



NordREG
Nordic Energy Regulators

NordREG Activities 2008



NordREG Activities 2008

NordREG
c/o Norwegian Water Resources and Energy Directorate
P.O. Box 5091, Majorstua
N-0301 Oslo
Norway

Telephone: +47 22 95 95 95
Telefax: +47 22 95 90 00
E-mail: nve@nve.no
Internet: www.nordicenergyregulators.org

Preface

Parallel to the European electricity market development through the legislative initiative of the 3rd energy liberalization package and the European energy regulators strenuous work, the Nordic energy regulators continued in 2008 their active contribution to further develop the Nordic electricity market in order to improve its functioning to the benefit of all electricity customers.

The bipartite development of electricity markets in Europe and worldwide was felt in the Nordic market, too, since as a result of the financial market crises and the following economic downturn the consumption of electricity together with prices turned to a decline during the second half of the year 2008.

The Nordic energy regulators carried out their planned activities in an established manner in a close co-operation with the Nordic ministries, transmission system operators and other stakeholders. In this respect the Nordic market could serve as a good example of a process with participation of all the relevant parties to ensure commitment and progress.

A new page in this respect was turned as the European transmission system operators in December 2008 decided to establish a new European Network of Transmission System Operators for Electricity and to cease the previous associations including Nordel.

In 2008 additional steps were taken towards the fulfilment of NordREG's strategic priorities especially in the field of retail and wholesale market integration where topics of balance management harmonisation and retail market design were addressed. The work was based on analyses, publications and dialogues with stakeholders.

However, the focus has increasingly shifted from the purely Nordic issues to issues related to the integration of the Nordic market with the continental European electricity markets. Since 2006 the Northern Electricity Regional Initiative has provided the forum for working on market integration with Germany and Poland. In 2008, also the preconditions for an increased integration of Nordic and continental electricity markets improved physically when the NorNed Cable linking Norway and the Netherlands was commissioned. Furthermore, a Baltic Interconnector Plan project led by the European Commission was launched in late 2008 to improve the integration of the Baltic electricity and gas markets to other market areas including the Nordic one.

This report of NordREG activities in 2008 provides an overview of the work undertaken by the Nordic energy regulators to develop the Nordic wholesale and retail electricity markets. It also briefly describes the dimension of European wide co-operation and coordination of the work carried out by the Nordic energy regulatory authorities.

Asta Sihvonen-Punkka
Director General, Energy Market Authority (Finland)
Chairman of NordREG 2008

NordREG strategic priorities and achievements

Introduction

NordREG has formulated the following strategic priorities:

- A truly common Nordic retail market with free choice of supplier
- A well-functioning Nordic wholesale market with competitive prices
- Reliable supply
- Efficient regulation of TSOs

These priorities coupled with more specific objectives have been the framework for NordREG co-operation since then. The 2008 Work Programme (NordREG Report 1/2008) and work were structured tasks within three Working Groups, i.e. Retail and Distribution Working Group, Wholesale and Transmission Working Group and Nordic Market Report Working Group, to meet these strategic priorities. NordREG views that the work contributed in a reasonable manner to the progress towards the goals.

The Nordic electricity market is quite well developed compared to other regional markets in Europe. Although the wholesale market is quite well integrated there are still barriers to trade. The trading interface with continental Europe is still subject to a number of constraints, though improvements are under way e.g. within the framework of the ERGEG Regional Initiative. The Nordic retail markets are still to a high degree separate markets.

The majority of 2008 NordREG tasks were initiated by the Nordic ministers of energy at the Helsinki meeting in September 2007. Additional contributions were requested at the Umeå meeting in September 2008. NordREG work through 2008 revealed that some of the imperfections are due to lack of harmonized framework. Harmonization has a number of levels. Regulatory authorities might mutually decide on regulatory harmonization within the frameworks of national legislations. If change in legislation itself is needed, national governments and parliaments normally will have the responsibility. Therefore NordREG pays the utmost attention to the cooperation with Nordic Council of Ministers.

