

# POWER REGIONS FOR THE ENERGY UNION: REGIONAL ENERGY FORUMS AS THE WAY AHEAD

HOW TO INTEGRATE A SUBSTANTIAL AMOUNT OF RENEWABLES,  
MAINTAIN SECURITY OF SUPPLY AND FOSTER EFFICIENT MARKETS?

POLICY PAPER OCTOBER 2017



ENTSO-E considers regional cooperation on policy issues to be crucial for further advancing the single market for electricity.<sup>1)</sup> Governments, regulators and TSOs have not only to interact efficiently on the national, and European levels, but should form efficient regional structures: ENTSO-E calls these structures Regional Energy Forums.

<sup>1</sup> See ENTSO-E paper on policy regions, [https://www.entsoe.eu/Documents/Publications/Position%20papers%20and%20reports/entsoe\\_pp\\_regions\\_1604\\_web.pdf](https://www.entsoe.eu/Documents/Publications/Position%20papers%20and%20reports/entsoe_pp_regions_1604_web.pdf)

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The **Clean Energy for All Europeans** Package emphasises regional cooperation in various places: the draft Governance Regulation<sup>2)</sup>, the draft ACER Regulation, the draft Risk Preparedness Regulation and finally the draft Electricity Regulation, with the proposal for regional operation centres (ROCs) for TSOs. While the proposed Regulation on the governance of the Energy Union rightly emphasises the need for improved processes for regional cooperation, it does not yet include regional setups of governments, regulators and TSOs.

There are successful voluntary regional initiatives, such as the Pentalateral Energy Forum, the North Sea Offshore Grid Initiative, MIBEL\*, and others. They show that best results are achieved when governments, NRAs and TSOs align regionally. This paper proposes to build on these initiatives, structure them, and to call them Regional Energy Forums (REF).

**This policy paper is an update of ENTSO-E's 2016 paper on regional cooperation, and a response to the new proposals of the Clean Energy Package.** The paper is largely aligned with the European Parliament's draft report on Energy Union Governance, and it is the next logical step following up on ENTSO-E's paper on policy regions. Our update consists of the following:

- » a proposal to establish structured and lasting cooperation between European countries, NRAs, TSOs in Regional Energy Forums, consulting with stakeholders where applicable;
- » a suggestion that those Forums enable more intense regional cooperation; and
- » a suggestion that those Forums could, among other tasks, discuss the services of their respective Regional Security Coordinators (RSCs).

**An efficient and effective regional cooperation of TSOs will only be possible if there is the political and regulatory will to actively support such cooperation.**

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<sup>2</sup> Proposal for a regulation on the governance of the Energy Union  
<http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=COM:2016:759:REV1>

\* MIBEL originally stands for Iberian Electricity Market

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# OVERVIEW OF THE REGIONAL DISCUSSION AND KEY CONTRIBUTIONS SINCE 2015

Decarbonisation and large-scale integration of RES require a significant increase in regional cooperation. In April 2016 ENTSO-E released **a comprehensive paper on ‘regional cooperation and governance in the electricity sector’**.<sup>3)</sup>

The paper highlighted that *‘policy regions bringing together political, regulatory and technical/commercial competences in stable regional frameworks, are needed to reach the Energy Union’s policy objectives. Reasonably sized voluntary policy regions are important stepping stones for building the Energy Union at the right speed. ENTSO-E is fully committed to supporting the European institutions, Member States, national regulators and other stakeholders with all of its technical and commercial competence in building up this regional approach.’*

In December 2016, ENTSO-E published a study commissioned to FTI-CL Energy on future system operation which focused on what is needed to effectively support the internal electricity market. This included a clear role for governments and NRAs.

The **Florence School of Regulation (FSR)** published in April 2017 a report on *‘Moving the electricity transmission system towards a decarbonised and integrated Europe: Missing pillars and roadblocks’*<sup>4)</sup>. The studies of FTI and FSR confirmed the conclusions of ENTSO-E’s present policy paper on the need for further development of regional political cooperation. The European Commission report, commissioned to Ecorys<sup>5)</sup> is limited to TSO regional cooperation.

Likewise, **the Clean Energy for All Europeans Package, published in November 2016**, limited the discussion on energy regions mainly to regional TSO cooperation. The Third Energy Package already provides for a legal framework of regional cooperation of national regulators and ministries and a respective geographical delineation.

**ENTSO-E believes that a wider regional cooperation on a political level must be developed to provide a stable and reliable framework and to keep pace with the fast development of the energy transition.** The detailed definition of the issues to be addressed in these regions should be managed via bottom-up processes, with a possibility for input from the Electricity Coordination Group and stakeholders.

The REFs would build on the successful regional initiatives in Europe.

