



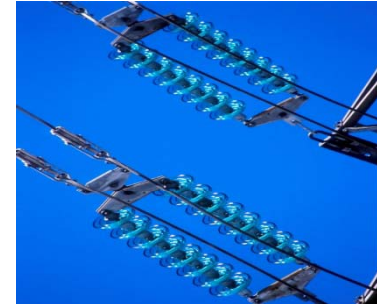
Current Status and Development Towards an EU Electricity Market

Dr. Frank-Peter Hansen

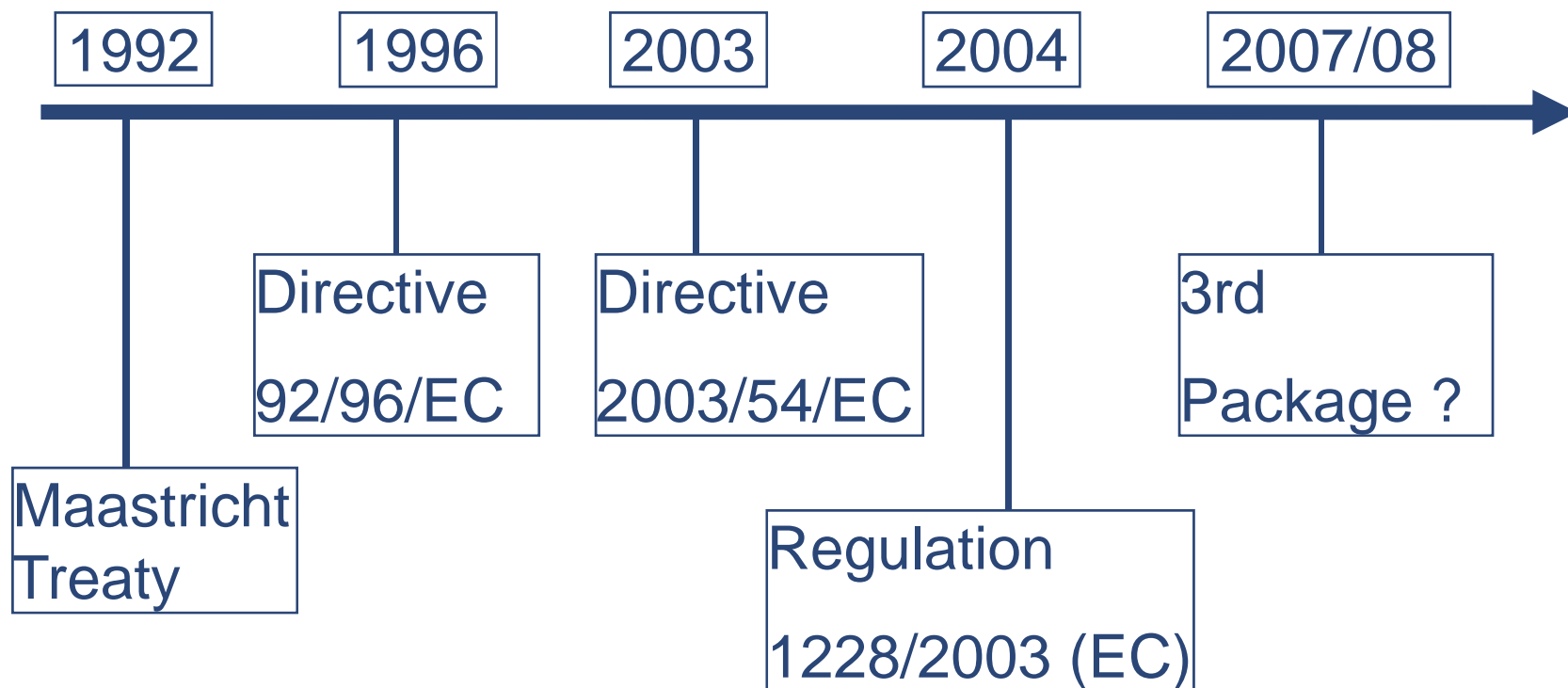
Bonn, June 1, 2007

Structure of the presentation

- History of Liberalisation in Europe
- CEER and ERGEG
- Regional Integration
- 3rd package



History of Liberalisation in Europe



Maastricht Treaty

- Maastricht Treaty 1992
 - Monopolies under surveillance
 - First steps to strive for opening the internal markets of telecommunication, transportation services and energy
 - Beginning of liberalisation and opening of energy markets in Great Britain and Scandinavia

