

Work Programme 2010

Work Programme 2010

Nordic Energy Regulators
(NordREG)

Report 2/2010

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Preface

European cooperation and rapid developments towards an internal European energy market form the backdrop for NordREG's work in 2010. Legally binding EU regulations require formal cross border cooperation and commitments towards harmonising framework. EU's 3rd energy package will impose further requirements on regional cooperation when it enters into force early 2011. The Nordic electricity market has over the last decade developed into a robust market, and may in many cases pose a best practice case for European developments. However, in the development towards one European market in accordance with the 3rd package, it is likely that also the Nordic market will see changes in its framework.

NordREG offers a platform for coordination of 3rd package issues for the Nordic regulators.

With the establishment of ENTSO-E, the European organisation for TSO cooperation, the Nordic TSOs have a stronger focus on Europe than before.

NordREG's focus is mainly Nordic with an aim of seamless interaction with adjacent markets.

NordREG's vision of a truly common Nordic retail market is supported by strong political commitment from the Nordic Council of Ministers. In 2010 NordREG will take further steps in the direction of realising this vision. A key priority will be to develop concrete steps for implementing a common retail market by 2015. This work will continue throughout 2010 in close consultation with market stakeholders.

The cooperation between the Nordic regulators was formalised through a Memorandum of understanding in 2002, but the cooperation predates this by about three years. NordREG has a one year rotating chairmanship, and for 2010 the Swedish Energy Markets Inspectorate takes over the chair from the Norwegian Water Resources and Energy Directorate.

NordREG's work programme 2010 is the result of several discussions on strategic priorities in the Board, and has been written in close cooperation between the new and the old chairman, and with substantial input from the Working Groups.

The Nordic Electricity Market Group (EMG) provides important input to NordREG's work through its annual report to the Ministers.

2010 is a year for NordREG to consolidate its work through a clearer focus on Nordic issues, in particular the integration of the retail market. I am pleased to take over the chair of NordREG and look forward to continued fruitful cooperation with EMG, market actors and TSOs about the Nordic market.

Eskilstuna, February 2010

Yvonne Fredriksson
Chair of NordREG 2010

Introduction

NordREG is a co-operation between the Nordic energy regulators. The co-operation was established through a Memorandum of Understanding (MoU), signed in 2002. The MoU lays down objectives and modes of the co-operation. Prior to a formal agreement on co-operation, the tradition of bi-annual meetings and rotating chairmanship started in 1999.

The following authorities are members of NordREG:

Denmark: The Danish Energy Regulatory Authority, (Energitilsynet, DERA)

Finland: The Energy Market Authority, (Energiamarkkinavirasto, EMV)

Iceland: The National Energy Authority, (Orkustofnun, OS)

Norway: The Norwegian Water Resources and Energy Directorate,
(Norges vassdrags- og energidirektorat, NVE)

Sweden: The Energy Markets Inspectorate (Energimarknadsinspektionen, EI)

NordREG's work is, on the one hand tightly linked to assignments from the Electricity Market Group (EMG), which is subordinate to a Committee of Senior Public Officials for Energy of the Nordic Council of Ministers. EMG is responsible for following up and coordinating concrete measures agreed by the Nordic Energy Ministers. On the other hand, Nordic regulators at their own initiative and by inputs from market participants can undertake joint Nordic initiatives to improve the functioning of the Nordic electricity market. A third stream of work originates from European energy regulators' cooperation, CEER/ERGEG, where the members of NordREG are active participants. NordREG aims at seamless coordination with European regional initiatives and cooperation, and efforts to this end have a link to all of NordREG's tasks in 2010.

The preparation of the NordREG work programme for 2010 started with Board discussions in September 2009 about strategic priorities, and has been followed by inputs from the working group chairs with contributions to the concrete projects and tasks.

NordREG work takes the form of discussions, exchange of ideas, and of writing reports. The cooperation is based on a tradition of consensus and a strong political commitment to developing the common Nordic electricity market.

