is where possible, made public by those who hold it and that information is properly managed where it is not possible for it to be published. This is of particular importance where network companies are affiliated to participants in the competitive part of the market. For these reasons ERGEG's

2006 work programme will look at the transparency of information in gas, and will build on the experience gathered in relation to transparency of information in electricity which is being addressed under the CEER 2006 work programme.

### **5. Customer Choice**

Regulators' ultimate vision is for all customers to have a free choice of their suppliers/shipper and to exercise that choice easily. To do so, customers must have easy access to objective information so as to be able to be able to make informed decisions, and the process for switching supplier or shipper must be reliable and straight forward. The ERGEG work in 2006 will build on work already undertaken and will focus on development of best practices in the process for switching between suppliers and shippers, the provision of information required by customers, and customer protection measures.

## 2. ELECTRICITY FOCUS GROUP (EFG)

### Issues to be addressed

- A. Security and Reliability issues – ERGEG analysis and position on security and reliability rules, UCTE Operational Handbook and the Multi-lateral agreement (MLA)
- B. Guidelines on Good Practice for Balancing mechanisms including report on imbalance arrangements
- C. Follow-up to Congestion Management guidelines and Mini-fora
- D. Financially firm transmission access rights
- E. Co-ordination between TSOs
- F. Transmission tariff harmonization including tariff structures and rights, long and short term locational signals
- G. Reporting procedures of transmission levels to the European Commission
- H. Proposal for longer term ITC mechanism, including ERGEG public consultation and delivery of advice to the European Commission
- I. Analysis of transmission “Regulated Asset Base” and allowed revenue methods across Member States
- J. Develop Regional Initiatives towards a competitive single European market
- K. National legal and commercial conditions for cross border electricity trade
- L. Cross-border framework for transmission investment
- M. ERGEG Public Consultation on the Guidelines of Good Practice on Transparency and Information Management (cf. CEER deliverable 2006, EMD-1)
- N. Follow up to the European Commission’s 2005 Progress Report and Sectoral Inquiry

### Background

The Electricity Focus Group’s principal tasks are to develop the EU regulators’ views and policies on the priority topics for EU electricity market liberalisation and integration, and through ERGEG and upon request, advise the European Commission on such matters. Where appropriate, ERGEG will undertake a formal public consultation on its views and policies.

One set of priority topics is given by the Electricity Regulation (1228/2003). This aims to foster cross border trade by allowing the Commission, working within a ‘Comitology’ procedure, to adopt binding Guidelines on three topics; the allocation of cross border electricity interconnector

capacity (i.e. congestion management), harmonization of transmission tariffs, and compensations to be paid to each Transmission System Operator for hosting transmission flows originating in other Transmission System Operators' areas. The European Commission in 2004 asked ERGEG to consider these topics and advise it concerning texts for the three sets of Guidelines. The Regulation also raises the possibility of introducing pan-EU security and reliability standards for transmission system operators.

Congestion management issues were also raised during 2005 in a series of 'mini-fora'. The European Commission at the XI<sup>th</sup> Florence Forum in September 2004 requested that a series of 'mini-fora' meet in 2005, in order to progress at a more local level issues associated with allocating capacity on cross border electricity interconnectors. Each 'mini-forum' was to comprise regulators, TSOs, and others from a set of countries with relatively strong electricity trading links. These fora met during late 2004 and early 2005 and, among other things, produced some further insights into congestion management issues.

The EFG therefore spent some time during 2005 considering the 3 Guidelines, including reflection of the insights obtained from the mini-fora. ERGEG drafted texts for the guidelines on congestion management and transmission tariff harmonization which were the subject of public consultation during May and June 2005. Following receipt of written responses, and a public hearing, ERGEG published its final view on these guidelines in July 2005 which was delivered to the European Commission as ERGEG's formal advice on these topics. Development of texts for the inter-TSO compensation guidelines requires, among other things, careful modelling of alternative allocation models and this is to continue into 2006.

Bearing in mind the work of the mini-fora and the associated congestion management issues, the EFG will in 2006 follow up the mini-fora and consider further implementation and policy issues associated with the congestion management guidelines. This work falls to topic C.

EREGEG, in delivering a text for the transmission harmonization Guidelines, also noted that there were some further issues to develop. The Regulation for example calls for consideration of locational price signals at the EU level in transmission pricing. It is also necessary to develop appropriate monitoring and reporting mechanisms for transmission tariffs in order to ensure compliance with any adopted guidelines. The EFG will therefore develop both topics during 2006 (topics F and G).

Regarding the guidelines on inter-TSO compensation, the EFG intends to complete its work during 2006. This will include an ERGEG public consultation on the allocation mechanism to be used, and consideration of how compensation to TSOs can be related to regulated revenues for these monopoly activities. This work falls to topics H and I.

A number of related developments occurred during 2005 regarding pan-EU security and reliability standards for transmission system operators. UCTE for example continued during 2005 to develop its *Operational Handbook (OH)*, which codifies a number of transmission operational and security standards and rules for the UCTE members. UCTE also signed a Multilateral Agreement (MLA) giving effect to this Handbook. The CEER presented at the XII<sup>th</sup> Florence Forum in September 2005 its first view of this and how such a set of pan EU transmission security and reliability rules might be developed and enforced.

The EFG will work up further views on the OH, MLA, and question of pan-EU security and reliability standards during 2006, under topic A.

ERGEG and CEER also spent some time during 2005 developing its thinking on how a full single EU electricity market might be reached and what the priority topics should be. ERGEG published in July 2005 a consultation document *The Creation of Regional Electricity Markets* which set out ERGEG's first views. This paper, and respondents to it, raised a number of issues to be explored further. The regional initiatives which are expected to result will be a central part of the ERGEG's work for 2006. They intend to identify the practical steps needed at a regional level to move towards a single competitive European market for electricity.

Balancing market integration, transmission access and firm transmission rights, and co-ordination issues have particularly been identified by ERGEG as priority topics here. The CEER in 2005 had already for example published at the XII<sup>th</sup> Florence Forum in September 2005 a Position paper on *Balancing Mechanisms Compatibility*. In addition, cross border trade and investment may well be impeded by an arguably incomplete set of legal and regulatory arrangements applying to cross border arrangements. These issues will be followed up and considered by the EFG under topics B, D, E, J, K, and L.

Once the European Commission's (DG Competition) Sectoral Inquiry into the electricity and gas markets is finalised, the EFG will identify relevant workstrands which may need to be included into the EREGEG work programme, such as developing a response to any public consultations on the matter. Similarly necessary follow up to the Commission's Progress Report in the functioning of the internal market will be addressed by the EFG. These fall under items M and N.

### **Organisation of EFG activities**

System Operation Task Force – items A – E

Cross Border Tarification Task Force – items F – I

Regional Electricity Markets Task Force – items J – L

Electricity Focus Group – items M-N.

## 2.1. System Operation Task Force

### Issues to be addressed

- Security and Reliability issues – ERGEG analysis and position on security and reliability rules, UCTE Operational Handbook, and Multi-lateral agreement (MLA)
- Guidelines on Good Practice (GGP) for Balancing Markets Integration, including a report on imbalance arrangements.
- Follow up on Congestion Management Guidelines and mini-fora, and implementation including other market design issues
- Financially firm transmission access rights
- Co-ordination between TSOs

### Background

The first two items are a continuation of ongoing priority work from 2005. The GGP for Balancing Markets Integration is based on the internal *ERGEG Report on Balancing* and on the *ERGEG Position on Balancing Markets Compatibility* which was circulated at the XII<sup>th</sup> Florence Forum in September 2005. The work on congestion management stems from the ERGEG advice to the European Commission on Congestion Management Guidelines, from the priorities on the further development of regional electricity markets and from the experiences of the first series of mini fora. It will also build on the results of the 2006 work of the CEER Electricity Market Design TF (deliverable EMD-2 from the CEER Work Programme 2006). Work on financially firm transmission rights and on co-ordination between TSOs will also be undertaken.

### Approach

- Security and Reliability Issues

Following the discussions and requests by the participants of the XI<sup>th</sup> Florence Forum in September 2004, ERGEG has conducted a number of workshops and discussions with the UCTE in 2004/2005 on technical, organisational and legal aspects of the UCTE Operation Handbook and Multi-Lateral Agreement. Whereas no direct approval of these framework documents (specifying security and reliability aspects for the UCTE synchronous area) is foreseen by ERGEG or national regulators, they are of utmost importance for and impact to the European electricity market. Moreover, equivalent documents exist also in other synchronous

areas like Nordel, UKTSOA or ITSOA. *The ERGEG Position and Recommendations Concerning the UCTE Operational Handbook* was presented and distributed at the XII<sup>th</sup> Florence Forum.

