

The Federal Network Agency

- An overview -

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Federal Network Agency
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Bonn

AGENDA

-
- History
 - Organization structure
 - Responsibilities
 - Core activities
 - Cooperation with national authorities
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HISTORY OF THE FEDERAL NETWORK AGENCY



- **Before 1998**
 - Federal Ministry of Posts and Telecommunications (BMPT) and the Federal Office for Posts and Telecommunications (BAPT)

- **1998**
 - Creation of the Regulatory Authority for Telecommunications and Post as a succession organization of BMPT and BAPT
 - **Regulated markets: Telecommunications and Post**

- **2005**
 - Entering into force of the New Energy Industry Act 2005: The Regulatory Authority for Telecommunications and Post is renamed Federal Network Agency for Electricity, Gas, Telecommunications, Post and Railway
 - **Regulated markets: Electricity, Gas, Telecommunications, Post and Railway**

ELECTRICITY MARKET STRUCTURE

■ Headquarters of TSO

4 TSO

1 EnBW Transportnetze AG

2 E.ON Netz GmbH

3 RWE Transportnetz Strom GmbH

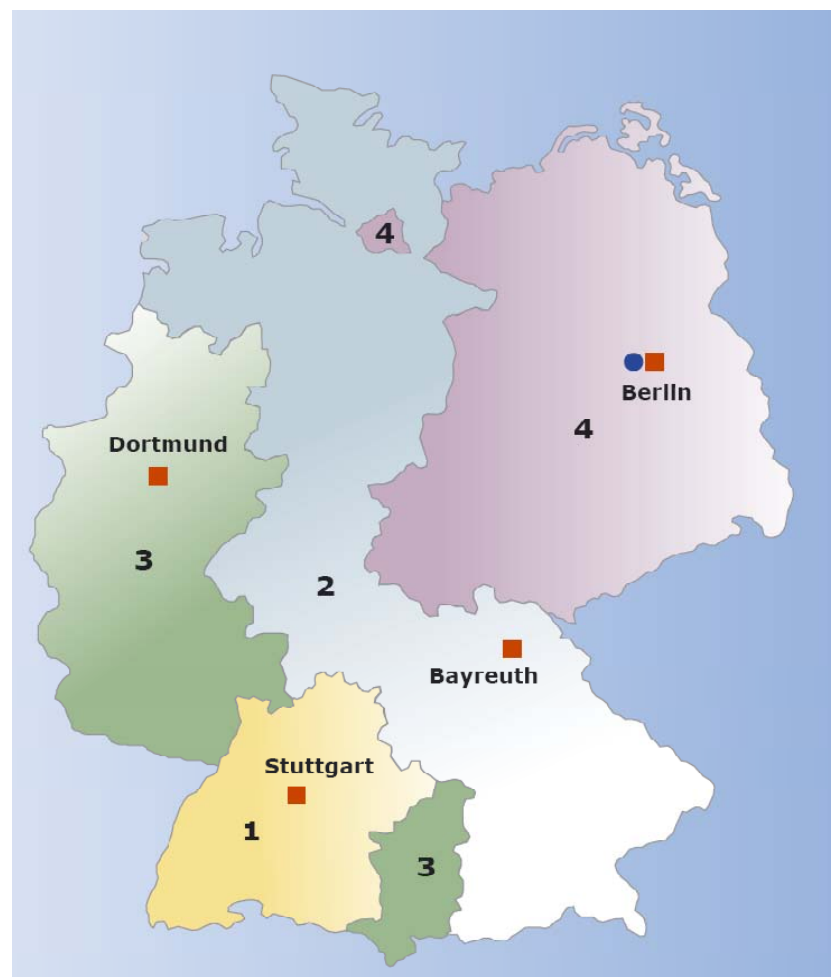
4 Vattenfall Europe Transmission GmbH

> 900 DSO

a) large regional DSO to very small agricultural network associations

b) Different ownership structures

c) Multi-operational municipalities
(oftentimes combine more than one of the following: operations in power, gas, water, waste, public transportation)