Directive 92/96/EC

Directive concerning common rules for the internal market in electricity

- Came into force February 19, 1997
- Stepwise opening of the markets of the Member States
- Transformation in national law within 2 years
 - In Germany law amendment in 1998
 - Negotiated instead of regulated grid access

Directive 2003/54/EC

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

- Transformation into national law until July 1, 2004
- Content
 - Operation of transmission and distribution grids
 - Unbundling requirements
 - Organisation of grid access
 - Third party access
 - Establishment of regulatory authorities

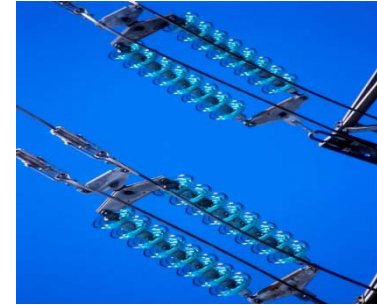
Regulation 1228/2003 (EC)

Regulation on conditions for access to the network for cross-border exchanges in electricity

- Inter-TSO compensation mechanism
- New interconnectors
- Information exchange
- Transmission Tarification
- Congestion Management
- Guidelines
 - Congestion Management
 - ITC-Mechanism
 - Transmission Tarification

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CEER (Council of European Energy Regulators)

- A "not for profit association" which brings together the independent national energy regulators from EU and EEA Member States
- Established in March 2000 when a Memorandum of Understanding was signed among 10 NRAs
- Currently CEER has 28 member authorities
- Two objectives: co-operation among national energy regulators and co-operation with the EU institutions
- In 2003 a more formal organisation and a small office in Brussels (CEER Secretariat)

CEER's tasks

CEER has following objectives

- Promote the development of efficient and competitive internal markets for electricity and gas
- Set up co-operation, information exchange and assistance among its members
- CEER also strives to share regulatory experience worldwide through its links with similar associations in America (NARUC) and in Central/Eastern Europe (ERRA). CEER has taken a central role in developing an effective and competitive South East European (SEE) electricity and gas market. Security of Supply – role and responsibilities of regulators and TSOs

ERGEG (European Regulators Group for Electricity and Gas)

- Established by the European Commission on the 11th of November 2003 by Decision 2003/796/EC
- An Advisory Group of independent national regulators
- Its members are heads of the national regulatory authorities in the 25 Member States
- The European Commission is represented
- EEA countries and candidates for accession participate as observers
- Set up "to give regulatory co-operation and co-ordination a more formal status, in order to facilitate the completion of the internal energy market."

CEER and ERGEG Work Programmes

The CEER and ERGEG both have Work Programmes of their own which do not overlap but complement each other

