

Common Nordic Retail Market

Organisation of the further work

Report 9/2010

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Preface

For several years NordREG has been working to promote and facilitate a common Nordic end user market. Given the political support that was expressed at the meeting of the Nordic energy ministers in the autumn of 2009, the work has become even more concrete. It should also be noted that the energy ministers expressed their support for the NordREG's implementation plan for a common Nordic retail market at their yearly meeting on the 25th of October 2010.

With this organization document, NordREG define the organization of the future work and the governance rules of the whole process. The document shows which bodies needs to be established, what their roles are and how the decision-making and the consultation of stakeholders will be organized. As the document shows, the need for contributed efforts from all stakeholders will be vital in the coming years in order to make a reality of the plans for creating a common Nordic end user market.

The organization document has been prepared by the NordREG Retail and Distribution Working Group. Nordenergi and Nordic TSOs have had an opportunity to comment the document before it was finalized. NordREG appreciates all the comments and has taken them into consideration before finalizing the document.

1 Objectives

1.1 Objectives and criteria for the development of common Nordic end user market

NordREG has formulated its vision for development of electricity markets:

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

NordREG has stated that the main objective for the end-user market integration in the Nordic region is “to minimize the regulatory and technical obstacles for the suppliers willing to operate in the various Nordic countries”. The main objective behind this is that the market models in the Nordic countries should be harmonised enough to make it smooth and feasible for the suppliers to start operating also in the other Nordic countries. The market integration would thus provide a harmonised framework for the suppliers to make business in the whole Nordic region. In that way all end-users are eligible to take part in the Nordic electricity market.

As a result, the objective of the Nordic end-user market integration could be formulated in the following way:

The roles and responsibilities of different market actors and the processes between them are adequately harmonised in the Nordic countries to make it smooth and feasible for the suppliers to start operating also in the other Nordic countries. Also the framework of customer empowerment should be adequately secured so that the customer can buy electricity from any supplier with a confidence.

NordREG finds that during the specification and design of market model for the common Nordic end user market proposals should be evaluated towards overall criteria before the decision making.

NordREG will define a list of objective criteria to be applied in all tasks. These criteria should cover at least areas of competition, cost efficiency, neutrality and compliance with EU regulation and development. Proposals that meet the objective criterias best should be chosen. These objective criterias should guide the work instead of national or any other interests.

1.2 Objectives for the organisation

NordREG finds that it is essential that the future work towards a common Nordic end user market is organized professionally and permanently in order to ensure efficient use of participants resources, steering and use of necessary external expert resources.

During this process one key element is a close co-operation between the regulators and relevant stakeholder groups. To achieve a well-functioning common Nordic end user market a number of detailed questions have to be solved and common solutions for several issues have to be defined. This requires that all parties involved in this process are

committed to provide their support and prepared to find out solutions that enable a smooth and feasible framework for suppliers to operate also in other Nordic countries.

2 Organisation

2.1 Organisation chart

The figure below illustrates the organisation chart of the further work.