VDN, Daten und Fakten 2005, p. 25

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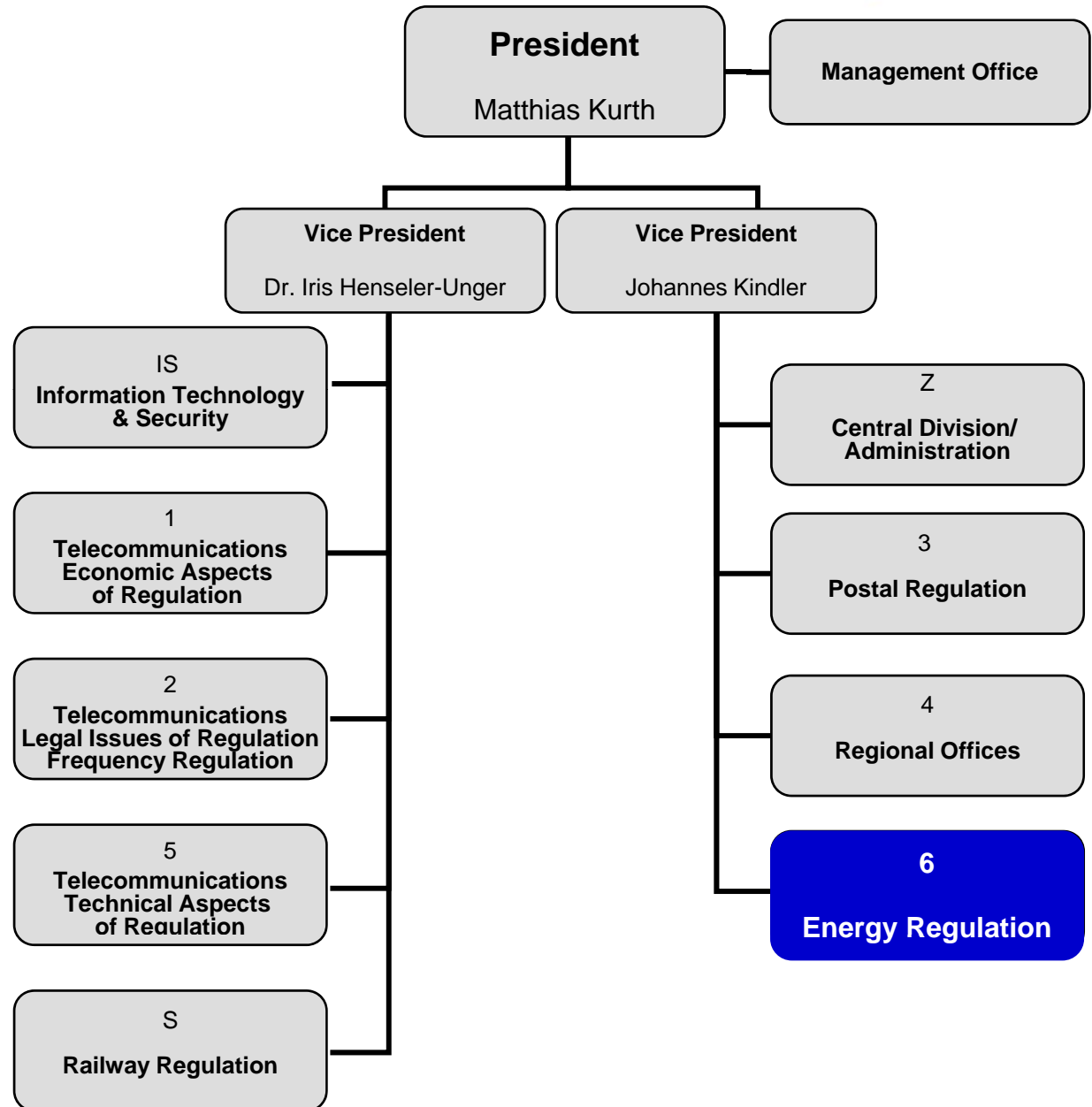
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ORGANIZATION FEDERAL NETWORK AGENCY



