Recent developments regarding regional integration and infrastructure development in the EU

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IV ARIAE-CEER meeting, Cancun, 26-27 February 2013

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Towards Market Integration

- **Power sectors initially based on national needs and with limited possibilities to coordinate with neighbours:**
  - Emergence of markets with different rules and constrains
  - Very little room left for cooperation and competition

- **National power networks interconnected for:**
  - Helping mutually in case of an emergency
  - Enabling a common adjustment of the frequency in the case of synchronous systems

- **Since 1996, European institutions have pushed for the development of the internal energy market in order to:**
  - Deliver real choice for consumers
  - Achieve efficiency gains, competitive prices and higher standards of service
  - Contribute to security of supply and sustainability

The development of cross-border trades and the increase of interconnection capacity are the first steps towards the creation of a single integrated market.

Towards Market Integration (Third Package)

- The 3rd Package defines a **new regulatory framework**:
  - An **increased coordination requirement**, both between TSOs and regulators for the purpose of integrating national markets (creation of ENTSO-E, ENTSO-G and ACER)
  - An **harmonization and enhancement of regulators' powers and competencies** regarding congestion management methods

> *"The regulatory authorities shall **be responsible for fixing or approving** … at least the methodologies used to calculate or establish the terms and conditions for: … the **procedures <u>for the allocation of capacity and congestion management</u>.** … National regulatory authorities may **request amendments to those rules**"*

  - **Improved regional cooperation** between regulators notably to promote the development of cross-border trade.

> *"Regulatory authorities shall **cooperate** at least at a regional level to: … **coordinate the development of all network codes** for the relevant transmission system operators and other market actors"*

The Third Package: the regional dimension

- **E (& G) Directives** - The regional dimension
  - →*"…with a view to creating an IEM…at Community and* ***regional level****…"* *recital 58 – E. (& 56 G)*
  - →*"…regulatory issues on cross-border interconnections and* ***regional markets*** *… main tasks of the regulatory authorities…"* *recital 59 – E (& 57 G)*
  - →*"…in the event of an energy supply crisis, it is important to provide a framework for* ***regional cooperation*** *in a spirit of* ***solidarity****…"* *(recital 55 – G)*
  - →***Article 6 (&7) Promotion of regional cooperation***
    - → *"…1. Member States as well as the regulatory authorities shall cooperate with each other for the purpose of integrating their national markets at one or more* ***regional levels****, as a first step…"*

The Third Package: the regional dimension

- **E (& G) Directives** - The regional dimension

  →***Article 6 (&7) Promotion of regional cooperation***

  →*"…2. The Agency shall cooperate with NRAs and TSOs to ensure the compatibility of regulatory frameworks* ***between the regions****…"*

  →***(Article 6 of the G Directive on regional solidarity)***

  → *"1. In order to safeguard a secure supply on the internal market in natural gas, Member States shall cooperate in order to promote regional and bilateral solidarity…"*

The Third Package: the regional dimension

- **E (& G) Directives** – The regional dimension
  - →***Article 36 (&40) General objectives of NRAs***
    - → *"…b/… developing competitive and **properly functioning regional markets** within the Community …"*
  - →***Article 38 (&42) Regulatory regime for cross-border issues***
    - → *"…2. Regulatory authorities shall cooperate at least at regional level to:*
      - →*a/…develop competitive and properly **functioning regional markets** within the Community …"*
      - →*b/ …coordinate the development of **network codes**…"*
      - →*c/ …coordinate the development of the rules governing the **management of congestion**."*

The Third Package: new governance

- The 3rd Package establishes the **Agency for the Cooperation of Energy regulators** (ACER):

> *"The purpose of the Agency shall be to assist the [NRAs] in* ***exercising, at Community level, the regulatory tasks performed in the Member States*** *and, where necessary, to* ***coordinate their action****"*

- **Its duties are:**
  - **Regulatory oversight** of the cooperation between transmission system operators (ENTSO-E, ENTSOG)
  - **Individual decision powers** regarding specific cross-border issues (e.g. on exemption requests, regulatory regime applicable to infrastructure within the territory of more than one Member State)
  - **General advisory role to the Commission** as regards market regulation issues

The Third Package: new governance

- **ACER Regulation**
  - →***Article 6 Tasks as regards the cooperation of TSOs***
    - →*"…9. The Agency shall monitor the **regional cooperation** of TSOs … and take due account of the outcome of that cooperation when formulating its opinions, recommendations and decisions."*
  - →***Article 7 Tasks as regards the NRAs***
    - →*"…3. The Agency shall provide a framework within which NRAs can cooperate. It shall promote cooperation between NRAs and between regulatory authorities **at regional** and Community level. Where … binding rules on such cooperation are required, it shall make the appropriate recommendations to the EC."*
  - →***Article 14 Board of Regulators***
    - →*"…4. The rules of procedure may provide for **specific working methods** for the consideration of issues arising in the context of **regional cooperation initiatives**."*