Co-operation is also essential for NordREG in relation to other stakeholders. The Nordic TSOs represented in Nordel as well as Nord Pool Spot are the operational “doers” on several crucial issues as congestion management and balance management. And the participants in the market are the users of the services offered, the generators, traders and suppliers being represented especially by the Nordic energy associations represented in Nordenergi.

Retail and Distribution Working Group

The work during 2008 was addressed by the interrelated working issues of “harmonized supplier switching model”, “costs and benefits of an integrated Nordic retail market” and “market design of the common Nordic end-user market”.

NordREG published in February 2008 a suggestion on a harmonized supplier switching model. Based on the detected differences in the present supplier switching processes in the Nordic countries NordREG has proposed a harmonized switching model for the countries. The focus of the report was on residential and small business customers. NordREG has forwarded the suggestion also to the electricity market group under the Nordic council of ministers.

NordREG ordered in January 2008 from VTT a study on cost-benefit analysis of Nordic retail market integration. VTT studied the Nordic retail market integration by comparing on one hand the current retail prices between the different Nordic countries and the other hand corresponding retail margins. The other part of this study was dealing with the costs related to renewal of IT systems as well as the harmonization needed for operation in the Nordic area. The study made a qualitative assessment of the costs and benefits of an integrated Nordic retail market and identified the key elements of the costs and benefits of the integration.

The Nordic Council of Ministers decided to finance another study on the costs and benefits of an integrated Nordic retail market for electricity as a continuation of the VTT study. This study was made by ECON Pöyry and NordREG was participating in the reference group. The objective of the ECON study has been to assess quantitative estimates of the costs and benefits for suppliers, DSOs and consumer, focusing on household consumers, of a harmonized Nordic retail market for electricity. Because the common Nordic end-user market model has not been defined in detail yet, it has been very difficult for the market actors to estimate the costs and benefits of the retail market integration. Therefore the results of the cost-benefit analysis could be seen indicative only.

NordREG started in 2008 to prepare a report on market design of the common Nordic end-user market. The objective of this report has been to prepare a suggestion on a harmonized Nordic retail market model and a detailed implementation plan (road map). The objective of the end-user market integration is “to minimize the regulatory and technical obstacles for the suppliers willing to operate in the various Nordic countries”. The vision is that in the future the roles and responsibilities of different market actors, processes between them and the framework for customer protection are harmonized enough between the Nordic countries to make it smooth, feasible and attractive for the suppliers to start operating also in other Nordic countries. In that way all end-users are eligible to take part in the Nordic electricity market. For this purpose NordREG has mapped the present situation in the Nordic countries and identified the issues that need to be harmonized. The report of market design will be finalized during spring 2009.

Wholesale and Transmission Working Group

In 2004 the Nordic Energy Ministers at their meeting in Akureyri decided to take on a vision of a further integration of the Nordic electricity market. This has been supported by a process where Nordel, NordREG and also Nordenergi have been invited to contribute for the future.

While there is political support for the vision of one Nordic electricity market, there is not a common legal framework in all areas for the further integration of the Nordic market. The integration process that has been going on the last 15 years has implied that the

Nordic wholesale market in many respects already functions as a common Nordic market. But there are still several issues where further development of the market model and increased harmonization are needed to establish a truly common and efficient Nordic wholesale market.

The following objectives relevant to the wholesale market are regarded as strategic issues by NordREG;

- to develop a common balance management and settlement system,
- 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,
- to promote market-based or legal environment of security of supply,
- to ensure harmonised procedures for handling extreme situations,
- to regulate and monitor the TSOs with focus on efficiency and Nordic harmonisation and
- to promote adequate transmission capacity and efficient market based congestion management methods.

All these issues are to some extent interrelated, and have been taken into account in NordREGs work on wholesale and transmission issues in 2008. The main activities in 2008 have, however, been the further development of a common balance settlement system, congestion management, peak-load issues and co-operation related to regulation of Nord Pool Spot.

