



NordREG
Nordic Energy Regulators

Work Programme 2007

Report 1/2007



WORK PROGRAMME 2007

NORDIC ENERGY REGULATORS
(NordREG)

Report 1/2007

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PREFACE

The work programme established for 2006 has led to a productive year. Through an active cooperation between the regulators, different authorities and stakeholders we have taken yet another step towards a more harmonised Nordic electricity market.

In March/April and during the summer of 2006 NordREG delivered four reports in accordance with the work programme:

- A common definition of the system operators' core activities
- The integrated Nordic end-user electricity market
- Development of common Nordic balance settlement
- Handling extreme situations in the Nordic Countries

In the autumn a "Nordic Market Report 2006" was published.

In the end of 2006 NordREG launched its own website www.nordicenergyregulators.org. The website will give interested parties a better insight into the work that is run by NordREG.

Another important event for NordREG is that the European Regulator's group for Electricity and Gas (ERGEG) launched in February its "Electricity Regional Initiative". The aim of the initiative is to establish seven "Regional Energy Market" projects in EU in order to identify and remove barriers that impede the development of a single European energy market. The Nordic countries together with Germany and Poland make up for one regional energy market, the northern Europe electricity market. Important issues that are addressed in the project are for the moment optimizing use of interconnectors and transparency in the wholesale market.

The NordREG work programme for 2007 builds upon the previous year's work. The work programme contains however several new tasks aimed at further implementing the strategic objectives.

NordREG has a one year rotating chairmanship. The publication of this report marks the end of the Swedish chairmanship. For the year 2007 the Danish regulator, Finn Dehlbæk from Energitilsynet (Danish Energy Regulatory Authority- DERA) will have the chairmanship.

Eskilstuna, January 2007



Håkan Heden
Chairman of NordREG

INTRODUCTION

Nordic Energy Regulators (NordREG) is a co-operation between the Nordic energy regulators. The co-operation was established through a Memorandum of Understanding, which was signed in 2002. In the document, the objectives of the co-operation as well as the modes of it were agreed. Prior to a formal agreement on co-operation, the tradition of bi-annual meetings and a 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)

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

Sweden: The Energy Markets Inspectorate (Energimarknadsinspektionen, EMI)

To develop and enhance the co-operation, the regulators launched a strategic project in the autumn of 2004. The project resulted in formulating the mission, vision and the strategic priorities for the organisation. On the basis of the strategic priorities, the first Work Programme for the year 2005 was created and agreed upon. Beside the tasks in this Work Programme NordREG will also during 2007 organise several Work Shops related to the strategic priorities. More information about these will be published on the NordREG website.

In continuation of an increased focus on developing further the Nordic energy market, the Nordic energy ministers agreed during their meeting in Bodø in September 2006 that the Nordic electricity market should be an essential part of future energy co-operation. The Nordic energy ministers underlined the importance to strengthen the co-operation between relevant actors on the market since they can benefit from a deeper harmonisation of the Nordic electricity market. The Nordic energy ministers also emphasised the importance of a close dialogue on the development of the EU's policy on electricity. A number of tasks were recommended to be accomplished and the Electricity Market Group subsequently agreed with NordREG that they will take the responsibility for a number of these tasks. This agreement is reflected in this Work Programme 2007.

Today extensive work on achieving a single European electricity market is being carried out by the Council of European Energy Regulators (CEER) and the European Regulators Group for Electricity and Gas (ERGEG). This work has significant impact on the Nordic market and it contributes to the further development of the Nordic electricity market being therefore important also from a Nordic perspective.

MISSION AND VISION

The foundation for the co-operation of the NordREG is to identify the areas of work where co-operation taking the forms like exchange of views, working together to map and analyse energy market issues, producing reports and statements and taking common action to influence either Nordic or European development can create value-added.

The mission for the NordREG is as follows:

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

In the course of the strategic work, NordREG drafted a vision for the electricity market for the year 2010. A prerequisite for the vision is to be both realistic and challenging.