The regulator’s main tasks

<u>Independent</u> energy regulatory authorities required to:

- **Monitor the market** (prices, market shares, etc.)
- **Ensure** non-discriminatory **access to the grid** mainly through:
  - Proposal to the government on tariffs for transmission and distribution
  - Approval of congestion management methods on interconnections
  - Settlement of disputes
- **Verify the absence of cross-subsidies** between the various activities inside integrated companies (generation / transmission / distribution)
- **Define rules regarding unbundling of accounts**. In this respect, the regulator enjoys totally free access to these companies’ accounts (power to audit).
- **Evaluate the independence** of the network operators

Ensuring coherence and convergence

- The **“bottom-up” approach** shall remain a vehicle for progress towards the creation of a single European energy market
  - Allowing flexibility: merger of regions by topic
  - ACER will monitor coherence and convergence on a annual basis and may issue opinions / recommendations to foster market integration
- The **“top-down” approach: Framework Guidelines** and **network codes** on electricity capacity allocation and congestion management are setting the **binding framework to converge** within and among regions (currently under preparation by ACER)
- Creation of Electricity Stakeholders Advisory Group within ACER to:
  - elaborate a **roadmap together with all stakeholders represented**
  - **monitor the implementation of cross-border projects**
  - ensure coherence and **convergence of these projects**

The Internal Energy Market can deliver

- Economic growth
- Jobs
- Secure supply
- Affordable energy
- Sustainable use of limited resources

EU Internal Energy Market

Benefits

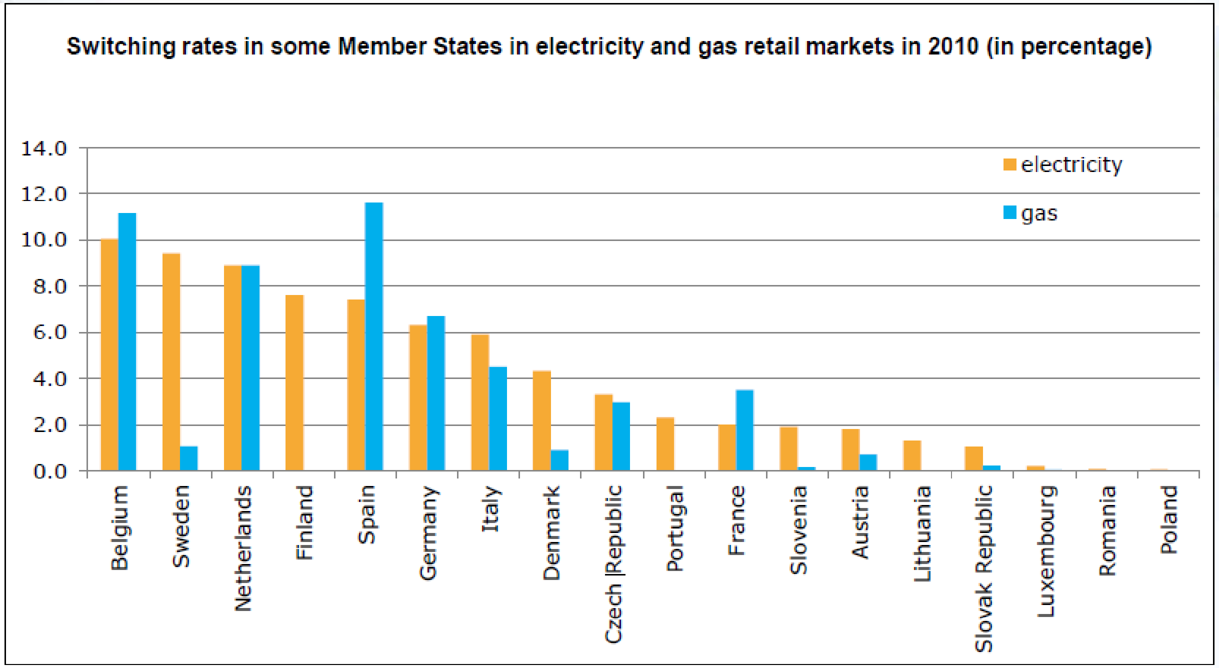
- Choice
- Competitive prices
- Liquid and transparent wholesale markets
- Increase security of supplies
- Close relations to neighbouring countries

Barriers

- Unplanned flows
- Price transparency
- Investments challenge
- Wide variations in retail prices