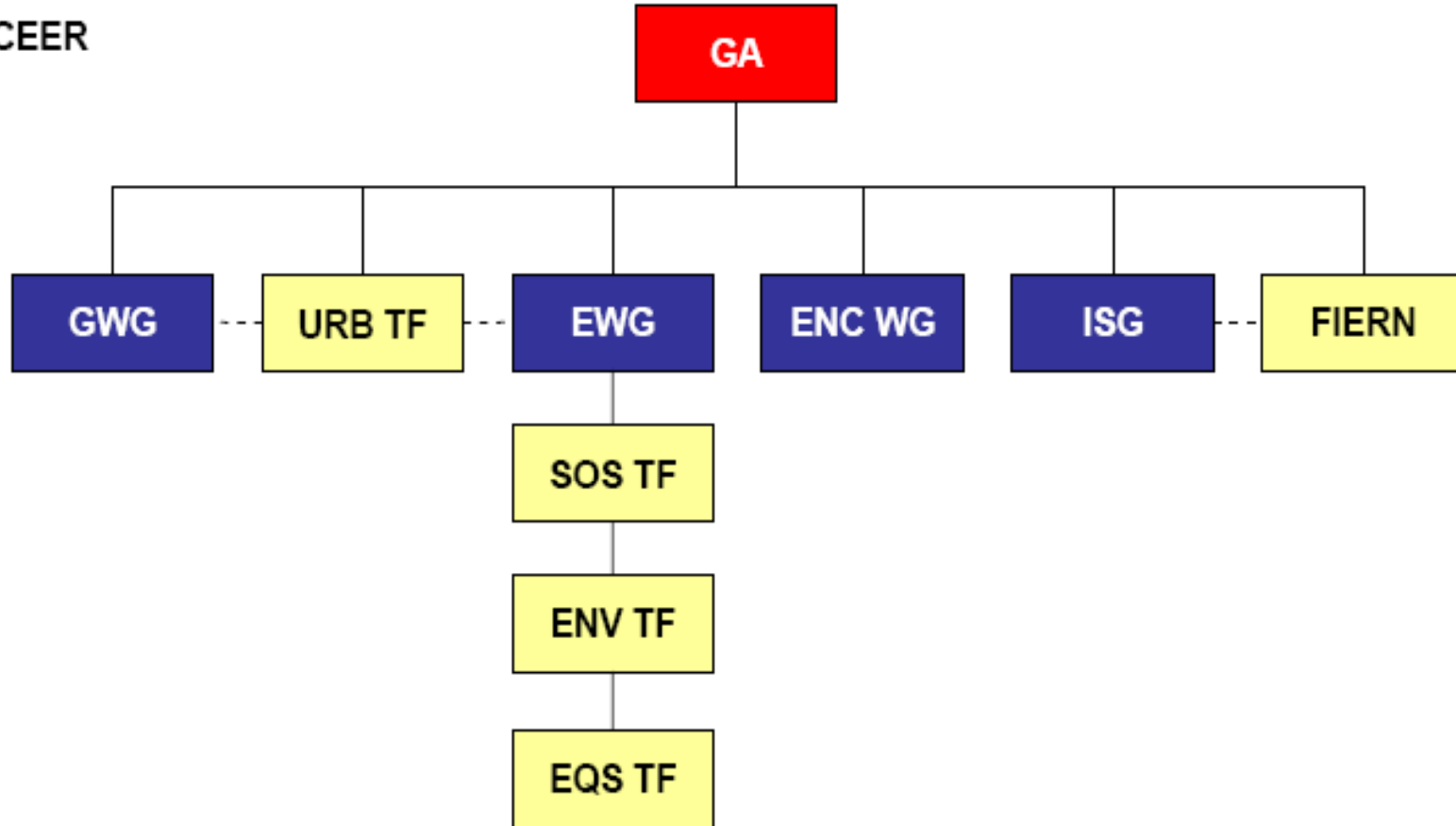
The Work Programmes are prepared annually and the ERGEG Work Programme also includes the issues proposed by the European Commission

Both the CEER and ERGEG have working groups for electricity and gas. These are chaired by the same chairpersons

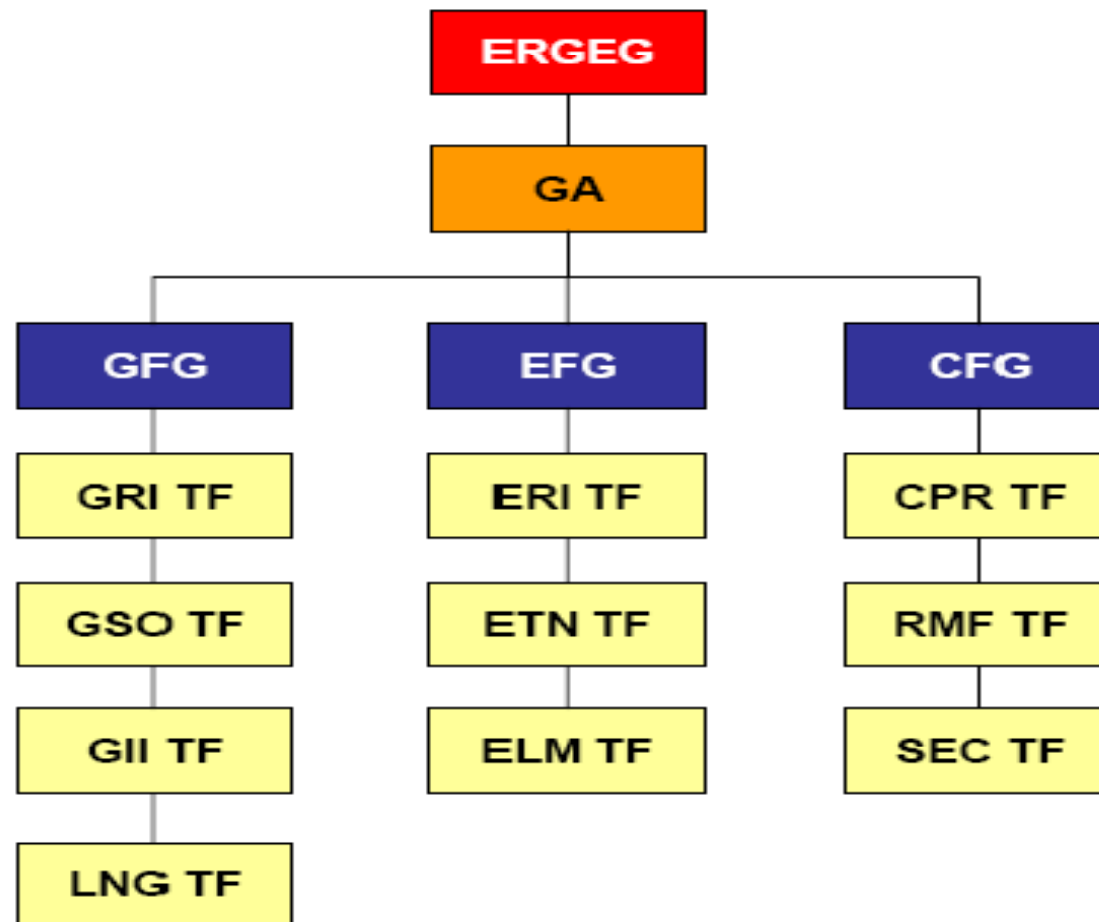
The work is undertaken in specific task forces, then taken to the working/focus group level and finally submitted for approval in the CEER General Assembly/ERGEG plenum

