

CHALLENGES FOR BUILDING UP A SINGLE AND COMPETITIVE EUROPEAN ENERGY MARKET

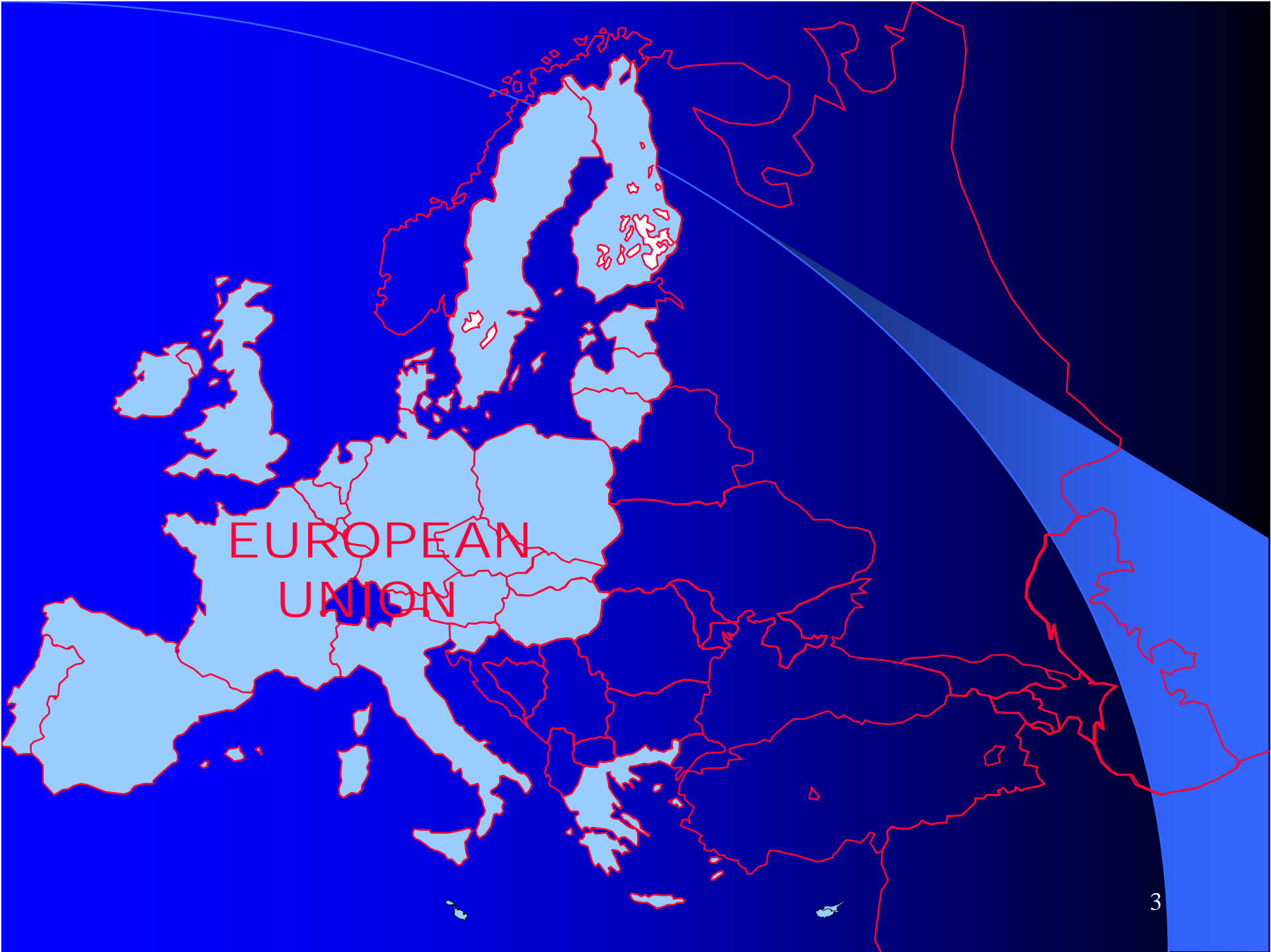
LAST REGULATORY DEVELOPMENTS

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THE EUROPEAN UNION

« Completing the energy market in order to implement a full and true opening of the electricity and gas markets »