EU Internal Energy Market

More choice and flexibility for consumers

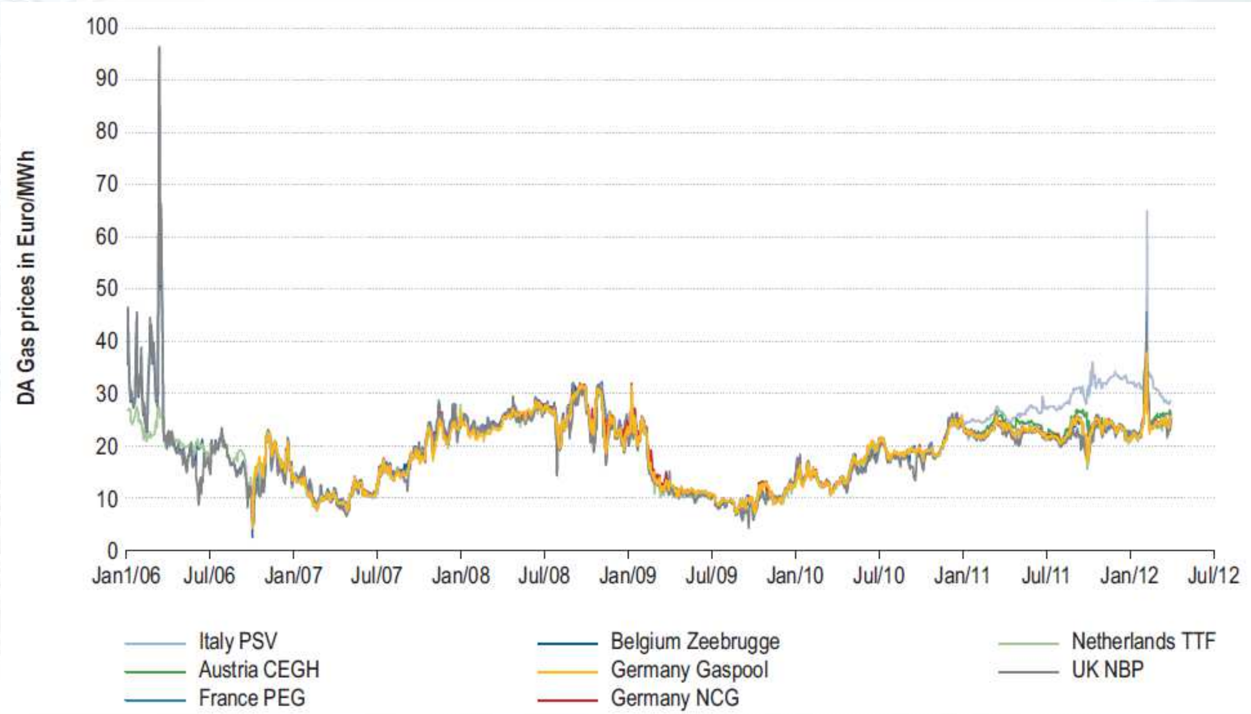


Source: CEER database and national regulators

EU Internal Energy Market

Wholesale price convergence increasing in both electricity and gas markets

Day-ahead prices at European gas hubs – 2006 to 2012 (euro/MWh)



Source: CEER-ACER joint market monitoring report 2012

Wholesale price convergence increasing in both electricity and gas markets

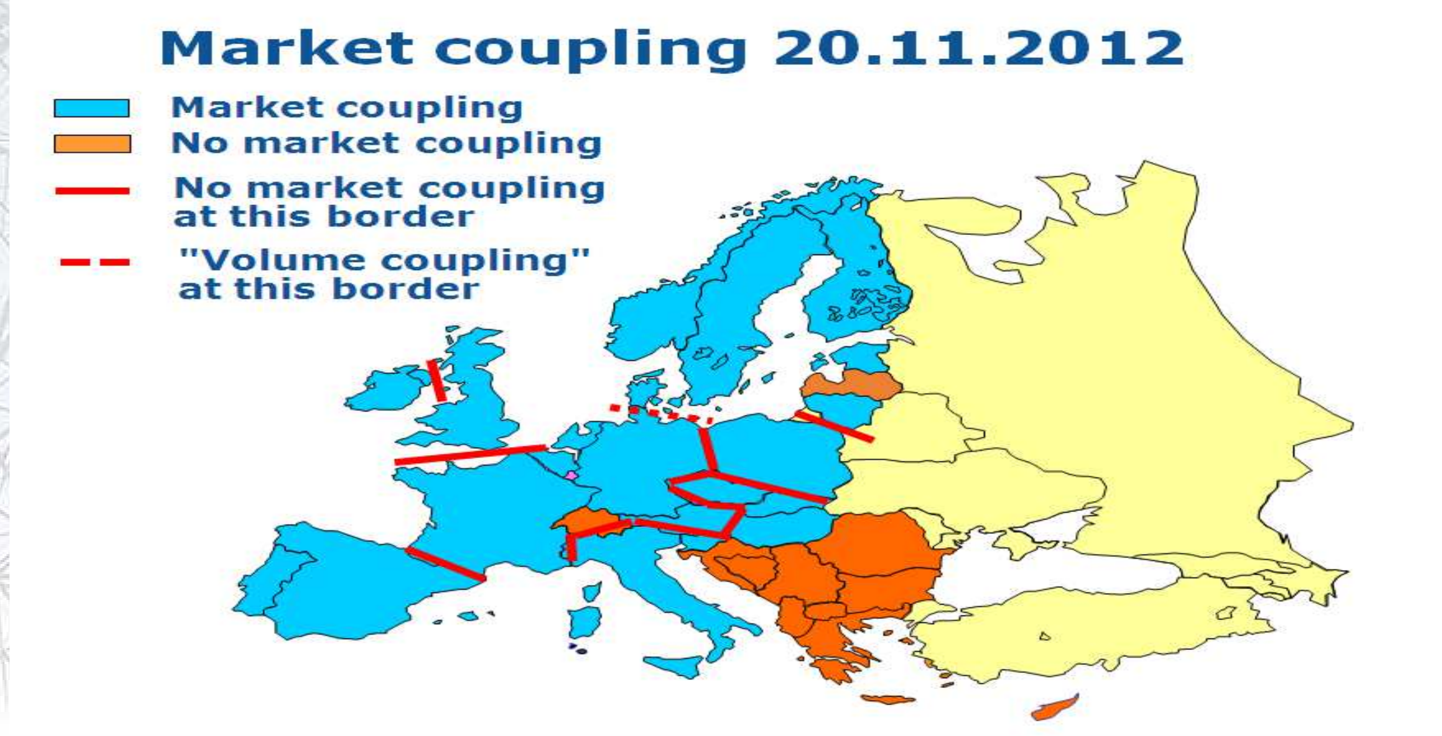
Annual average electricity price at European spot exchanges – 2005 to 2011 (euro/MWh)

