



NordREG
Nordic Energy Regulators

Annual Report 2006



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NORDIC ENERGY REGULATORS
(NordREG)

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Preface

Year 2006 has been a productive year for NordREG (Nordic Energy Regulators). The activities during the year constituted an important part of the ongoing effort to create a common market for electricity in the Nordic region.

On 1 March 2006, NordREG submitted three reports to the Nordic Council of Ministers. The reports deal with the potential for, and the obstacles to, a common retail market in the Nordic region, a common Nordic balance settlement and a common definition of the system operators' core activities.

Through the reports and an active cooperation between the regulators, authorities and stakeholders, NordREG has been taken another step towards a more harmonised Nordic electricity market.

In February 2006 the EU Commissions' advisory group of regulators, ERGEG, launched its Electricity Regional Initiative. The purpose is to contribute to speeding up the regional market integration, as a step towards one EU internal electricity market. The initiative has received strong political support. All Nordic regulatory authorities have participated actively.

NordREG has a one year rotating chairmanship. In 2006, NordREG was chaired by Sweden.

During the period of Sweden's chairmanship, a joint website was developed for NordREG, www.nordicenergyregulators.org. The website will give interested parties a better insight into the work that is run by NordREG.

Eskilstuna, February 2007

Håkan Heden
Chairman of NordREG 2006

Strategic Priorities

The strategic priorities and the objectives derived from them for NordREG are listed in the table below:

Strategic priorities	Objectives
A truly common Nordic retail market with free choice of supplier	To develop a common balance management and settlement system
	To ensure easy and harmonised switching procedures in the whole Nordic market
	To create harmonised criteria for unbundling to ensure neutrality
A well-functioning Nordic wholesale market with competitive prices	To promote competitive market structures
	To ensure smooth interaction with other European regions
	To ensure a well functioning power exchange
	To ensure adequate level of transparency in the market
Reliable supply	To promote market-based or legal environment for security of supply
	To ensure harmonised procedures for handling extreme situations
Efficient regulation of TSO	To regulate and monitor the TSOs with focus on efficiency and Nordic harmonisation
	To promote adequate transmission capacity and efficient market-based congestion management methods

NordREG view of year 2006

1. Strategic Priority: A truly common Nordic retail market with free choice of supplier

1.1 A common balance management and settlement system

NordREG has a vision of a truly common Nordic electricity market. A truly common Nordic electricity market would mean that a supplier can sell electricity to customers in all Nordic countries without barriers. That would increase competition on the retail market. There are significant differences between the countries regarding the rules governing the process of imbalance settlement and the costs and other risks involved in being balance responsible. The differences have been identified and a road map was suggested for the further work with the aim of creating one single Nordic retail market.

1.2 Identification of the obstacles to the integrated Nordic end-user electricity market

In August 2005, the Nordic energy ministers set the objective for further development of the Nordic electricity market at their meeting in Greenland. NordREG were assigned to review the conditions for the establishment of the common Nordic end-user market.

The report “An integrated Nordic end-user electricity market” identified the various obstacles that currently exist which prevent the formation of a truly integrated Nordic electricity end-user market. The obstacles have been divided into three categories: technical, regulatory and commercial. NordREG proposed that to further integrate the Nordic end-user electricity markets, a number of differences of technical, legal and market nature ought to be gradually harmonized in order to facilitate market entry and cross-border trade.

2. Strategic priority: A well functioning Nordic wholesale market with competitive prices

2.1 Smooth interaction with other European regions – Mini Forum

NordREG has during 2006 in various ways been engaged in the ERGEG Electricity Regional Initiative launched in April. The Danish regulator, DERA, was appointed "lead-regulator" for the North Europe region comprising the Nordic countries, Germany and Poland. NordREG members have participated in the work and have discussed the progress at every Board meeting. The work has focused explicitly on improving the trading interface between the Nordic countries and the continent represented by Germany and Poland. The work regarding a harmonized set of data on networks and generation will continue in 2007.