In 2005, ERGEG has also performed an internal comparative analysis of the rules on operational security in the European synchronous areas, what serves as the basis for the evaluation of the impact of these rules on the European electricity market.

Finally, the European Commission has commissioned a *Study on the Technical Security Rules of the European Electricity Network* in 2005, which provides an overview of the European grid codes, operational practices and some initial recommendations on what further steps in line of the Article 8 of the Regulation 1228/2003 and possible "Security and Reliability Guidelines" could be.

Under this item of work and the deliverable ESO-1, besides completing the comparative analysis of the operational rules and practices concerning operational security and reliability in the European synchronous areas, the ESO TF will work further towards compiling all the necessary information and inputs for the *ERGEG advice to the European Commission on the Security and Reliability Guidelines in 2006/2007*.

- Guidelines of Good Practice on the Integration of Balancing Markets

In 2005, ERGEG ESO TF has started work on preparation of the *GGP on Integration of Balancing Markets*. This work builds-up on the *CEER ESO TF Internal Report on Balancing* in 2004 and on the *ERGEG Position on Balancing Markets Compatibility* presented at the XII Florence Forum.

After completing the GGP on Integration of Balancing Markets an ERGEG public consultation and public hearing on this document is envisaged (likely to be in Summer 2006). Following that, the GGP document and the accompanying results of the ERGEG public consultation and hearing will be presented in detail at the XIII<sup>th</sup> Florence Forum (presumably in autumn 2006).

Finally, this work will result in a specific list of proposals and measures for harmonization and integration of balancing markets in Europe in 2006, yielding an ERGEG advice to the European Commission on this issue.

It is also envisaged to propose to address the issue of balancing in the continuation of the work of the (initially planned and conducted only for Congestion Management) mini fora, as indicated for the issue C below.

- Follow up of Congestion Management guidelines and mini-fora

After adoption of the Congestion Management Guidelines in 2006, monitoring of their application and implementation will become the key issue for achieving the desired results. At the same time, while the mini fora have initiated a number of positive, practical developments throughout the regions in Europe, the work for achieving coordinated, market based congestion management including short term aspects (day-ahead and intra-day) has not been completed yet and further discussions and projects within the framework of the mini fora are necessary.

Moreover, whereas Congestion Management issues are tackled in many aspects and specific projects are under their way, a number of additional – mainly market design related – issues will need to be addressed in the next years, in order to achieve first the truly regional electricity markets integration and second the cross-regional evolution of these markets towards the internal electricity market of Europe.

In this task and deliverable ESO-3, the follow-up activities after the adoption of Congestion Management Guidelines will be addressed first, followed by the elaboration on specific market design related issues to be included in the work of possible future mini fora.

- Financially firm transmission access rights

During the ERGEG public consultations and hearing on the Congestion Management Guidelines in 2005, the question of firmness (including here different degrees of firmness) of the transmission access rights at the (congested) interconnections was raised and the need to quantify the firmness and offer even different degrees of firmness to the market has been emphasized by the traders.

Within this task and the deliverable ESO-4, the analysis of options for making transmission access rights firm, including assessment of relative costs and benefits of options for providing firmness and levels of firmness, will be performed. Based on this assessment, an internal recommendation will be discussed. Depending on the results of these discussions, this task

might develop towards an ERGEG consultation and possibly towards some specific advice to the European Commission

- Co-ordination between TSOs

Another top-priority issue is coordination and information exchange between TSOs. To this end, ETSO has committed (XIIth Florence Forum) to deliver by November 2005 a list of requirements and obstacles concerning the information needed by the TSOs to be able to fulfill their objectives of secure grid operations throughout the European synchronous areas.

This task and deliverable ESO-5 will build-up first on the results of the ERGEG public consultation on Congestion Management Guidelines in 2005 and will particularly take into account the proposals by ETSO mentioned above, in order to achieve the following:

- Examine current levels of co-ordination regarding network operation
- Produce ERGEG internal discussion paper on co-ordination necessary for TSOs to operate systems either side of interconnection, and for trade to develop
- Identify any impediments to any necessary co-ordination
- Assess cross border governance arrangements necessary to enable, supervise, and approve relevant co-ordination

Furthermore, this task will make use on one hand and provide (as available and appropriate) inputs on the other, to the CEER (EMD TF) work on "*GGP on Transparency and Information Management*".

## 2.2. Cross Border Trade (CBT) Task Force

### Issues to be addressed

- Transmission tariff harmonization including tariff structures and rights, long and short term locational signals
- Reporting procedures of transmission tariff levels to the European Commission
- Proposal for longer term ITC mechanism and reporting procedures, including ERGEG public consultation and delivery of advice to the European Commission
- Recommendations for defining the cost base for ITC mechanisms according to the ITC guidelines in the context of transmission “Regulated Asset Base” and allowed revenue methods across Member States

### Background

The new Cross Border Trade TF incorporates the former Inter-TSO Compensation (ITC) Task Force (ITC TF) and its covers both ITC and tariffication issues.

Regarding the ITC mechanism, at present ETSO uses a temporary system to address the costs of hosting cross-border flows. This system has now been in use for four years. It was agreed in XI<sup>th</sup> Meeting of the European Electricity Regulatory Forum (September 2004) that further modeling and comparison of available ITC methods with the 2003 and 2004 load flow data is needed. For this purpose the European Commission engaged consultants in the beginning of year 2005. Based on the consultant's report and other available information, ERGEG will prepare draft ITC guidelines and launch an ERGEG public consultation on them. After the public consultation ERGEG will prepare its advice on the ITC Guidelines to the European Commission. The Commission will make a proposal on the ITC Guidelines (together with Tarification Guidelines) for Comitology procedure.

Regarding tariff harmonisation, the ERGEG gave its advice the European Commission on the Tarification Guidelines in July 2005. The objective of these guidelines was as a first step to harmonize charges paid by generation on the transmission network level. The draft Tarification Guidelines stated the current position in the ranges of national tariffs as a starting point for harmonization and further work on this issue, notably with respect to the need for widening the

harmonization to the lower voltage levels and on the tariff structures are needed. The implementation of long-term locational signals and their interaction with short term locational signals should also be considered.

## **Approach**

- ITC mechanism

The ultimate goal is to have a longer-term ITC mechanism designed, agreed among stakeholders and implemented accordingly as soon as possible, but at the latest in the beginning of year 2007. The agreement of method and cost base to be applied in the future ITC Guidelines is important in achieving this major goal. It is the view of the ERGEG that the following key issues should be solved:

- Procedures defining which TSOs are liable to pay compensations and which TSOs shall receive compensations
- Costing methodology taking into account cost of existing network and long-run incremental costs of future network and their weighting
- Methods for defining costs and benefits incurred as a result of hosting cross-border flows
- External countries, where specification for treatment of electricity from originating or ending in countries outside the EEA are defined
- Merchant lines, where participation of systems interconnected with DC lines are considered

These key issues of ITC are evaluated in terms of

- Criteria for evaluation of long-term criteria published by CEER/EREG in the year 2004
- Information system to be developed for the collection of required data

Draft ITC Guidelines shall be put on public consultation and after the consultation the ERGEG will give its advice to the European Commission on the ITC Guidelines. Discussion and co-operation with European Commission, ERGEG and ETSO will be continued in the practical implementation process of the Guidelines. In this context the ERGEG will prepare internal recommendations on reporting procedures and recommendations for defining cost of existing network and good practices to define costs of LRAIC for future investments to be used in the ITC Guidelines.

- Tariff harmonisation

It is necessary to:

- Define the actual reporting process of transmission tariff levels for the EC according to the proposed Tarification Guidelines
- Analyse the effects for further harmonisation of G charges at lower voltage levels.
- Analyse the effects and possibilities for harmonised fee structures

In order to develop the work in relation with the above mentioned issues, it is scheduled to have discussions with different stakeholders. This includes dialogue with ETSO in the works related to the ITC mechanism and EURELECTRIC as regards the works on the tariff harmonisation issues. The ITC Guidelines shall be subject to an ERGEG public consultation process.