Area	2005	2006	2007	2008	2009	2010	2011
CWE							
Netherlands	52.4	58.1	41.9	70.1	39.2	45.4	52.0
Belgium	NA	NA	41.8	70.6	39.4	46.3	49.4
France	49.3	49.3	40.9	69.2	43.0	47.5	48.9
Austria	46.4	51.0	39.0	66.2	38.9	44.8	51.8
Germany	46.0	50.8	38.0	65.8	38.9	44.5	51.1
NORDIC							
Nord Pool	29.3	48.6	27.9	44.7	35.0	53.1	47.1
MIBEL							
Spain	53.6	50.5	39.4	64.4	37.0	37.0	49.9
Portugal	NA	NA	52.2	70	37.6	37.3	50.5

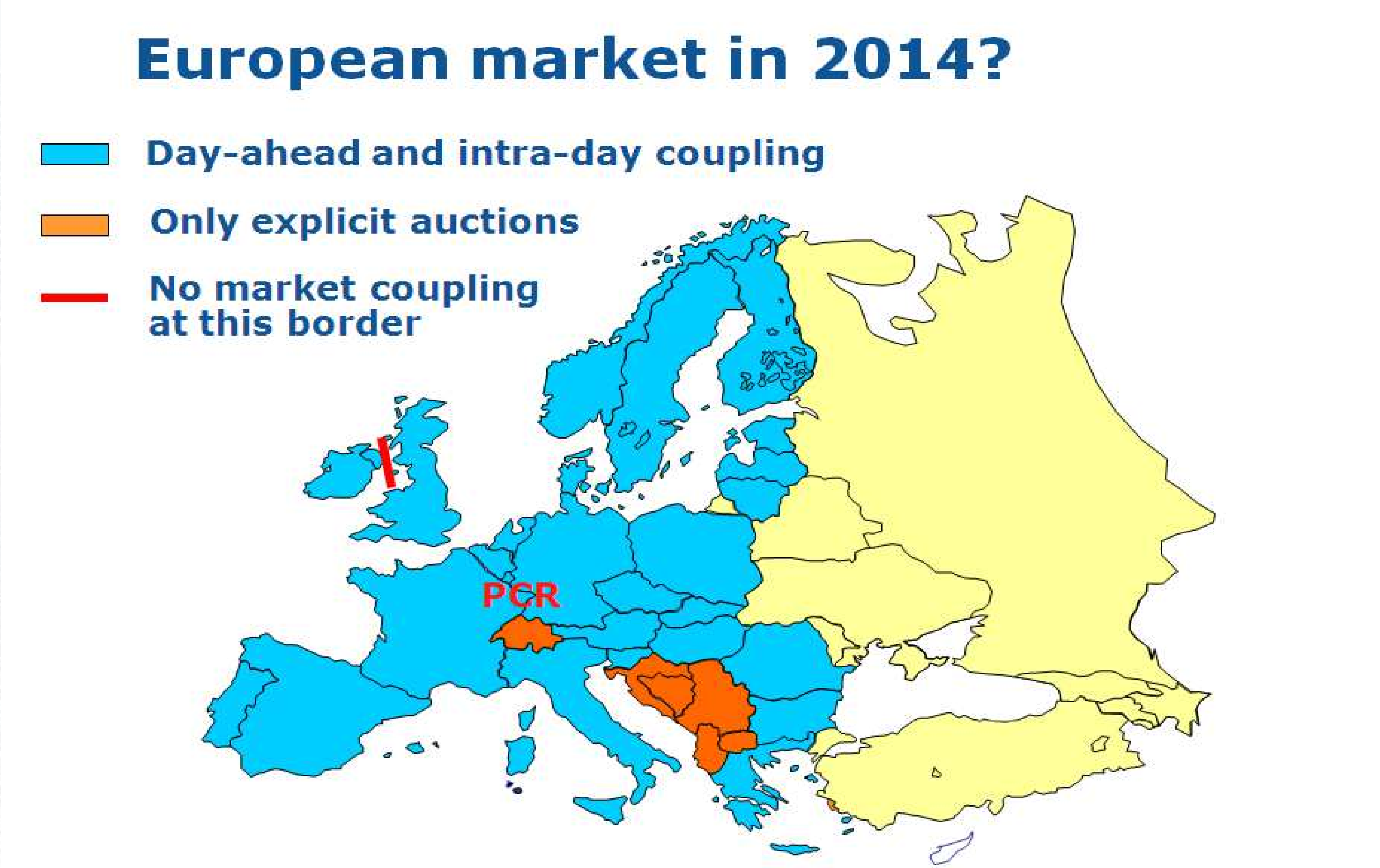
Source: CEER-ACER joint market monitoring report 2012

