



Statement by RWE on the EREG Public Consultation on „The Creation of Regional Electricity Markets“

Essen, 30. August 2005

Contact: Jörg Kerlen, Tel. +49(0)201-12-15593

- 1) In presenting its Public Consultation Paper on "The Creation of Regional Electricity Markets", ERGEG has asked for comments from interested parties. In particular, ERGEG welcomes comments on
 - a) the key market design features that may need to be addressed in creating a regional market (including any additional features not discussed within this paper)
 - b) the possible need for an overarching regional framework through which interaction across a regional market would be organised and regulated
 - c) the role of regulators and governments in delivering regional electricity markets, and
 - d) the proposed process for taking forward work on the creation of regional markets.
- 2) RWE welcomes the opportunity to respond and comment on the ERGEG Public Consultation paper. Due to the fact that RWE is a major player in the European energy business on all levels of the value chain e.g. for power, gas, coal and energy transportation we highly appreciate the creation of the Single European Electricity Market.
- 3) The creation of the Single European Electricity Market is a long term goal RWE is highly supporting. Despite that a certain level of market harmonisation between EU countries has been achieved, there are still inequalities in energy market regulation which lead to considerably unequal market openings. This is one major reason RWE has supported the 2003 "acceleration package" and is still supportive of a full implementation as soon as possible.
- 4) Regional Markets (RMs) with significant trades between countries have emerged throughout the continent due to market outcomes. Such Regional Markets exist wherever liquid power exchanges are in place and full market opening is implemented in adjacent Member States and if congested interconnections between those countries are managed using market based methods, this is where the rules laid down in the 2003 "acceleration package" are already fully implemented. Practical examples for Regional Markets in Europe where these prerequisites apply are Germany and Austria or Germany and the Netherlands. An EU-wide full harmonisation of market rules and regulations, especially for congestion management trading modalities etc. is desirable and must evolve over the time. Relevant national market properties should however be considered when supra-national harmonisation efforts are being made. This will set the right framework for cross-border electricity trade being able to form markets wherever there is an economic rationale for market participants.
- 5) The ERGEG discussion paper, although a long awaited tool to finally get a grip on the notion of RMs, fails however to provide a clear definition of and a convincing rationale for the concept and to clearly state what it actually perceives as the difference between RMs and the Status Quo. In case there is a difference, one should be able to identify it and



work out the detailed economic and technical advantages of the RM concept as an intermediate step. If there is none, what is the rationale for specific additional action?