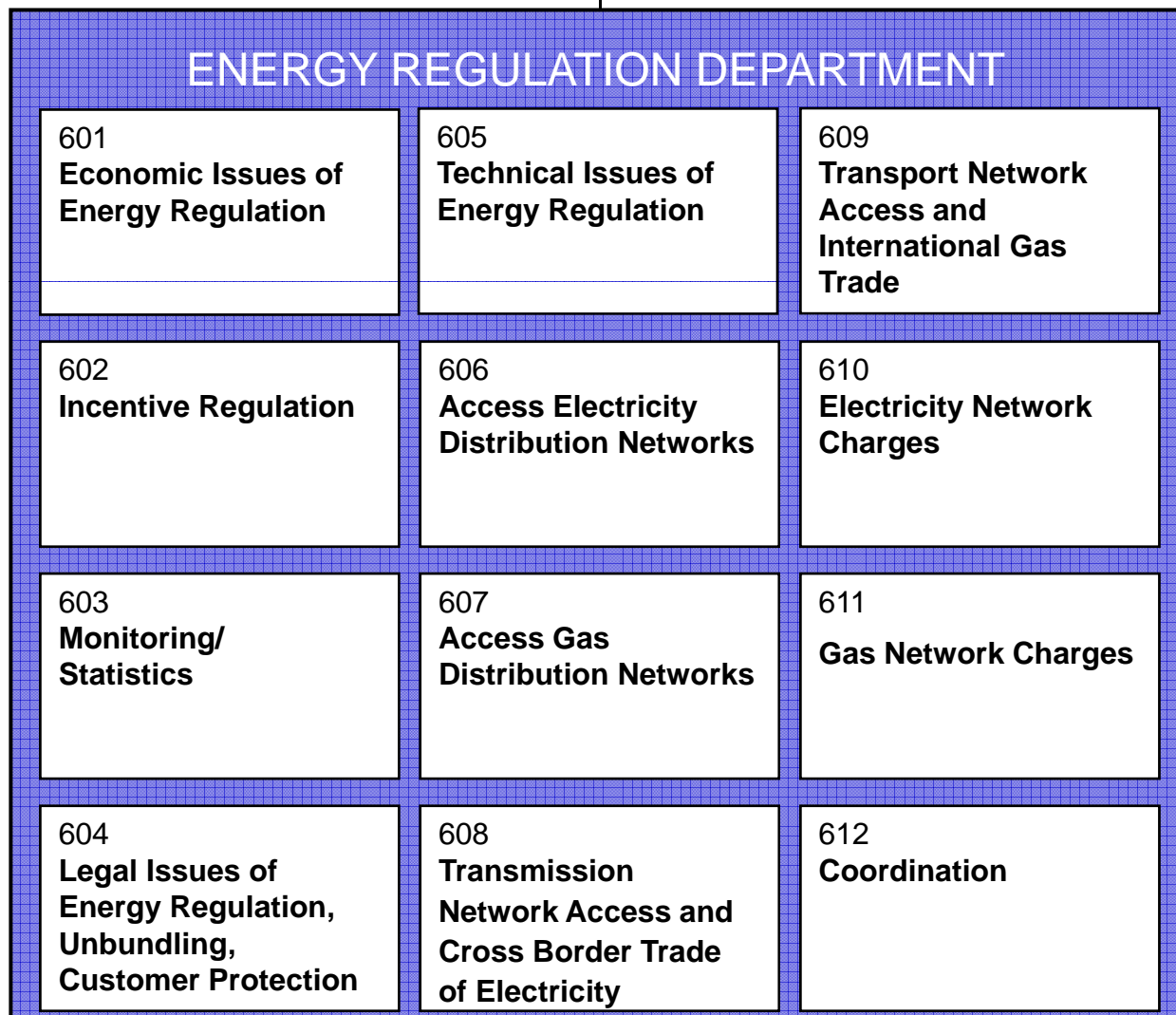
Ruling Chambers (RC)

RC 1 President's Chamber	RC 6 Network Access Electricity
RC 2 Retail Markets Fixed Line Networks (1-6,19,20,27*)	RC 7 Network Access Gas
RC 3 Wholesale & Retail markets Broadband Internet Access Mobile (7, 12 18,21-27*)	RC 8 Network charges Electricity
RC 4 Wholesale Markets Fixed Line Networks Local Loop (8-11, 27*)	RC 9 Network Charges Gas
RC 5 Postal markets	



ORGANIZATION ENERGY REGULATION DEPARTMENT

Head of Department
Klaus-Peter Schultz



Ruling Chamber 6
Electricity Network Access

Ruling Chamber 7
Gas Network Access

Ruling Chamber 6
Electricity Network Charges

Ruling Chamber 7
Gas Network Charges

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LEGAL FRAMEWORK: ENERGY INDUSTRY ACT 2005

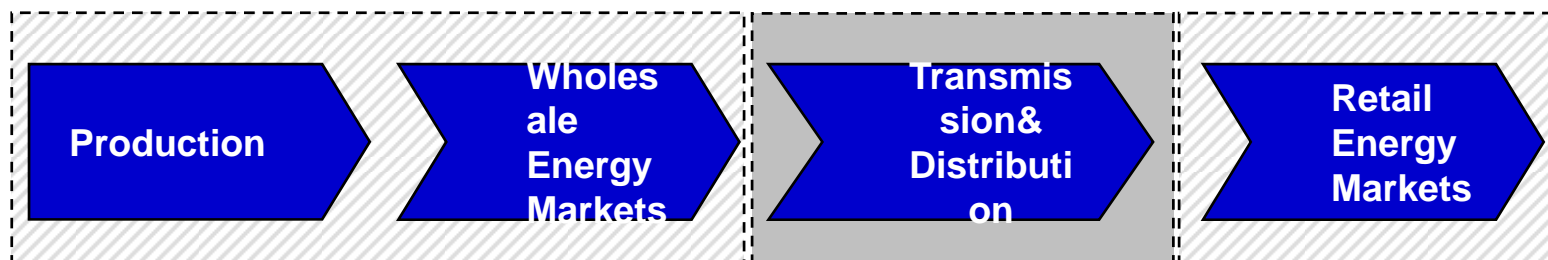
Legislative Purpose

- Secure, low-priced, consumer-friendly, efficient, and environmentally compatible line-bound supply of electricity and gas for society as a whole.
- Regulation of energy supply systems serving the following goals:
 - Ensuring effective and genuine competition in the supply of energy
 - Ensuring efficient and reliable operation of energy supply systems in the long-term
- Transposition and implementation of European Community law (Directives 2003/54/EC and 2003/55/EC)