EU Internal Energy Market

More liquid and transparent energy wholesale markets



EU Internal Energy Market



EU Recent developments

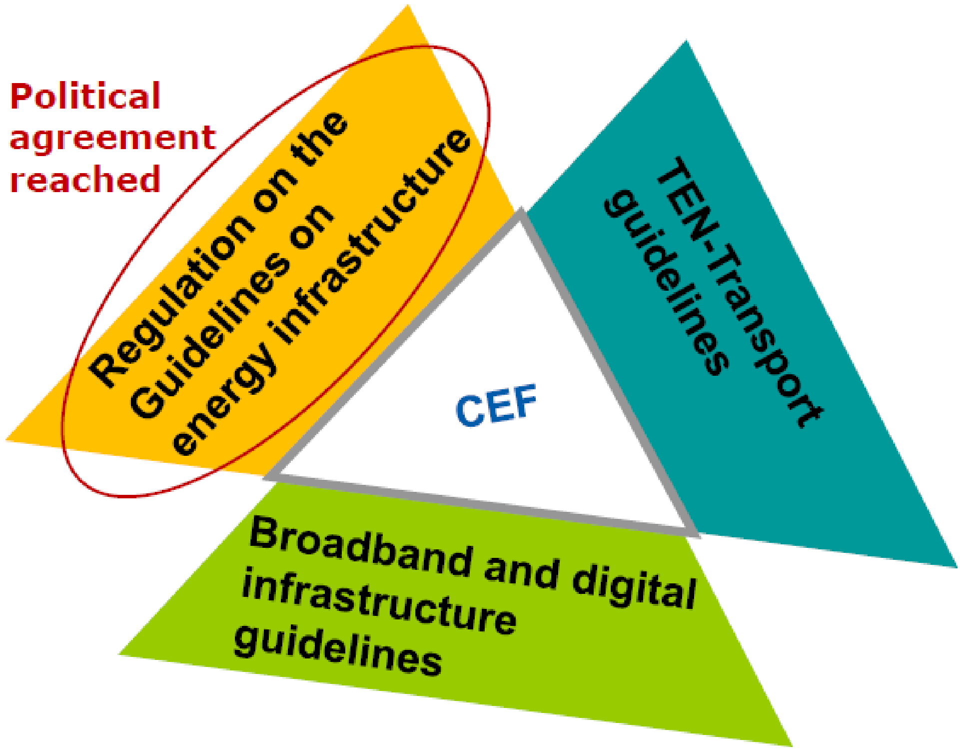
- EC Communication on IEM – mid November 2012
- Political agreement on EIP – end of November 2012
- Progress achieved on RIs

