



**REGULATION AND LIBERALIZATION
OF ENERGY MARKETS:
RUSSIAN EXPERIENCE
AND THE EU 3rd ENERGY PACKAGE**

Brussels
October 4, 2010

**Regulators' role in promoting
investments in energy infrastructure,
cross-border operations and
integration of the Community energy markets**

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Agenda

- The new European regulatory framework for gas
- Regulators' role in network development
- Framework Guidelines and Network Codes



The 3rd package is in force ... and now?

- **What will change?**

- Stronger national regulators with clear and standardized mandates
- Obligatory TSO cooperation (market rules, 10YNDP, etc.)
- Independence of TSOs
- Mechanism for EU wide, binding decisions
- ACER – EU wide stronger cooperation
- more transparency on many fronts (LNG, storage, trading, etc.)

- **When will it change?**

- ACER – from March 2011
- New rules – from 2011/2012 onwards
- New investments - from 2014/2015 onwards



The 3rd package is in force ... and now?

- **Pilot projects** to develop framework guidelines and network codes
 - To test the processes proposed by the European Energy Regulators and the ENTSOs
 - To speed up the process after Regulations are fully applicable
- **National transposition** of Internal Market Directives **started** in most EU Member States



Regulator's role in promoting investments in infrastructure – 1

- Different national regulatory regimes are applied in the EU, e.g.
 - rate-of-return regulation
 - incentive regulation
- EU-law prescribes qualitative requirements for national regulators in determining transmission tariffs, i.e. tariffs shall
 - Facilitate efficient gas trade and competition
 - Avoid cross-subsidies between network users
 - Providing incentives for investment and maintaining



Regulator's role in promoting investments in infrastructure – 2

- Several tools are available and already applied by regulators to promote investments in infrastructure, e.g.
 - Higher risk premium
 - Application of a shorter depreciation schedule
 - Roll-in into the existing regulated asset base
- ACER will help to harmonize the regulatory treatment for investments in cross-border infrastructure
- Exemptions from rTPA should then only be necessary in a limited number of cases



Ensuring a good investment climate

- Besides the regulatory treatment of a TSO's allowed revenues, the following elements will help to ensure a good investment climate for energy infrastructure
 - Improved transparency of fundamental data
 - Long-term signals from market-based capacity allocation
 - Improved market access for LNG terminals and gas storages
- The overarching goal of the framework guidelines and network codes is to facilitate cross-border market integration, where necessary through investments in infrastructure



ACER's role in network development: review of the 10 YNDP

- ACER shall provide a duly reasoned opinion as well as recommendations on the Community-wide network development plan prepared by ENTSOG
- Also, ACER shall review the national ten-year network development plans to assess their consistency with the Community-wide network development plan
- The EU-wide 10 YNDP shall include:
 - the modeling of the integrated network
 - scenario development
 - a European supply adequacy outlook
 - an assessment of the resilience of the system
- In December 2009 ENTSOG published its first European 10 YNDP





Review of the 10 YNDP: Preparatory work by ERGEG

- ERGEG (in preparation for ACER) commissioned a study with EWI in order to
 - Examine and validate ENTSOG's work on the first 10 YNDP
 - Ensure that the plan contributes to a sufficient level of cross-border interconnection open to third-party access
 - The study focused on a top down aspect developing a European perspective
 - European wide supply and demand assumptions and 6 different major infrastructures scenarios
 - European wide map of gas flows
 - Addressing European security of supply issues
- ➔ Regulators want to promote efficient investments