In February 2008, NordREG published a report with NordREG's evaluation and conclusions related to the proposal from Nordel to harmonise important features of the balance settlement by 2009. NordREG concluded that the Nordel proposal has potential to enhance the functioning of the Nordic market and also strengthen the Nordic market in a regional and European context. The implementation of the agreement was completed in Denmark, Finland and Sweden during 2008. The necessary changes in rules regarding balance settlement in Norway have been decided by the Norwegian regulator after a public hearing, but the treatment of small generation units is not finally clarified. It is expected that this be clarified during first quarter of 2009 such that the new balance settlement can be implemented also in Norway. The intraday trading platform, Elbas, which was part of the Nordic agreement, and already in place in Denmark, Finland and Sweden, will be introduced in Norway from 4 March 2009.

Congestion management is another issue of vital importance in the Nordic market. NordREG has investigated to what extent the Congestion Management Guidelines have been implemented in the Nordic market. In the report issues requiring Nordic approach in the implementation of the guidelines have been identified. Furthermore, some clarifications from the Nordic perspective in implementation are discussed and also issues

irrelevant for the Nordic interconnections are identified and reasons omitting these issues in Nordic interconnections are given.

In May 2008 the Nordic Council of Ministers arranged a workshop in Stockholm on the Nordic electricity market. At the workshop a consultant presented a report on evaluation of different market models for congestion management. In its comments to the report NordREG presented the following view:

- It is important that all Nordic network investments that are socio-economically beneficial are carried through.
- There will, however, still be congestions in the Nordic market.
- An increased number of Elspot areas is a good alternative to reduction in cross-border capacity.
- Countertrade in Elspot may eliminate some negative consequences for end-users, but will still imply that price signals will not reach the market actors.
- There is a need for further analysis of the consequences.

The Electricity Market Group has, following the 2007 meeting of the Nordic energy ministers, invited NordREG to make an assessment of Nordel's proposal "Guidelines for implementation of transitional peak load arrangements" focusing on to what extent common Nordic principles are needed, and how these principles should be designed to minimise the impact on the market. The analysis should focus on implications for prices in the short term (extreme situations) and long term, power flows and investments.

NordREG commissioned an external consultant to analyse Nordel's proposed guidelines, and the results were discussed in a workshop arranged by NordREG in May 2008 where both Nordel and Nordenergi participated. NordREG's work on the Peak Load issue has been coordinated with a task and study on the same issue given to EI by the Swedish Government. In parallel with this study, the Swedish and Finnish TSOs have worked out new conditions for activation of the peak load reserves in Sweden and Finland. Nord Pool Spot and the relevant regulators have been consulted in the process. After approval by NVE regarding changes in the Nord Pool Spot rules, and approval by EMV to apply modified activation rules in Finland, the new activation model was introduced on 19 January 2009. The resulting procedures are a modification of the Nordel proposal for activation introducing more details and practical arrangements compared to Nordel proposal. A NordREG evaluation of the Nordel proposal will be given to EMG by March 2009.

Nordic Market Report Working Group

The main task of the Group has been the compilation of the third Nordic Market Report. The report describes the status and development of the Nordic electricity market, covering Norway, Sweden, Finland and Denmark. Among other things the report offers statistical information on the Nordic market, description and data of the market structure, main players and information on the retail market.

In addition to the market report the work has also been undertaken to develop a competition index in order to assess the competitive state of the Nordic electricity

markets. The index will be based on various market indicators for the markets, and it is intended to be incorporated in the future Nordic Market Reports.

NordREG international co-operation

NordREG members are actively participating in the work of the EU regulators' institutions of the CEER and ERGEG, realizing the increased importance of the progress of market functioning and market integration on a European scale.

For NordREG the coordination between the work on intra-Nordic market issues and the work on a more pan-European scale in the CEER and ERGEG is of utmost importance. The European work allows a close cooperation with other regulatory colleagues as well as with the European Commission. Seeing the Nordic market in a European perspective much better reveals advantages and shortcomings of the Nordic market model. In addition it allows promoting the integration between the Nordic and the Continental Europe markets.