EC Communication on IEM: Action plan for Europe

Action/Measure	Actor(s) involved	Timing
Enforcement		
1. Timely and comprehensive transposition of the Third energy package Directives and implementation of the Third energy package Regulations	Member States / national regulators for energy / Commission	March 2011
2. Guidance on defining the concept of "vulnerable customers"	Commission	2013
3. Rigorous application of the internal energy and competition rules	Commission / Member States / national regulators for energy / national competition authorities	continuous
4. Enhance effectiveness of Regional Initiatives and their contribution to the integration of the internal energy market	Commission / Member States / national regulators for energy / ACER	continuous
5. Revision of guidelines on State aid for environmental protection	Commission	End 2013/ Beginning 2014
Improve consumer empowerment and support		
6. Further efforts to involve, inform and motivate consumers, including through the implementation of the Energy Efficiency Directive and through web-based content for consumers pointing to relevant consumer-protection resources and energy consumers' main rights.	Commission / Member States / national regulators for energy/ consumer associations	2013 / 2014
7. Through the Citizens' Energy Forum, support Member States in setting the scope for research, data collection and reporting on energy retail markets.	Commission/ Member States / national regulators for energy/ consumer associations	2013
8. Improve information provision to consumers, establish guidelines and best practice on price comparison tools, clear and transparent billing, and on support to vulnerable consumers	Commission / Member States / national regulators for energy / consumer associations	2013
9. Targeted assistance to vulnerable consumers to make informed choices and giving them the necessary support to enable them to cover their energy needs in competitive retail markets	Commission / Member States	2013
Making EU Energy Systems fit for the future		
10. Adopt and implement network codes - in electricity: capacity allocation and congestion management rules rules for longer-term (forward) capacity allocation network connection rules system operation - in gas: capacity allocation balancing rules including network-related rules on nomination procedure, rules for imbalance charges and rules for operational balancing between transmission system operators' systems interoperability and data exchange rules rules regarding harmonised transmission tariff structures	ACER / ENTSOs / Commission / Member States / national regulators for energy	2013/2014
11. Swift adoption and implementation of the Energy Infrastructure Package	Council / European Parliament / Member States / national regulators for energy	December 2012
12. Adoption of the first Union list of Projects of Common Interest	Commission / Member States	2013
13. Create framework and market for broad introduction of smart appliances (e.g. via R&D support, standardisation, ecodesign and energy labelling)	Commission / stakeholders (in particular European standardisation organisations)	2014
14. Prepare national action plans for swift deployment of smart grids	Member States / Commission	2013
15. Reflection on future roles and responsibilities of DSOs, demand response, smart appliances and home automation, distributed generation and energy saving obligation schemes	Commission / Member States	2013
16. Analyse how the internal energy market can contribute to improving energy efficiency	Commission	2013
17. Analyse how technology development, including storage technology and micro-generation, can link up with energy market developments	Commission	2013
Ensuring appropriate State interventions		
18. Phase-out of regulated gas and electricity prices taking into account universal service obligation and effective protection of vulnerable customers.	Commission / Member States	2009 and beyond
19. - Analyse investment incentives and generation adequacy in electricity under the existing European framework - And develop criteria for assessing and ensuring consistency of national capacity-related initiatives with the internal market	Member States Commission	2013 and beyond
20. Adopt guidance on support schemes for renewables	Commission	2nd/3rd quarter 2013

Energy Infrastructure Package

The legislative proposals of the TEN-package



Three sectorial infrastructure policy proposals

Connecting Europe Facility:

Budget EUR

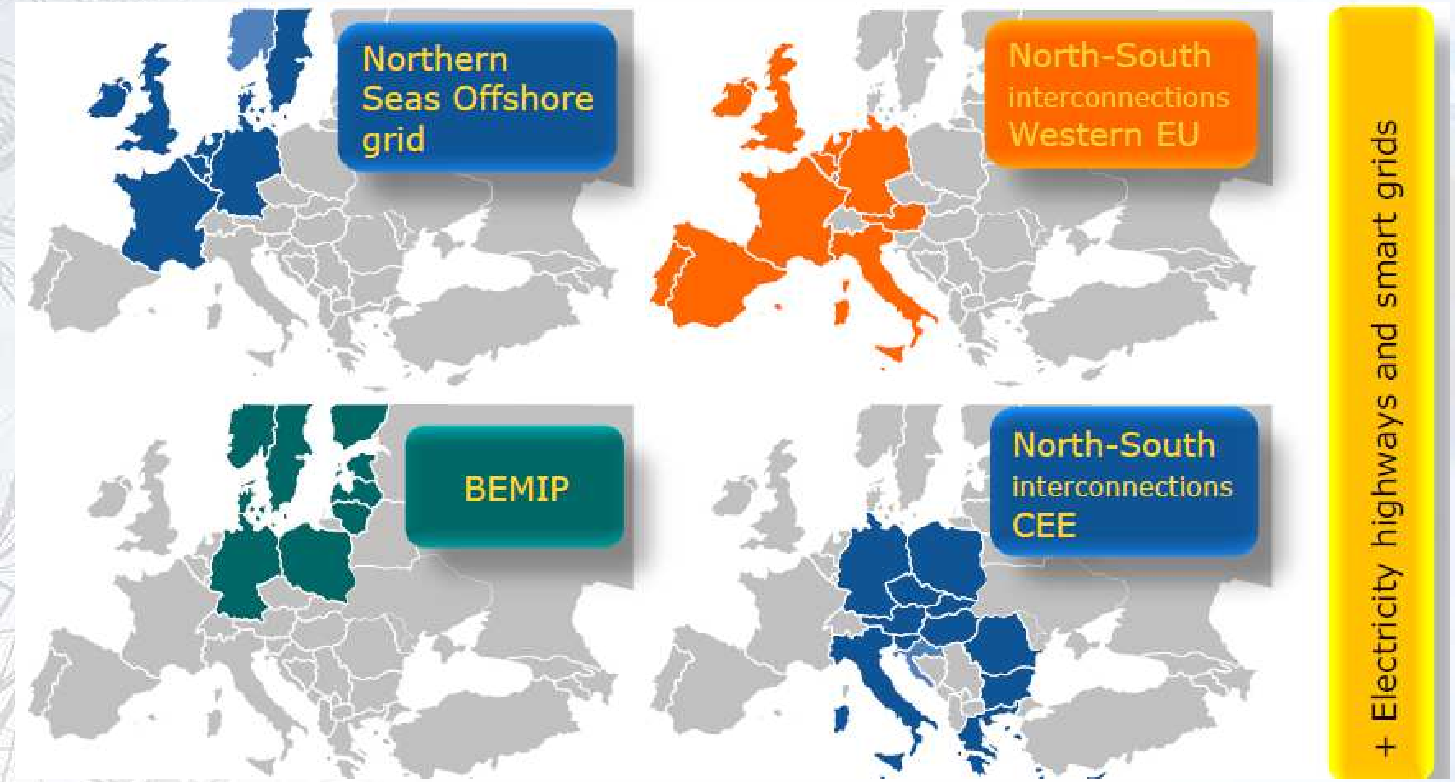
Energy – 9.12bn

Transport – 30bn

ICT – 9.1bn

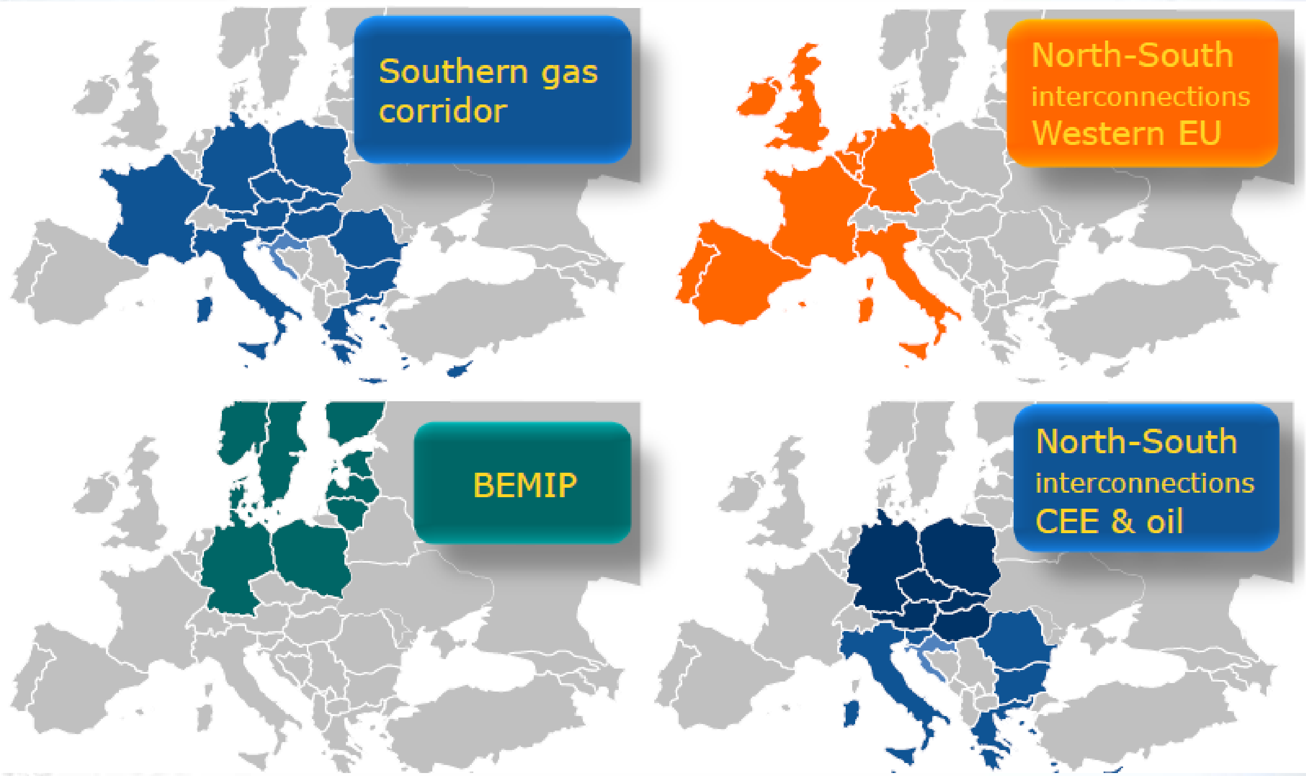
Energy Infrastructure Package

Priority corridors for electricity



Energy Infrastructure Package

Priority corridors for gas and oil



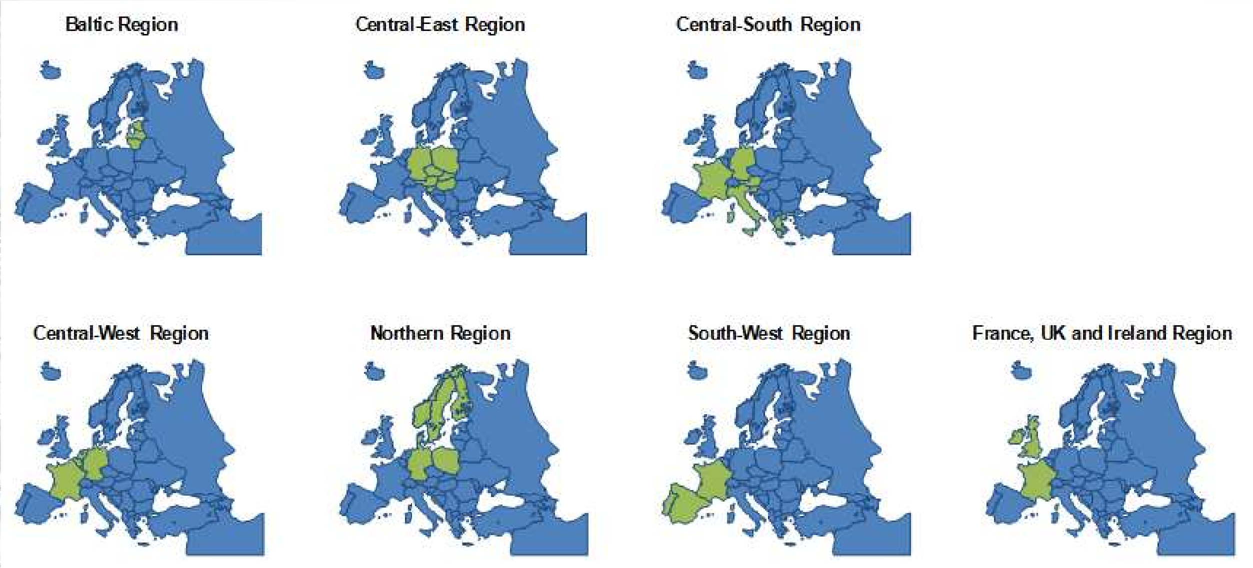
Energy Infrastructure Package

Permit granting – Regime of common interest

- ***Competent Authority to manage permit granting process (one stop shop)***
- ***•3 years & 3 months (+ possible 9 months extension) time limit for the permit granting decision***
- *•Increased* ***transparency and enhanced public participation***
- ***•Priority status for PCIs***
- •Most preferential treatment in Member States
- •Streamlining of EIA procedures

Latest developments on RI

- **Electricity Regional Initiative**



- **Gas Regional Initiative**

Latest developments on RIs

- **From ERGEG to ACER: a new vision for the RIs**
  - A more project-oriented approach.
  - A more pan-European dimension.
  - Enhanced stakeholder involvement and engagement.
  - A more adequate governance structure.

- The formal FG/NC process by itself will not be sufficient to deliver the market integration target. The role of RIs is crucial to meet this objective.

Latest developments on RIs

- **Regions focusing in implementation of NCs:**
  - Electricity Regional Initiative:
    - Four cross-regional roadmaps for the early implementation of NC CACM* (capacity calculation, long-term capacity allocation, day-ahead market coupling and intraday).
  - Gas Regional Initiative:
    - One cross-regional roadmap for the early implementation of NC CAM*.

* NC CACM: Network Code on Capacity Allocation and Congestion Management.
NC CAM: Network Code on Capacity Allocation mechanisms

Latest developments on RIs

- **Electricity Regional Initiative**
  - A target model to be implemented in a target date: 2014.
    - Capacity calculation: The implementation of the flow-based method has been postponed due to operational difficulties and the loop-flow issue.
    - Harmonised allocation rules for long-term rights are on track.
    - The European Price Coupling project has experienced delay but the 2014 deadline is still reachable.
    - The Intraday project acknowledged a major delay, but a pilot solution is to be delivered in 2013.

Latest developments on RIs

- **Gas Regional Initiative**
  - CAM roadmap endorsed in January 2013
    - Location of pilot projects across the European IPs included in the CAM Roadmap:

Final remarks

In order to achieve an IEM, persisting gaps need to be addressed:

- Remove barriers to trade
- Improve transparency (gas)
- Improve availability of gas capacity
- Reinforce cross-border interconnections
- Integrate renewables and address loop flow problems
- Promote competition - also at retail level
- Improve implementation of consumer provisions

Thank you for your attention!

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