NordREG aims at a high level of openness and transparency. All public reports from NordREG will undergo public consultation procedures before being finalised.

Mission and vision

The Nordic regulators' cooperation through NordREG is based on a strong consensus and common understanding of the Nordic market. Through mutual efforts and contributions NordREG members identify areas of work that can create added value for the Nordic electricity market. NordREG works by exchanging information and views, mapping and analysing energy market issues and by delivering statements and reports for harmonisation and improvement. In this, the regulators aim at identifying areas where NordREG can take joint action to influence Nordic or European electricity market development.

NordREG's key focus in 2010 is the work towards a common Nordic retail market and the emphasis is on promoting a legal and institutional framework that supports this goal.

NordREG's mission:

In cooperation, we actively promote legal and institutional framework and conditions necessary for developing the Nordic and European electricity markets

NordREG's vision:

All Nordic electricity customers will enjoy free choice of supplier, efficient and competitive prices and reliable supply through the internal Nordic and European electricity market

Strategic priorities and projects

NordREG will work along the whole value chain of the electricity market to promote a framework that supports a smooth integration of the Nordic markets. This includes investigating the functioning of the Nordic financial markets, monitoring the development of Nordic regulation power market, evaluating the common balance settlement and working on the common retail market.

There are great expectations attached to NordREG's work towards a common retail market, and in the first half of 2010 NordREG will deliver an implementation plan for a common retail market by 2015 to the EMG. This plan will be developed in consultation with market stakeholders. After September 2010 NordREG's work on the retail market will continue in the form of further elaboration and identifying needs for changes in framework conditions.

All NordREG work aims at ensuring seamless interaction with European markets and European cooperation.

Table 1 Strategic priorities and mode of work

	Nordic harmonisation and implementation	Exchange of information and best practice between Nordic regulators
	Reports / deliverables	Reference groups / workshops
Common Nordic retail market	<ul style="list-style-type: none"> Detailed implementation plan for a common retail market (report to EMG) Implementation of Nordic retail market indicators 	<ul style="list-style-type: none"> Economic regulation of network companies (internal NordREG workshop) Functional unbundling and neutrality of DSOs (internal NordREG workshop)
A competitive Nordic wholesale market	<ul style="list-style-type: none"> Report on the functioning of Nordic financial markets Peak Load (report to EMG) 	<ul style="list-style-type: none"> Regulation of Nord Pool Spot (NordREG reference group) Development of regulation power market (NordREG reference group) Security of supply (NordREG reference group)

NordREG's work will also in 2010 be divided into three main working groups:

- Retail and distribution WG
- Wholesale and transmission WG
- Nordic market report WG

Retail and distribution projects

Table 2 Retail and distribution WG

Projects / tasks	Deliverables / due date
1. Preparation of a detailed implementation plan of the common Nordic retail market by 2015	<ul style="list-style-type: none"> • Detailed implementation plan: <ul style="list-style-type: none"> ○ Preliminary plan to EMG by 1 September 2010, after public consultation. • Continued work on implementation of common retail market – Status report to Board
2. Implement Nordic retail market indicators and work on developing a common Nordic index	<ul style="list-style-type: none"> • Input into Nordic Market Report 2010 and status report to Board about development of the indicator
3. Exchange of best practices in the area of functional unbundling and neutrality of DSOs (an internal workshop)	<ul style="list-style-type: none"> • Internal workshop – submission of documentation to Board after workshop
4. Exchange of information on economic regulation of network (an internal workshop)	<ul style="list-style-type: none"> • Internal workshop – submission of documentation to Board after workshop

The Nordic regulators participate actively in ERGEG/CEER working groups and task forces on retail market issues. Close coordination with Europe is important for NordREG and in 2010 NordREG will propose to give a presentation to the London Forum on Nordic retail market work and experiences in order to further highlight NordREG's work on the Nordic retail market.

