



E-CONTROL

The Legal Framework for the Single Electricity Market in the European Union

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Goals for a single market for electricity in Europe

- to achieve a competitive electricity market across the whole European Union
- to improve the efficiency of the power industry
- to improve environmental protection
- to improve security of supply
- to lower prices due to
 - More efficiency within the power industry
 - Reduced reserve capacity
 - Optimisation across Europe

EU Directive 96/92/EC

Directive 96/92/EC concerning common rules for the internal electricity market

- Has been adopted by all EU countries on 19 December 1996
- Had to be incorporated in national legislation within 2 years
- Sets out the goals and minimum conditions for competition
- Gives flexibility for national implementation (subsidiarity)

the Directive requires to liberalise at least

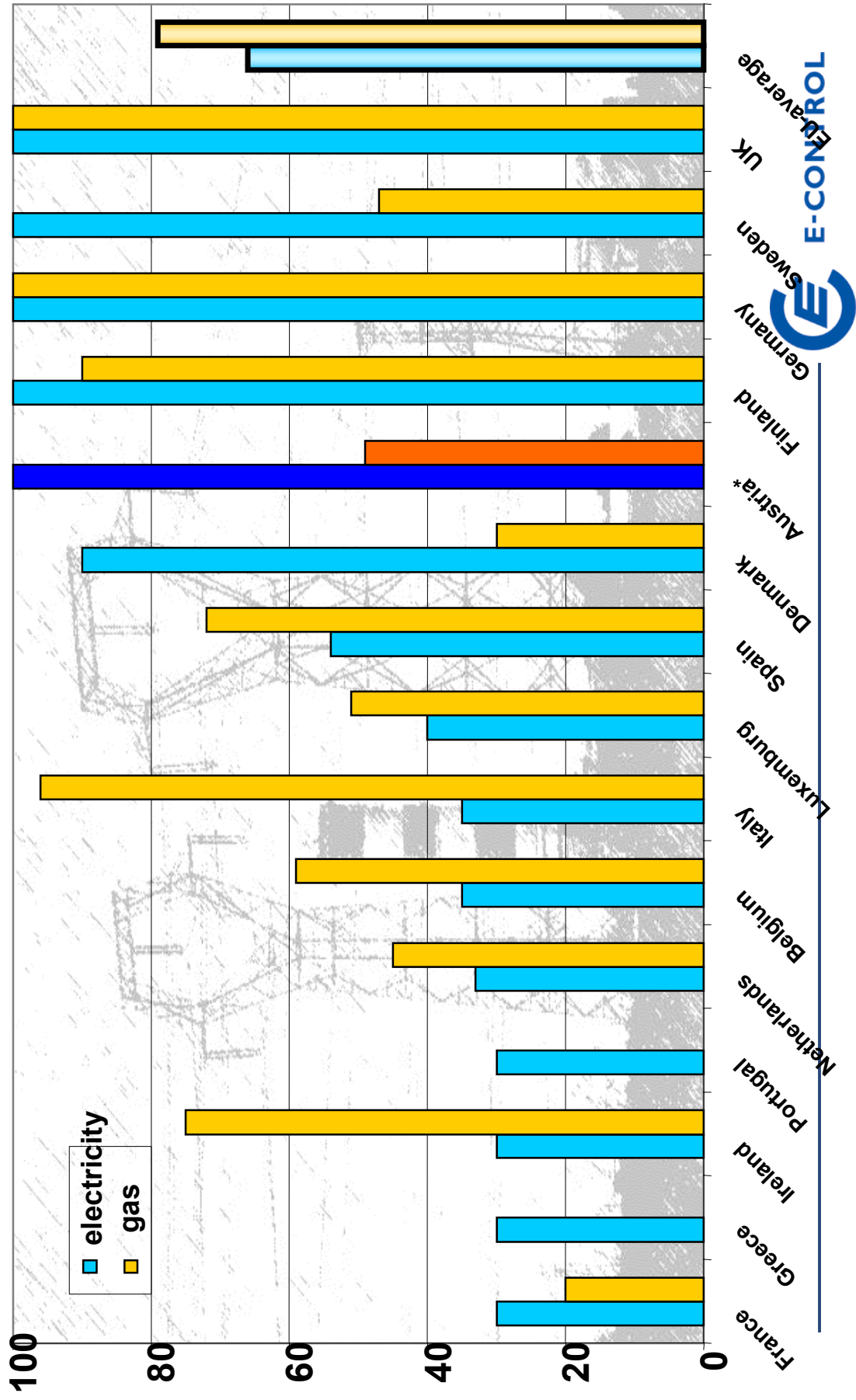
Step 1: from 19 February 1999: 26% of the market and consumers of more than 100 GWh p.a.