CEER (Council of European Energy Regulators)

CEER



ERGEG (European Regulators Group for Electricity and Gas)



Electricity Security of Supply TF

Generation adequacy

Information exchange on Security of Supply situation

System adequacy monitoring and reporting

Framework for regulatory consideration of Security of Supply

Demand flexibility (2008)

Environment TF

Review of Emissions Trading Directive

Energy end-use efficiency



Electricity Quality of Supply TF

Voltage quality

Quality of service benchmarking

Severe weather events

Customer expectations of quality of supply

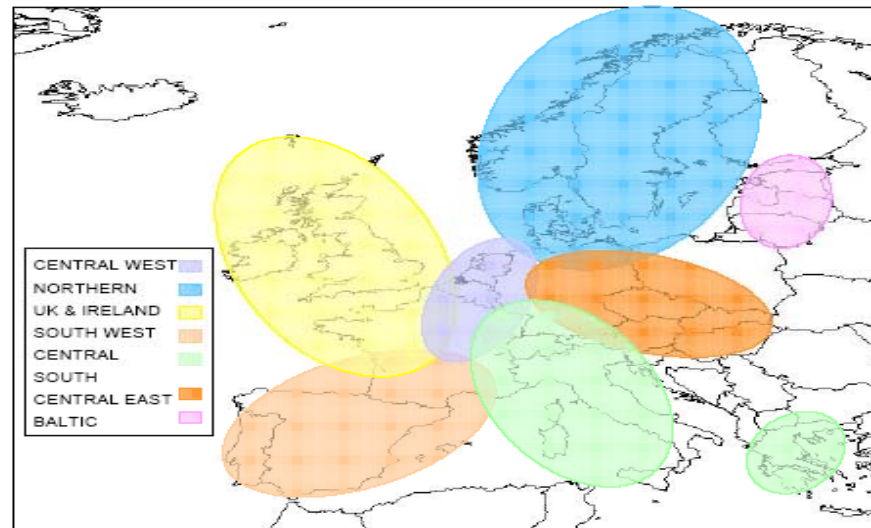


Electricity Regional Initiatives TF