“In 2010 all customers in the Nordic electricity market will enjoy free choice of supplier, efficient and competitive prices and reliable supply through the common Nordic electricity market which also interacts smoothly with other regional electricity markets in the EU”

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	<ul style="list-style-type: none">• 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	<ul style="list-style-type: none">• 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	<ul style="list-style-type: none">• To promote market-based or legal environment for security of supply• To ensure harmonised procedures for handling extreme situations
Efficient regulation of TSO	<ul style="list-style-type: none">• 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

A truly common Nordic retail market with free choice of supplier

- To develop a common balance management and settlement system
- To develop easy and harmonised procedures for all customers switching supplier
- To create harmonised criteria for unbundling to ensure neutrality

Task 1: A common Nordic platform for balancing services

Background and Objectives

The Nordic energy ministers at its meeting in Bodø September 2006 gave its support to the Electricity Market Group's recommended action regarding a common Nordic balance settlement: "*NordREG is asked to continue its good work towards a common platform for the balancing settlement mechanism and take into account Nordel's suggestions for a cost reallocation principle and the balancing pricing model.*"

In March 2006, NordREG submitted the report "Development of a common Nordic balance settlement" to the Electricity Market Group. The report included a suggestion of a control station in 2007, to evaluate progress and decide on further work.

The Electricity Market Group also noted that "*the process towards a platform for the balancing settlement mechanism should have a close connection with the work towards one end-user market.*"

The aim of this task is to continue along the road towards the realisation of the vision of a common Nordic balance settlement, while taking into account that such an arrangement must be economically viable.

If Nordel deliver the final results on "Common principles for cost allocation and settlement" by the end of 2006, NordREG should be able to make an evaluation of Nordel's suggestions regarding cost base, price model and the number of balances by March 2007. Further results may be submitted to the Electricity Market Group during April 2007. The work should be seen in a longer perspective and continue with further steps throughout the year.

Outline of Tasks

- To evaluate the Nordel suggestions
- To define a common vision of a Nordic platform for balance settlement
- To evaluate the costs and benefits of a common balance settlement- including cost and benefits for the participants on the retail market
- To continue the work according to the Road Map

Mode of Operation

The Energy Markets Inspectorate (EMI) is responsible for this task. The other Nordic regulatory authorities will nominate at least one member to the work group and the member will provide information, data and comments needed in the project. The work should be carried out in close contact with Nordel.

A workshop should be held together with Nordel to define a common vision of a Nordic platform for balance settlement. The work plan should be co-ordinated with the Nordel work.

The work should also be pursued in close contact with the work group of task 2. The two NordREG groups should arrange a common workshop on the costs and benefits of an integrated Nordic retail market- including the impact of a common balance settlement.

Output

The output should be:

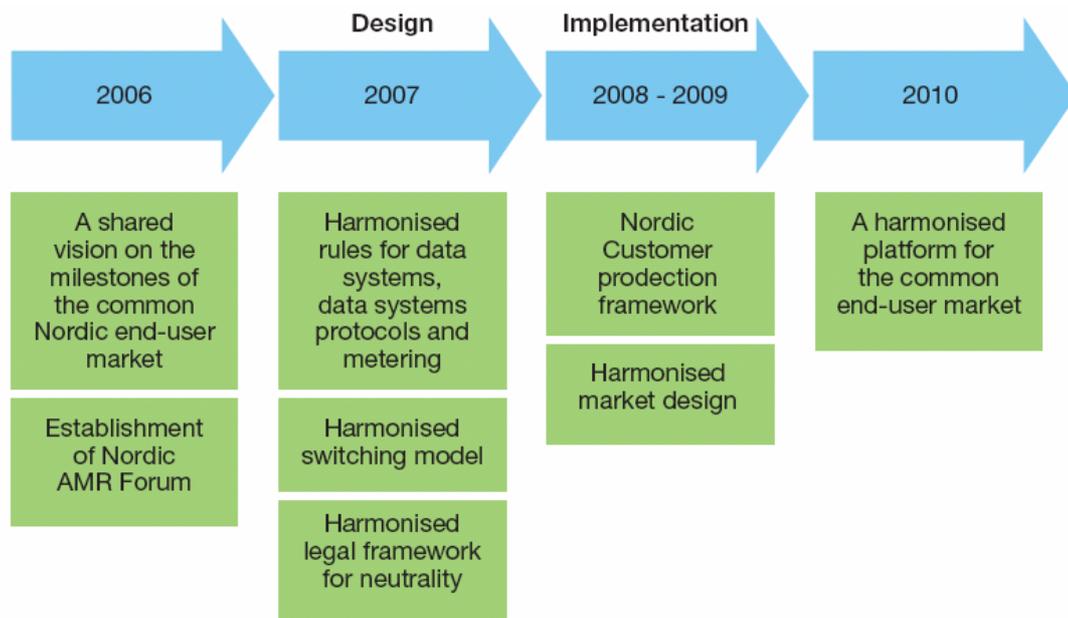
- a status report in March 2007 to the Electricity Market Group
- a report in April that evaluates the Nordel suggestions
- a workshop together with the working group(s) within Nordel dealing with balancing
- a workshop together with work group of task 2 in the fall of 2007
- a report by the end of 2007 that looks further into the practical, legal and market consequences of a common Nordic balance settlement (control station)