Wholesale and transmission projects

Table 3 Wholesale and transmission WG

Projects / tasks	Deliverables / due date
5. Investigate functioning of Nordic financial markets	<ul style="list-style-type: none"> • Report by 30 June 2010
6. Regulation power market a) Follow TSO work with harmonisation and set requirements and criteria for TSO work b) Evaluate new balance settlement	<ul style="list-style-type: none"> • NordREG reference group – Status report to Board • Evaluation report of balance settlement system to the Board • Regulation power market data – Input to Nordic Market Report
7. Regulation of Nord Pool Spot	<ul style="list-style-type: none"> • Exchange of information through reference group – Status reports to Board
8. Peak load – NordREG comment on TSO's guideline for implementation of peak load procedures	<ul style="list-style-type: none"> • Note to EMG by 15 March 2010
9. Security of supply – Network of regulators' experts	<ul style="list-style-type: none"> • NordREG Reference group – Status report to Board and report in case of incidents
10. Monitoring TSO compliance with Regulation (EC) 1228/2003 and Congestion Management Guidelines	<ul style="list-style-type: none"> • Workshop about dedicated topics on third compliance report – Note to the Board with documentation of results

Nordic market report

In addition to the Retail and distribution WG and the Wholesale and transmission WG, NordREG has a permanent working group for the Nordic market report. The market report involves both retail and wholesale issues, and in 2010 the report will be expanded to include Nordic retail market indicators and data on the regulation power.

There will be close cooperation between the Nordic market report and the Retail and distribution as well as the Wholesale and transmission Working Groups respectively on the following topics:

- Application of Nordic retail market indicators in the Nordic Market report 2010 and continue work with developing a common Nordic index – to be included in the Nordic Market Report at a later stage (Retail and distribution WG)
- Data from the Nordic regulation power market will be included in the Nordic Market Report (Wholesale and transmission WG)

Coordination with CEER / ERGEG

Coordination with CEER/ERGEG is a horizontal issue that goes through all NordREG projects. The aim is seamless coordination with adjacent regions and European cooperation. On some issues, NordREG will have a coordinating role for the Nordic regulators. One such area of work is ERGEG's third monitoring and compliance report. This coordinating action is a specific task for NordREG in 2010.

Cooperation with other Nordic authorities

Also in 2010 NordREG will seek close cooperation with Nordic competition and financial supervisory authorities. Taking account of competition issues and financial market issues arising from the 3rd package will be important.

Within the first half of 2010, NordREG will propose terms of reference for this cooperation, and the relevant authorities will be invited to comment in the process.

Retail and distribution WG

NordREG has stated that the objective for the end-user market integration is to minimise the regulatory and technical obstacles for the suppliers willing to operate in the different Nordic countries. The market design is the key issue for the integration of national electricity markets. It defines the concept of the electricity market. In the Nordic countries the end-user market models are today quite similar. There are, however, some issues that are resolved in different ways between Denmark, Finland, Norway and Sweden. These incompatibilities in the electricity retail market designs are one of the most critical impediments to the development of a common Nordic retail market.

In 2009, NordREG published a report “Market Design - Common Nordic end-user market 3/2009” in which the present situation in the Nordic countries was analyzed and the issues that should be harmonised in order to establish a common Nordic end-user market were identified. In that report NordREG also proposed an indicative road map for the implementation process and suggested that the harmonized framework for a common Nordic end-user market could be achieved by 2015.

At their meeting in Stockholm October 2009 Nordic energy ministers decided to strengthen their support for the NordREG’s suggestion on the common Nordic end-user market for electricity by 2015. The ministers have also asked for a detailed implementation plan of the required moves that must be taken to achieve this goal before the next ministerial meeting in 2010.

After the decision of the ministers a political support and will for a process towards a common Nordic end-user market exists. As a next step in this process EMG has invited NordREG to present by September 1, 2010 which actual regulatory, technical and economical changes have to be made in order to achieve a goal of common Nordic end-user market by 2015. This plan will be prepared in co-operation with the relevant stakeholders and it will also provide objectives for further work in this process.

