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**COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN
PARLIAMENT AND THE COUNCIL**

The future Role of Regional Initiatives

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1. CONTEXT

The Regional Initiatives were set up in spring 2006 by the European Regulators' Group for Electricity and Gas (ERGEG), at the request of the European Commission, as an interim step in moving from national electricity and gas markets to a single energy market. Seven electricity regions¹ and three gas regions were created.

The Regional Initiatives (RIs) have been beneficial in providing a forum for regulators, network operators and other stakeholders of neighbouring countries to discuss issues of common interest. Many of the RIs have made progress on a great variety of issues. The electricity regions have mainly focused on congestion management, balancing and transparency. The gas regions have worked on interconnection issues, interoperability, transparency, hubs and security of supply.

Five years after their set up, the Commission considers it useful to evaluate the regional initiatives with a view to assessing whether any modifications to the process, composition or governance could further enhance their effectiveness and contribution to the completion of the internal market. Such a review also fits with the entry into force of the the third internal energy market package (also called Third Energy Package)². The Third Energy Package provides for new tools of European rulemaking through network codes which can be made binding by the Commission using the comitology procedure and changes the institutional architecture with the establishment of the Agency for the Cooperation of Energy Regulators (ACER). The Commission has launched a study on the regional initiatives last year.³ In parallel, ERGEG has put forward its strategy paper on the role of the regional initiatives⁴. Also some stakeholders published their report on regional cooperation⁵ and a Regional Initiatives Conference⁶ was organized by the Commission and ERGEG jointly in July.

¹ In 2008, also the Energy Community Region was established.

² See www.ec.europa.eu/energy/gas_electricity/third_legislative_package_en.htm, the package is composed of Directives 2009/72/EC and 2009/73/EC, Regulations (EC) No 713/2009, (EC) No 714/2009 and (EC) No 715/2009.

³ The study has been published on the website of DG ENER: "From regional markets to a single European market" (April 2010): www.ec.europa.eu/energy/gas_electricity/studies/electricity_en.htm

⁴ Strategy for delivering a more integrated European energy market: The role of the ERGEG Regional Initiatives. An ERGEG Conclusions Paper. E10-RIG-10-04, 21 May 2010 (www.energy-regulators.eu/portal/page/portal/EER_HOME/EER_PUBLICATIONS/CEER_ERGEG_PAPERS/Cross-Sectoral/2010/E10-RIG-10-04_Strategy_Conclusions_21-May-10.pdf).

⁵ See for instance Eurelectric's report:

⁶ <http://www.eurelectric.org/Download/Download.aspx?DocumentFileID=62455>.

See http://www.energy-regulators.eu/portal/page/portal/EER_HOME/EER_INITIATIVES/Regional_InitiatIVES_Conferences/2010%20RI%20Conference

Based on the conclusions from the studies and debate, the purpose of this Communication is to seek stakeholder's views on possible options for strengthening the effectiveness of the regional initiatives going forward.

Following this communication and depending on the reactions from all interested stakeholders it might trigger, the Commission might launch an initiative based on Article 12.3 of the Electricity and Gas Regulation.⁷ According to this Article, the Commission can redefine the geographical area covered by each regional cooperation structure within the context of a broader process of reform of the tasks and governance of Regional Initiatives, to which all actors, Commission, ERGEG, ACER, TSOs, Member States and stakeholders will contribute according to their respective roles and responsibilities.

2. TASKS AND PRIORITIES OF THE REGIONAL INITIATIVES

To a large extent, the Regional Initiatives have so far followed a bottom-up approach whereby each region has set its own priorities. That voluntary approach has had important advantages as it has allowed the regions to focus on their specific problems. For example, the South-South-East gas region has been able to focus on security of supply issues in the wake of the gas supply disruption in January 2009.

It has also allowed pilot testing, whereby solutions can be tested in one region before being implemented elsewhere. For example, solutions found to address problems in the volume coupling between the Danish and German electricity markets has helped create consensus towards the benefits of volume coupling.

