

The background of the slide features a close-up, artistic photograph of several interlocking metal gears. The lighting is dramatic, with bright highlights and deep shadows, creating a sense of motion and mechanical complexity. The colors are primarily metallic greys and blues, with some warmer tones where the light hits the edges of the gears.

Regional Initiatives

Building the Internal Energy Market

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Drivers for change

Legislative

- Third Package and future Network Codes promoting market integration
- European legislation setting 2020 carbon targets and national schemes for implementation

Market drivers

- Increasing share of intermittent and subsidised generation
- Increasing interconnection with neighbouring Member States
- Potential closure of conventional generation
- Increasing cost of managing constraints

Shared by many Member States

Work is underway to address these issues

- Working with industry and neighbours to ensure compliance with EU Target Model legislation
 - Market coupling on IFA and BritNed interconnectors in 2013, lead regulator for intraday, framework for cooperation with SEM
- Electricity Balancing SCR focussed on issues that industry indicate require immediate action
 - Improved allocation of balancing costs and incentives to provide flexibility and Security of Supply
- Proposal to launch Future Electricity Trading Design project
 - Build on successful characteristics of NETA, and reflect new responsibilities with respect to market integration and the impact of EMR

EMR moving from design to implementation: carbon price support; contracts for difference for low carbon generation; potential capacity mechanism; emissions performance standards

Internal Energy Market Building Blocks

Forwards Markets

Day Ahead

Intraday

Balancing

Bidding zones

Capacity
Calculation

- **Architects:** ACER, ENTSO-E and the Commission
- **Blue print:** European Network Codes
- **Contractors:** TSOs and Market Operators
- **Clients:** Generators, suppliers and consumers

Regional Initiatives: projects to implement and test the EU target model

Challenges associated with each building block

Day-ahead market coupling

- Considerable experience in Europe. Network Code requirements are clear and detailed
- Regional initiatives aim at EU wide implementation by 2014 (Ireland by 2016)

Intraday continuous trading

- Considerable experience in Europe. However, Network Code requires evolution of current approach to include capacity recalculation, capacity pricing and sophisticated products
- Regional initiatives aim at EU wide implementation by 2014 (Ireland by 2016)

Long-term transmission rights

- Nordic region and continental Europe have fundamentally different approaches. No real experience with financial transmission rights
- Regional initiatives aim at implementing common PTRs across part of Europe by 2014

Cross-border capacity calculation

- Limited experience in Europe. Network Code requires TSOs to develop regional entity to calculate capacity and a common methodology - Flow Based or CNTC
- Regional initiatives focus on implementing flow based on the continent

Definition of bidding zones

- Experience in Nordic region and Italy of using bidding zones to deal with constraints. Increasing cost of managing constraints
- Regional initiative will be launched this year to "investigate bidding zones"

Cross-border balancing

- Limited and patchy experience implementing cross-border balancing arrangements. Network Code provides requires arrangements but provides flexibility for implementation
- Regional initiatives will be launched this year to gain experience in cross-border balancing

Case study: day-ahead market coupling

- The NWE Day-Ahead project was launched in 2011 to implement market coupling by the end of 2012
- There are 9 Member States, 13 TSOs and 3 Power Exchanges involved
- Expectation that NWE will go-live in November 2013, challenges include:
 - No single entity with mandate to ensure progress
 - Diverse regulatory frameworks and commercial drivers
 - Diverse market designs
- Current implementation issues include:
 - Whether to reflect network constraints (ramping and losses) in the market coupling algorithm
 - The nature and timing of fallback procedures in case of de-coupling
 - Whether national price caps and floors should be harmonised or removed

Importance of regional cooperation

- Network Code requirements are based on existing experience with market integration
- Remaining areas of uncertainty or disagreement can only be resolved through practical experience
- Feedback loop between regional implementation and the Network Codes is critical to success
- Regional initiatives provide a framework to balance national and European interest, but governance is an issue

Framework for SEM and GB integration

- Welcome SEM Market Integration Project and need to establish appropriate governance arrangements
 - **UK – Ireland steering group**, with involvement of Ministries and Regulatory Authorities
 - **Joint regulatory arrangements**, formal working arrangements between SEM authority and Ofgem
- Identify and agree in detail areas where coordination and joint working is necessary



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