Investments and Regulation in Electricity in the UNECE region: Issues and Challenges

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UNION OF THE ELECTRICITY INDUSTRY
eurelectric

Representing the European Electricity Industry

at Expert, Strategic and Policy-making Level

A PAN-EUROPEAN AND MEDITERRANEAN SCOPE

SUSTAINABLE DEVELOPMENT
COMPETITIVE ELECTRICITY MARKETS
KYOTO
THE FUTURE OF ELECTRICITY
ENERGY POLICY RESTRICTIONS
CUSTOMER EXPECTATIONS
SECURITY OF SUPPLY
ENSURE INVESTMENTS

EUROPEAN COMMISSION PROGRESS REPORT (Nov. 2005):

"With the adoption of the 2nd Electricity and Gas Directives, the basic framework for the development of a real internal market is in place".

"… the initial opening period of energy markets has largely been a success to date, with, for example, electricity prices now being lower in real terms than in 1997 …"

DG COMPETITION SECTORAL INQUIRY
(Preliminary report - February 2006)

"…We will act decisively to remedy the serious malfunctions identified on the energy market ...."

Competition Commissioner
Neelie Kroes

5 main obstacles identified :

- **Market concentration**
- **Vertical foreclosure**
- **Lack of market integration**
- **Lack of transparency**
- **Price formation**

IEA REPORT

“Lessons from Liberalised Electricity Markets”

“Electricity market liberalisation is not an event. It is a long process that requires strong and sustained political commitment, extensive and detailed preparation, and continuous development to allow for necessary improvements, while sustaining on-going investment”.

CONTINUOUS PROGRESS ON MULTIPLE FACTORS

	Work done	Work to do
Implementation of existing directives	X	X
Cooperation between regulators/governments	X	X
Effective unbundling	X	X
Regulated transmission access	X	
Abolition of cross-border fees	X	
Market based congestion management	X	X
Access to network data	X	X
Power exchanges	X	
Cooperation between power exchanges	X	X
Liquidity	X	X

.../...

	Work done	Work to do
Transparency of market data	X	X
Trade mechanisms	X	X
Supplier switching procedures	X	X
Interconnection expansion	X	X
Reduce authorisation barriers		X
All energy options open		X
Inter TSO network planning / operation	X	X
Regulatory level playing field	X	X
Market tools for environmental objectives	X	X
Internationalisation of producers/suppliers	X	X
Competitive access to gas	X	X

Consumer Satisfaction of Residential Customers is high

Source: Evaluation of the Performance of Network Industries Providing Services of General Economic Interest, 2005 report (SEC(2005) 1781), based on Special Eurobarometer, December 2004

Price Evolution - Industrial Customers

(real-term prices)

Price evolution for industrial users using a weighted average (1995-2005)
Industrial users: 24 GWh, without VAT (KEMA report)

REMAINING CAPACITIES IN DIFFERENT SCENARIOS

Source: ETSO generation adequacy report, May 2005

Perspective for the future: integration through larger markets

EURELECTRIC road map towards a pan-European electricity market

ROAD MAP TO A EUROPEAN ELECTRICITY MARKET: PARALLEL APPROACH

Integration at European level 2007-12

Coordination between regions 2005-10

Development within regions 2005-09

Continued liberalisation of national markets 2005-07

Pan-European market

EUROPEAN REGIONAL MARKETS

EURELECTRIC proposal for agenda of regional initiatives

- Harmonise market transparency and provision of data
- Congestion management
- Introduction of harmonised cross-border intra-day markets
- Harmonise balancing market rules, including settlement
- Address coordination of planning processes for new interconnectors and regional grid

HOW TO MOVE FORWARD

EURELECTRIC adopted an Action Plan to address all major issues and impediments that are limiting the development of markets

1. **<u>Accelerate market integration</u>**

   Regional initiatives:

   - More ambitious agenda in contents and timing
   - Greater involvement of the EC
   - Use of implementation agreements with industry

2. **<u>Improve TSO coordination</u>**

   Short term: regional initiatives

   Long term: structural measures?

…/…

3. **Improve regulator's coordination**

Short term: implementation agreements with industry

Long term: structural measures (ERGEG + ? European Regulator?)

4. **Strengthen market confidence**

Proactive dialogue with industrial customers

- wholesale markets
- emissions trading
- longer term contracts & partnerships

5. **Facilitate supplier switching**

- Roadmap to integrated retail market
- Business model for supplier switching

→ **STRONG SYNERGIES !**

BARRIERS TO CHANGE

Figure 8: **What is preventing the big leap ?**

Note: Global responses only. % share of responses

Source: PricewaterhouseCoopers, Utlities global survey 2006

CREATING AN INTERNATIONAL ELECTRICITY MARKET…

1	European Commission
25	National Regulators
25	National Energy Policies
25	National Industry Structures
25	Support Schemes for Renewables
25	Support Schemes for Cogeneration
25	National CO2 Emission Targets
25	National CO2 Allocation Plans
30+	Transmission System Operators

CONCLUSIONS

- NO INTERNATIONAL MARKET WITHOUT A CONSISTENT REGULATORY FRAMEWORK AND COOPERATION BETWEEN POLICY MAKERS, REGULATORS AND INDUSTRY

- THE LIBERALISATION PROCESS IS INITIATED BY REGULATION, BUT MARKET ACTORS BECOME KEY DRIVING FORCE

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