Task 2: Market design of the Nordic retail market

Background and objectives

The Nordic Energy Ministers at its meeting in Bodø September 2006 gave its support to the Electricity Market group's recommended action regarding the Nordic retail market: *"NordREG is asked to proceed with activities towards the vision of a common end-user market. It should be considered whether the activities are beneficial in a Nordic, socio-economic perspective. This should be done in a step-wise manner and according to a reconsidered time table."*

In NordREG's report "The integrated Nordic End-User Electricity Market" the following timetable was put forward:



During 2006 NordREG contributed to creating a shared vision on the milestones by organising two workshops to discuss and to exchange views on the integrated Nordic end-user market. Additionally, a joint effort to establish a Nordic AMR Forum has been taken by the research institutions in the four Nordic countries. Taking into account the recommended action by the Nordic energy ministers and the responses received during the process NordREG has reconsidered the timetable and decided to change the order of issues for the year 2007.

During 2007 NordREG will carry out a socioeconomic analysis of the benefits and costs of the further integration of the Nordic end-user electricity market. Secondly, work will be undertaken to establish common principles on market design. This will be the foundation for later work. In this context the market monitoring issues are to be reviewed. It should be recognised that all market design issues cannot be solved during 2007. Additionally, the harmonised supplier switching model will be defined and a harmonised legal framework for neutrality will be prepared.

Outline of the task

To address the issues of end-user market integration a Nordic End-User Market working group will be established. The work during 2007 will cover a socioeconomic assessment of the effects of the Nordic end-user market integration, the overall principles of market design and market monitoring, harmonised supplier switching model and the harmonised legal framework for neutrality of network operators.

The eventual further integration of the end-user electricity markets across the Nordic countries would result in both costs and benefits to the market operators and the end-users. The measures to allow the better integration including for instance the developing of metering and data system solutions would mean costs to the network operators and suppliers. The benefits of a larger market could be seen in the increased efficiency and better functioning of the electricity market, which could

ensure more competitive prices than today to the end users. The costs and benefits should be assessed in qualitative and where possible in quantitative terms.

Whatever the outcome of the assessment, the individual themes and work on them within this working group will be beneficial for national Nordic end-user markets.

The market design is the key issue for the integration of markets and there are differences among the Nordic countries in this respect. The solutions on market design affect the roles and responsibilities of various electricity market operators and thus it has significance to market functioning and processes like supplier switching.

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 should be come up with.

The supplier switching models of the various Nordic countries do not vary a lot but still some relevant differences exist. At the same time a steady work for harmonising the supplier switching model at the European level is undergoing. For this reason, further work on the Nordic level is necessary.

Finally, neutrality of the DSOs is a key principle in all Nordic countries. It is regulated in different ways in various Nordic countries. The work on neutrality should produce a status report of the Nordic countries and deliver a proposition of harmonised legal framework for neutrality.

Mode of operation

The work is organized into two working groups. Norwegian Water Resources and Energy Directorate (NVE) is responsible for the work that focuses on the socio-economic assessment and additionally, on the market design and monitoring issues. The Energy Market Authority (EMV) is responsible for the second work group that addresses the harmonised supplier switching model and the harmonised legal framework for neutrality of network operators. The other Nordic regulatory authorities will nominate at least one member to the work groups and the member will provide information and data and participate in the drafting of the papers and the final report.