## 2.3. Regional Electricity Markets (REM) Task Force

### Issues to be addressed

- Develop ERGEG Conclusions on the Creation of Regional Electricity market (Electricity Roadmap) public consultation and the launch of regional initiatives
- National legal and commercial conditions for cross border electricity trade
- Cross-border framework for transmission investment

### Background

Following on from the ERGEG public consultation *The Creation of Regional Electricity Markets* in 2005, the EFG is tasked with taking forward the work the priority issues associated with enabling efficient trade between national markets. Promoting such trade should facilitate the creation of regional markets, as an interim step to reaching a full single market. A core part of this work is expected to be the launch of regional initiatives which will be an important and practical step toward competitive European electricity market.

### Approach

- Launch of Regional Initiatives

The TF will prepare a conclusions paper based on the responses of the ERGEG public consultation on the Electricity Roadmap in 2005, and will seek to launch, through the active participation of relevant stakeholders, regional initiatives. These will form part of regulators' response to the issues highlighted in the European Commission's Progress Report and in the DG Competition's interim findings on the sectoral inquiry into the electricity (and gas) sectors. These regional initiatives will build on work that has already been made including the regional "mini-fora" on congestion management and ongoing local initiatives to integrate national markets. The intention is to identify at a regional level the practical steps that need to be taken at a regional level to move further towards a competitive single European electricity market.

- Transmission access and cross border infrastructure

It is important for example to identify the main areas where existing national/European regulatory (and other arrangements) may impede the development (both identification and delivery) of cross border infrastructure and make proposals for addressing such issues. Already in 2005, an analysis (based on a questionnaire) in each member was carried out by the CEER's

Electricity Infrastructure (EInfra) Task Force. This work dealt with a number of issues such as regulatory control and financial reward for electricity cross-border transmission infrastructure, criteria to be taken into account in a "Regulatory test", and assessment of criteria for exempting new interconnectors.

The REM TF will therefore undertake further work in 2006 on transmission access and cross border infrastructure issues as part of work to establish some common minimum trading principles between national markets. The examination of impediments and possible approaches to the cross border framework for transmission investment is therefore identified as a priority topic.

This work will build on the work of the CEER's Electricity Infrastructure Task Force on areas where existing arrangements may create barriers to development of cross order infrastructure. The first step should be to seek views from member states and possibly developers and draw upon work on the ERGEG "Creation of Regional Electricity Markets" consultation paper (and responses) getting their views on what issues they have faced/could foresee.

Work will include for example, consideration of the following matters:

- existing national focus of planning, operational standards and system security obligations (and their impact on identification of required investment)
- cross border cost allocation and cost recovery (including in situations where investment will bring wider benefits to a 'region'/number of member states)
- regulator/member state role
- identifying clear examples of where these issues have arisen

- National legal and commercial conditions for cross border electricity trade

This work arises because national legal frameworks can create barriers to cross border trade such as national regulators' accessing data which does not fall within their jurisdiction. Account will have to be taken of the current study being undertaken by the European Commission on the powers of regulators. There will also be appropriate co-ordination with the CEER.

The work will include as a first stage a review of the national legal and commercial conditions for cross border trade, supplemented with a description of the allocation of powers and duties of national regulators. A second stage will then be an assessment to which there are 'gaps' in

terms of legal basis and regulatory powers in terms of delivering or enabling cross border markets and the development of 'regional' markets.

### Deliverables of the EFG

Point	Issues to be addressed	Deliverables
<b>Electricity Focus Group</b>		
EFG-1	EREGG Public Consultation on the Guidelines of Good Practice on Transparency and Information Management	Results of public consultation implemented in the GGP on Transparency and Information Management
<b>System Operation (ESO)</b>		
ESO-1	Comparative analysis of the operational rules Further work and discussions on UCTE OH and MLA.  Scope and contents of the Security and Reliability Guidelines according to the Article 8 of the Regulation 1228/2003	Comparative analysis document (internal) of the operational rules in: UCTE, Nordel, UKTSOA, ITSOA, Baltic States.  Recommendations to the European Commission in preparation of the "4th Guidelines" on minimum safety and operational standards for the use and operation of the network
ESO-2	Compatibility and harmonization of rules of balancing markets, mechanisms and systems, and imbalance pricing: Experiences & lessons learned in "merging" of balancing markets so far and recommendations for the future steps and developments	Analysis of extent to which differences in imbalance arrangements in neighbouring territories are a barrier to or distortion of trade, both empirically and in principle, and assessment of materiality of these effects  Development of Guidelines on Good Practice for electricity balancing markets integration  EREGG consultation on balancing and balancing integration  Presentation in Florence 2006 of the GGP on Balancing and results of public consultation  Proposal (EREGG advice) for harmonization and possibly more formal (or legal) framework at the EU level for balancing markets
ESO-3	Congestion Management.	Issues for implementation and monitoring related to the Congestion Management Guidelines (expected to come into force in 2006)
ESO-4	Consider need for financially firm transmission access rights.	Assessment of extent to which existing transmission access rights to capacity are financially firm  Analysis of options for making transmission access rights financially 'firm' (including assessment of relative costs and benefits of options for providing firmness and levels of firmness)  Internal recommendations
ESO-5	Consider the extent of and appropriate methods of co-ordination between TSOs in order to ensure a secure and economically efficient network that also facilitates effective competition across the single market.  Take into account also the input from information on TSO-required information, as committed at the XII Florence Forum to be provided by ETSO.	Examine current levels of co-ordination regarding network operation  Produce internal discussion paper on co-ordination necessary for TSOs to operate systems either side of borders, and for trade to develop  Identify any impediments to any necessary co-ordination e.g. legal  Assess of cross border governance arrangements necessary to enable, supervise, and approve relevant co-ordination

Point	Issues to be addressed	Deliverables
<b>Cross Border Trade (CBT)</b>		
CBT-1	Consider the need for and scope of further transmission tariff harmonization: <ul style="list-style-type: none"> <li>- G-charges on voltage levels lower than those comprising transmission systems</li> <li>- Tariff structures and rights, and long and short term locational signals.</li> </ul>	Internal report on arrangements across EU for charging generation not connected to transmission grids Internal report on principles and practice of transmission tariff structures, including and how these issues might be treated at an EU level.
CBT-2	Reporting procedures of transmission tariff levels to the European Commission.	Recommendation on form and channels for regulators to report to the European Commission
CBT -3	Conceptual and practical comparison of alternative methods so that a proposal for the longer term ITC mechanism and reporting procedure will be ready to be implemented.	Reach and consult on final EREGG view on preferred ITC scheme and give advice to the European Commission In reaching such a view, it will be necessary to deliver agreed EREGG positions on : <ul style="list-style-type: none"> <li>- Reporting needs, procedures and transparency issues</li> <li>- Recommendations for defining cost of existing network for ITC guidelines</li> <li>- Good practices to define LRAIC costs and more standardised costing methodology in ITC guidelines</li> </ul>
CBT -4	Start to consider transmission "Regulated Asset Base" questions with a view to understanding how Member States regulate transmission tariffs and set price controls, and how methods and parameters may vary.	Set out terms of reference for studies in 2007
<b>Regional Electricity Markets (REM)</b>		
REM-1	Develop EREGG final view on Electricity Market integration flowing from the Creation of the EREGG Regional Electricity Markets" 'RoadMap' 2005 consultation paper.	Consider responses to EREGG public consultation paper "Creation of Regional Electricity Markets" and develop final view, and the launch of regional market initiatives
REM-2	Compatibility of national legal and commercial conditions for cross border electricity trade Compatibility of national regulatory frameworks in the implementation of regulators powers and duties in order to promote cross border electricity trade according to article 23 of the Electricity Directive 54/2003	Map of national legal and commercial conditions for cross border electricity trade Map of the allocation of powers and duties of national regulators as mentioned in article 23 of Directive 54/2003
REM-3	Consider cross border framework for transmission investment with a view to assessing what impediments there are to assessing the appropriate level of cross border investment and putting that investment in place.	Internal Report on the extent to which inconsistent or incomplete regulatory and planning regimes have affected cross border transmission planning and investment in the past Study the possible criteria to identify the interconnection projects that increase the security of supply and trade among Member States

### 3. GAS FOCUS GROUP (GFG)

#### Issues to be addressed

- A. Interoperability
- B. Cross-border trading
- C. Gas hubs case studies
- D. Transparency
- E. Monitoring Gas Balancing and Storage
- F. LNG
- G. Follow up to the European Commission's Progress Report and Sectoral Enquiry

Further work may also arise from the fact that two Madrid fora are envisaged in 2006. On security of supply, the GFG would expect to react with resources/input if required to do so (for example there is an event that raises security issues) – the nature of any response would clearly depend on the nature of the situation.