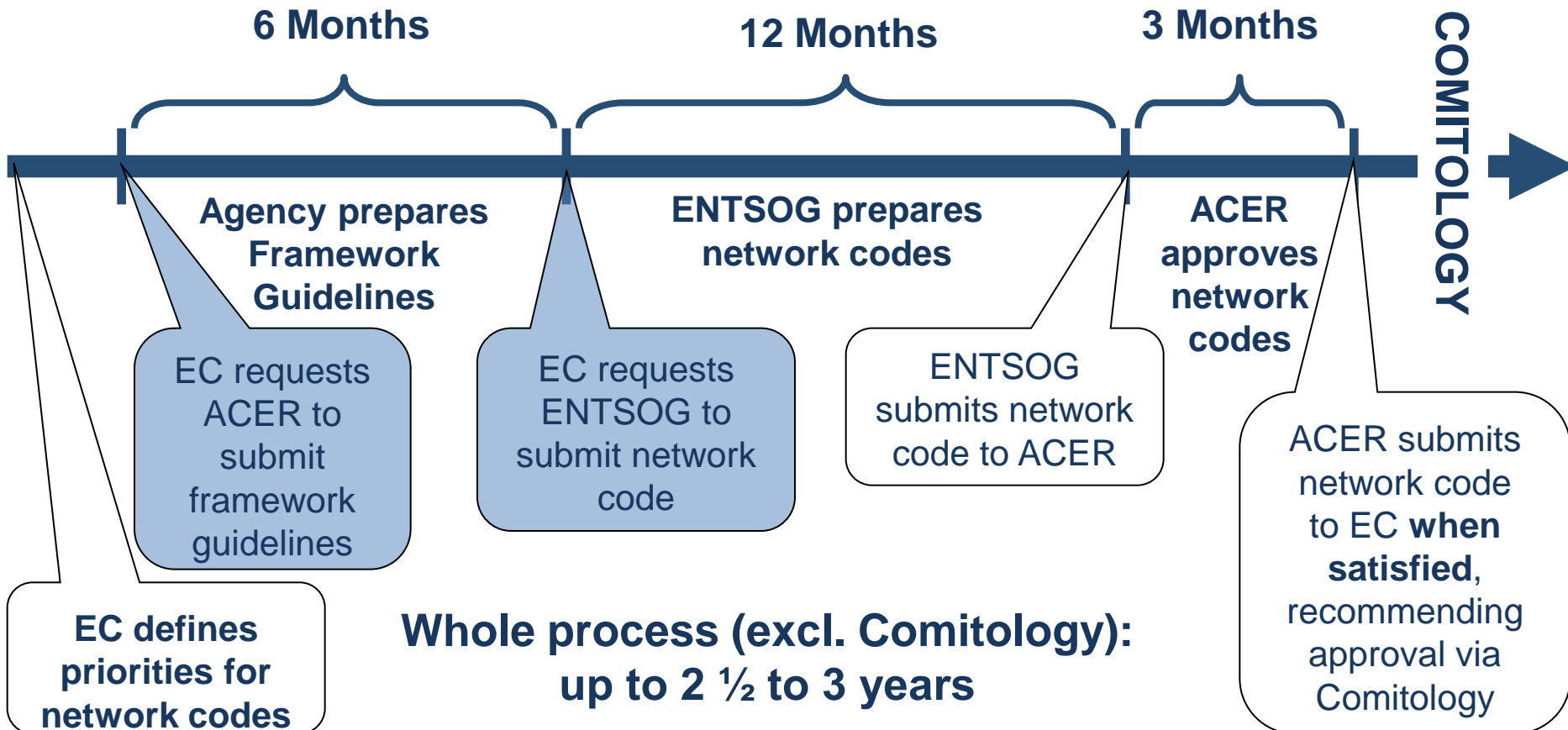


What are Framework Guidelines? What are Network Codes?

Framework Guidelines (FGL)	Network Codes
Drafted by ACER	Drafted by ENTSOG
Based on the annual priorities set by the Commission	
Non-binding	May be made legally binding via Comitology
Setting clear and objective principles for the network codes	Network codes must be in line with FGL
Shall contribute to non-discrimination, effective competition and the efficient functioning of the market	Provide effective access to the TSO networks across borders; promote cooperation & coordination among TSOs; allow for national network rules and regional specificities



Basic timeline based on the Gas & Electricity Regulation





3 year plan: Framework Guidelines and Network Codes

- 3 year plan established between the European Commission, ERGEG and ENTSOG
- The plan provides transparency to stakeholders about the process for developing Framework Guidelines and Network Codes from 2010 to 2013



Outlook

- Development of a target model for the European gas market
 - A study has been launched by the Florence School of Regulation
 - Target model as reference for all Framework Guidelines and Network Codes
 - Stakeholders will be involved through workshops



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Thank you for your attention!

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