Finally, the Regions implemented EU measures with a particular cross-border dimension. The electricity Regions, for instance, worked on implementing the requirements of the congestion management guidelines. The gas North-west region has taken forward the implementation of transparency requirements additional to those defined in Regulation 1775/2005. It is likely that progress in implementation would have been less or slower without the regional approach.

Nevertheless, the voluntary bottom-up approach also has significant drawbacks as recognized from the start⁸. There is an inherent risk of different regions implementing different solutions to similar issues without a clear perspective of integration over time. For example, if each region develops its own common auction office with its own structure, own governance etc., without taking into account convergence with similar structures in other regions, it might endanger the establishment of the internal energy market in the longer run.

The study commissioned by the Commission indicated that a lack of clear terms of reference for the Regional Initiatives, compounded by other factors related inter alia to the governance of the Regional Initiatives, has restricted the ability of the Regional Initiatives to perform the intended bottom-up approach most effectively.

Further policy guidance should therefore be given to the Regional Initiatives along the lines set out in this section.

⁷ [See Regulations \(EC\) No 714/2009 and \(EC\) No 715/2009.](#)

⁸ Hence the preparation of annual coherence and convergence reports

The overarching principle should be that the Regional Initiatives should only focus on issues where they have a clear added value. Also, taking into account resource constraints, it would be preferable to focus work on a limited set of priorities for which substantial progress can be made.

a. Implementation of the EU acquis including network codes

In the past, the electricity Regional Initiatives dedicated a lot of their time on the implementation of those parts of the acquis requiring cross-border co-ordination (especially cross-border congestion, allocation of cross-border capacity and transparency). Although progress was made on these issues, the work of the Regional Initiatives has not yet resulted in Member States' full compliance with the requirements of Regulation 1228/2003. For this reason, the Commission has launched an infringement exercise in June 2010 requesting twenty Member States to implement and apply Single Market rules without delay.⁹ Therefore, a first priority of the Regional Initiatives should be to accelerate the correct implementation of the Second Energy Package¹⁰, i.e. those issues requiring cross-border co-ordination.

In the future, Regional Initiatives might have a role not only in implementing specific provisions of the Third Energy Package itself, but also in implementing legislation based on the Third Energy Package, i.e. new annexes to the Regulations and network codes. When codes will have been adopted via comitology, they will be legally binding and be part of the EU acquis. Since the adoption procedures might however be lengthy, market integration could be promoted if Regional Initiatives start implementing those elements of the network codes which can be expected to remain stable throughout the final stages of the adoption process. The Regional Initiatives should in that case ensure that early implementation does not exclude adjustments later on. Regions could move at different speeds for implementing cross-border aspects of the acquis, insofar of course that all regions meet the dates by which implementation is legally required.

Early implementation by one region might provide a useful test bed on how best to implement new codes, on the time needed to do so and practical hurdles to be overcome. Lessons learned may facilitate and speed up implementation in other regions. The work done so far in the Central-West electricity region on market coupling and in the Central-East electricity region on application of flow based capacity allocation provide good examples in this regard.

In order to avoid that individual regions interpret or apply some provisions of the acquis differently or in a manner which makes future integration with other regions more difficult, ACER should actively monitor the coherent implementation of the codes and other acquis across regions.

Electricity Regional Initiatives should collectively pursue the target of full market coupling across the EU by 2015. Market coupling is a way to foster market integration and will be easier to achieve (and thus quicker) if the countries which are still not using market coupling work together regionally in order to join the EU market coupling.

For gas, the potential role of market coupling in fostering market integration between balancing zones is to be examined in the discussion on a gas market target model. Market

⁹ See press release [IP/10/836](#), 24 June 2010.

¹⁰ The package is composed of Directives 2003/54/EC and 2003/55/EC, Regulations (EC) No 1228/2003, (EC) No 1775/2005

coupling should be aimed at by 2015 building on the work of the regulators. Necessary steps in this direction, such as making available firm day ahead capacity and joining exit and entry capacities to form one integral hub-to-hub capacity product are already under way.

For electricity, the Central West Region and the Northern Region have achieved full market coupling in November 2010. Therefore they are at the forefront for the implementation.