#### Background

Key areas of work for 2006 will include continuing to work on improving access conditions to networks – particularly focusing on the way in which key information is made available to market participants by TSOs following implementation of the Gas Regulation in June 2006.

If competition in gas is to develop on a pan-European basis it is important that national markets interact effectively. There are 3 key aspects of market interaction that the Gas Focus Group will look at in 2006 which will build on the important work that has been undertaken in 2005 by the REM Task Force in developing a gas roadmap – which sets out how to make the transition to a competitive European gas market building on the concept of regional markets based on hub to hub based trading. A first task will be to produce a conclusions document for the Gas Roadmap public consultation paper.

Significant work has been undertaken this year on gas storage and balancing issues. ERGEG has produced 2 reports on monitoring its guidelines for good practice for gas storage and it is in the process of developing guidelines for gas balancing. ERGEG envisages further work on monitoring both sets of guidelines in 2006.

LNG growth is important to the EU market and is likely to have a significant impact on the development of competition. Regulation of non-exempted terminals is therefore important to ensure that facilities are used efficiently and that access is fair and non-discriminatory. However it is not clear what regulatory arrangements this implies. An initial ad hoc scoping piece of work should be produced by interested EREGEG members who have experience and are interested in LNG. Thereafter, the GFG would decide what work, if any, should be undertaken on this issue and the timing for doing so.

The GFG will identify relevant work strands from the European Commission's Progress Report on the functioning of the internal market, and on the findings of the DG Competition Sectoral Inquiry which may need to be included into the EREGEG work programme.

### **Organisation of GFG activities**

Gas Market Integration Task Force

- Gas Road Map conclusions paper followed by
- items A - C (hubs case studies; interoperability; cross-border trade)

Transparency Task Force – item D (last 6 months of 2006 work plan)

Gas Balancing and Storage Task Force – item E

GFG – item F (LNG) and item G (follow up to the Commission's Progress Report and Sectoral Inquiry)

### 3.1. Gas Market Integration Task Force

#### Issues to be addressed

- Follow up to the Gas Road Map consultation
- Interoperability and regulatory arrangements for technical conversion of gas
- Cross Border Trading - transit and regulated Entry- Exit System (and other upstream infrastructure)
- Development of hubs – development of case studies

#### Background

In 2005 ERGEG launched a public consultation on a roadmap for the developed of a European gas market. A key aspect of the roadmap will be to set out proposals about how we can move from national to an EU wide market for gas – identifying practical steps and priorities – by fostering greater market interactions.

#### Approach

- Gas Road Map and the development of hubs

An Introductory Gas Road Map paper was presented by ERGEG to the X<sup>th</sup> Madrid Forum in September 2005. It was developed by ERGEG into a longer public consultation paper “EREGEG Roadmap for a competitive single gas market in Europe” by end of 2005, which set out a way forward for achieving an EU –wide competitive market in gas. This consultation ended on the 23 January 2006. ERGEG will produce a conclusions document after taking account of responses to public consultation paper, and the possible launch of regional initiatives for gas. This work envisages looking at ensuring that national gas markets interact effectively in 3 main areas:

- that liquid and efficient hubs can develop to underpin the EU market
- that no barriers to gas trade are created by differences in gas quality;
- that the appropriate tariff and charging arrangements are in place for cross-border (and other) trade; and

- The development of gas hubs

The development of liquid hub-hub based trading is needed if we are to move towards a single competitive EU gas market. Although some markets have hubs it is clear that liquidity is not

sufficient to allow robust (forward) price formation. There is a need therefore to consider how liquidity can be improved – one way of doing this is to use a case-study approach (like that used in electricity this year) that can look at a number of existing hubs to understand what lessons can be learned. It is also necessary to consider how hubs can interact effectively across national borders to facilitate the development of regional markets.

- Interoperability

Issue of interoperability between networks, and in particular gas quality, are becoming more important as we move towards a more integrated EU market. Gas quality is one aspect of interoperability. It is understood that consideration of gas quality aspects is primarily task of EASEEgas, especially as long as focusing on technical definitions such as quality ranges. Where questions of gas quality concern non-discriminatory TPA and gas-to-gas competition, regulatory rules have to be defined. It is important that the right framework is in place to deal with interoperability otherwise there is a significant risk that the single market will not be achieved. Key issues that may need to be considered include:

- What impact will changes in the source of supplies have on gas quality (including H-L conversion)?
- How to ensure that competition and trade are not distorted by a need to treat gas?
- What arrangements need to be put in place to ensure that costs and access for treatment are allocated appropriately and that any charges are fair and non-discriminatory?
- How can any necessary investment in the provision of treatment facilities/services be secured on an efficient and timely basis?
- What issues are raised by TSO-TSO operational interactions?
- What arrangements need to be in place to ensure that technical interactions between neighbouring TSOs do not create barriers to (cross-border) trade?

It is likely that interoperability will focus significantly in any third package of legislation – therefore it is important that ERGEG comes forward with a framework that it considers will ensure that the development of competition is not distorted. EASEE-gas announced at the X<sup>th</sup> Madrid Forum (September 2005) three new Common Business Practices (Congestion, Interconnection Agreement and Gas Quality issues). The Forum recognised that recommendations on gas quality are a major step to interoperability but that further discussion is needed. The Madrid Forum invited all participants including authorities to assess their positions before the next Madrid Forum (Spring 2006) and to submit them to EASEE-gas.

- Cross-border trading

The X<sup>th</sup> Madrid Forum requires regulators to present a report on the payment for transit capacity and how it interacts with Entry-Exit tariffs by the next Madrid Forum in Spring 2006. A significant amount of work has been undertaken this year on cross-border trade. It is important to build on this work to ensure that appropriate arrangements are in place for dealing with cross-border trade – in particular developing appropriate charging arrangements for transit that ensures that costs are allocated efficiently. It is important to consider whether appropriate arrangements exist for ensuring that necessary investment in cross-border infrastructure is brought forward on a timely and efficient basis.

### **3.2. Transparency Task Force**

#### **Issue to be addressed**

- Transparency

#### **Background**

Transparency of information (both in terms of management and provision of information – i.e. including appropriate ring-fencing requirements, regulatory oversight and publication of information) is crucial to the development of a competitive market – particularly in the absence of effective unbundling in many Member States. The new Gas Regulation which comes into force from June 2006 will include new requirements in relation to the publication and management of information by network operators. ERGEG intends to examine issues surrounding transparency including what information needs to be made available to help ensure that the market operates efficiently and how network operators manage the information to ensure access to it is fair and non-discriminatory.

#### **Approach**

Although this work is important the GFG wishes to remain focused on a small number of areas of work at any one time. Consequently this work on transparency will be undertaken once the work on benchmarking of tariffs was completed, i.e. in the second 6 months of 2006. This would also allow the Task Force to consider the work of the Electricity Focus Group which is developing guidelines on transparency and also to assess the impact of the Gas Regulation which includes requirements on information (which comes into force from July 2006). An initial report on transparency issues will be produced in the 2<sup>nd</sup> half of the year and in the light of responses ERGEG will then consider any further steps are necessary including the development of guidelines.

### **3.3. Gas Balancing and Storage TF**

#### **Issues to be addressed**

- Monitoring and reporting on Gas Balancing
- Monitoring and reporting on Gas Storage

#### **Background**

Monitoring of guidelines is important in order to ensure that they have been implemented. In 2005 ERGEG prepared a paper for public consultation on the principles on gas balancing. ERGEG is now in the process of producing gas balancing guidelines which will be finalised in 2006. The X<sup>th</sup> Madrid Forum also called for ERGEG to produce a follow up report on the implementation of the Guidelines for Good TPA Practice for Storage System Operators for the next Madrid Forum in Spring 2006. ERGEG intends to consult upon and prepare Guidelines for Good Practice (GGP) for Gas Balancing by Spring 2006.

#### **Approach**

EREGEG will produce final GGP for Gas Balancing in Spring 2006 and will produce monitoring reports for both gas storage and gas balancing during 2006.