Step 2: from 19 February 2000: 28% of the market and consumers of more than 20 GWh p.a.

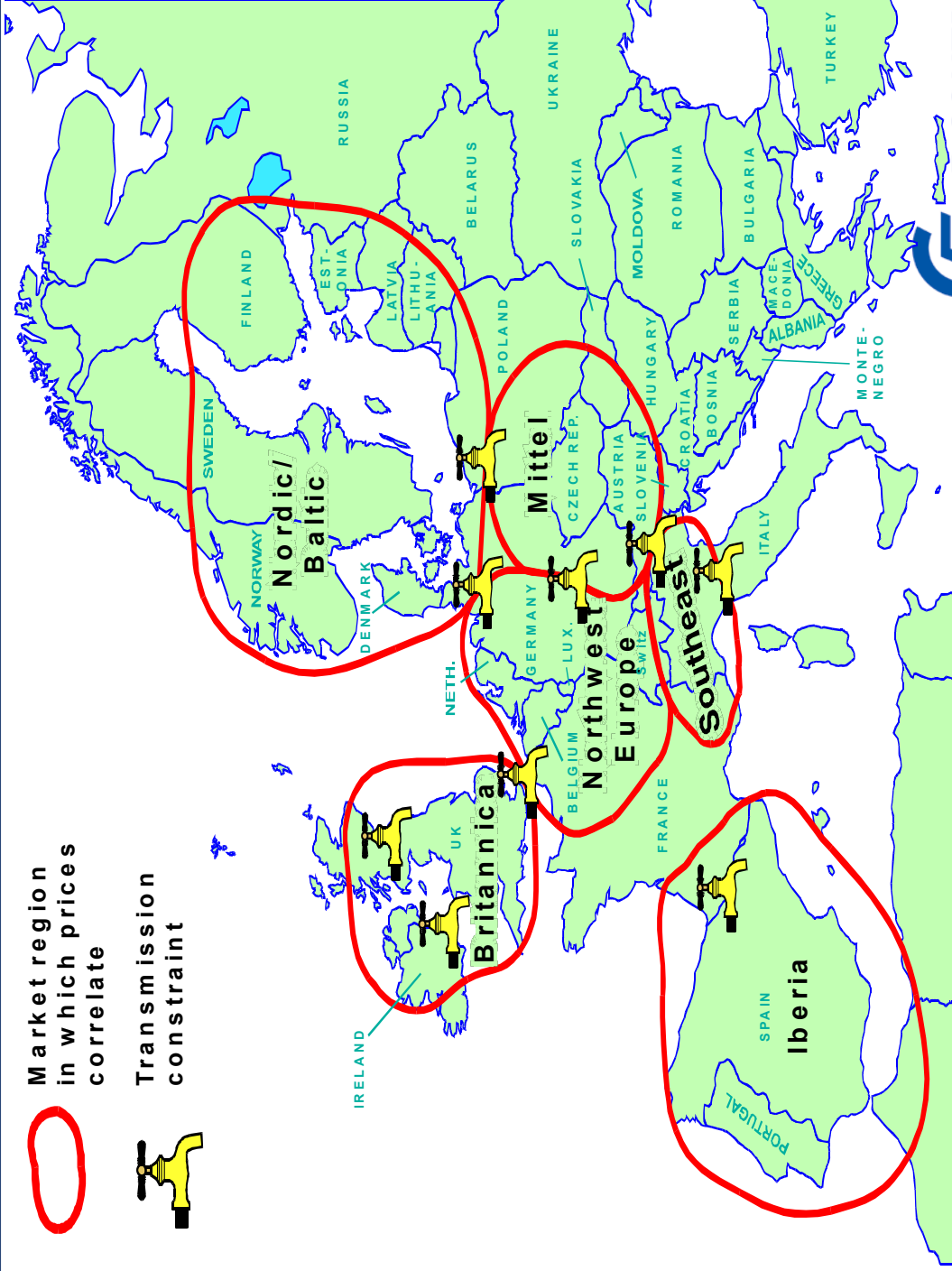
Step 3: from 19 February 2003: 33% of the market and consumers of more than 9 GWh p.a.