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<sup>3</sup> The paper is available here: [https://www.entsoe.eu/Documents/Publications/Position%20papers%20and%20reports/entsoe\\_pp\\_regions\\_1604\\_web.pdf](https://www.entsoe.eu/Documents/Publications/Position%20papers%20and%20reports/entsoe_pp_regions_1604_web.pdf)

<sup>4</sup> <http://fsr.eui.eu/publications/moving-electricity-transmission/>

<sup>5</sup> <https://ec.europa.eu/energy/sites/ener/files/documents/15-3071%20DNV%20GL%20report%20Options%20for%20future%20System%20Operation.pdf>



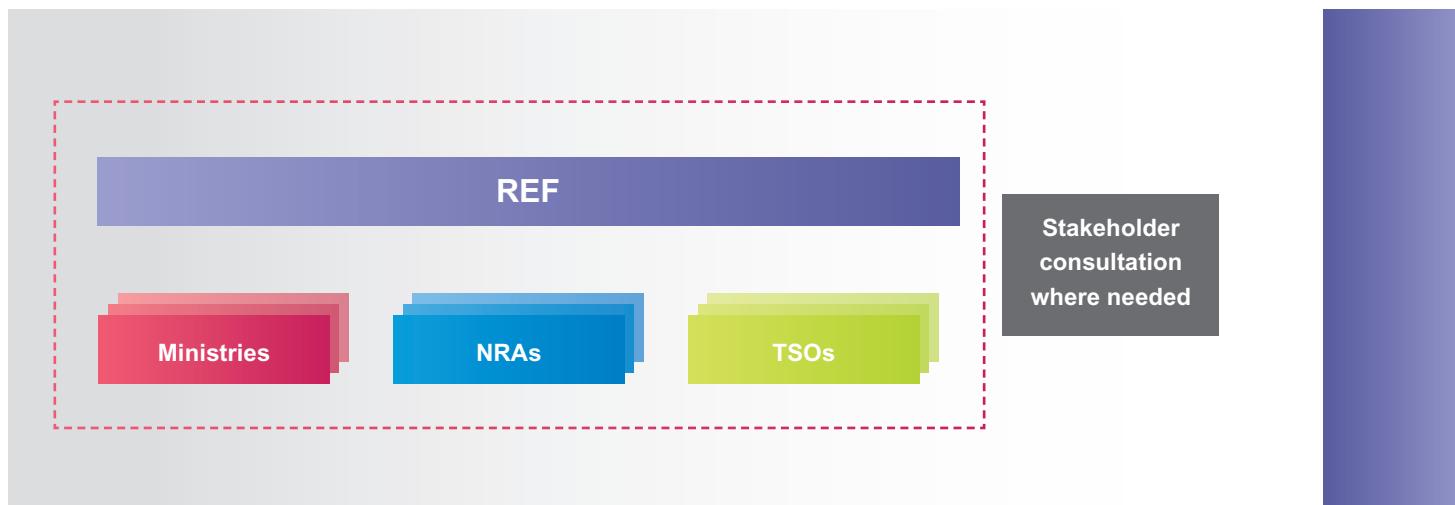
## WHY REGIONAL ENERGY FORUMS?

The REFs are an opportunity to unite the political, regulatory and technical perspectives in regions. The following issues could be discussed and coordinated over the medium to long-term:

- » differing energy mixes and how to meet EU climate change and energy targets
- » regional plans for interconnectors and national reinforcements
- » market development, including capacity mechanisms
- » market integration of RES
- » stable regional adequacy solutions and risk preparedness
- » enabling reliable cross-border exchanges
- » facilitate climate goals for the region including cross-sector solutions such as Power to Gas and Power to Heat
- » discussion on loop flows when such issues arise in a given region<sup>6)</sup>
- » coordination of RES regionally, including addressing any cross-border impacts
- » addressing questions on welfare allocation/ redistribution when building interconnectors
- » addressing cross border participation in capacity mechanisms where they exist
- » addressing configuration of the bidding zones in the region when required.

<sup>6</sup> Regions face different problems. Loop flows are, for example, an important issue in the CORE region, while the Iberian Peninsula does not experience loop flows.

## ENERGY REGIONS BRIDGING NATIONAL AND EUROPEAN VIEWS



The energy system in Europe requires further regional cooperation. Establishing the Regional Security Coordinators (RSC) has been an important step.

The RSCs have developed from a voluntary initiative to a mandatory and regulated solution that is part of the System Operation Guideline. Likewise, for planning and adequacy, European countries are interfacing regionally e.g. in the Pentalateral Energy Forum, in the Nordic and in BEMIP. Finally, capacity calculation regions have been established through Regulation (EU) 2015/1222 on Capacity Allocation and Congestion Management. A stable structure to handle states responsibilities in regions is now needed.