In 2009 NordREG has developed a new set of market indicators which would assist the quantitative evaluation of development of the retail market. The new market indicators will be included in the Nordic Market Report 2010. During 2010 NordREG will continue work to develop a common Nordic retail market index. The Retail and distribution WG will assist Market report WG in their tasks of implementing the new market indicators and developing the Nordic retail market index. These tasks are addressed in more detail under the Market report WG.

In 2009 NordREG organised two internal workshops on economic regulation of distribution networks. Objective of these workshops has been to exchange information and experiences between the regulators. This work will continue in 2010. To share experiences between the regulators also an internal workshop on functional unbundling and neutrality of DSOs will be organised.

Task 1 Implementation plan for Nordic retail market

This task has started in November 2009. After the meeting of Nordic energy ministers EMG invited NordREG to present, which actual regulatory, technical and economical changes have to be made in order to achieve a goal of common Nordic end-user market by 2015. The objective of this task is to prepare a detailed implementation plan including suggestions on concrete actions with descriptions of the target models and implementation timetables. The plan will be prepared in close co-operation with the relevant stakeholders. NordREG will also organise workshops in which preliminary results will be discussed with interested stakeholders.

In agreement with EMG, the deadline for the implementation plan has been set to the 1st of September.

The implementation plan will include proposals for further actions. The work on implementing a common Nordic retail market will continue in line with these suggestions.

Deliverables

- Detailed implementation plan to EMG by 1st of September 2010
- Continued work on implementing a common Nordic retail market

Task 2 Nordic retail market indicators

In 2009 NordREG has developed a set of market indicators, which would assist the quantitative evaluation of development of the retail market. The new market indicators will be included in the Nordic Market Report 2010. During 2010 NordREG will continue work to develop a common Nordic retail market index.

The WG Retail and Distribution will assist Market report WG in their tasks of implementing the new market indicators and developing the Nordic retail market index.

Deliverables

- Implementation of Nordic retail market indicators in the Market Report

Task 3 Best practice on DSO unbundling

It is essential for the overall competition on the energy markets to ensure that the DSO's act neutrally towards other market participants. This requires both clear regulation and supervision of the DSO's.

The overall goal of this internal workshop is to share experiences among the regulators regarding neutrality of DSO's and exchange information on how the regulation is laid down in the Nordic countries. Furthermore the objective of the workshop is also for the regulators to share experiences on how to carry out the supervision of the DSO's.

It is important to ensure that the DSO's continuously improve their compliance work as the energy markets evolve. It would be helpful for regulators to learn from each other on how to supervise and monitor the DSO's own audits regarding compliance. It is however also important for the regulators to be certain that all initiatives imposed by the regulator are proportional and are held within the regulatory framework.

Through such this workshop the regulators can exchange experiences regarding lessons learned but also current problems and future challenges. In this way the Nordic regulators can help each other to carry out the most efficient supervision of the DSO's which would benefit all energy markets especially also when thinking of a common Nordic end user market.

Deliverables

- An internal workshop before 30 June 2010 – Report of documentation / findings to the Board after the workshop

Task 4 Exchange of information on economic regulation

Economic regulation of the electricity network companies is one of the core tasks of the regulators. The objective of this task is to organise at least two workshops where the members of NordREG can discuss experiences with different regulation models.

The overall goal of these workshops is to share experiences among the regulators regarding economic regulation of the electricity network companies and exchange information on how the regulation is laid down in the Nordic countries. Workshops would also provide possibilities for regulators to discuss details and background of the regulation models.

Through such this workshop the regulators can exchange experiences regarding lessons learned but also current problems and future challenges.

Deliverables

- Two internal workshops during 2010 – Documentation to the Board after the workshops

Wholesale and transmission WG

The objective for NordREG's work on wholesale and transmission issues is a well-functioning Nordic wholesale market with competitive prices.