## Deliverables of the GFG

Point	Issues to be addressed	Deliverables
<b>Gas Market Interaction TF (GMI)</b>		
GMI-1	The job of this Task Force would be to define the detailed workplans of the GM1, GM2 and GM3 deliverables; monitor progress and provide the necessary impetus to the work to ensure that it is delivered.	Final conclusions on the ERGEG public consultation paper "ERGEG Roadmap for a competitive single gas market in Europe". Detailed workplans for GM1, GM2, GM3.
GMI-2	Development of hubs: The development of regional hub-hub based trading will underpin development of EU wide competitive gas market. This work will use practical regional case studies (including input from industry) to understand how hubs need to be developed to ensure liquidity/efficiency/forward price formation.	Case studies of development of gas hubs to facilitate regional-EU competition including hub-hub based trading – which will underpin the regional-EU market.
GMI-3	Interoperability Key issues that will be considered include: What arrangements need to be put in place to ensure that costs and access for treatment are allocated appropriately and that any charges are fair and non-discriminatory? How can any necessary investment in the provision of treatment facilities/services be secured on an efficient and timely basis? What issues are raised by TSO-TSO operational interactions? What arrangements need to be in place to ensure that technical interactions between neighbouring TSOs do not create barriers to (cross-border) trade?	Initial paper on interoperability issues  Final paper on interoperability
GMI-4	Cross-border trading (CBT) This work to ensure that appropriate arrangements are in place for the provision and pricing of capacity for cross-border flows. It will be necessary to consider the extent of tariff harmonisation that is necessary (in line with the Gas Regulation) to ensure that barriers to competition are not created.	Report on Transit capacity and how it interacts with Entry-Exit tariffs to be presented to Madrid Forum in Spring 2006
<b>Transparency TF (TRA)</b>		
TRA-1	This work will focus on developing guidelines for good practice for information management and provision. This will build on the work of the electricity focus group on transparency issues and also review the impact of the implementation of the Gas Regulation (from July 2006). The first step will be to identify the necessary information management requirements (info to the published, information to be ring fenced, ring fencing requirements etc) that is necessary to underpin the development of effective competition and then assess those against the current framework. Then if necessary new requirements could be identified and a mechanism for facilitating their introduction.	Initial paper on information issues including review of impact of new Gas Regulation and identifying any new requirements and how they should be introduced.

Point	Issues to be addressed	Deliverables
Gas Balancing and Storage TF (GBS)		
GBS-1	Monitoring gas balancing	Final Guidelines for Good Practice (GGP) for Gas Balancing EREG report on monitoring either based on consultants work or monitoring at national level by NRAs co-ordinated by EREG
GBS-2	Monitoring storage	EREG report on monitoring either based on consultants work or monitoring at national level by NRAs co-ordinated by EREG
Other areas of work not with task force status		
GFG-1	LNG	An initial internal scoping paper that reviews the existing market where LNG is not exempted from TPA and considers what regulatory arrangements are needed to ensure that there are no barriers to development; and recommendations on the nature of any consultancy input that would be needed. The GFG shall then decide what work it would need to do once this initial scoping piece has been produced - including for example the development of guidelines for good practice for TPA access to LNG.

## 4. CUSTOMER FOCUS GROUP (CFG)

### Issues to be addressed

- A. Best practice for customer protection
- B. Best practice for customer switching
- C. Best practice for price transparency
- D. A review of the regulated energy tariff systems
- E. Evaluation and best practice proposition of pre-switching information
- F. A review and recommendation on automatic meter reading
- G. A review of the obstacles to switching supplier in the gas retail market
- H. Customer related issues in the South East European energy market

### Background

The Electricity and Gas Market Directives that were to be implemented nationally by the 1<sup>st</sup> of July 2004 set as their goal that electricity and gas customers should be able to choose their supplier freely. Simultaneously, all customers should also be able to enjoy high levels of consumer protection.

In a number of the ERGEG member countries the electricity and/or gas markets have been opened up for both small and medium-sized customers, whereas in some ERGEG member countries the last steps of market opening are bound to take place by the 1<sup>st</sup> of July 2007 at the latest as required by the Electricity and Gas Market Directives, unless a derogation has been granted.

The Electricity and Gas Market Directives emphasize the importance of consumer protection. In Article 3 of the Electricity Directive it is stated that the Member States shall ensure that all household customers and, where Member States deem it appropriate, small enterprises, enjoy universal service that is the right to be supplied with electricity of a specified quality within their territory at reasonable, easily and clearly comparable and transparent prices.

Furthermore, according to Article 3 of the Electricity and Gas Directives, Member States shall take appropriate measures to protect final customers. In particular, they must ensure that there are adequate safeguards to protect vulnerable customers. Member States shall ensure high levels of consumer protection especially regarding transparency of contractual terms and

conditions, general information and dispute settlement mechanisms. It is for the Member States to ensure that the eligible customers are able to switch to a new supplier.

The Customer Focus Group will address issues that are important for the retail market customers – especially households and small and medium-sized enterprises - when they are availing the opportunities of opened up electricity and gas markets. In this respect it will maintain close collaboration with the European Commission in following the survey and evaluation of public service obligations.

### **Organisation of CFG activities**

The work under the list of issues mentioned above shall be undertaken in Consumer Protection (CPR), Customer Switching (CSW) and South East Europe Customer (SEC) Task Forces.

Furthermore, the Customer Focus Group will finalise the work on best practice propositions for customer protection, customer switching and price transparency, including a public consultation procedure during the first half of 2006.

## 4.1. Customer Protection Task Force (CPR)

### Issues to be addressed

- End-user energy price regulation
- Pre-contractual information available to customers

### Background

- End-user energy price regulation

Progressive market opening towards full competition has in many cases been characterized by the use of various types of regulated tariff systems. Either these regulated tariff systems have been carried over from the pre-liberalisation phase or they have been implemented at the point of market opening to ensure the protection of especially small customers in the competitive electricity and gas market.

The regulated energy tariff systems currently in use differ considerably in various Member States. The coverage of the system as well as the way the tariffs are regulated or supervised vary remarkably. In a number of cases the outspoken objective has been to maintain a protective system for the transition phase towards the competitive market. However, the systems have prevailed despite the total market opening. Furthermore, in a number of cases the customers – excluding or not the heavy users – have continued to stay with their incumbent supplier on the regulated tariffs. Thus, the level of switching activity has been low and the resulting competitive pressure in the markets has been relatively weak.

- Pre-contractual information

Adequate customer information is a key focus of the Electricity and Gas Markets Directives. In Annex A of the Electricity and Gas Market Directives, are laid down the measures on consumer protection to be applied to at least household customers, as stated in the Article 5 of the Directives. According to the Annex, the conditions in the contract shall be fair and well known in advance and the information should be provided prior to the conclusion or confirmation of a contract. Furthermore, those customers that have access to universal service should be informed about their rights regarding universal service. In Article 3 of both the Directives it is stated that the Member States shall ensure that all household customers and, where Member

States deem it appropriate, small enterprises, enjoy universal service that is the right to be supplied with electricity/gas of a specified quality within their territory at reasonable, easily and clearly comparable and transparent prices.

## **Approach**

- End-user energy price regulation

It would be the task of the CPR TF to review the present end-user energy price regulation systems that are used in the ERGEG member countries. It is important to gather and analyse the experiences of those countries that have totally opened their gas and/or electricity markets and that have given up using any regulated energy tariff systems.

Regulated tariffs have an important impact on customer switching where the regulated tariffs are artificially low. In these cases the customers do not have any incentives to switch a supplier and to enter the competitive market. In this respect it is important to describe and analyse the effect of regulated tariff systems on customer switching. A further aspect to be included will be the comparison of market prices with the regulated end-user prices for the same types of customers.

A special issue to be included in the review of end-user energy price regulation is the affordability and the related social tariff issue. This work is to be undertaken by the South East Europe Customer Task Force but the consultancy study to be performed will gather information on the various systems of dealing with the affordability of energy for low-income customers.

- Pre-contractual information

One consumer-related problem seen in the opened electricity and gas retail markets has been the availability of necessary information and the awareness of the small customers regarding the liberalised market and the actions there.

The intention is to review:

- general information given to small customers about new market organization, new actors, purchasing processes and more generally all information necessary prior to customer contracting, i.e. supplier switching or moving or renegotiating contract with the incumbent supplier. The review would identify what information has been given to small customers

when markets have opened in the different EU countries, by whom, through which channels, etc.

- the easiness and accuracy of access to pre-contractual information such as prices, customer metering data, contract models.

In addition to a status review, the outcome would be a recommendation from the consumer point of view regarding what information should be available and through which media for the small customers to help them to better enjoy the benefits and opportunities of the opened up gas and electricity markets.