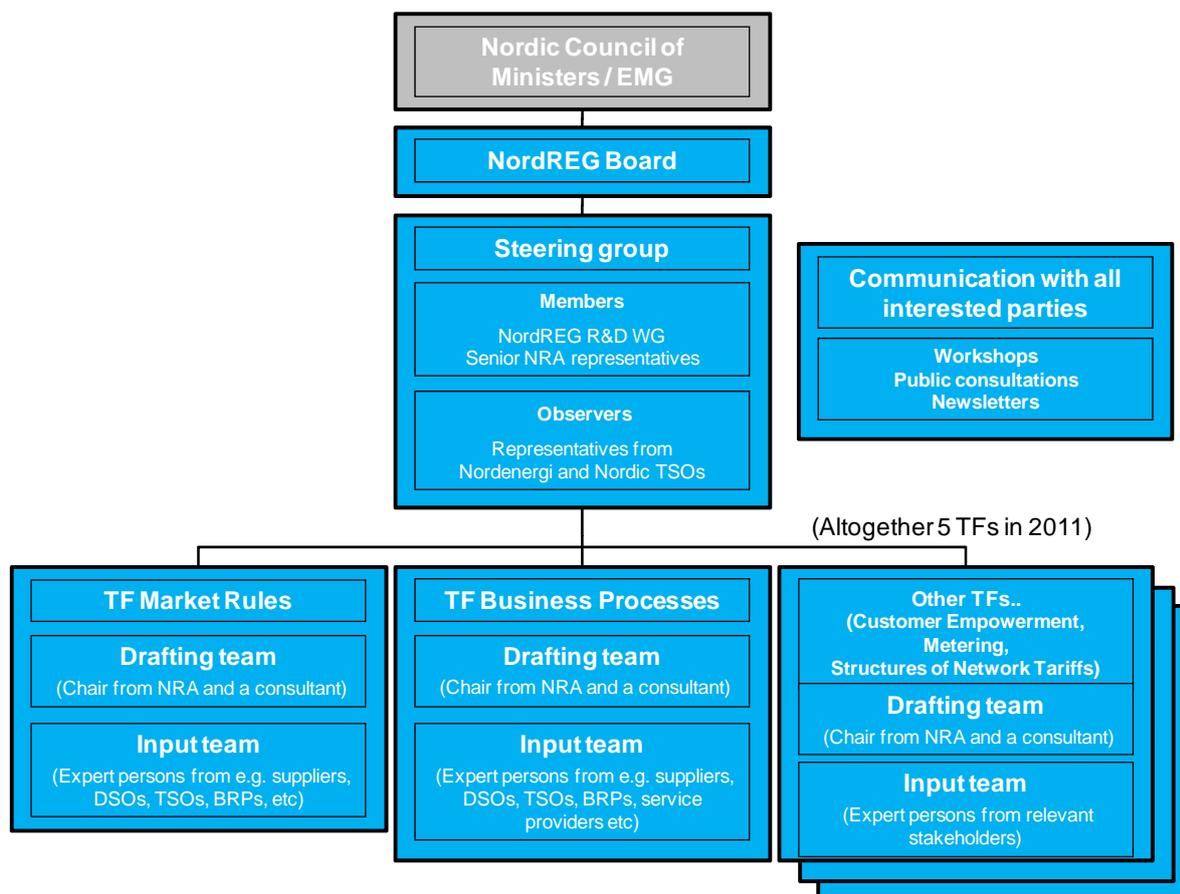


Figure 1. Organisation chart of the further work

2.2 Roles of the institutions in the organisation

2.2.1 Nordic Council of Ministers and the Electricity Market Group

The Nordic Council of Ministers (NCM) makes the high level political decisions and authorizes the project organisation to go forward with the implementation of a common Nordic end user market in line with the political decisions.

The Electricity Market Group (EMG) is the working group for the Nordic Council of Ministers and is responsible for following through the Ministers' declarations in the area of electricity markets. The group consists of representatives from the Ministries in

Denmark, Finland, Norway and Sweden. EMG assigns tasks to NordREG and the project organisation in line with the political decisions.

2.2.2 NordREG Board

NordREG Board consists of the Director Generals from the Nordic National Regulatory Authorities (NRAs).

NordREG Board authorises the steering group and has the ultimate decision making powers on all tasks and deliverables that are organized under the Board. One specific task for the Board in the work on creating a common Nordic end user market will be to approve proposals from the project organisation that should be passed on to EMG and NCM in order to make high level political decisions.

During the implementation process NordREG Board shall report frequently to the Electricity Market Group (EMG) about the progress of the implementation process of common Nordic end user market and definitions of policy made by the project organisation.

2.2.3 Steering group

The steering group has an active role in the overall supervision of the implementation of a common Nordic end user market. The steering group provides guidance to the overall project and frequently supervises that the whole project, and separate subtasks related to it, are going forward according to the timetable and that necessary definitions of policy are prepared.