However, the way market coupling has to be done at the EU scale should be discussed between Regions for example at the Florence and Madrid Fora. Discussions on the method to be followed to achieve market coupling should be held as soon as possible to avoid technical problems at a later stage.

b. Regional issues: Investments in infrastructure, regional balancing and security of supply

Depending on the specific market conditions of a region, there will be a need for each region to work on issues specific to their region even though such issues may at some point become relevant for other regions as well. Against the background of overall EU energy policy, three issues are to be considered as priorities: regional investments in infrastructure, regional balancing and security of supply.

The Commission has set out its vision on infrastructure development needs in its Communication¹¹ "Energy infrastructure priorities for 2020 and beyond - A Blueprint for an integrated European energy network", in which it is proposed that the Regional Initiatives could play a key role in identifying infrastructure priorities for their respective regions and in coordinating cross-border investments, typically in new interconnectors. In order to promote cross border investments, investment needs must be clearly established, an appropriate regulatory framework put in place and planning and authorisation issues addressed. ACER plays an important role in facilitating cooperation between regulators on the regulatory aspects of investments decisions. Regional Initiatives can also play a facilitating role as they provide a platform of regulators, TSOs, network users and Member States, with the cooperation of the Commission and ACER, where such issues can be addressed. It should in addition remain possible to address those issues in ad hoc settings outside the scope of the Regional Initiatives where such ad hoc settings are more effective and efficient to promote cross-border investments.

Such investments can also be of particular importance in ensuring security of supply (like investments enabling physical reverse flows for gas). The Regulation on security of gas supply recognizes the need for regional cooperation.

Work on consolidation of balancing zones could be another focus for the Regional Initiatives, depending on the outcome of the discussion on the gas market target model.

Finally, regional cooperation is crucial to enhance the integrity of networks, avoid technical disruptions and blackouts, and address those effectively when they arise with minimum disturbance for users and producers.

c. Pilot testing

¹¹ Communication COM(2010)677 of the 17th of November 2010
[http://ec.europa.eu/energy/infrastructure/strategy/doc/com\(2010\)0677_en.pdf](http://ec.europa.eu/energy/infrastructure/strategy/doc/com(2010)0677_en.pdf)

For issues which are not yet covered by framework guidelines and network codes, the Regional Initiatives can have an important role as test-bed for new ideas. Eventually this pilot testing might result into an initiative to develop new binding rules, e.g. via new network codes.

Regional pilot projects might be useful for the acceleration of smart grids or cross-border retail market. The European Electricity Grid Initiative set up within the Strategic Energy Technology plan (SET plan) have established a framework under which ENTSO-E has presented a detailed roadmap for the coming years. Regional Initiatives could play a useful role in the implementation of R&D projects (see the Roadmap¹²). Obviously, also on other issues, the regions should be free to engage in pilot testing, depending on specific regional needs.

3. NUMBER OF REGIONS

The electricity regions have been defined in decision 2006/770/EC which amended the congestion management guidelines annexed to Regulation 1228/2003.¹³ For gas, the regions have not been formally defined in a binding decision. The gas regions resulted from informal consultation between the Commission, regulators, TSOs and other stakeholders. Practice has shown that the gas regions have managed to achieve progress in the absence of a formal decision establishing the regions and their tasks.

Going forward, two options are possible. The first option is to lay down the composition of the gas regions and their tasks in a formal decision, which has as main advantage that it would avoid discussion and uncertainty and would identify more precisely what is expected from the Member States concerned and their energy stakeholders. The second option is to continue with the informal definition of gas regions, which has as main advantage that it would allow for more flexibility in the composition of the regions over time and their tasks.

Apart from the instrument used to define the regions, the question of their composition arises. The composition of the regions should be determined in function of their tasks. If the aim of the region is to make progress on certain specific priorities, the shape of the region will have to correspond to this.

For electricity, the shape of the existing regions seems to be well suited to address the priorities proposed above and there seems to be no reason to change the composition of the current seven Regions. However, over time when sufficient interconnectors will have been developed to physically link the relevant regions, it may be appropriate to integrate the France-UK-Ireland region with the Central-West region and the Baltic Region with the Northern region.