## 4.2. Customer Switching TF (CSW)

### Issues to be addressed

- Automatic Meter Reading
- Obstacles to switching supplier in the gas retail market

### Background

- Automatic Meter Reading/Management

Automated Meter Reading (AMR) and Automated Meter Management (AMM) are technically feasible, both for electricity and gas metering. Large scale installation programs are at the moment under implementation in the electricity sector only; small scale installation in the gas sector have been implemented, while large scale installations are prevented by the higher cost of communication infrastructure, the smaller number of customer relationship operations that can be performed, and some potential safety issues.

Some relevant issues, among others, emerge for energy regulators:

- a. AMR/AMM cost, i.e. the balance between capital expenditure increase (annual depreciation allowance) and operating expenditure reduction;
- b. AMR/AMM benefits, i.e. an assessment of potential benefits for final customers and distribution companies, including the opportunity to introduce flexible energy price structures based on generation cost, reading and billing improvements, additional services, effects on security of supply;
- c. effects on competition in energy supply, metering, value-added services;
- d. compatibility between the system performances and the competition in energy supply;
- e. use of customer load curves for billing and effects on system performances;
- f. suitability of the system in managing demand control (demand side management), energy efficiency (home automation) and pre-paid;
- g. capability of the system in monitoring continuity of supply and voltage quality;
- h. potential integration between gas and electricity AMR/AMM.

These effects and characteristics should be carefully considered, because AMR/AMM could:

- make customer switching easier, while separation of metering activities, competition in metering and competition in value-added services could be prevented by the use of a proprietary communication infrastructure;
- represent a serious obstacle to competition in energy supply and to metering activity (if carried out by separated operators) if data availability and/or data accessibility are not guaranteed to supply and metering operators and to customers.

- Obstacles to switching supplier in the gas retail market

The European Commission switching estimates for small commercial/domestic gas customers are significantly lower than in the electricity sector. Therefore, there is a need to identify the barriers to competition in particular at distribution level and to make proposals (good practices) to remove these barriers.

The ERGEG Customer Focus Group (CFG) has already undertaken significant work on the customer switching process. The proposed study will build on previous reports, while focusing on the gas small commercial/domestic markets specificities. Some data that were not available last year may be found more easily as some barriers to competition at wholesale level are removed and as progress is made in terms of market opening.

## **Approach**

- Automated Meter Reading/Management

As AMR/AMM techniques are spreading, it becomes increasingly important for the regulators to gain a good knowledge on them and to be able to set regulatory requirements on them if required. The activities will be focused on the regulatory approach to AMR/AMM, including general regulatory approach, treatment of additional investment cost, cost saving monitoring, instruments to promote the extension to all customers, effects on competition in energy supply, metering and value-added services, analysis of the system characteristics, and definition of minimum system requirements.

A status review on available technologies and the use of AMR/AMM in ERGEG member countries and a paper on regulators' view on AMR/AMM are the main deliverables of the activities.

The status report will focus on the following points:

1. What are the systems in use (are there differences among the systems being currently used in various countries)?
2. Which potential integration exists between electricity and gas AMR/AMM?
3. What are the plans to introduce and increase the use of AMR/AMM?
4. How many customers are encompassed by AMR/AMM and how many network operators are using it?
5. What does it mean the handling of customer load curves as far as AMR/AMM performances and competition in energy supply are concerned?
6. Is AMR/AMM suitable to really monitor continuity of supply and voltage quality?
7. What about the adequacy of the AMR/AMM in managing demand control, energy efficiency (home automation), pre-paid?

The paper on regulators' view will focus on regulatory approach to AMR/AMM:

1. What are the effects of AMR/AMM on customers, network operators and competition (benefits, costs)?
2. Is there compatibility between AMR/AMM performances and competition in energy supply?
3. Is an *ex-ante* regulation of communication standards necessary, in order to prevent the uncontrolled growth of non-communicating systems?
4. What kind of requirements should regulators impose on network operators regarding AMR/AMM?
5. Which are the effects on competition in energy markets (customer switching), metering, value-added services? How should regulators take care of these forecasted effects?

The issue requires close co-operation between CSTF and CEER EWG as the topic includes both technical and market functioning aspects. It is the idea that the TF would be participated by both CSTF and EWG members.

- Obstacles to switching in gas retail market

As regards this issue, the Customer Switching TF will co-operate with the Customer Protection Task Force as the latter will address the issues of "End-user energy price regulation" and "Pre-switching information", which are closely related to supplier switching obstacles in gas retail market.

The first task of the work will be to identify the most important and frequent obstacles. The industry structure of distribution varies greatly in Europe and some obstacles are inherent to it. Also, the legal and regulatory framework of distribution and retail markets is not the same in individual Member States. However, some generic obstacles to customer switching can be identified. The approach is to gather information from regulators on the obstacles observed in the national markets either through a questionnaire, or alternatively via a few interactive Task Force meetings.

The next stage will be to identify good or promising practices and on the basis of them to develop a set of "Guidelines for Good Practice" addressed to DSOs, retail suppliers and other interested parties that would complement the existing guidelines for transmission and storage.

Deliverables include a first paper identifying the obstacles to supplier switching (Q3 2006) and a best practice proposition (Q4 2006). The first paper on obstacles to supplier switching could serve as the basis for a public consultation of all interested parties on the ERGEG website. The proposition paper would build on responses to the consultation and further discussions within the Task Force. During the work it is important to liaise with European organizations involved in distribution or customer switching (e.g. GEODE, CEDEC and Eurogas) as well as on the side of customers (BEUC, Energywatch etc.) in order to share views on common areas of investigation.

### 4.3 South East Europe Customer (SEC) TF

#### Issues to be addressed

- Setting the agenda for the South East Europe Customer TF
- Low-income customer protection/affordability of electricity and gas

#### Background

The European Union and South East Europe (Croatia, Bosnia, Herzegovina, Serbia, Montenegro, the Former Yugoslav Republic of Macedonia, Albania, Romania, Bulgaria and UNMIK on behalf of Kosovo) signed the Energy Community Treaty on the 25<sup>th</sup> of October, 2005. The Treaty will create a legal framework for an integrated energy market and extend the Internal Energy Market to the Balkan peninsula.

As the market opening in the South East European energy market is evolving, customer issues will come to the focus and require increased attention. In particular the rules and practices related to the protection of low-income customers need to be taken care of and adapted to the new liberalized market environment.

It has been and still is customary in the pre-liberalized energy markets to take care of the special needs of vulnerable customers, for instance through cross-subsidizing among customer groups and through offering social tariffs to them. The enhanced requirements regarding unbundling and cost-reflectivity placed on electricity and gas market actors and the increased competition in the supply of electricity and gas, will by necessity involve changes for such pricing schemes in the liberalized market environment. This South East Europe Customer TF will explore the experience gained elsewhere in moving towards cost reflective tariff system and ways, in liberalised markets, to tackle fuel poverty other than via social tariffs.

#### Approach

- Setting the agenda for the South East Europe Customer TF  
The work of the TF will start with a brainstorming session to be organised in collaboration with the TF members, the European Commission and the Donors. On the basis of the results of the brainstorming sessions the issues for the 2006 agenda will be selected.

- Low-income customer protection/affordability of electricity and gas

Low income customer protection from the viewpoint of affordability of energy prices will be a special issue. The development of South East Europe Energy markets and their planned opening up will make it important to address the ways vulnerable customers and the related fuel poverty is tackled. The South East Europe Customer TF will review the systems that are in place to protect vulnerable customers when energy markets are opened up to retail competition. This task will be carried out in close co-operation and co-ordination with the task of reviewing and analysing end-user energy price regulation systems. A specific part of the questionnaire and review of regulated tariff systems will be dedicated to the affordability issue.