The steering group consists of members and observers. The steering group members are the members of NordREG Retail and Distribution WG. Also other representatives for the Nordic energy regulators could participate to the steering group meetings.

The observers of the steering group are the national representatives from both Nordenergi and Nordic TSOs. The national representatives from Nordenergi (altogether 4 persons) shall represent both DSOs' and suppliers' viewpoints of their respective countries (Denmark, Finland, Norway and Sweden) in the steering group. To clarify there will not be separate national representatives for suppliers and DSOs. All Nordic TSOs (Energinet.dk, Fingrid, Statnett and Svenska Kraftnät) will have own representative as in the steering group.

The project coordinator will also participate in the steering group meetings without decision making power.

Consensus should be sought in the task forces, but the steering group has the decision making powers on the practical and detailed issues which have not been resolved by the TFs and decision making powers on the general steering of the project.

Before the decision making observers of the steering group will be consulted. Naturally the observers have an opportunity to discuss and express their views with the members before the decisions are made on the controversial issues. Preferably, the decision making in the steering group should be based on a consensus between members and observers. However, if the steering group cannot find a consensus, the members of the steering group have the final decision making power due to the fact that the responsibility to design the common Nordic end user market has been given for NordREG.

In case of fundamental definition of policy the steering group shall ask for a decision from NordREG Board. The steering group also prepares proposals to the NordREG Board on issues that requires high level political decisions.

The observers also have an important role of providing the information from the stakeholders to the steering group, and vice versa, the information from the steering group to the stakeholders.

The steering group has the role to prepare and define the objective criterias to be used in this process while evaluating in the steering group and task force levels different options during the specification and design of common market model. The steering group also makes decisions to establish task forces for specified tasks or areas of tasks. While establishing a task force the steering group approves the terms of reference including required deliverables and timetables.

2.2.4 Project coordinator

The project coordinator gives administrative support and provides necessary services for the steering group and task forces. The project coordinator is also responsible for coordinating the work of the task forces in order to ensure that the whole process towards a common Nordic end user market is moving ahead according to the scheduled timetable. The project coordinator also arranges workshops and public consultations in co-operation with the steering group and task forces.

The project coordinator reports regularly to the steering group concerning status of work of the task forces and the overall progress of the project. The chair persons from the task forces supports the project coordinator on those issues which concerns their own task forces.

The project coordinator will need excellent project management skills and also extensive knowledge about the electricity retail market. The project manager shall use approximately 20 percent of his/hers workingtime to the project management and the rest of the working time shall be used to drafting the documents in one (or several) task force(s).

2.2.5 Task forces

The task forces will be established for areas of related tasks. Each task force should have a drafting team and an input team. The drafting team will include one or more person(s) from NordREG and a hired consultant. Both the consultant and the NordREG representative(s) should have special expertise on the task force's issues. Either a person from NordREG or the consultant will act as the chairperson of the task force. The input team will include around 10-15 experts from stakeholders such as DSOs, suppliers, system operators etc. depending on the task force's subject matter.

The idea for function of TFs is that the drafting team should consult the experts participating in the TF's work and after that formulate a draft document which the experts can comment on. The practical arrangements of the working process in each TF should be decided among the TF members.

NordREG finds that this kind of organization structure for TFs is the most effective way to achive results as the size of the actual drafting team is very limited and the consultant

will be able to work full-time. The structure also enables participation of the best experts coming from stakeholders without requiring their full time commitment. However, it should be noted that even though the experts are giving their input mostly by debating and commenting, they should be fully committed to TF's work as the drafting team alone can't naturally carry through the TF's work.

The working language in all the task forces will be English. Travel expenses or working time of the experts will not be compensated by NordREG.