In 2008 dealing with the European Commission "3rd energy liberalization package" has been one major task, the regulatory authorities drawing on their vast practical experiences in the electricity market. Reviewing national implementations of EU legislation as for instance the Guidelines on Congestion management was another important set of issues. Nordic work could draw on these CEER/ERGEG experiences.

The ERGEG Regional Initiative was launched in February 2006. The regional focus is a transitional approach on the road to one single EU electricity market. The Nordic regulatory authorities cooperate with the regulatory authorities of Germany and Poland within the North Europe Region. The work focuses on developing the market interface between the Nordic countries and continental Europe. The work in Regional Initiative has concentrated in 2008 on establishing market coupling between Nordic and German market. This work was initiated when TSOs operating the interconnectors between Germany and Denmark as well as the power exchanges EEX and Nord Pool Spot in October 2006 signed a memorandum of understanding to introduce day-ahead market coupling on German-Danish interconnectors. The second area of work was transparency of electricity wholesale markets and the first monitoring report on the implementation of transparency rules included in the Northern ERI Transparency Report was prepared.

During 2008 preconditions for an increased integration of Nordic and continental electricity markets improved also physically when the NorNed Cable linking Norway and Netherlands was commissioned. In a transitory period the NorNed cable will be operated by explicit auctions until harmonization of gate closure times will allow the market coupling which was the licensing precondition.

The interconnectors between the Nordic countries and continental Europe involve three regions of the Regional Initiative. This fact stresses the need for mutual compatibility not only within regions but also between regions. ERGEG explicitly addresses this problem and has published in autumn 2008 its second report on "coherence and convergence" of the regional initiatives.

NordREG Reports 2008 – brief summaries

Harmonized supplier switching model

NordREG Report 2/2008

The report maps the present supplier switching processes in the Nordic countries and, based on the detected differences, proposes a harmonized switching model for the Nordic countries. The focus of the report is on residential and small business customers. In some issues it has not been easy to find a common solution that fits all Nordic countries. For certain details both the benefits and drawbacks can be argued and in these situations efforts have been made to carefully analyse which objectives should be appreciated most.

Towards harmonised Nordic balancing services

Common principles for cost allocation and settlement

NordREG Report 3/2008

This report evaluates further the Nordel proposal on common balance management from a Nordic perspective, analyses legal and non legal consequences of implementing Nordel proposal, suggest criteria used for evaluating and approving the terms and conditions for balancing and presents a revised road map on how to continue the harmonisation process of a Nordic balance settlement.

Study on cost-benefit analysis of Nordic retail market integration

Analysis made for NordREG by VTT

VTT Technical Research Centre of Finland has prepared for NordREG a study on cost-benefit analysis of Nordic retail market integration. The Nordic retail market integration has been studied by comparing on one hand the current retail prices between the different Nordic countries and the other hand corresponding retail margins. The other part of the study is dealing with the costs related to renewal of IT systems as well as the harmonization needed for operation in the Nordic area.

Nordic Market report 2008

NordREG Report 3/2008

The third Nordic Market Report has been prepared. The report provides a versatile overview of the Nordic electricity market and its development based on data and information available in mid-2008. The areas covered include generation, consumption, transmission, wholesale power market and retail markets.

Congestion Management Guidelines
Implementation within the Nordic market
NordREG Report 4/2008

Congestion Management Guidelines under Regulation 1228/2003 were amended at the beginning of December 2006. The aim of NordREG's work has been to establish a common Nordic regulatory opinion on congestion management and to find a harmonised way of applying Congestion Management Guidelines within the Nordic electricity markets.

In the report it has been identified the issues requiring Nordic approach in the implementation of the Congestion Management Guidelines. Furthermore, some clarifications from Nordic perspective in implementation have been discussed and also issues irrelevant for the Nordic interconnections have been identified and reasons omitting these issues in Nordic interconnections have been given.

.

c/o Norwegian Water Resources and Energy Directorate
P.O. Box 5091, Majorstua
N-0301 Oslo
Norway

Telephone: +47 22 95 95 95
Telefax: +47 22 95 90 00
E-mail: nve@nve.no
Internet: www.nordicenergyregulators.org