The Wholesale and transmission WG will in 2010 follow up and co-ordinate several projects/actions related to the Nordic wholesale market. The work will be organised with projects groups and internal reference groups on subjects like the functioning of the Nordic financial market, regulation of Nord Pool Spot, the Nordic balancing market, peak load arrangements in the Nordic countries and the Nordic compliance with requirements given in the EU legislation on cross border trading. In this area public reports or documents will be prepared on the functioning of the financial market and on the TSO proposal for guidelines on transitional peak load arrangements. There will be arranged workshops with TSOs on peak load issues on compliance with the congestion management guidelines.

There is a rapid development with regard to wholesale issues on the European arena, related to the third package implementation and not at least the development of a European target model for capacity allocation and congestion management. This work is highly important also from a Nordic perspective, and NordREG will follow up on this work, both on a European and regional level.

Task 5 The financial market

Financial markets contribute to efficient functioning of the electricity market as a whole by offering instruments for reducing price risks. However, a well functioning financial market depends on a liquid spot market for a robust reference price.

The Nordic physical power exchange, Nord Pool Spot is highly liquid, and it produces a robust system price, which is the reference price for the retail market and financial products. In periods, there can be large differences between area prices in the market, and thus differences between area prices and the system price. As such financial products, which are based on the system price, may not be sufficient to handle price risk associated with different area prices. However for this, the market actors can buy or sell contracts for area price differences (CfD).

NordREG has decided to undertake a study to see whether any improvements can be made to further increase the efficiency of the Nordic financial electricity market.

This task will be carried out in cooperation with the Retail and distribution WG. A public consultation on the draft report is envisaged.

Deliverables

- Report for Board approval by 30 June 2010

Task 6 The balancing market

The Nordic balancing market¹ is a common market place for balancing services (manually activated reserves).

There are two parts to this task, one is to follow up on the Nordic TSOs' work with harmonisation of the balancing market and set requirements and criteria for TSO work. This work takes place through a reference group, which meets regularly with the TSOs.

The other task, which is carried over from last year, is to evaluate the functioning of the new Nordic balance settlement system. This common settlement has been in place in all four countries since the implementation in Norway in September 2009. A first evaluation report shall be ready for Board approval by the end of 2010.

The Nordic market report will be expanded to include balancing market data. The Market report WG shall consult the Wholesale and transmission WG on this issue.

Deliverables

- Report on further harmonisation issues in the Nordic balancing market – for approval by the Board by March 2010.
- Reference group – Status report to Board
- A first evaluation report of the common Nordic balance settlement system. Board approval by Dec 2010.

Task 7 Regulation of Nord Pool Spot

Nord Pool Spot (NPS) is the spot market for trading physical electricity in the Nordic countries. Through a day-ahead auction the spot market produces a spot price, which plays a crucial role as the main reference price in the physical wholesale market, the financial futures and forwards markets, as well as in the retail markets.

Because NPS is located in Norway, the market place is under licence from NVE.

The Nordic regulators have since 2002 had cooperation and mutual information exchange about issues relevant to the market place and the regulation of it. The cooperation takes place through an internal NordREG reference group.

Deliverables

- The Market Place Licence of NPS is renewed from 2010. As a part of the process of renewal, a study regarding the economic regulation of NPS was accomplished in 2009. NVE will consult the NordREG members on the NPS license renewal and conduct exchange of views in the reference group, where appropriate.
- The NordREG reference group envisages organising two meetings in 2010 and reporting back to the Board.

¹ In the Nordic market the balancing market has traditionally been called regulation power market.

Task 8 Peak load arrangements

A basic principle of Nordic electricity market design is that the market should enable correct price signals and incentives to offer resources to meet needs of consumption and thus secure balance between supply and demand in all situations.

There is consensus among the Nordic regulators that any steps to remedy peak load situations should have minimal impact on price formation in the spot market. However the four Nordic countries have chosen different approaches to handling peak load situations where the balance between supply and demand is in danger. Among the four countries, the arrangements implemented in Sweden and Finland are quite similar and follow quite closely the Nordel guidelines on peak load arrangements.