Two work groups

Work group 1:

The socioeconomic assessment of costs and benefits of increased Nordic end-user electricity market integration should be based on the NordREG report 2/2006. The costs and benefits should be assessed in qualitative and where possible in quantitative terms. This should be ready by the end of February 2007.

A review of the differences in market design and on the basis of it a proposition on the overall principles of Nordic retail market design is delivered. Additionally a proposition for the end-user market monitoring indicators as well as a short status

review based on these indicators is to be prepared. These should be ready by October 2007.

Work group 2:

A proposition for the harmonised supplier switching model will be developed. A review of the differences in how the distribution network operators are supervised and regulated with regard to neutrality and a proposition on a harmonised model for the regulation of neutrality. These tasks should be completed by the end of 2007.

Contact with relevant parties

During its work the Nordic End-User Market working groups should consult the industry associations and other relevant parties as appropriate. The finalizing of the report on principles of market design should be followed by a public consultation. The working groups should consider organising a workshop following this public consultation.

Output

The output should be:

- a working note on the socioeconomic analysis by the end of February 2007,
- a report on market design and monitoring by October 2007,
- a report on a harmonised switching model by the end of 2007 and
- a report on neutrality by the end of 2007.

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

Facts about ERGEG Northern Europe Electricity Regional Initiative

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

DERA was nominated "lead regulator" for the Northern Europe region consisting of Finland, Norway, Sweden, Denmark, Germany and Poland.

The focus of the work is defined as "Improving the wholesale market interface between the Nordic countries on one side and Germany and Poland ("Continental Europe") on the other side, taking into account other interconnections as Estlink and NorNed".

The work is supervised by a "Regional Coordination Committee (RCC)" consisting of representatives of national energy regulatory authorities and the DGTREN of the European Commission. Three implementation groups are dealing with limited, concrete tasks. The "Stakeholder Group meeting" (former "Miniforum") is a forum of the multilateral stakeholder dialogue, while each participating Regulator ensures continuous dialogue with stakeholders of their country, including ministries.

In 2007 the already initiated work of three "Implementation Groups" on congestion management on the Nordic – Continental Europe borders (two groups) and on transparency will continue and conclude their work. The work of a fourth "Implementation Group" on "The need for joint intra-day and balancing markets" will be initiated. A "Stakeholder Group meeting" and at least one workshop are planned.

Task 3: Nordic Market Report

Background and Objectives

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 Nordic market as well as evaluation of market functioning.

The Nordic Market Report will provide information and evaluations especially of the Nordic electricity wholesale market for the national benchmarking reports required by the European Commission and ESA according to the Electricity Directive. The report will take a specific regulatory view point and in this way it will be supplementary to other annual reports on the Nordic energy market. The report from the NordREG on market development may also be of interest to all concerned parties and to the general public.

Outline and task

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

- an introduction about NordREG
- 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 markets and system operation

The report should also provide an evaluation of the functioning of the Nordic wholesale and retail markets based merely on the conclusions in the NordREG reports published in 2006.

Mode of operation

The report will to a large extent be based on information available to the national regulators from different sources and will only to a limited extent require new routines of collecting data from the various Nordic regulators.

The Energy Markets Inspectorate (EMI) is responsible for this task. The other Nordic regulatory authorities will nominate at least one member to the work group who will provide the working group with information and data and participate in the drafting of the paper. The working group shall have a meeting around February and decide on the contents of the report. The first draft should be ready in early May, and the final report should be published by 30th June.

Output

A NordREG report which describes and evaluates the Nordic wholesale and retail electricity market should be published by the 30th June 2007.

Task 4: Regulation of Nord Pool Spot

Background and objectives

In 2002 the Norwegian Water Resources and Energy Directorate (NVE) made guidelines for information exchange and consultation in connection with NVEs exercise of authority over Nord Pool Spot. The purpose of the guidelines is to prepare for closer co-operation with the other Nordic energy regulators concerning the regulation of Nord Pool Spot. During 2006 a NordREG working group was looking into the relevant questions regarding the regulation of Nord Pool and Nord Pool Spot. The group has made an internal note on the current regulation of Nord Pool Spot and arranged a high level meeting with it. The work will continue in 2007.