## Deliverables of the Customer Focus Group

Point	Issues to be addressed	Deliverables
<b>Customer Focus Group (CFG)</b>		
CFG-1	<p>Consultation of the draft Best Practice Proposition for Consumer Protection</p> <p>Finalization of the Best Practice Proposition for Consumer Protection</p>	Best Practice for Consumer Protection (approximately 10 pages long description of the requirements for best practice in the field of consumer protection)
CFG-2	<p>Consultation of the draft Best Practice Proposition for Customer Switching</p> <p>Finalization of the Best Practice Proposition for Customer Switching</p>	Best Practice for Customer Protection (approximately 10 pages long description of the requirements for best practice in the field of customer switching)
CFG-3	<p>Consultation of the draft Best Practice Proposition to Price Transparency</p> <p>Finalization of the Best Practice Proposition for Price Transparency</p>	Best Practice for Price Transparency (approximately 5 - 10 pages long description of the requirements for best practice in the field of price transparency)
<b>Customer Protection TF (CPR)</b>		
CPR-1	<p>End-user energy price regulation</p> <p>A review of the regulated energy tariff systems in use in the ERGEG countries in close co-ordination with the eventual consultant study</p> <p>An analysis of the effects of end-user energy price regulation</p> <p>An evaluation of the need for regulated energy systems in a) transition period and b) in a mature electricity and gas market</p>	<p>A questionnaire to collect information on the regulated tariff systems currently in use</p> <p>A review report on the regulated tariff systems to control electricity and gas prices (energy prices). The report will include</p> <ul style="list-style-type: none"> <li>- A description of the present systems (what prices are controlled and how the controls are implemented)</li> <li>- An evaluation of the effects of the regulated tariff systems a) consumer protection and b) on the functioning of the electricity and gas markets</li> </ul>
CPR-2	Pre-contractual information: a review of general information that is necessary and that is available to small customers prior to supplier switching	<p>Review the status and problems of pre-contractual information in a sample of ERGEG member countries</p> <p>How information on new market organisation, new actors, purchasing and switching processes is distributed to small customers (what information, which channels, who is/are responsible)</p> <p>The findings will be published in a report, which also includes recommendations</p>
CPR-3	Keeping abreast of the European Commission survey and evaluation of PSOs	Keeping abreast of European Commission survey and evaluation of PSOs

Point	Issues to be addressed	Deliverables
<b>Customer Switching TF (CSW)</b>		
CSW-1	<p>Automatic meter reading</p> <p>What is AMR and how does it affect network operation</p> <p>How widely AMR is used in ERGEG member countries</p> <p>The effects of introducing AMR on customers</p> <p>The regulatory implications and what requirements should regulators set on AMR before it is implemented</p> <p>This issue requires close co-operation between CSTF and CEER EWG as the topic includes both technical and market functioning aspects. It is the idea that the TF would be participated by both CSTF and EWG members.</p>	<ul style="list-style-type: none"> <li>- A status review on the use of AMR/AMM in ERGEG member countries</li> <li>- How many customers are encompassed by AMR/AMM and how many network operators are using it?</li> <li>- What are the systems in use (are there differences among the systems being currently used in various countries)?</li> <li>- Which potential integration exists between electricity and gas AMR/AMM?</li> <li>- What are the plans to introduce and increase the use of AMR/AMM?</li> <li>- What are the effects of AMR/AMM on customers, network operators and competition (benefits, costs)?</li> <li>- A regulator's view on AMR/AMM (a paper)</li> <li>- What kind of requirements have regulators imposed on network operators regarding AMR/AMM (technical features, for example regarding the possibility to register and collect quality of supply information)?</li> <li>- How have the costs of AMR/AMM been supervised/approved/regulated?</li> <li>- What are the effects on competition in energy markets (customer switching), metering, value-added services</li> </ul>
CSW-2	<p>Obstacles to switching supplier in gas retail market</p>	<p>An identification of the reasons and eventual obstacles to supplier switching in the small customer segment of the gas retail market.</p> <p>The switching rate among small gas customers is rather low in and the first aim is to identify the reasons behind this</p> <p>A best practice proposition including tools to enhance switching activity of small gas customer.</p>
<b>South East Europe Customer TF (SEC)</b>		
SEC-1	<p>Affordability of electricity and gas in moving to liberalised South East European regional energy markets.</p>	<p>Paper scoping out the agenda and deliverables of the SEC TF</p>
SEC-2	<p>Low income customer protection from the affordability viewpoint. A review of the customer protection tariffs and systems in use in the SEE countries and of the regulator's (current and new) obligations in this area.</p> <p>An analysis of the regulation on affordability and low income customers in ERGEG member authorities.</p> <p>An evaluation of the need for regulated systems in SEE a) transition period and b) in a mature electricity and gas market.</p> <p>A best practices guide for moving towards cost reflective tariffs based on the experience in liberalized markets.</p>	<p>A questionnaire to collect information on the customer protection/affordability systems currently in use in SEE. An evaluation of the effects of the regulated systems on the functioning of the electricity and gas markets</p> <p>A review report on affordability regulation in ERGEG member authorities and of how best to address affordability and low income customers in moving toward cost reflective tariffs. The report will include:</p> <ul style="list-style-type: none"> <li>- A description of the present systems</li> <li>- Best Practices Report on moving to cost reflective tariffs while addressing the issue of affordability</li> </ul>

## Appendix 1 – ERGEG Expected Outputs and Deliverables 2006

Point	Issues To Be Addressed	Deliverables
Electricity Focus Group		
EFG-1	ERGEG Public Consultation on the Guidelines of Good Practice on Transparency and Information Management	Results of public consultation implemented in the GGP on Transparency and Information Management
ESO-1	Comparative analysis of the operational rules. Further work and discussions on UCTE OH and MLA . Scope and contents of the Security and Reliability Guidelines according to the Article 8 of the Regulation 1228/2003	Comparative analysis document (internal) of the operational rules in: UCTE, Nordel, UKTSOA, ITSOA, Baltic States. Recommendations to the European Commission in preparation of the "4th Guidelines" on minimum safety and operational standards for the use and operation of the network
ESO-2	Compatibility and harmonization of rules of balancing markets, mechanisms and systems, and imbalance pricing: Experiences & lessons learned in "merging" of balancing markets so far and recommendations for the future steps and developments	Analysis of extent to which differences in imbalance arrangements in neighbouring territories are a barrier to or distortion of trade, both empirically and in principle, and assessment of materiality of these effects Development of Guidelines on Good Practice for electricity balancing markets integration ERGEG consultation on balancing and balancing integration Proposal (ERGEG advice) for harmonization and possibly more formal (or legal) framework at the EU level for balancing markets
ESO-3	Congestion Management after the adoption of the Congestion Management Guidelines.	Issues for implementation and monitoring related to the Congestion Management Guidelines (expected to come into force in 2006)
ESO-4	Consider need for financially firm transmission access rights.	Assessment of extent to which existing transmission access rights to capacity are financially firm Analysis of options for making transmission access rights financially 'firm' (including assessment of relative costs and benefits of options for providing firmness and levels of firmness) Internal recommendations
ESO-5	Consider the extent of and appropriate methods of co-ordination between TSOs in order to ensure a secure and economically efficient network that also facilitates effective competition across the single market. Take into account also the input from information on TSO-required information, as committed at the XII Florence Forum to be provided by ETSO	Examine current levels of co-ordination regarding network operation Produce internal discussion paper on co-ordination necessary for TSOs to operate systems either side of borders, and for trade to develop Identify any impediments to any necessary co-ordination e.g. legal Assess cross border governance arrangements necessary to enable, supervise, and approve relevant co-ordination
CBT-1	Consider the need for and scope of further transmission tariff harmonization: - G-charges on voltage levels lower than those comprising transmission systems - Tariff structures and rights, and long and short term locational signals.	Internal report on arrangements across EU for charging generation not connected to transmission grids Internal report on principles and practice of transmission tariff structures, including and how these issues might be treated at an EU level