Regions differ in size, geography, infrastructure, resources and topography. These differences create challenges in the various regions, and cannot be addressed with a one-size-fits-all or a top-down approach.

Therefore, EU Member States and national regulatory authorities must be involved to develop solutions in the interest of all citizens of a region while reaching greater European goals.

**By adding Regional Energy Forums to RSCs, ministries, regulators and TSOs will be able to coordinate in an efficient and effective way.**

## HOW TO ESTABLISH REGIONAL ENERGY FORUMS

ENTSO-E suggests the following criteria for defining regions for REFs:

- » A bottom-up process
- » Geographical closeness
- » Interconnections and complementary energy mix
- » Common concerns with respect to security of supply and market integrity
- » Market conditions and maturity
- » Manageable size of the region
- » If possible, build on the already existing regional cooperation structures
- » Overlap of regions in the border areas.

The PCI planning regions, as established in the TEN-E regulation, could form the bridges related to infrastructure investments between the REF regions.

REFs should include EU and EEA members, EFTA members and members of the Energy Community.

Where relevant, these countries may participate in more than one REF, but each country should adhere to at least one REF.

## HOW DO REGIONAL ENERGY FORUMS WORK?

REFs should consist of the governments of the respective countries, the national regulators and the TSOs, in consultation with stakeholders where applicable. Governments ensure participation on a relevant ministerial level.

REFs meet at least twice a year to discuss on the specific challenges of the given region regarding better cross border cooperation in electricity, e.g. cross border electricity markets, common grid planning, cross border coordination on system operations and ensuring security of supply. Issues can be placed on the agenda by all involved parties. The European Commission should be consulted when parties do

not find an agreement in the respective REF. The European Commission, ENTSO-E and ACER should be observers in the REFs to ensure that they preserve a European approach. The Electricity Coordination Group could be the appropriate structure to ensure this European alignment.

REFs should include the establishment and follow up of relevant roadmaps. To ensure continuity and progress, a small secretariat (as in the Pentagonal Energy Forum) should support the REFs. Experience has shown that a supporting secretariat is vital for the success.



## TRANSPARENCY IN REGIONAL ENERGY FORUMS

To ensure transparency, the key conclusions of each meeting of the REFs must be public. By December each year, every REF should publish a report on the challenges faced and addressed in the field of cross-border electricity markets, cross-border coordination of system operations and ensuring security of supply in the region. The reports should include a roadmap and status and relevant development in the region.

The reports should not duplicate other reports required within other fora, but they should remain highly policy-oriented to be used as a basis for dialogue between REF members in the region.

The REFs define work programs complementing the work performed within the context of network codes. The annual reports include a timeline when the members of the respective REFs want to solve each problem. The annual report also mentions the progress of the various initiatives and updates where recent timelines were reached.

## SOLVING REGIONAL PROBLEMS BOTTOM-UP

The concept of the REF will ensure that countries in a region work constructively together, develop and agree on solutions to provide a common political guidance. Agreed solutions will then be implemented by the members of the Forums in line with their respective roles and powers. In doing so, they work bottom-up on solving the specific challenges of each region.

**REFs will contribute to the deepening of energy relations in Europe** and provide a framework which allows for the best possible coordination of national efforts, towards the internal energy market and the Energy Union.



## THE WAY FORWARD

Current and foreseeable challenges in market integration, completion of the internal energy market, RES integration and security of supply provisions, the climate agenda, innovation and sector coupling require a strong and wide cooperation and coordination at the regional level. TSOs are already pushing cooperation within the given legal and regulatory frameworks and will continue to do so, following the provisions of the network codes and the system needs.

The Energy Union requires decision-making at national and EU level, and the REFs contribute by bringing together the political, regulatory and technical/commercial competences in the regions.

**To enable the energy transition in a secure and efficient manner, we need European and national institutions to support the establishment of REFs and the development of a regional architecture that is appropriate for the energy system of the next decade. ENTSO-E and its members are ready to contribute to shaping these arrangements.**

## ANY QUESTIONS?

Contact us: @ENTSO\_E | [info@entsoe.eu](mailto:info@entsoe.eu) | +32 2 741 09 50 | [www.entsoe.eu](http://www.entsoe.eu)

ENTSO-E, THE EUROPEAN NETWORK OF TRANSMISSION SYSTEM OPERATORS, REPRESENTS 43 ELECTRICITY TRANSMISSION SYSTEM OPERATORS (TSOs) FROM 36 COUNTRIES ACROSS EUROPE. ENTSO-E WAS ESTABLISHED AND GIVEN LEGAL MANDATES BY THE EU'S THIRD LEGISLATIVE PACKAGE FOR THE INTERNAL ENERGY MARKET IN 2009.