Key Objectives

- Regulatory oversight of all DSO and TSO
- Independence of TSO and DSO: Separation (unbundling) of network activities from competitive activities (in legal, operational, informational and accounting terms)
- Non-discriminatory connection and access to the networks

REGULATORY APPROACH



-  **Competitive Markets**
→ No Regulation
-  **Natural Monopolies**
→ Regulation

1700 Transport & Distribution System Operators are subject to the regulatory supervision of the Federal Network Agency or of the State Regulatory Authorities

FUNDAMENTAL REPARTITION OF REGULATORY COMPETENCIES

Federal Network Agency

- Network companies with **> 100,000 customers** directly or indirectly connected to their electricity or gas distribution systems.
- Network companies with electricity or gas distribution system **extending beyond the territory of a Federal State** (Bundesland).

State Regulatory Authorities

- Network companies with **< 100,000 customers** directly or indirectly connected to their electricity or gas distribution systems.
- Network companies with electricity or gas distribution system located **within the border of a State** (Bundesland).

SHARED REGULATORY TASKS

- Approval of network access charges
- Monitoring legal provisions regarding
 - Unbundling
 - System responsibility of energy supply system operators
 - Network connection
 - Technical rules
- Supervision of abuse
- Decisions related to small isolated systems

A committee (Länderausschuss) ensures the coordination between the Federal Network Agency and the State Regulatory Authorities with the goal of ensuring a nationwide uniform implementation of the Energy Industry Act.



REGULATORY TASKS EXCLUSIVELY PERFORMED BY THE FEDERAL NETWORK AGENCY

All regulatory tasks resulting from the Energy Industry Act which are not explicitly allocated to a certain public authority shall be performed by the Federal Network Agency, i.e.:

- Benchmarking of network charges
- Development of an incentive based regulation system
- Monitoring activities to improve market transparency
- Collaboration with the European Commission
- Collaboration with the Regulatory Authorities in the EU member states (ERGEG, CEER)
- Reporting activities with respect to the state and developments of energy market liberalization

RULING CHAMBERS – INDEPENDENT DECISION TAKING BODY (1/2)

- All decisions of the Federal Network Agency based on the Energy Industry Act 2005 are basically taken by its Ruling Chambers with some minor exceptions.
- The decision making process of the Ruling Chambers can be compared to a juridical court process. A Ruling chamber's decision is taken by a chairperson and 2 assessors.
- In order to take their decision the Ruling Chambers are allowed to conduct investigations and collect all evidence necessary (§ 68 EnWG).

RULING CHAMBERS – INDEPENDENT DECISION TAKING BODY (2/2)

- The decisions of the Ruling Chambers can be directly challenged before the civil court (OLG -Higher Regional Court in Düsseldorf). An appeal procedure with the regulatory authority is not foreseen. Proceedings on the main issue do not have a suspensive effect.
- The Federal Ministry of Economics and Technology (BMWi) is formally allowed to give general orders to the Federal Network Agency with respect to the issuance or omission of decrees. All orders including their justifications have to be published (Federal Bulletin).
- The undertakings directly concerned may participate in the Ruling Chamber proceedings. The market participants and consumer associations affected by the proceedings may be summoned or request participation

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CORE ACTIVITIES

- Ex-ante approval of network tariffs
- Benchmarking of TSO and DSO
- Incentive based regulation system
- Unbundling
- Access to the networks
- Connection to networks
- Data collection of delivery interruptions
- Security of Supply
- Access to the gas networks: New Gas Market Model
- International coordination activities with other Regulatory Authorities (ERGEG, CEER)
- Monitoring

UNBUNDLING: SCOPE & GOALS

Legal Unbundling

- **Legally independent TSO/ DSO:** Vertically integrated energy supply undertakings must ensure that related system operators are independent in regard to their legal form of other areas of activity in the electricity/ gas sector.

Operational Unbundling

- **Independent conduct of TSO/ DSO:** Undertakings must ensure the independence of their related system operators in regard to organization, decision-making power, and the conduct of the business of the network.

Informational Unbundling

- **Confidentiality of information:** Vertically integrated energy supply undertakings and system operators shall ensure that the confidentiality of economically sensitive information that they obtain in the exercise of their business activities as system operator, is maintained.