Currently over 60% of the market is open to competition

Current Market Opening



European Power Market Convergence



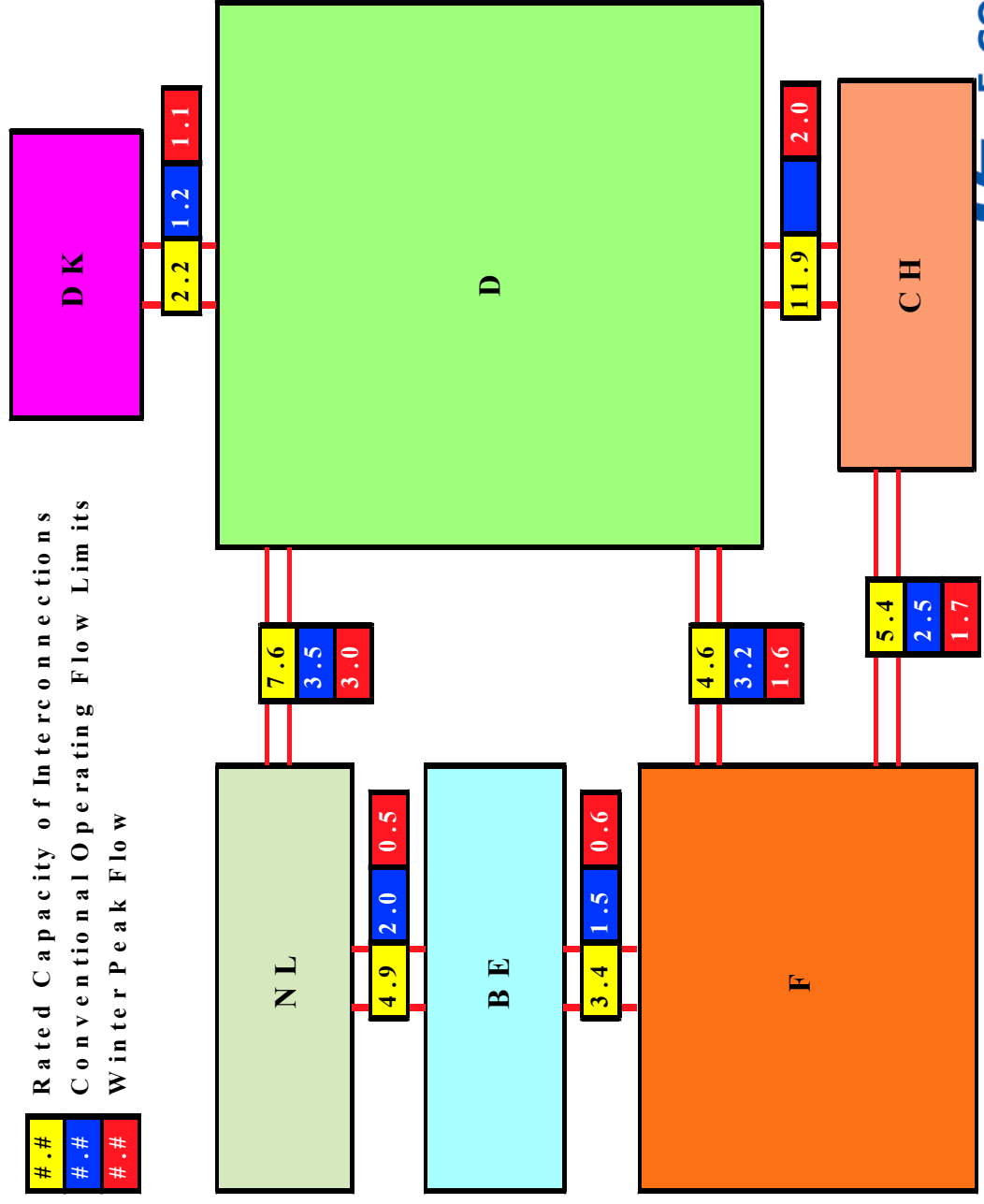
Market region
in which prices
correlate



Transmission
constraint



Power Transfer Capacity in North Western Europe



Access to the Grid

Third Party Access (TPA): Non discriminatory grid access for all eligible customers is fundamental in making the liberalisation process work

- The Directive provides 3 alternative methods of achieving TPA:

1. regulated third party access (rTPA) – most countries
2. negotiated third party access (nTPA) - D, GR
3. single buyer model – no country

Regulated Third Party Access (rTPA)

Regulated Third Party Access:

- Tariffs and access conditions are fixed/approved by the relevant authorities and published
- rTPA will produce the most effective competitive market

Negotiated Third Party Access:

- each user of the network negotiates the terms of access with the system operator
- terms have to be non discriminatory and tariffs cost based
- nTPA leaves incumbents significant room for abusing it

Unbundling

- Unbundling is a precondition for effective competition in generation and supply
- The Directive requires management unbundling and accounting separation of transmission and distribution activities from generation, trading and retail
- Legal and ownership unbundling is not (yet) required
- Most countries with one dominant transmission system operator require at least also the functional unbundling of the TSO

Effective Regulation

- For a competitive and flexible electricity market it is necessary that the new rules are equally and fairly applied by the establishment of an efficient regulatory mechanisms
- The Directive requires EU member states to set up a dispute settlement authority, independent of electricity companies
- All member states with the exception of Germany have established an **independent regulator**

Green Electricity