- 6) With a satisfactory level of interconnection capacities in place, Germany and Austria have built a very successful RM long before the concept had even arisen, with comparable wholesale prices and a significant amount of bilateral trading activities as proof of success. The same is true for Germany and the Netherlands where market based congestion management has been put into practice for several years. Surprisingly enough, of all RMs, non-regulator-driven but market actor supported D/A or D/NL markets are not analysed in detail as a case study by the ERGEG discussion paper.
- 7) Due to the lack of a clear definition, the mini-fora-based regional layout does not always follow rational criteria. To RWE's viewpoint, such a criterion would come down to physical transmission capacity as a prerequisite for market actors to trade freely and thereby securing that electricity demand is met using the economically most viable source of generation. RWE supports a meaningful enhancement of technical interconnection capacities in Europe to strengthen the integration of the Single European Energy market. Any interconnector investment should, however, be assessed carefully against its potential technical and economic benefits to customers and only economically justifiable projects should be undertaken. Therefore, TSOs must be given incentives to invest in cross-border transmission capacities particularly with regard to a reasonable rate of return on such investments. Additionally, as a prerequisite it seems sensible to take further legislative and regulatory measures in order to alleviate the current long lasting processes and procedures that TSOs have to undergo in order to receive planning permissions for new interconnections.
- 8) Within Regional Markets, cross border transmission capacities and the embedded rights should be freely tradable between market participants. In the first stage an OTC basis is reasonable to bring liquidity into the markets. For mid and long term capacity rights, the "use it or lose it" principle should be applied. This necessitates long term transmission rights to be nominated firmly before day ahead auctions take place.
- 9) The discussion paper calls for still closer cooperation between TSOs. RWE agrees that a close and intense cooperation between TSOs is a prerequisite for well working markets. The UCTE Operational Handbook is only one of the most striking examples of regional TSO cooperation on technical issues throughout and beyond the European Union. For the time being today's implemented methodology of TSO cooperation, e.g. on system planning issues, ensures a high and accepted level of security of supply. Today's technical and operational transmission system was mainly structured for and is well working on the given federal basis so RWE does not share ERGEG's regret about the "surprisingly little regulatory oversight". As described in item 2) and due to its broad position in the European markets RWE has been strongly supporting the interoperability between RWE TSO and other European TSOs and will support this target in the future. Moreover RWE is supporting market based congestion management schemes.
- 10) The discussion paper calls on TSOs to place data wherever possible into the public domain. RWE supports market data transparency when given data are useful to provide fair market conditions. Due to the experience with other markets a maximum of data transparency might cause unfair market conditions if given data is e.g. stressing volatility or if these data disrobe generation positions of certain market players. Furthermore, the possibility of gaming and strategic pricing which is fostered by disclosing certain information should be minimized. Therefore RWE supports publishing certain data (e.g. in explicit capacity auctions: marginal bids, total capacity) which are useful and necessary to ensure fair market conditions but only to the extent that the disclosure of such information is sensible, does not interfere with the secrecy of companies' business data and does not un-



dermine fair market conditions for all players involved. Moreover, the amount of data held by TSOs is so large that the principle to follow should be "publish what is useful" rather than "publish what is possible". Consequently, the value of any information to the market has to be assessed carefully against all costs which TSOs incur due to e.g. data collection and processing.

- 11) The discussion paper identifies a "strong need for co-operation between regulatory authorities in ensuring the ongoing compatibility of arrangements within the regional market". RWE supports further harmonisation of market rules and conditions and therefore a coordination of national regulatory bodies, but RWE cannot see any need for global European market regulation. Moreover Switzerland as a main turntable for gas and power has to be integrated in the concept of harmonisation of market rules and conditions, especially on congestion management. Furthermore there is a known risk that that regional regulatory cooperation renders electricity trading beyond regional markets more difficult or even impossible. In the spirit of European legislative framework and for the time being RWE supports that national regulators refrain from international market interventions and that national regulators concentrate their activities on national network tariffs/access. When competing this task they should, however, provide for a stable regulatory framework in order to foster necessary electricity grid investments.
- 12) Properly working Regional Markets can be very effective tools to mitigate dominant positions if they are market driven. It is however difficult to determine what a dominant position is and size alone is a misleading figure as large players usually also ensure that markets are working properly by e.g. actively taking part in power exchanges and by providing liquidity to the markets. Without having any evidence that a large players are abusing their positions, regulatory authorities should at least refrain from taking any ex ante measures.
- 13) Being an active player in many European Electricity markets, RWE welcomes the current tendency of those markets to merge with one another into larger areas. However, it should be acknowledged that the procedure of market harmonization is not a simple task as many national market properties - such as the overall market framework or the various operational procedures - have to be made compatible. A first relatively easy concept of joining two market areas with congested interconnections is the introduction of an explicit auction. This concept is legitimated by the EU Regulation 1228 and does not require the involvement of Electricity exchanges or any largely advanced state of market harmonization which, however, is a prerequisite for implicit auction concepts. Therefore, the introduction of explicit auctions in particular for yearly, monthly and day-ahead capacity allocation, should be fostered by legislative bodies, political institutions and regulators as a first step towards market harmonization. If markets are characterized by sufficient liquidity and, as a result of this, appropriate price signals, intraday trading can be handled by implicit auctions. Such a mixture of both allocation procedures values the capacity most for all market participants. Striving for this kind of more sophisticated solution should however not delay the introduction of market based congestion management.