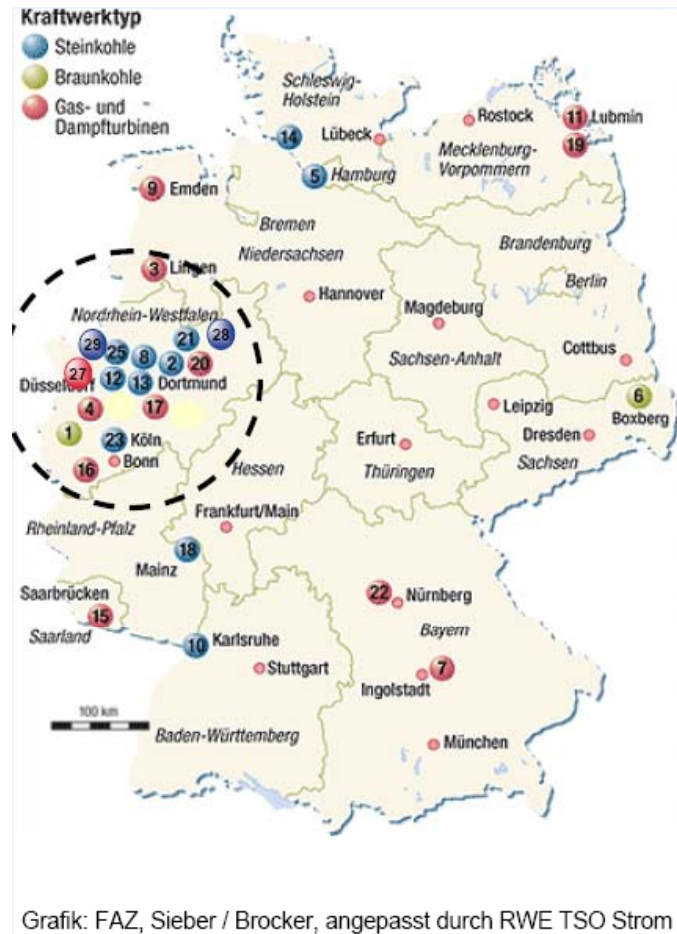
Unbundling of Accounts

- **Separate accounts in internal accounting:** for each of their activities in the areas of transmission, distribution, gas storage, and operation of LNG facilities, as would be required if these activities were conducted by legally independent undertakings.

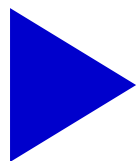
Goal

Transparency
and non-
discriminatory
organization
and conduct of
network
operations

CONNECTION OF POWER PLANTS: ISSUES



- Regional concentration of power plants and wind farms in the north
- Several new big thermal power plants are under construction or in a planning stage (approx. 40). Half of these are IPP projects
- Goal: Enhance competition on the market for electricity production
- Investors need information on congestion forecasts
- TSO are publishing models for the future availability of transmission capacities
- Urgent need for action: Time horizon for connection projects limited due to the ending of the National Allocation Plan II (NAP) in 2012.