Outline of tasks

Based on the working note on the current regulation of Nord Pool Spot the group will look into relevant questions, and if necessary, propose changes concerning the regulation of Nord Pool Spot. A draft report shall be made by 1st July and be object for a consultation during summer and autumn 2007.

The group shall also prepare a high level regulatory meeting with Nord Pool during second half of 2007.

Mode of operation

Norwegian Water Resources and Energy Directorate (NVE) is responsible for this task. The group from 2006 will continue its work.

Output

The output should be:

- a drafted report raising relevant questions and proposals concerning the regulation of Nord Pool Spot by 1st July 2007,
- a final report, after consultation, by 1st October and
- a high level meeting with Nord Pool during the second half of 2007.

Task 5: Monitoring of the Nordic regulation power market

Background and objectives

The Nordic energy ministers at its meeting in Bodø September 2006 gave its support to the Electricity Market group's recommended action regarding the Nordic wholesale market: *“NordREG is asked to study the link between the monitoring of the regulation power market with the monitoring of Elspot, Elbas and the financial power market. The study should address the need of full disclosure of information to Nord Pool and how this can be secured”*.

In its status report from April 2006 Nordel noted that:

- the responsibilities of the Nordic TSOs in market monitoring are related to the functioning of the physical market mainly during the operational hour
- the regulation market has been expanded to be a Nordic market place since 2002
- the regulation market is monitored only nationally unlike the Nordic physical markets
- there are differences in the responsibilities of the TSOs

Main focuses of the TSOs are to monitor the contractual obligations of the counter parties and the sufficiency of financial collateral securities of the market players in the balance management. Nordel states that it seems to be useful to monitor the regulation power market on a Nordic basis, but its benefits still require some further analysis. Nordel also states that such monitoring calls for information from the whole region and from the other physical markets. Today the TSOs do not have access to information held by Nord Pool Market Surveillance.

The Nordic Council of Ministers notes that there is an additional need to study how to link the monitoring of the regulation market with the monitoring of Elspot, Elbas and the financial market. Among other aspects the market players' possibility to switch the focus of their activities between these markets calls for a comprehensive monitoring.

Outline of tasks

- a) Map the present situation regarding monitoring of the different markets taking into account the work undertaken by the working group for task 6.
- b) Describe different cases/situations where monitoring across borders and across markets is necessary /useful.
- c) Map the legal framework regarding monitoring and information exchange in the different Nordic countries.
- d) Describe alternative models which can serve the need for co-ordinated monitoring across borders and markets
- e) Put forward a proposal on monitoring, information exchange and possible need for changes in legal framework and regulation.

Mode of operation

Norwegian Water Resources and Energy Directorate (NVE) is responsible for this task. The task will be handled within the working group for task 5 “Regulation of Nord Pool Spot”.

The working group for task 1 “A common Nordic platform for balancing services” should be consulted in the work and asked to participate in meetings when necessary.

The project should work in close co-operation with both Nordel and with Nord Pool. First meetings should be arranged in early 2007.

Stakeholders and relevant authorities should be consulted before a final proposal is put forward.

Output

The output should be:

- a status report by 1st March 2007,
- a report covering tasks a) to d) by 1st May 2007 which shall also be sent on a public hearing and
- a final report before the end of 2007.

Reliable supply

- To promote market-based or legal environment for security of supply
- To create common rules for handling extreme situations

Task 6: Security of supply and extreme situations

Background and objectives

Variations in water inflow to reservoirs and dry periods as in 1996, 2002/2003 and 2006 have resulted in increased focus on security of supply in the Nordic system. In dry periods the system is also more vulnerable to other incidents both in transmission and in generation.

In June 2006 NordREG published a report on handling extreme situations in the Nordic countries (NordREG report 5/2006). There is 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. Exchange of information and analysis of the system and market development among the Nordic regulators has proved to be important in such situations. To ensure efficient exchange of information among the competent authorities and timely management of extreme situations it is important to have a thorough understanding of the division of tasks and responsibilities of the various authorities.