For gas, there are sound reasons to reshape the current South-South-East region. The study commissioned by the Commission concluded that: *"Due to the heterogeneity in size and differing interests of members, the Region (South-South-East) has probably suffered more than others from the drawbacks of the voluntary and cooperative approach which characterises the RIs, that is to say a certain organisational looseness and lack of commitments"*. Given the importance of developing new gas infrastructure and new

¹² https://www.entsoe.eu/fileadmin/user_upload/library/news/EEGI_Implementation_plan_May_2010.pdf

¹³ Commission Decision of 9 November 2006 amending the Annex to Regulation (EC) No 1228/2003 on conditions for access to the network for cross-border exchanges in electricity, *O.J.*, L 312 of 11.11.2006, p. 59-65

interconnections for the creation of the internal gas market and for security of supply reasons, the Commission proposes to split the current "South, South-East" region into three new regions for gas including the Baltic States and the Nordic countries as follows:

- New Central-South region: IT, AT, SK, SI, HU, RO, BG, EL;
- New Central-East region: DE, PL, CZ, SK, AT;
- New BEMIP region: SE, FI, EE, LV, LT, PL, DE, DK.

Reshaping the region may temporarily disrupt the work of the region on operational issues. However, it would be preferable to get the structure right and to set up new more efficient regions even if it will cost some months, rather than continuing with a structure which appears not suitable to deliver the desired results.

There are also reasons to combine Italy with the current South region (encompassing France and the Iberian Peninsula) since, for instance, this region would be the main entry for the natural gas coming from the north of Africa. The change could have a positive effect on liquidity in this new South Region. As an overlapping country Italy could help ensure the necessary coherence of both southern regions.

In addition to market design issues and the implementation of the acquis, each of the regions should focus on the development of new interconnections.

The format and membership of the current North-West region appears adequate and should not be changed.

It is important to underline that the Regional Initiatives should not exclude other formats of cooperation between TSOs, regulators or Member States, such as the North Seas Countries Offshore Grid Initiative signed by Germany, United Kingdom, France, Denmark, Sweden, the Netherlands, Belgium, Ireland and Luxembourg. The fact that a Member State is part of one region does not prevent it from working together with one or more Member States from another region, insofar as this collaboration does not go against the work of the regions.

Moreover, as also suggested by ERGEG, there are sound reasons for regions to work together on certain topics like e.g. the market coupling between Central-West and Nordic countries. However, such collaboration should not delay the work and deliverables of the regions. If one region gives the "good example", the other regions should aim at following that example (taking into account, if need be, regional specificities).

It is quite likely that the number of regions and their composition will have to be changed again over time. At least from a theoretical viewpoint, the regions will be really successful the day they are not needed anymore.

A regular assessment on the work of the regions and their composition could be done at the occasion of the Florence and Madrid fora.

4. GOVERNANCE ISSUES

1. Structure of each region

The current governance structure of the Regional Initiatives consists of three bodies. In each region, there is the Regional Co-ordination Committee (RCC) which comprises all NRAs of the region. The RCC acts as overall co-ordinator of the tasks facing the Region and provides leadership and strategy. The Implementation Group (IG) consists of NRAs and the main stakeholders. It proposes and commits to undertake concrete actions in response to the priority issues identified at the RCC level. Finally, the Stakeholder Group (SG) consists of all stakeholders.

The study on the Regional Initiatives identified the need for providing more political guidance. Very often, progress in the Regional Initiatives necessitates the involvement of governments in order to change the national legal and regulatory framework and support at the political level, e.g. for cross-border infrastructure projects. The involvement of Member States in the Regional Initiatives should also minimize the risk of a possible multiplication of fora by Member States setting up ad hoc structures outside the Regional Initiatives.

From its entry into force onwards, ACER should play an active role in the Regional Initiatives with a view to ensure effectiveness and consistency in the work of the various regions.

Also the Commission has to provide political guidance given its role to promote the establishment of the internal energy market and given its duty as guardian of the Treaties and the EU acquis. The Commission must be able to make proposals concerning any new tasks that a region should deal with.