Electricity Regional Initiative follow up

Review of the progress achieved in the regions

ERI convergence and coherence review and strategic vision



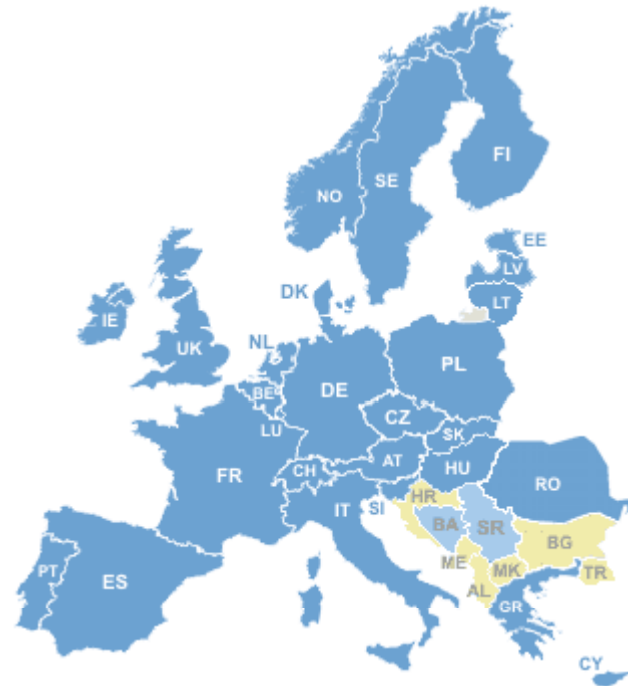
Electricity Transmission Networks TF

Developing EU Electricity Grid

Inter TSO compensation

Infrastructure investment

Transmission tariffication



Electricity Market TF

Balancing and intra-day markets integration

Transparency

Congestion management

Electricity market design issues and harmonisation

Transmission and distribution losses

Structure of the presentation

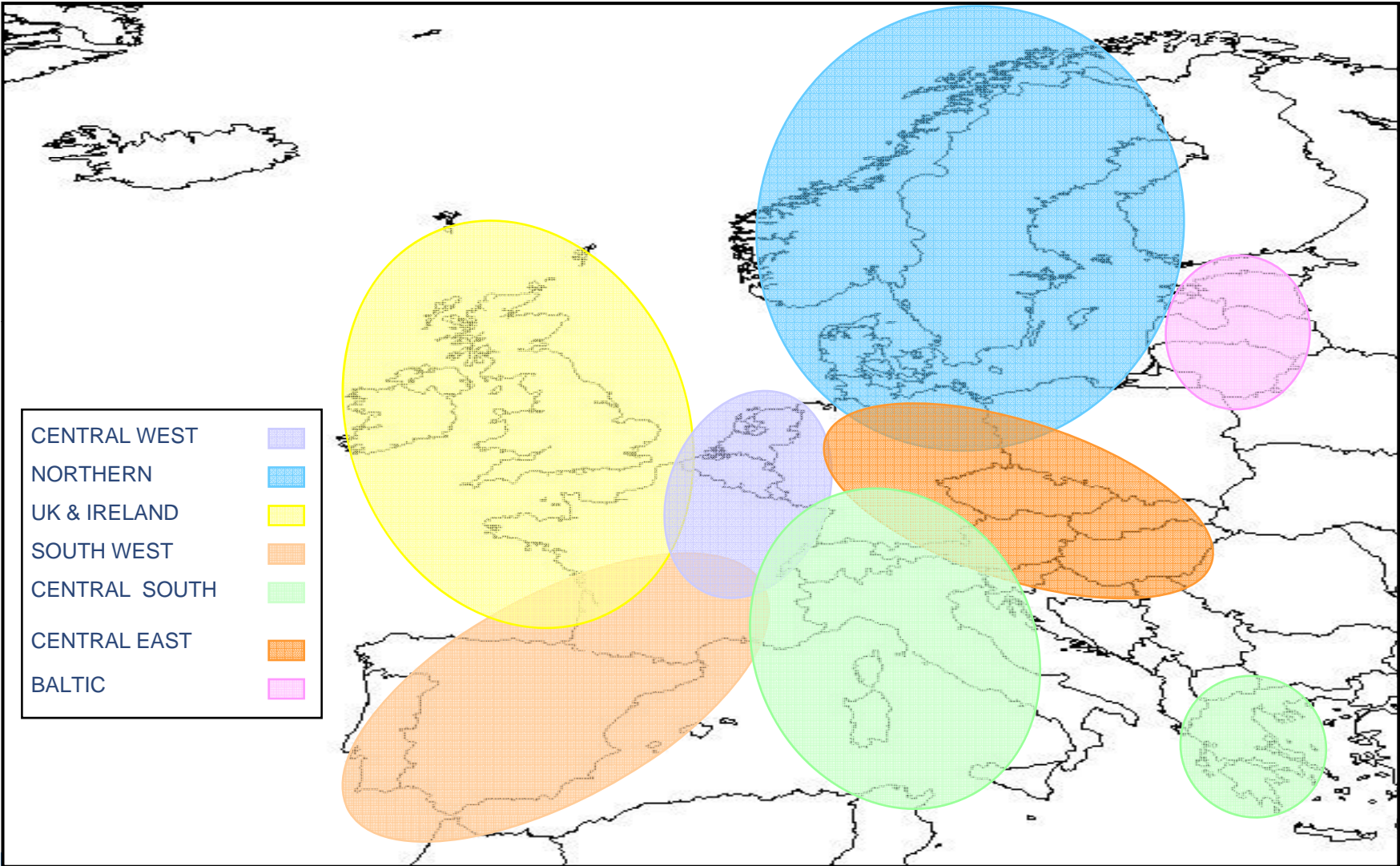
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Background