New power plant connection ordinance

GAS NETWORK ACCESS: NEW MARKET MODEL

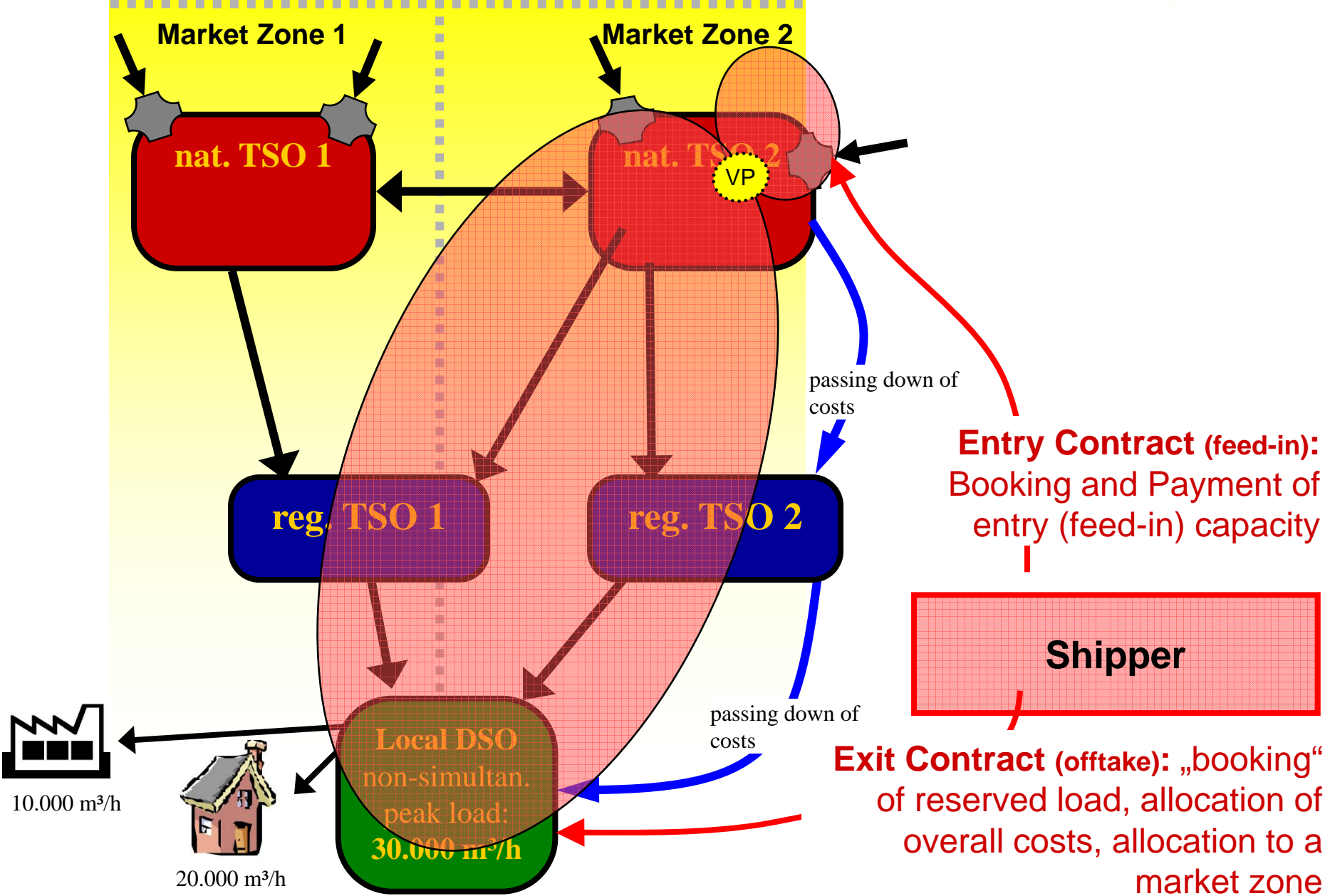
New Provisions

- The Model of “**Two Contracts**“:
→ Only 2 contracts (entry and exit contract) and 2 capacity bookings necessary
- **Independence** from **transport routes** / separation of physical and contractual flows
→ free allocation of capacity (Entry / Exit)
- Processing of Gas Transport is an internal obligation of the TSO
→ intensive **cooperation** required
- **Creation** of balancing/market **zones** beyond ownership
→ limit: technical feasibility and economical reasonability
- „Backpack-Principle“

Practical Implementation

- Outset: 19 (17) **Balancing Zones**
→ initial assignment of consumers by traders and TSOs
- Establishment of one **Virtual Trading Point (VP)** per balancing zone
→ balancing of all gas
- **Allocation of total costs** from VP to Offtake Point (OP)
→ Exit-tariff remunerates complete network usage (VP → OP)
- New system was to be implemented by 1st of August 2006 (prior to the start of the new gas year)

