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**Prospects for the internal gas and electricity market
Review of the gas and electricity framework**

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The presentation represents the point of view of the author and does not necessarily states the European Commission position

Working Party on Gas

- On January 10th the Commission issued a very complete package focusing on the main issues that still remain in the EU energy markets
 - Internal market completion
 - Competition
 - Efficiency
 - Renewable sources of energy
 - Environmental impact of CO₂ emissions
 - Consumers protection

Prospects for the internal gas and electricity market

Review of the gas and electricity framework

- identifications of problems
- assessment of policy options
- stakeholder consultation
- costs / benefit assessment
- formulation of proposals

Prospects for the internal gas and electricity market

- 1. ensuring non-discriminatory access to well developed networks through TSO unbundling**
- 2. improving regulation of network access at national and EU level**
- 3. reducing the scope for unfair competition**
- 4. TSO coordination**
- 5. providing a clear framework for investment**
- 6. resolving issues relating to households and sme's**

Ensuring non-discriminatory access to networks through unbundling

- Legal and functional unbundling as currently required by the legislation is not sufficient to ensure that a real competitive European market for electricity and gas can develop.
- Legal unbundling does not suppress the conflict of interest that stems from vertical integration:
 - non discriminatory access to information cannot be guaranteed;
 - remains incentives for discrimination with respect to TPA;
 - investment incentives are distorted.
- Main options:
 - fully ownership unbundled
 - Independent system operator (ISO)

Improving the power of the Regulators

- **Enhancing Role of Regulators**
 - Effectiveness of regulators is frequently constrained through a lack of independence and sufficient powers and discretion
 - Multiplication of regulatory bodies
- **Coordination between National Regulators -**
Problems exist in relation to:
 - financial mechanisms for investment decisions
 - inconsistencies at national level aiming tariff structures, capacity allocation rules, balancing arrangements, trading timetables and security of supply

Reducing the scope for distortion of competition

Transparency

- The problem of concentration in electricity and gas markets is made worse where dominant companies are not required to reveal information to other market participants.
- A higher degree of transparency would provide new investment by non-incumbents that will contribute to eroding concentration
- Transparency would also improve market surveillance.

Reducing the scope for distortion of competition

Long term gas contracts

- Long-term upstream supply agreements are very important for SoS.
- Nevertheless they are almost always combined with long-term transportation contracts:
 - lack of regulated access to import infrastructures
 - preferential rights for prolongation of capacity rights in existing long-term transport contracts (concluded before the entry into force of 2nd gas Directive)
- This constitutes an important obstacle to cross border trade and market integration.
- Lack of clarity on application of TPA, CA and CM provisions to these contracts.
- Long-term upstream supply agreements are often extended downstream and serve to foreclose the downstream market supply for local suppliers and final customers.

Reducing the scope for distortion of competition Access to and new investments in gas storage facilities

- Storage is often in the hands of the incumbent companies.
- Although storage is not a natural monopoly, facilities in certain locations may have a large impact on the functioning of the internal market.
- The ERGEG final 2006 report on monitoring the implementation of the guidelines for good practice for storage system operators showed a rather disappointing picture in terms of compliance.
- Similarly the Sector Inquiry of DG-COMP highlighted a number of problems in this respect.

Coordination between TSO

- In the current framework TSOs and Regulators follow a national focus
- Capacity improvement and network interconnections investments with a pan European approach are no more postponeable
- Enhancement could also come simply from more regular information exchange among TSOs, operational techniques agreement (such as re-dispatch, CMP etc) and detailed inter-TSO operational standards
- All such measures require a very high level of co-operation and a clear regulatory framework.

Promote Investments in gas import infrastructures (art. 22, dir. 55/2003)

- The exemption process under Article 22 of the gas Directive offers very good incentives for investment.
- In some cases an enhanced Community framework may be necessary, especially where many MS are affected:
 1. set guidelines for investments (UIOLI, market dominance) to be exempted
 2. introduce a one-stop shop for multi-MS investments
 3. examine other ways of procedural streamlining

Households and smaller customers protection

- **DSO unbundling**

- Many concerns remain about cross subsidies, access to distribution networks, switching procedures, load profiling and confidentiality of information
- Several MS have failed to ensure implementation of functional unbundling of network companies from supply businesses

- **Consumer protection and awareness**

- Many MS retained a general controls on tariffs. Although price regulations may be needed to protect specific consumer, they must not prevent market opening, create discriminations among suppliers, distort competition or restrict resale.
- Liberalisation may be accompanied by aggressive and misleading marketing strategies to limit consumers switch.
- MS made limited use of targeted Public Service Obligation (PSOs) to address vulnerable customers (compensation for supply interruption, codes of conduct, transparency of prices, contract conditions)
- Insufficient elasticity of demand causes that infrequent measurement of consumption prevents any kind of immediate demand response, even where prices are totally free

Prospects for the internal gas and electricity market

NEXT STEPS

1. identifications of problems
2. assessment of policy options
3. stakeholder consultation
4. costs / benefit assessment
5. formulation of proposals