In 2007 the Nordic TSOs, through Nordel, issued guidelines on transitional peak load arrangements, and NordREG was invited to comment on these by EMG. NordREG submitted a report to the EMG in March 2009 where the regulators agree in general with Nordel that the market should be designed to solve peak load problems through proper incentives to market players. Further NordREG presumes that relevant authorities in the Nordic countries take decisions on the need for any peak load arrangement, when this is regarded necessary for security of supply reasons. NordREG proposes that such decisions should be taken after consultation with relevant parties in the other Nordic countries.

In March 2009, the TSOs issued revised guidelines on peak load arrangements, and NordREG has been requested to comment on these guidelines. NordREG will invite the TSOs to a meeting on this issue.

Deliverable

- A statement on the modified guidelines for peak load arrangements – to be delivered to EMG by 15 March 2010

Task 9 Security of supply

NordREG has set up a virtual network of experts on security of supply and extreme situations. This is a “stand-by” network of experts from the regulators that will be activated in case of need. The network will exchange information directly to the situation. After the possible occurrence of an extreme situation, the expert group will write a documentation report with an evaluation of how the situation was handled. Any reports will be submitted to the Board for information.

Deliverable

- In the case where an extreme situation should occur, the expert network will write a report of documentation and evaluation to the Board

Task 10 Compliance monitoring with 1228/2003

NordREG will coordinate the Nordic regulators’ effort to monitor the Nordic TSOs’ compliance with Regulation (EC) No 1228/2003 and the amended Congestion Management Guidelines. This task stems from EGRGEG’s obligation to complete the third Compliance Report to the EU Commission. NordREG will take on a coordinating role on specific issues having Nordic perspective, but the national regulators will have the direct contact with ERGEG.

In coordinating this issue, NordREG will organise an internal workshop about dedicated topics related to the third compliance report.

Deliverable

- Internal workshop about dedicated topics related to the third compliance report. Note to Board with documentation of results.

Nordic market report WG

The Nordic electricity market is a regional market covering four countries and is still in many aspects a unique market in an international perspective. There is an evident need for good documentation of the status and development of the Nordic market as well as evaluation of market functioning.

The Nordic market report provides information and evaluations of the Nordic electricity wholesale market for the national benchmarking reports required according to the Electricity Directive. The report has a specific regulatory view point thus being supplementary to other annual reports on the Nordic energy market. The report from on market development may also be of interest to all concerned parties and to the general public.

Market monitoring of the electricity retail market is undertaken to varying degrees in the Nordic countries. It covers issues like following the supplier switching activity, monitoring of retail prices and contract forms and estimations of margins in the retail supply for instance. To enable a better comparison of the retail markets in the Nordic countries, comparable indicators for market monitoring have been developed in 2009. After a public consultation in early 2010 the initial set of indicators will be utilised in the Nordic market report 2010.

Task 11 Nordic market report

The report should provide a presentation on the development of the Nordic market based on statistical information. The report provides information on among other things:

- market monitoring indicators
- generation (production mix, capacity, cross-border power flow)
- transmission system (congestions)
- wholesale market (market structure, main players)
- retail market (players, retail prices, supplier switching)
- balancing market and system operation

The report should also provide an evaluation of the functioning of the Nordic wholesale and retail markets to the extent that comparable statistics allow this.

Retail and distribution WG will assist Market report WG in developing market indicators, and as regards data on balancing market, the Market report WG will consult the Wholesale and transmission WG.

Deliverables:

- Nordic market report by 30 June 2010

Overview table 2010

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Board meetings			X			X			X		X	
Task 1 Implementation plan for Nordic retail market									X			
Task 2 Nordic retail market indicators						X						
Task 3 Best practice on DSO unbundling						X						
Task 4 Exchange of information on economic regulation			X			X						
Task 5 The financial market						X						
Task 6 The balancing market			X									X
Task 7 Regulation of Nord Pool Spot						X						
Task 8 Peak load arrangements			X									
Task 9 Security of supply												
Task 10 Compliance monitoring with 1228/2003						X						
Task 11 Nordic market report						X						



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