The governance of the Regional Initiatives could be strengthened creating a Regional Steering Committee (RSC) including ACER, the Commission as well as the Member States and regulators from the region along the Regional Coordination Committee (RCC) and by enlarging the RCC with ACER and the Commission. The scope of the RSC work would be twofold : to promote and foster cooperation at regional level and provide a high level steer to the work plan for the region to be developed by the RCC in co-ordination with that of ACER, in terms of identifying the implications for political goals relating to security of supply, competitiveness and sustainability; and to boost progress on implementation of the network codes given the new role of the RIs in facilitating implementation and encouraging early implementation of other projects as well as infrastructure development at regional level. The RSC could give a high level impetus to implementation when problems arise. Pure regulatory issues would remain with the RCC.

If appropriate, the RCC and the RSC could invite the TSOs, Power Exchanges or other stakeholders to their meetings, depending on the topics and projects addressed. Such early involvement of the industry would warrant that any strategy and policy decisions are feasible and workable and would address concerns, raised in the Commission's study, that stakeholders currently are involved too late.

To complement the RCC and the RSC, the Implementation Group and the Stakeholder Group should continue to function as today.

2. Governance and coherence across regions

Not only a clear governance structure within regions is important; it is equally important to guarantee the coherence of the work across regions. So far, ERGEG regularly published coherence and convergence reports but it is not clear to what extent the reports were followed up on by the regions.

Coherence of the work of the different regions will in first instance take the form of top-down guidance, which concretely will be provided by the framework guidelines and network codes. These, in turn, will be the translation, as far as electricity is concerned, of the reference model developed by the ERGEG Ad Hoc Advisory Group (AHAG). In addition, there will be a need to verify the coherent application of the network codes across regions. If regions are working on issues which are not treated (yet) in the network codes, there is a need for overall guidance in order not to jeopardise the establishment of the internal energy market.

There is no need to create an additional structure to provide for coherence across regions. First, it is a deliberate choice, both in the gas and electricity regions that certain Member States are part of more than one region. These Member States will automatically have the tendency to guarantee coherence in order to avoid implementing different solutions at different borders. Secondly, ACER will have an important role to play in this respect in addition to the policy steer provided by the Commission including through participation in the new RSC. As the Florence and Madrid fora bring together the Commission, ERGEG/ACER, the ENTSOs, NRAs, Member States and trade associations of the industry, they may also offer appropriate platforms to provide policy steer to the regions and monitor coherence. Finally, it might be appropriate that work programmes are developed for the coming year or years. The work programme should be sent to ACER that will assess the coherence of the regions' work programmes with other work programmes, Framework Guidelines and Network Codes. In case of inconsistencies, ACER shall inform the Commission so that the Commission can adopt binding rules for the Work Programme(s) concerned in accordance with the last sentence of Article 7(3) of Regulation EC (No) 713/2009. This review function for ACER should be mentioned in ACER's Work Programme. According to Article 7.3 of the ACER Regulation, one of ACER's tasks is to provide a framework within which national regulators can cooperate. Moreover, ACER must monitor the regional co-operation of TSOs (Article 6.9 of the ACER-Regulation). It thus seems appropriate for ACER, from March 2011 onwards, to take over ERGEG's role of co-ordinating the regional initiatives. As ERGEG is doing today, ACER will need to rely on its member NRAs as driving forces behind the Regional Initiatives.

Moreover, it is important that the work of the Regional Initiatives feeds into the overall work of ACER.

5. THE WAY FORWARD

This Communication has presented an assessment of the performance of Regional Initiatives and their contribution to the creation of an internal market for energy, five years after their establishment. It has set out possible directions for reviewing their role, clarifying their membership and reinforcing their effectiveness. As a staging post towards a truly integrated single energy market, regional initiatives have a key role to play in shaping up the future EU energy policy and in promoting the construction of integrated energy networks fit for the needs of the next decades.

The Commission invites the European Parliament, the Council and all interested parties to express their views on the policy orientations expressed in this paper (by 15 February 2011).

Based on this feedback, the Commission will consider possible legislative or policy initiatives to reinforce cooperation at regional level in the second half of 2011.