- First round mini-fora winter 2004/05 – Commission response to congestion management
- XII Florence Forum September 2005 called for a further development of regional markets and a new round of mini-fora for spring 2006
- In parallel, DG Tren and DG Competition highlight lack of market integration
- Hence, ERGEG Electricity Regional Initiative launched 27 February 2006, including :
 - Conclusions Paper published February 2006
 - Confirmed action areas and set out proposal for ERI

7 Electricity Regional Energy Market Projects



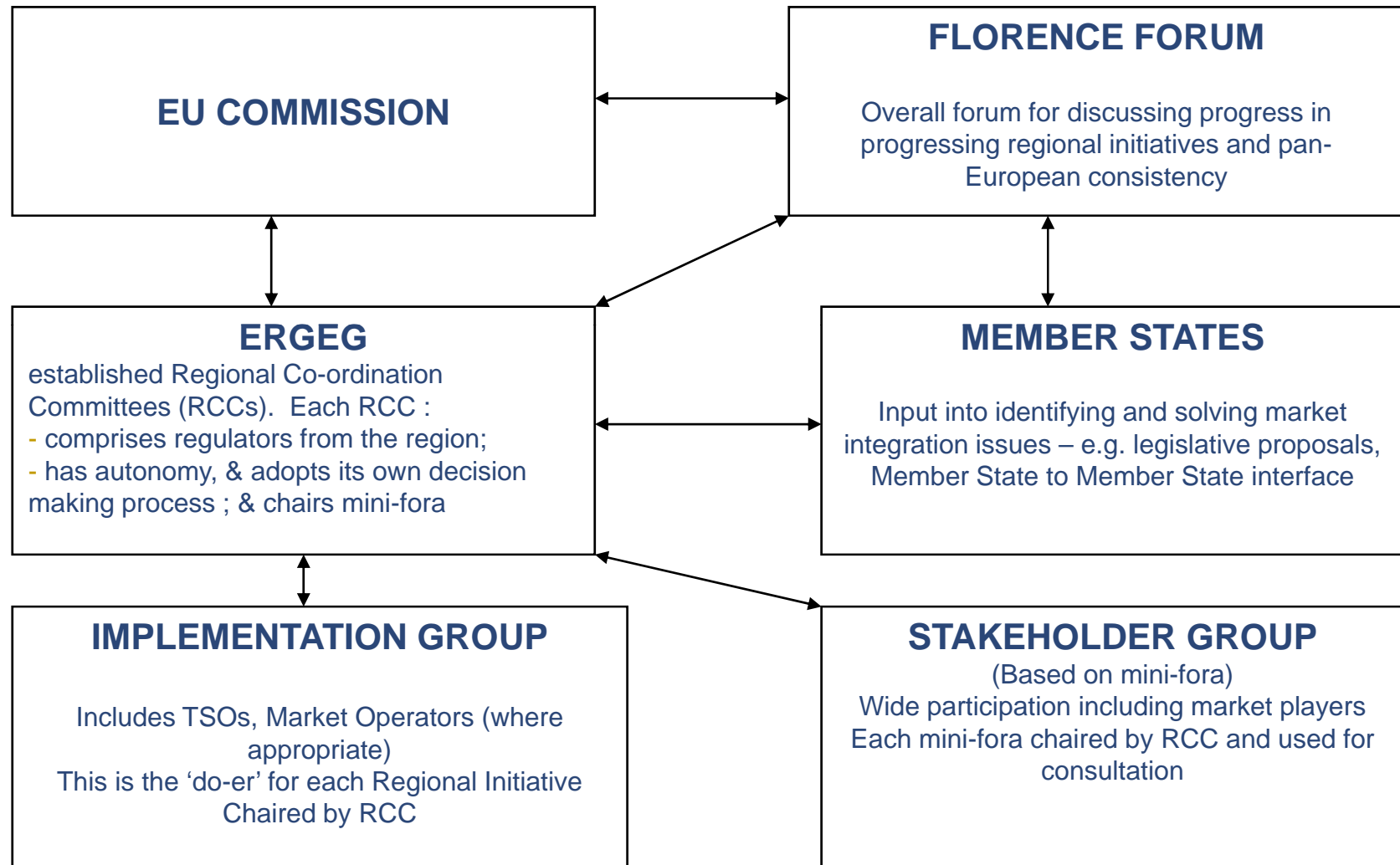
Objectives

Ultimately to create single electricity market
via interim step of regional markets → coherence and
convergence are to be ensured