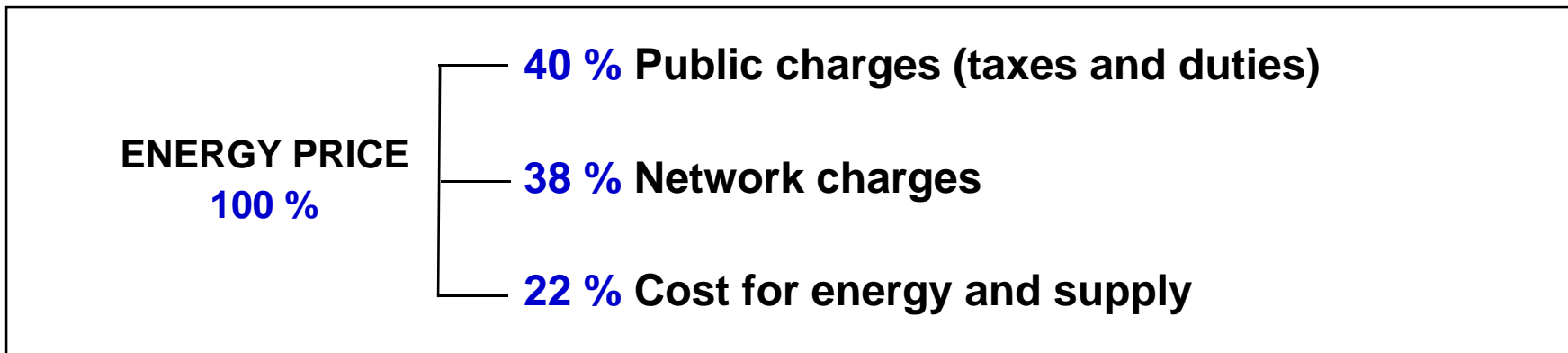
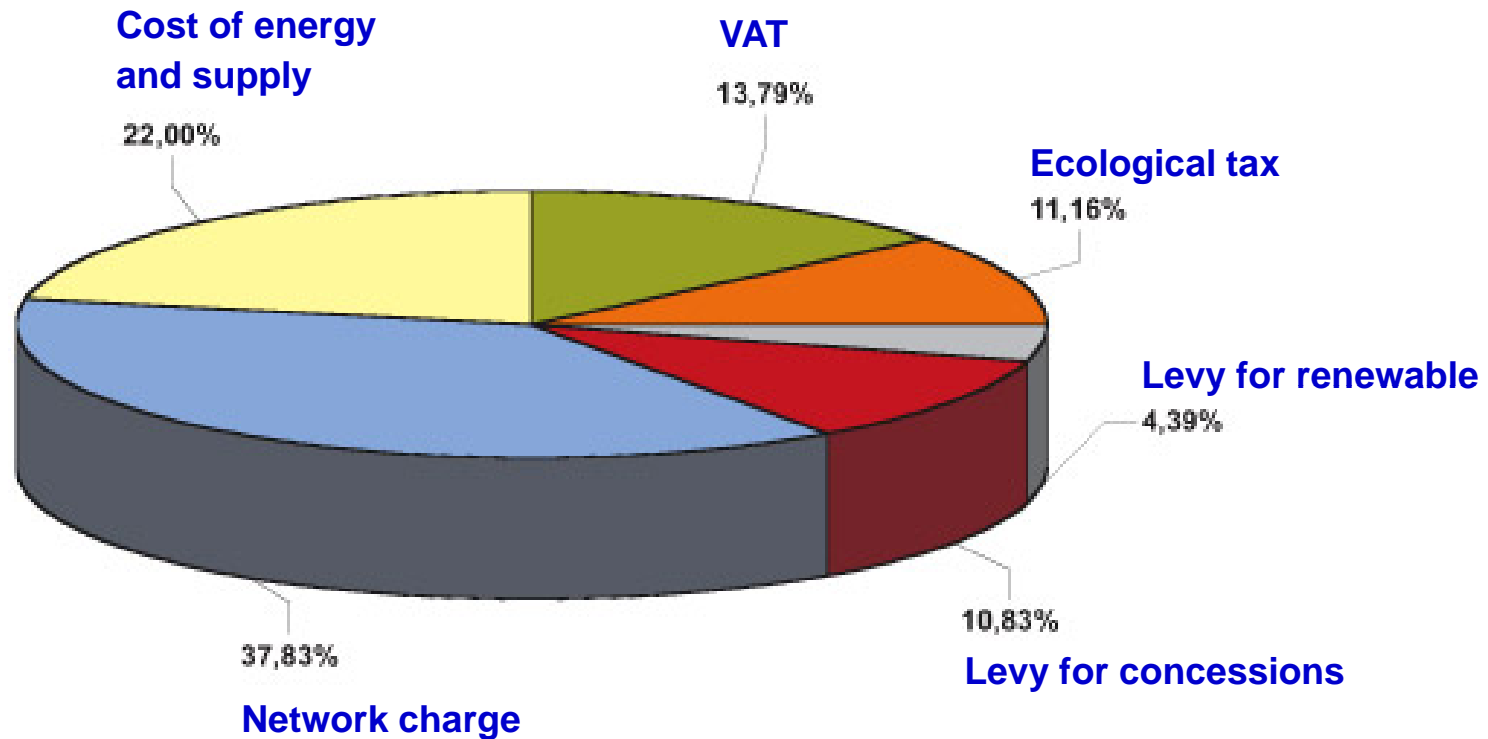
NEW MARKET MODEL: OVERVIEW



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COMPOSITION OF HOUSEHOLD ENERGY PRICES



ENERGY PRICES: REPARTITION OF COMPETENCIES

OVERALL ENERGY PRICES ARE NOT SUBJECT TO REGULATION BY THE REGULATORY AUTHORITIES

Federal & State Regulatory Authorities

- Approval of network charges for the access to the networks
- Legal base: Energy Industry Act (EnWG), StromNEV, GasNEV

Federal Competition Authority (Bundeskartellamt)

- Abuse of dominant position: control of the energy prices of dominant national energy supply companies
- Legal base: GWB (Act against Restraints of Competition)