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Legal context

- **European Directives**
- First Package
 - ✓ Directive 96/92/CE December 19, 1996 (electricity)
 - ✓ Directive 98/30/CE June 22, 1998 (gas)
- Second package
 - ✓ Directive 2003/54/CE June 26, 2003 (electricity)
 - ✓ Directive 2003/55/CE June 26, 2003 (gas)
- Third package in discussion
 - ✓ infrastructure, efficient use of energy and security of supply
- **European Regulations**
 - ✓ Electricity regulation 1228/2003

MAIN LEGAL PROVISIONS

- ❖ New time table for market opening
- ❖ Unbundling of transmission and distribution system operators
- ❖ Tariffs
- ❖ Review clauses
- ❖ High level of consumer protection
- ❖ Energy labelling
- ❖ Access to gas storage
- ❖ European Regulators Group for Electricity and Gas(EREGG)

New timetable for market opening

- Liberalisation of the electricity and gas markets for non household users by July 1, 2004
- Complete opening for all users by July 1, 2007
- For electricity, during the first step, opportunity for Member States to apply an 18-months derogation for certain groups of non household users
- For gas progressive opening for Members qualified as emergent markets(those not directly connected to the interconnected system, those having one main external supplier)

Unbundling of transmission and distribution system operators

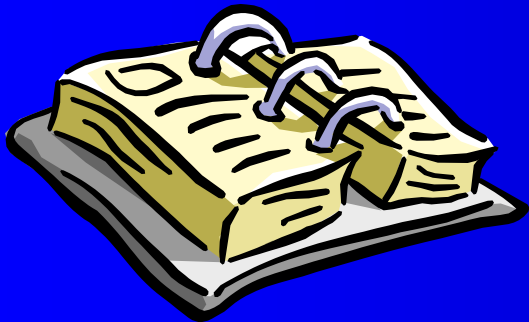
- Independance of electricity and gas, transmission and distribution system operators(TSOs/DSOs) in terms of legal form and decision-making
- Postponement of the unbundling of DSOs possible until July 1, 2007
- Separation of ownership not required
- Exemption from unbundling provisions possible for DSOs serving 100 000 customers or less (threshold could be reviewed)

Tariffs

- Tariffs or methodologies underlying their calculation, for access to transmission and distribution systems, must be approved and published prior to their entry into force by a national regulatory authority

Review clauses

Before January 1, 2006 special reports should be made by the European Commission in order to measure the benefits of liberalisation notably with respect to public services obligations and the need for exemptions in some Member States



High level of consumer protection

- can be fulfilled through mandatory measures
- For electricity household customers and small companies have the right to be supplied with electricity of a specified quality at reasonable prices

Energy labelling

- Information shall be provided on:
 - the contribution of each energy source to the fuel mix of the supplier over the preceding year
 - CO₂ and radioactive waste from different energy sources

Access to gas storage

- For access to storage, line-pack and ancillary services organised, choice open between negotiated access or regulated access with published tariffs
- Limited access to storage possible in certain circumstances

Setting up of a European Regulators Group for Electricity and Gas(ERGEG)

Advisory mechanism for encouraging cooperation and coordination of national regulatory authorities, in order to promote the development of the internal market for electricity and gas, and to contribute to the constant application, in all member States of the European directives and regulations

SHORT-TERM CHALLENGES

- ❖ Insuring the independence of TSOs and DSOs
- ❖ Upgrading the level of public services
- ❖ Strengthening the power of the regulators
- ❖ Increasing the adequacy to the needs of the Internal Electricity Market
- ❖ Improving the opening of the Internal Gas Market

Insuring the independence of TSOs and DSOs

TSOs and DSOs will have to be fully legally and functionally independent

But they can stay within a integrated undertaking provided :

- No participation in company structures and effective decision-making rights
- separate accounting except when the integrated company has an annual electricity production not exceeding 1 TWH or serve less than 100 000 gas customers

Upgrading the level of public services

Implementation of a universal service

- Obligation to supply electricity and gas to all customers at reasonable prices with a certain level of quality
- Protection of vulnerable consumers
- Better protection of consumer rights(contractual terms, dispute settlement, information)
- Environmental obligations
- Continuous benchmark exercise of service levels in Member States

Strengthening the power of the regulators

A national regulatory authority shall be implemented in each Member State and have the power to:

- Monitor market developments, interconnection and congestion management rules, publication requirements regarding available capacities, effective unbundling of accounts, connection policy towards new generators or suppliers
- Fix or approve the methodologies used to calculate or to establish the transmission and distribution tariffs, the provisions of balancing services
- Quickly react on complaints , appeal shall not have suspensive effect

Increasing the adequacy to the needs of the Internal Electricity Market

- A better tariff regulation for transit flows
- A new set of operational standards
- A improvement of congestion management

A better tariff regulation for transit flows

Under the Electricity regulation 1228/2003, enforcement of the following provisions:

- Compensation for TSOs should be implemented for incurred costs as a result of transit flows
- Costs are calculated according to forward looking long run incremental costs
- Establishment of principles for national tariffs
- Publication of transfer capacity by TSOs on a daily basis
- Strict rules on informations exchange
- Guidelines for details to be set up

A new set of operational standards

In cooperation with **CEER**, the **Union for the Coordination of Transmission of Electricity (UCTE)** will develop new Operational Standards for electricity transmission system operation (Operational Handbook) in order to:

- Establish responsibilities and liabilities
- Implement a legal binding of the rules
- Ensure an effective monitoring of the rules
- Strengthen the power of the regulators

An improvement of congestion management

- Adoption of the principle of market basis mechanisms for congestion management under the Electricity Regulation (EC)n)1228/2003
- Definition of Congestion Management Guidelines through a regional approach: Mini-Fora process

Improving the opening of the Internal Gas Market

- Adoption of a regulation on conditions for access to the natural gas transmission networks
- Implementation of Guidelines for Good Third Party Access practice for TSOs
- Setting up Guidelines for Gas Storage

Adoption of a regulation on conditions for access to the natural gas transmission networks

- Former guidelines prepared by CEER will become a European regulation by the middle of 2005
- Stronger regulation and better transparency will be the outcome of this process

Guidelines for Good Third Party Access practice for TSOs

- Operation and maintenance of system, long-term planning
- TPA and services offered
- Transmission services Capacity offered
- Capacity allocation procedures and congestion management
- Market based mechanism such as 2ndary market
- Balancing
- Transparency

Setting up Guidelines for Gas Storage

- Roles and responsibilities of Storage System Operators defined in accordance with the principles of non-discrimination, transparency and competition
- Role of Storage Users
- Necessary TPA services
- Storage capacity allocation management and congestion management
- Confidentiality requirements
- Transparency requirements
- Tariff structure and derivation
- Secondary Market

South East Europe

« Integrate the Balkan countries into the EU electricity and gas market through the implementation of an integrated regional market »



An ambitious vision

The South East European market will rely on a two simultaneous approaches:

- Transposition of the existing european legal framework for electricity and gas at the national level
- Implementation of a integrated market regulated at regional level

Promising start for the electricity market

CEER 's action:

Benchmarking with USAID of the regulatory development in the region

Action Plan for the implementation of the standard market design

Defintion with ETSO Oof the Cross-border mechanism started on 1 July 2004

Building of the gas market at a very early stage

First step:

Elaboration of a market and regulatory survey of the SEE national gas markets

Second step:

Strategy paper on the establishment of the regional market

Regulation issues

Challenges of an inter-governmental process for the building up of a regulatory organisation:

- Implementation of national regulators
- South East Regulators for Electricity and Gas

MEDIUM-TERM CHALLENGES

- ❖ Raising of Security of supply
- ❖ Harmonisation of national regulations
- ❖ Supervision of mergers and acquisitions
- ❖ Opportuness of european regulator

A full account of security of supply

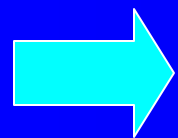
- Careful monitoring at EU level and national level
- Tenders if necessary
- Possibility to require a minimum level of investment
- Harmonised network standards
- Better use of interconnection capacity

Harmonisation of national regulations

- Tariffs
- Renewable energies
- Taxation
- Public services obligations

Supervision of mergers and acquisitions

- Electricity and gas industries are capital-intensive activities
- General trend of companies to look for dominant positions
- Risks of combine at national and european levels



Implementation of a cooperation between CEER and Directorate General COMPETITION of the European Commission

Opportuneness of european regulator

- Differences between national markets are too wide
- Cooperation among national regulators is essential for the setting up of an integrated market
- Necessity of an european committee
- Establishment of a european body in the medium term or a single european regulator?