Hence Regional Initiative has objectives, to :

- Establish (better) functioning regional markets
- Identify and publish priority areas
- Establish and publish action timetable
- Identify who should take action
- Monitor and foster progress

Elements of an organisational framework



Consultation

- ERGEG commitment to engaging all stakeholders
- Generally positive and constructive reaction and involvement
- ‘Stakeholder Group’ most visible, also :
 - Bilateral contacts
 - Some customized arrangements by stakeholders
 - Written consultation exercises anticipated
- ERGEG website a primary transparency tool
- Some concerns expressed / discussed early on in process

Active involvement

- Bear in mind active involvement crucial :
 - Political support
 - Actions by TSOs and other market operators
 - Support and input from expert industry / stakeholders
- European Commission fully involved, supportive, attending meetings
- Member State governments engaged
- TSOs supporting process and undertaking actions to begin to tackle priority issues

Priority topics and action plan

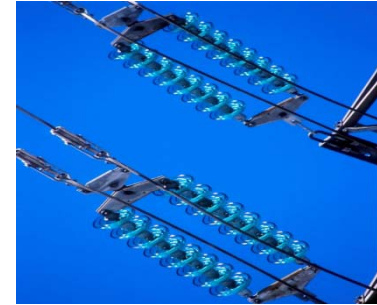
- Each region has identified its priority topics, although in some areas further consultation is anticipated
- Priority topics reflect ERGEG's thoughts :
 - Congestion management
 - Interconnections
 - Transparency
 - Balancing
 - Regulatory
 - Other – e.g. Transmission charging methodology, wind energy
- Action plans established by some regions but yet to be discussed / established everywhere

Next steps

- Focus on mapping out action plans and timetables
- Next 1 – 2 years tackle 1st Priority topics – identify and implement solutions
- Coherence and convergence oversight
- Report to next Florence Forum
- Begin to map out 2nd Priority topics

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- History of Liberalisation in Europe
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 - ◆ Example: ERI NE
- 3rd package



Recapitulation of priorities

- Focus of regional initiative:
The well functioning of the whole-sale market interface between Nordel-area and Germany/Poland - taking into account other relevant interfaces
- Priority topics - to deal with now:
 - Interconnector allocation mechanism and congestion management
 - DE – DK interconnectors
 - SwePol and Baltic Cable
 - Transparency for market-actors
- Priority topics - to include in road-map:
 - Planning and financing of new/strengthened interconnectors
 - Need for joint intra-day and regulation power markets
 - Cooperation on integration of major shares of windenergy

Congestion management

DE – DK interconnectors (1)

- Implementation of Market Coupling for the De – Dk- Interconnectors
→ MoU of October 2006 between TSOs and PXs
- Reporting to and cooperating closely with North ERI IG
- "Conceptual phase" finalized
 - Model for day ahead market coupling
 - Joint auction office initially in Hamburg
 - European Market Coupling Company (EMCC)
 - Ownership
 - TSOs and PXs
 - Shares according to market size
(condition that reasonable capacity is made available)
 - Additional partners will get new shares
 - Project manager employed
 - Pro rata settling of congestion rent

Congestion management

DE – DK interconnectors (2)

- Implementation phase
 - Interaction with explicit auctions (before day ahead)
....stakeholders review
 - Contractual issues
 - especially on EMCC
- Regulatory issues
 - Energy regulators: BNetzA, DERA, NVE (for Nord Pool Spot)
 - Notification planned
 - Involvement of the Competition authorities
- Operational start: 4th quarter 2007

Congestion management SwePol and Baltic Cable

- Starting point
 - Both interconnectors operated and used entirely (in practice) by owners
 - reflecting market conditions
 - Status of work – status report for RCC
 - Describing in depth present operation and use
 - Analysing the legal framework
 - Owners are reviewing their plans for the interconnectors
- To be done
 - Analyse the consequences of illiquid Polish market
 - Drafting model(s) for capacity allocation and congestion management taking into account the results of the decisions on DE-DK interconnectors
- Dead-line December 2007