Number of required task forces is depending on the required tasks. NordREG has estimated that performing the tasks identified in the implementation plan requires that five different task forces should be established at the beginning of year 2011. These task forces will be active during year 2011 but the work related to the certain tasks (e.g. business processes and data exchange) will of course continue, and become more detailed, on later stage. The steering group will seek to establish additional task forces if deemed necessary. NordREG envisages that the task forces should be divided according to the following tasks:

- **Market rules TF**
 - Analysis and definition of *rights and obligations* of DSOs and suppliers in the supplier centric customer interface model.
 - Description of the combined billing regime in detail and *impact assessment of the billing regime*. The task shall assess the implications of mandatory vs. voluntary combined billing, and analyze if it is possible to design a *security payment system* that is not creating a market barrier for the supplier.
 - Analyze whether national *tax structure legislation* will allow foreign suppliers to collect taxes and fees in each Nordic country.
- **Customer empowerment TF**
 - Identify what should be defined in common legislation and what are the needs for additional *standard agreements between suppliers and DSOs on a Nordic level*.
 - Analyze how the *contracts between customers and suppliers/DSOs* should be arranged and what should be defined in common legislation and what are the needs for additional standard agreements with customers on a Nordic level.
 - Analyze what is needed from the *harmonized customer protection regulation*.
 - Analyze the impact of common Nordic rules for *prepayment and payment after delivery*.
 - Analyze if the existing *obligation to supply and the supplier of last resort schemes* includes elements that negatively impacts the market functioning and also if there is a need for a harmonization.
- **Business process TF**

- Make high level suggestions for future common Nordic business processes for *key processes*.
- Make an *impact assessment* of the suggested changes in business processes.
- Make an *inventory of national legislation and rules* to identify best practice and what needs to be harmonized.
- Make a *detailed specification* for future common Nordic business processes for all business processes.
- Prepare *future harmonized legislation*
- **Structures of network tariffs TF**
 - Analyze if *harmonization of the structures of network tariffs* is a *prerequisite for combined billing* and if it is feasible.
- **Metering TF**
 - Further elaborate on the *introduction of AMR and AMM* in the Nordic countries and national AMR and AMM requirements and their impacts on a common Nordic end user market.
 - Complete and continue the work related to the Nordic balance settlement with focus on DSO and supplier tasks and information exchange.

In addition to the above mentioned task forces it should be noted that Nordic TSOs have already in May 2010 launched a project to develop a model for Nordic Balance Settlement (NBS). Nordic TSOs have also established a reference group including representatives from stakeholders and regulators for this project. So far, this work has been organised and steered by the Nordic TSOs.

The work of Nordic Balance Settlement project has mainly been done without a close co-operation with the project of common Nordic end user market organised by NordREG. However, the results of Nordic Balance Settlement project might have influence on other tasks identified in the implementation plan of common Nordic end user market and *vice versa*. Therefore and in order to ensure smooth information exchange between the tasks related to the development of common Nordic end user market the coordination between the Nordic Balance Settlement project and other tasks in this process will be improved by requesting a regular reporting process from the Nordic Balance Settlement project to the steering group.

2.2.6 Stakeholders' general involvement to the process

All stakeholders will not have opportunity to directly take part in the task forces' work but they will have an important role for providing input on overall issues during the process.

The interested stakeholders will be invited to participate in workshops which will be organized approximately twice per year. In the workshops the discussion will focus on the general progress of the project. The workshops will also be a good opportunity for the task forces to present their draft reports.

In addition, there will be organized public consultations and also more informal communication (newsletters etc.) will be distributed among the stakeholders.

3 Resources

So far, the preparation work for a common Nordic end user market has, to a large extent, been based on ad hoc working groups without anyone concentrating on this project full time. The implementation plan shows that there are several tasks that will be performed in parallel and that there are dependencies between these tasks. In the next stage many concrete, detailed and complicated questions have to be addressed. The Nordic energy regulators and stakeholders are not able to carry out this project ad hoc efficiently enough. The regulators and the stakeholders have limited possibilities to allocate their human resources into this process especially regarding coordinating the work of different task forces and drafting documents. However, all stakeholders should take an active part in the future work.