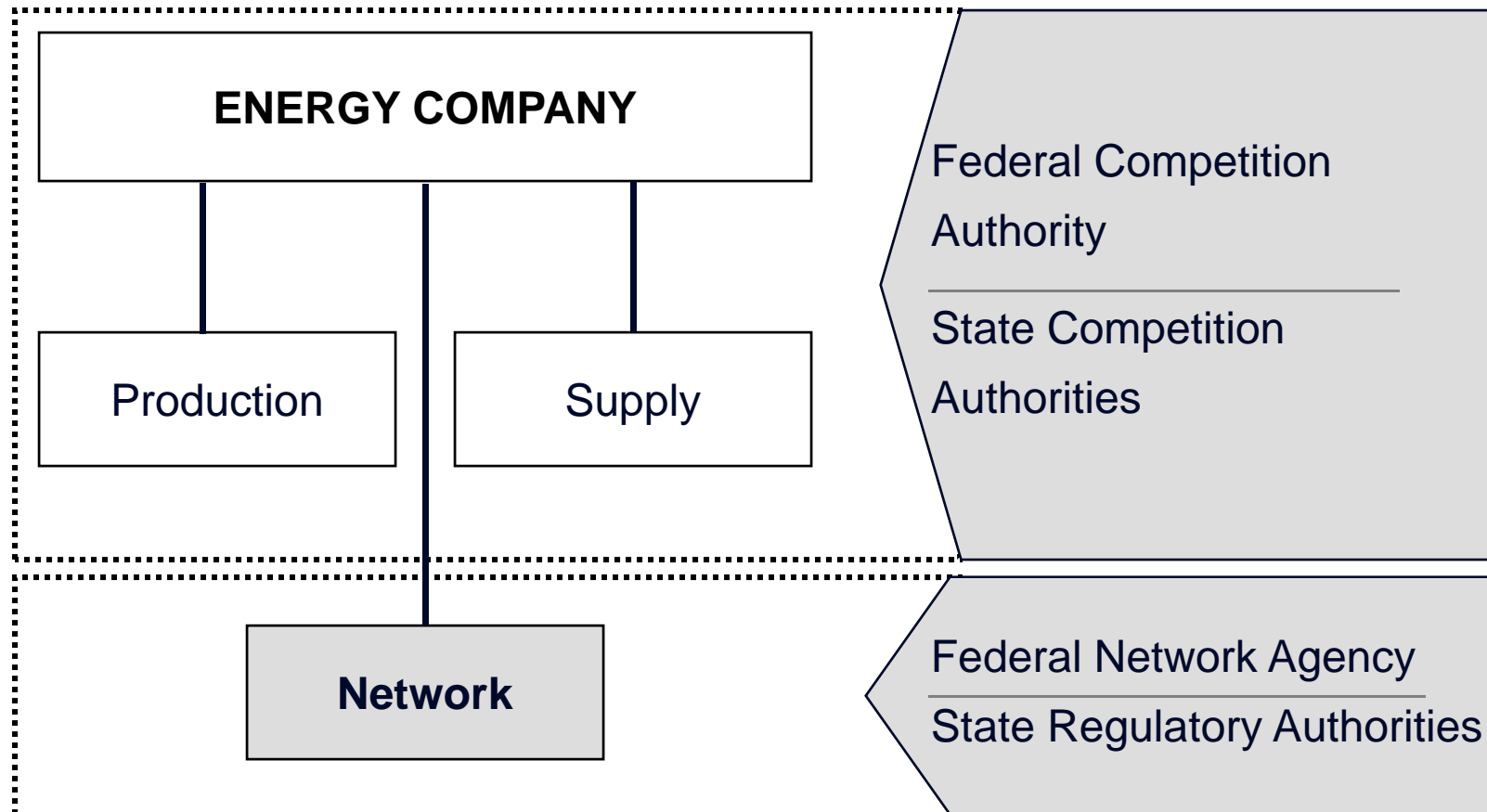
State Competition Authorities

- Abuse of dominant position: control of the energy prices of dominant local energy supply companies
- Legal base: GWB (Act against Restraints of Competition)

State Price Supervision Authorities

- Approval of household electricity prices
- Legal base: BTOElt (expiration date: July 1st, 2007)

CONTROL OF ENERGY COMPANIES THROUGH REGULATORY AND COMPETITION AUTHORITIES




EXAMPLES OF ACTIVITIES

Federal Competition Authority

- Long-term gas supply contracts
- Control of gas and electricity prices when abuse of dominant position
- CO₂- Certificates
- Market concentration and mergers on the energy markets

Federal Network Agency

- Unbundling
- Access to the networks
- Network charges (ex-ante approval, incentive regulation)
- Monitoring
- Cooperation on the European level (EREG, CEER)



**Strong cooperation to enhance competition on the energy markets
(required by law: § 58 EnWG)**

Thank you for attention.

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