Transparency for market actors

- Successfull "e-mailing process"
→ 1st IG 24 October 2006 and final meeting 5 June 2007
- Draft proposal discussed among regulators during February - March
- Revised draft proposal for comments at stakeholders representatives of the IG during April
- Very comprehensive draft report (BNetzA) with "information sheets"
 - What information ?
 - When ?
 - Which timeframe?
 - Update ? And availability ?
 - Responsibility for publication
 - Legal background
 - Status in countries of the region
- Coordination and input to regions CWE and CEE

Other priorities of the Road Map

2007-2008

Need for joint intra-day and regulation power markets

- Start of work postponed
- Intra day on DE-DK interconnectors will be addressed in the ongoing MoU process

2008 - 2010

Planning and financing of new/strengthened interconnectors

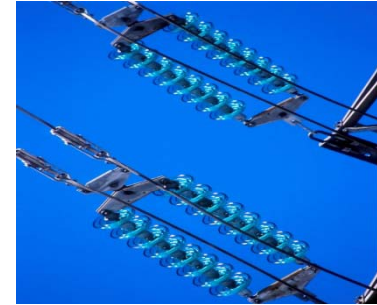
Cooperation on integration of major shares of windenergy

Next Stakeholder Group meeting

- On 14 June in Copenhagen
- Major topics:
 - Day ahead market coupling on DE-DK interconnectors by 4th quarter 2007
 - the conceptual and practical set-up
 - Transparency for market actors
 - The almost final proposal
- Status report on Congestion management on SwePol and Baltic Cable ("merchant lines")

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Regulatory challenges in the IEM

- Input by ERGEG to 3rd package of EU-Commission
- Four key issues
 - European obligations on network companies (“European Grid”)
 - Improved operational co-ordination of the networks
 - Efficient system of energy regulation
 - Effective unbundling

European Grid

- Creation of “a single European grid for electricity and gas” based on common rules and standards on issues that affect cross-border trade
- It is crucial to strengthen European transmission grids to
 - Remove barriers to cross-border trade
 - Strengthen security of supply
 - Accelerate progress towards a single market
- Definition in law is needed to clarify the obligations and duties of various organisations and networks as part of the European Grid

Key recommendations

- European Regulators support the creation of integrated European grids for gas and electricity through the improved interconnection and co-ordinated operation of national grids
- Network operators must develop the European standards to create and manage the grids
- New obligations should be placed on network operators to invest in and operate their networks in the interests of “European consumers”
- The fulfillment of these obligations should be under regulatory oversight at national and EU level

Definition of European Grid

- Functional definition
 - Serve European Customers by fostering integrated energy market
 - Facilitate cross-border trade e.g with tools like congestion management, ITC, Transparency
 - Harmonise connection conditions for new generators and consumers
 - Assure security of Supply by consistent generation adequacy treatments and forecast
 - Assure co-ordination between TSOs by defining rules for
 - Investment
 - Operation
 - Balancing
- Technical definition
 - Under discussion within ERGEG

Technical obligations to European Grid

- Obligation of each TSO to take all reasonable steps to have in place, in co-operation with other TSOs, technical criteria for the development, operation and maintenance of EU-grid
- Development of the technical standards/codes must be undertaken collectively by EU TSOs
- Guidelines for
 - ◆ development of the grid
 - ◆ maintenance of the grid
 - ◆ operation of the grid
 - ◆ information sharing among the TSOs
 - ◆ Information control
- Technical standards/codes will be approved, overseen and enforced by Energy Regulators to ensure it operates in the interests of European customers

European System of Energy Regulation I

- Establishment of a new system of energy regulation based on existing principles of EU-law
- Requirement for regulatory independence
 - European regulatory body should be able to fulfill its legal duties by taking independent, binding decisions
- Involvement of European Commission, national regulators and ETSOplus/GIEplus
- Proposal for practical issues e.g. funding, legal base

European System of Energy Regulation II

- Core functions
 - Approval of security and operating standards
 - Approval of European-Level investment plans
 - Approval of cost allocation methodologies for non/domestic/cross-border investments
 - Advising and assisting the European Commission in consolidating the EU internal market

Unbundling

- Draft ERGEG Guidelines on Functional and Informational Unbundling
 - Unbundling of functions
 - Separation of network activities from “competitive business” activities
 - Unbundling of information
 - Publication of data, respecting data protection and non-discriminatory access to data
 - Compliance Program
 - Framework for employees and management of the companies dealing with network tasks
 - Proposal of design, implementation, assessment and development of the compliance program



Thank you for your attention!