3.1 External resources and budget

Firstly, NordREG suggests that in order to ensure a successful implementation of a common Nordic end user market a permanent project coordinator should preferably be hired or bought as a consultant service. NordREG sees it important that one person is responsible for taking this project forward and taking responsibility of time schedules.

The project coordinator will need excellent project management skills and also extensive knowledge about the electricity retail market. The project coordinator shall devote approximately 20 percent of the workingtime to the project management and the rest of the working time shall be devoted to drafting the documents in one of the task forces. Hiring of the project coordinator will require a decision in which organisation this person would be situated. Today NordREG doesn't have any staff of its own or any permanent offices.

The project coordinator is required for this process especially during the specification and design phases. According to the implementation plan the specification phase has been scheduled for 2011 – 2012 and the design phase for 2012 – 2013. Therefore, NordREG suggests that the project coordinator should be hired in the beginning with a two year contract (2011 – 2012) with an option of the third year (2013).

In addition to this NordREG suggest that each task force should have its own drafting person who has deep knowledge of the task force issues. The drafting persons should be bought as a consultant service and they would not work permanently but their working time would be dependent on the duration of the task forces' work. The drafting persons should have relevant background for the issues being handled in each task force.

NordREG has estimated that the total need for external recourses for this project would be about three man-years during the year 2011. This would include a permanent project coordinator, who would also work in at least one of the task forces as a drafter, and in addition, part time consultants who would work in other task forces. The estimated total cost of these external resources will be about 300,000 Euros per year.

There should also be recourses reserved for organising necessary number of workshops and meetings with stakeholders. The estimated cost for a 50 person’s workshop is about 5,000 Euros.

In addition to these there might be need for studies on certain topics and detailed questions ordered from consultant companies, research institutes etc to help the work of task forces.

The next table illustrates the draft budget for this project in 2011 – 2013. NordREG has estimated that total budget for this project will be about 500,000 Euros per year in 2011 – 2013.

Table 1. Draft budget for 2011 – 2013.

Budget	Costs (Euros)		
	2011	2012	2013
Project coordinator	100,000	100,000	100,000
Other external resources needed for task forces	200,000	200,000	200,000
Workshops, meetings	50,000	50,000	50,000
Other costs (studies)	150,000	150,000	150,000
Total costs	500,000	500,000	500,000

3.2 NordREG’s resources

Each Nordic Energy regulators will devote at least one man-year for this project in the year 2011. The internal recourses are needed for steering the whole project and working in the task forces’ drafting teams.

4 Governance rules

4.1 Composition of reference group and TFs and chairpersonships

The steering group's members define the composition of the task forces.

The steering group's members can ask for recommendations from the Nordic branch organizations concerning the experts who should be nominated for the task forces. The steering group's members also have the possibility to nominate the task force members without asking for recommendation from the branch organizations, if it's seen appropriate.

The composition of the task forces and required expertise of task force members should be included in the terms of reference of each task force.

The steering group's members are responsible for appointing the chairpersons of the task forces.

4.2 Decision making procedures

The NordREG Board has the sole authority for approving all documents, and for communicating them to others.

NordREG Board authorises the steering group and has the ultimate decision making powers on all tasks and deliverables that are organized under the Board.

The steering group will have decision making power on the practical and detailed questions which have not been able to be resolved by TFs.

Before the decision making in the steering group the observers of the steering group will be consulted. Preferably, the decision making in the steering group should be based on a consensus between the members and observers. However, if the steering group cannot find a consensus, the members of the steering group have the final decision making power.

Consensus should be sought in task forces. However, if a TF is unable to reach a consensus the decision should be taken by the drafting team after consulting the steering group.

The terms of reference for each deliverable or task are subject to approval by the steering group.

4.3 Minutes of meetings and reporting for the steering group

TF chairpersons are responsible for preparing draft minutes of TF meetings and reporting the progress of TFs' work to the steering group. The more specific reporting requirements should be included in the terms of reference of the task force.



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