Some of the Nordic countries have introduced specific legislation and measures to ensure security of electricity supply and to avoid extreme situations. For instance Sweden and Finland have special arrangements which guarantee the availability of certain generation units in extreme situations.

Outline of the tasks

The working group's tasks fall into three categories. Firstly, it should review the tasks and responsibilities of various authorities related to security of supply and extreme situations and draft an overview of legislation and regulations with relevance to security of supply and handling of extreme situations.

Secondly, the working group should enhance co-operation and co-ordination among the various organisations responsible for security of supply and extreme situations and contribute to efficient information exchange among the competent authorities in order to help to tackle the extreme situations. Related to this, it should prepare a proposal on guidelines for exchange of information, act as an expert network for power situations and call meetings between the regulators when situations seem to emerge.

Thirdly, the working group should review specific legislation that has been introduced in the Nordic countries to measures to ensure security of electricity supply and to avoid extreme situations.

Mode of operation

Norwegian Water Resources and Energy Directorate (NVE) is responsible for the project. The other Nordic regulatory authorities will nominate at least one member to the work group.

Output

The output should be:

- a review of the tasks and responsibilities of various authorities with regard to security of supply and extreme situations by the end of May 2007,
- a proposal for the organisation of information exchange by the end of October 2007 and
- a report on legislative measures to ensure security of supply and to avoid extreme situations by the end of October 2007.

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

Task 7: To regulate and monitor the TSOs with focus on market efficiency and Nordic harmonisation

Background and objectives

The Nordic energy ministers at its meeting in Bodø September 2006 gave its support to the Electricity Market group's recommendation and proposed that:

“NordREG is invited to evaluate if and how a more harmonized regulatory set-up in relation to the TSOs can contribute to the efficient functioning of the market”.

This task is the finalization of the “second step” of the task from 2006.

Outline of tasks

The major elements of the task are:

- Describe how the TSOs are regulated in each Nordic country, including economic regulation
- Analyse if differences in regulation constitute barriers to the efficient functioning of the Nordic electricity market
- Based on the mapping of issues mentioned above to evaluate and – if necessary – to propose how and by which means further harmonization of the regulation of the TSOs can be achieved.

Mode of operation

The Danish Energy Regulatory Authority (DERA) is responsible for the project. The other Nordic regulatory authorities will nominate at least one member to the work group. Up till this moment, no support from external consultants is estimated to be necessary.

The dialogue with Nordel established during the 2006 Work Programme will be continued, and interviews with 3-5 stakeholders in each country will be conducted.

The work of the group and communication between the members will take place though e-mail, and, when considered necessary, meetings will be held.

Timeframes, deliverables and output will be as follows:

- Interviews with stakeholders - November-December 2006
- Status report to Nordic Council of Ministers 1 March 2007

- Final report – after public consultation and NordREG approval - to Nordic Council of Ministers end April 2007

Output

The report will contain a descriptive part as well as concrete proposals.

Task 8: Implementation of Congestion Management Guidelines

Background and objectives

Congestion management has a great impact on the efficient functioning of the Nordic electricity markets. A common 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 European markets.

Congestion Management Guidelines under Regulation 1228/2003 were amended at the beginning of December 2006. The aim of this project is to establish a common Nordic regulatory opinion on congestion management and find a harmonised way of applying congestion management guidelines within the Nordic electricity markets. The project will utilise the work made during year 2006 within NordREG of the present congestion management principles.

Outline of tasks

During the year 2007 the NordREG working group should work on:

- Compliance reporting of CM Guidelines
- Establish a common understanding how to monitor the implementation of CM Guidelines
- Procedures how CM methods are published
- Co-operation among Nordic regulators in the context of CM Guidelines
- Regulators' role in the development of CM methods

Mode of operation

The Energy Market Authority (EMV) will be responsible for the task. Each regulator will nominate at least one representative to the working group.

Output

The output should be:

- a compliance report of Congestion Management Guidelines by the latest in May and
- a final report by the end of year 2007.

CALENDAR 2007

CALENDAR 2007																																																												
	January					February					March					April					May					June					July					August					September					October					November					December				
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To regulate and monitor the TSOs with focus in market efficiency and Nordic harmonisation								X							X																																													
Implementation of Congestion Management Guidelines																		X																												X														



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