Point	Issues To Be Addressed	Deliverables
CBT-2	Reporting procedures of transmission tariff levels to the European Commission.	Recommendation on form and channels for regulators to report to the European Commission
CBT -3	Conceptual and practical comparison of alternative methods so that a proposal for the longer term ITC mechanism and reporting procedure will be ready to be implemented.	Reach and consult on final ERGEG view on preferred ITC scheme and give advice to the European Commission In reaching such a view, it will be necessary to deliver agreed ERGEG positions on: <ul style="list-style-type: none"> <li>- Reporting needs, procedures and transparency issues</li> <li>- Recommendations for defining cost of existing network for ITC guidelines</li> <li>- Good practices to define LRAIC costs and more standardised costing methodology in ITC guidelines</li> </ul>
CBT -4	Start to consider transmission “Regulated Asset Base” questions with a view to understanding how Member States regulate transmission tariffs and set price controls, and how methods and parameters may vary.	Set out terms of reference for studies in 2007
REM-1	Develop ERGEG final view on Electricity regional market integration flowing from the Creation of the ERGEG Regional Electricity Markets” ‘RoadMap’ 2005 consultation paper.	Consider responses to ERGEG public consultation paper “Creation of Regional Electricity Markets” and the launch of regional initiatives
REM-2	Compatibility of national legal and commercial conditions for cross border electricity trade Compatibility of national regulatory frameworks in the implementation of regulators powers and duties in order to promote cross border electricity trade according to article 23 of the Electricity Directive 54/2003	Map of national legal and commercial conditions for cross border electricity trade Map of the allocation of powers and duties of national regulators as mentioned in article 23 of Directive 54/2003
REM-3	Consider cross border framework for transmission investment with a view to assessing what impediments there are to assessing the appropriate level of cross border investment and putting that investment in place.	Internal Report on the extent to which inconsistent or incomplete regulatory and planning regimes have affected cross border transmission planning and investment in the past Study the possible criteria to identify the interconnection projects that increase the security of supply and trade among Member States
<b>Gas Focus Group</b>		
GMI-1	The job of this Task Force would be to define the detailed workplans of the GM1, GM2 and GM3 deliverables; monitor progress and provide the necessary impetus to the work to ensure that it is delivered.	Final conclusions on the ERGEG public consultation paper “ERGEG Roadmap for a competitive single gas market in Europe”.  Detailed workplans for GM1, GM2, GM3.
GMI-2	Development of hubs: The development of regional hub-hub based trading will underpin development of EU wide competitive gas market. This work will use practical regional case studies (including input from industry) to understand how hubs need to be developed to ensure liquidity/efficiency/forward price formation.	Case studies of development of gas hubs to facilitate regional-EU competition including hub-hub based trading – which will underpin the regional-EU market.

Point	Issues To Be Addressed	Deliverables
GMI-3	<p>Interoperability</p> <p>Key issues that will be considered include:</p> <p>What arrangements need to be put in place to ensure that costs and access for treatment are allocated appropriately and that any charges are fair and non-discriminatory?</p> <p>How can any necessary investment in the provision of treatment facilities/services be secured on an efficient and timely basis?</p> <p>What issues are raised by TSO-TSO operational interactions?</p> <p>What arrangements need to be in place to ensure that technical interactions between neighbouring TSOs do not create barriers to (cross-border) trade?</p>	Paper on interoperability
GMI-4	<p>Cross-border trading (CBT)</p> <p>This work to ensure that appropriate arrangements are in place for the provision and pricing of capacity for cross-border flows. It will be necessary to consider the extent of tariff harmonisation that is necessary (in line with the Gas Regulation) to ensure that barriers to competition are not created.</p>	Report on Transit capacity and how it interacts with Entry-Exit tariffs to be presented to Madrid Forum in Spring 2006
TRA-1	<p>This work will focus on developing guidelines for good practice for information management and provision. This will build on the work of the electricity focus group on transparency issues and also review the impact of the implementation of the Gas Regulation (from July 2006). The first step will be to identify the necessary information management requirements (info to be published, info to be ring fenced, ring fencing requirements etc) that is necessary to underpin the development of effective competition and then assess those against the current framework. Then if necessary new requirements could be identified and a mechanism for facilitating their introduction.</p>	Internal paper on information issues including a review of the Gas Regulation and identifying any new requirements and how they should be introduced.
GBS-1	Monitoring gas balancing	<p>Final Guidelines for Good Practice (GGP) for Gas Balancing</p> <p>EREG report on monitoring either based on consultants work or monitoring at national level by NRAs co-ordinated by EREG</p>
GBS-2	Monitoring storage	EREG report on monitoring either based on consultants work or monitoring at national level by NRAs co-ordinated by EREG

Point	Issues To Be Addressed	Deliverables
GFG-1	LNG	An initial paper that reviews the existing market where LNG is not exempted from TPA and considers what regulatory arrangements are needed to ensure that there are no barriers to development; and recommendations on the nature of any consultancy input that would be needed. The GFG would then decide what work it would need to do once this initial scoping piece has been produced - including for example the development of guidelines for good practice for TPA access to LNG.
Customer Focus Group		
CFG-1	Consultation of the draft Best Practice Proposition for Consumer Protection Finalization of the Best Practice Proposition for Consumer Protection	Best Practice for Consumer Protection (approximately 10 pages long description of the requirements for best practice in the field of consumer protection)
CFG-2	Consultation of the draft Best Practice Proposition for Customer Switching Finalization of the Best Practice Proposition for Customer Switching	Best Practice for Customer Protection (approximately 10 pages long description of the requirements for best practice in the field of customer switching)
CFG-3	Consultation of the draft Best Practice Proposition to Price Transparency Finalization of the Best Practice Proposition for Price Transparency	Best Practice for Price Transparency (approximately 5 - 10 pages long description of the requirements for best practice in the field of price transparency)
CPR-1	End-user energy price regulation A review of the regulated energy tariff systems in use in the ERGEG countries in close co-ordination with the eventual consultant study  An analysis of the effects of end-user energy price regulation  An evaluation of the need for regulated energy systems in a) transition period and b) in a mature electricity and gas market	A questionnaire to collect information on the regulated tariff systems currently in use A review report on the regulated tariff systems to control electricity and gas prices (energy prices). The report will include A description of the present systems (what prices are controlled and how the controls are implemented) An evaluation of the effects of the regulated tariff systems a) consumer protection and b) on the functioning of the electricity and gas markets
CPR-2	Pre-contractual information: a review of general information that is necessary and that is available to small customers prior to supplier switching	Review the status and problems of pre-contractual information in a sample of ERGEG member countries How information on new market organisation, new actors, purchasing and switching processes is distributed to small customers (what information, which channels, who is/are responsible). The findings will be published in a report, which includes recommendations
CPR-3	Keeping abreast of EC survey and evaluation of PSOs	Keeping abreast of EC survey and evaluation of PSOs

Point	Issues To Be Addressed	Deliverables
CSW-1	<p>Automatic meter reading</p> <p>What is AMR and how does it affect network operation</p> <p>How widely AMR is used in EREGG member countries</p> <p>The effects of introducing AMR on customers</p> <p>The regulatory implications and what requirements should regulators set on AMR before it is implemented</p> <p>This issue requires close co-operation between CSTF and CEER EWG as the topic includes both technical and market functioning aspects. It is the idea that the TF would be participated by both CSTF and EWG members.</p>	<p>A status review on the use of AMR/AMM in EREGG member countries</p> <p>How many customers are encompassed by AMR/AMM and how many network operators are using it?</p> <p>What are the systems in use (are there differences among the systems being currently used in various countries)?</p> <p>Which potential integration exists between electricity and gas AMR/AMM?</p> <p>What are the plans to introduce and increase the use of AMR/AMM?</p> <p>What are the effects of AMR/AMM on customers, network operators and competition (benefits, costs)?</p> <p>A regulator's view on AMR/AMM (a paper)</p> <ul style="list-style-type: none"> <li>- What kind of requirements have regulators imposed on network operators regarding AMR/AMM (technical features, for example regarding the possibility to register and collect quality of supply information)?</li> <li>- How have the costs of AMR/AMM been supervised/approved/regulated?</li> </ul> <p>Which are the effects on competition in energy markets (customer switching), metering, value-added services</p>
CSW-2	<p>Obstacles to switching supplier in gas retail market</p>	<p>An identification of the reasons and eventual obstacles to supplier switching in the small customer segment of the gas retail market.</p> <p>The switching rate among small gas customers is rather low in and the first aim is to identify the reasons behind this</p> <p>A best practice proposition including tools to enhance switching activity of small gas customer</p>
SEC-1	<p>Affordability of electricity and gas in moving to liberalised South East European regional energy markets.</p>	<p>Paper scoping out the agenda and deliverables of the SEC TF.</p>
SEC-2	<p>Low income customer protection from the affordability viewpoint. A review of the customer protection tariffs and systems in use in the SEE countries and of the regulator's (current and new) obligations in this area.</p> <p>An analysis of the regulation on affordability and low income customers in EREGG member authorities.</p> <p>An evaluation of the need for regulated systems in SEE a) transition period and b) in a mature electricity and gas market.</p> <p>A best practices guide for moving towards cost reflective tariffs based on the experience in liberalized markets.</p>	<p>A questionnaire to collect information on the customer protection/affordability systems currently in use in SEE.</p> <p>An evaluation of the effects of the regulated systems on the functioning of the electricity and gas markets.</p> <p>A review report on affordability regulation in EREGG member authorities and of how best to address affordability and low income customers in moving toward cost reflective tariffs. The report will include:</p> <p>A description of the present systems</p> <p>Best Practices Report on moving to cost reflective tariffs while addressing the issue of affordability.</p>

## Appendix 2 – Focus Group and Task Force structure