2.2 Nordic Market Report 2006

The Nordic electricity market is covering four countries and is still in many aspects a unique market in an international perspective. The Nordic Market Report 2006 was the first annual market report from NordREG and intended to give a description of the status and development of the Nordic market. The report covered for example statistical information on the development of the Nordic market, information on the market structure and main players and information on the retail market.

2.3 Regulation of Nord Pool Spot

In 2002 NVE made guidelines for information exchange and consultation in connection with NVE's exercise of authority over Nord Pool Spot. The purpose of the guidelines was to prepare for closer co-operation with the other Nordic energy regulators concerning the regulation of Nord Pool Spot. To develop this co-operation, a group was created and relevant questions regarding Nord Pool and Nord Pool Spot have been looked into. The group has made an internal note on the current regulation of Nord Pool Spot and has arranged a high level meeting. The work will continue in 2007.

2.4 To ensure adequate level of transparency in the market

The power exchanges offering continuous relevant information to market actors on the market framework and relevant incidents is crucial to the credibility and thus to the liquidity of the exchanges. Nord Pool apparently has an excellent record in this

respect. However, in the light of analysis in this field in CEER (The Council of European Energy Regulators) and in other forum the degree to which Nord Pool fulfils the requirements of the stakeholders on transparency should be reviewed. An internal report will be finalized early in 2007.

3. Strategic Priority: Reliable supply

3.1 Workshop on regulation in distribution

A successful workshop on regulation in distribution was held in Helsinki on the 28th of September. The objective was a workshop for the Nordic energy regulators to present and discuss the current models of electricity network regulation in use in the Nordic countries.

3.2 To create common rules for handling extreme situations

In June 2006 NordREG made a report public on handling of extreme situations in the Nordic countries. The objective was to create a common understanding concerning various extreme situations the can affect the security of supply in the different countries and in the Nordic market as a whole.

The working group was not able to create a common definition of extreme situations because of the diversity of variables within the framework of the different countries. There was although a common understanding of the importance of being aware of the main challenges of the different severe situations that might occur in the different Nordic countries and how they might be handled.

The report focus on three types of extreme situations:

- Energy shortage associated with ability of the power system to cover energy consumption.
- Capacity shortage associated with the ability of the power system to cover instantaneous demand, due to lack of available generation or transmission capacity.
- Power system failures when there are incidents where the power system components, ability to perform its function is interrupted or reduced.

The report concluded with a need for further work under the following headlines; measures to reduce risks for extreme situations, improving information routines, common training for actions during extreme situations, regular meetings and hearing for new re regulations and guidelines.

4. Strategic Priority: Efficient regulation of TSO

4.1 To regulate and monitor the TSOs with focus on efficiency and Nordic harmonisation

The purpose of the project was partly to honour the request of the Nordic energy ministers of August 8, 2005 to establish a common definition of the core activities of the Nordic TSOs, partly a continuation of the project of “Work Programme 2005” to evaluate whether the present regulation of the TSOs in the Nordic countries is adequately harmonized and efficiently sustains to the development of the Nordic electricity market.

In the report the core activities of the transmission system operators in the Nordic countries were identified. A list of non-core activities was also introduced. NordREG has proposed to work further with Nordel and Electricity Market Group to introduce more harmonised legal framework for the identified core activities. The work will continue in 2007.

4.2 Adequate transmission capacity and efficient market-based congestion management methods

Congestion management has a great impact on the functioning of the electricity markets. A regional coordinated congestion management method is important in order to achieve a further integration of the Nordic electricity market, as well as the interaction with other markets.

The aim of this project was to establish a common Nordic regulatory opinion on congestion management and to find a harmonised way of applying congestion management guidelines within the Nordic region and a Nordic opinion on congestion rents. The work will be finalized in early 2007.

The reports published during the year can be found at:
www.nordicenergyregulators.org



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