- to promote electricity from renewable energy sources (solar, wind, hydro, biomass,...) is a high priority
- not just because of the clear environmental advantages but also because of the increased security and diversity of supply
- the aim of the Community is to raise the percentage of renewable energy from 13, 9 % in 1997 to 22 % in 2010 (incl. hydro power)
- barriers between Member States must be removed in order to create a single market for electricity generated from renewable sources
- A new Directive on renewables was approved last week

The future

Creating a true single market

- The implementation of the electricity Directive 96/92/EC is just the first step towards the creation of a single electricity market in Europe
- A new Commission Proposal for a Council Decision on the conclusion by the European Community of the amendment to the trade – related provisions of the Energy Charter Treaty is in discussion

Proposals of the European Commission

- **quantitative proposals:**
 - 100% opening of the market
 - non-domestic customers: by 1 January 2003
 - all customers: by 1 January 2005
- **qualitative proposals:**
 - Full legal and functional unbundling of TSOs
 - Full legal and functional unbundling of distribution networks of more than 100 000 customers
 - Improvements in effective third party access
 - Independent regulators with defined roles required

Public Service Obligations

There is a consensus, that a number of public service obligations will continue to be assigned to the power industry

- protection of vulnerable customers
- protection of consumer rights
- social and economic cohesion
- environmental protection, renewable energy support
- security of supply

Conclusion

- **Although there are still a number of obstacles to overcome power liberalization in Europe is on the way to achieve the main objectives**
 - **Lower prices**
 - **Increased competitiveness**
 - **High standards of public service**
 - **Security of supply**
 - **Environmental protection**

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