



# ● The EU internal energy market: past, present and future

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# ● The first liberalization directives started the shift from a monopolistic to a market-based sector

- First EU Electricity and Gas Directives (96/92/EC and 98/30/EC) entered into force 1997 and 1998 respectively
- Key measures achieved by First Directives:
  - » **Exclusive rights** to import and export gas and electricity and to build and operate gas and electricity facilities **abolished**
  - » In electricity, construction of **new generating capacity fully open to competition**
  - » **Minimum targets for market opening** (enabling largest consumers and to choose their suppliers)
    - Electricity: 30% of domestic consumption in 2000 and 35% in 2003
    - Gas: 20% in 2000 and 28% by 2003
  - » **Choice between a "Regulated" and „Negotiated" third party access**
  - » Integrated companies obliged to **unbundle** by separating their accounts and implementing "Chinese walls".
  - » Electricity Directive required that **independent** (at least in management terms) **TSO is designated** to ensure non-discrimination in system use
  - » Member States obliged to **designate a competent and independent "dispute settlement" authority**

# ● But serious issues remained to be resolved...

## Shortcomings

- Monopolies or oligopolies
- Vertically integrated companies
- Too small or isolated markets
- Trading not fully established in all countries
- Balancing markets not fully developed
- Technical barriers to access to grid
- Lack of transparency

## Reasons for tabling Second Directives

- To reap the full benefits of the internal energy market
  - » To ensure competitive prices
  - » to provide a real level-playing field
  - » to increase standards of service for customer
- Further measures are justified
  - » Most Member states were opening further anyway

- Key provisions of the Second (2003) Directives were to further market integration

## Revision of the existing Electricity and Gas Directives

### Greater opening of the market

**Quantitative** Full opening of national markets by 2005

### Better functioning of the market

**Qualitative**

- higher level of unbundling (legal, funct.)
- regulated third-party access
- independent regulators
- improve public service provisions
- safeguard security of supply



# Nevertheless shortcomings still remained even after Second Package...

## Main shortcomings

- » Vertical integration & high degree of market concentration
- » Lack of market integration
  - Lack of TSO cooperation
  - Regulatory gap
- » Lack of transparency
- » Lack of access to storage
- » Different powers and competences of national regulators energy regulators
- » Functioning retail markets

- ...which lead to the Third Package to allow the internal market to be completed by 2014

### Key features of Third Package entering into force March 2011

- A high standard of public service obligations and customer protection
- Structural separation between transmission activities and production/supply activities of vertically integrated companies («effective unbundling »)
- Stronger powers and independence of national energy regulators
- New tools to harmonize market and network operation rules at pan-European level
- A new institutional framework: ACER and the ENTSOs

- The Commission is ready to accept some delay in implementation but the grace period will soon pass
- No Member State has notified full set of transposition measures yet
- Several Member States have notified partial transposition measures
- First full sets of notifications expected in the coming weeks

 In order to expedite implementation EC is promoting strong upstream collaboration with Member States

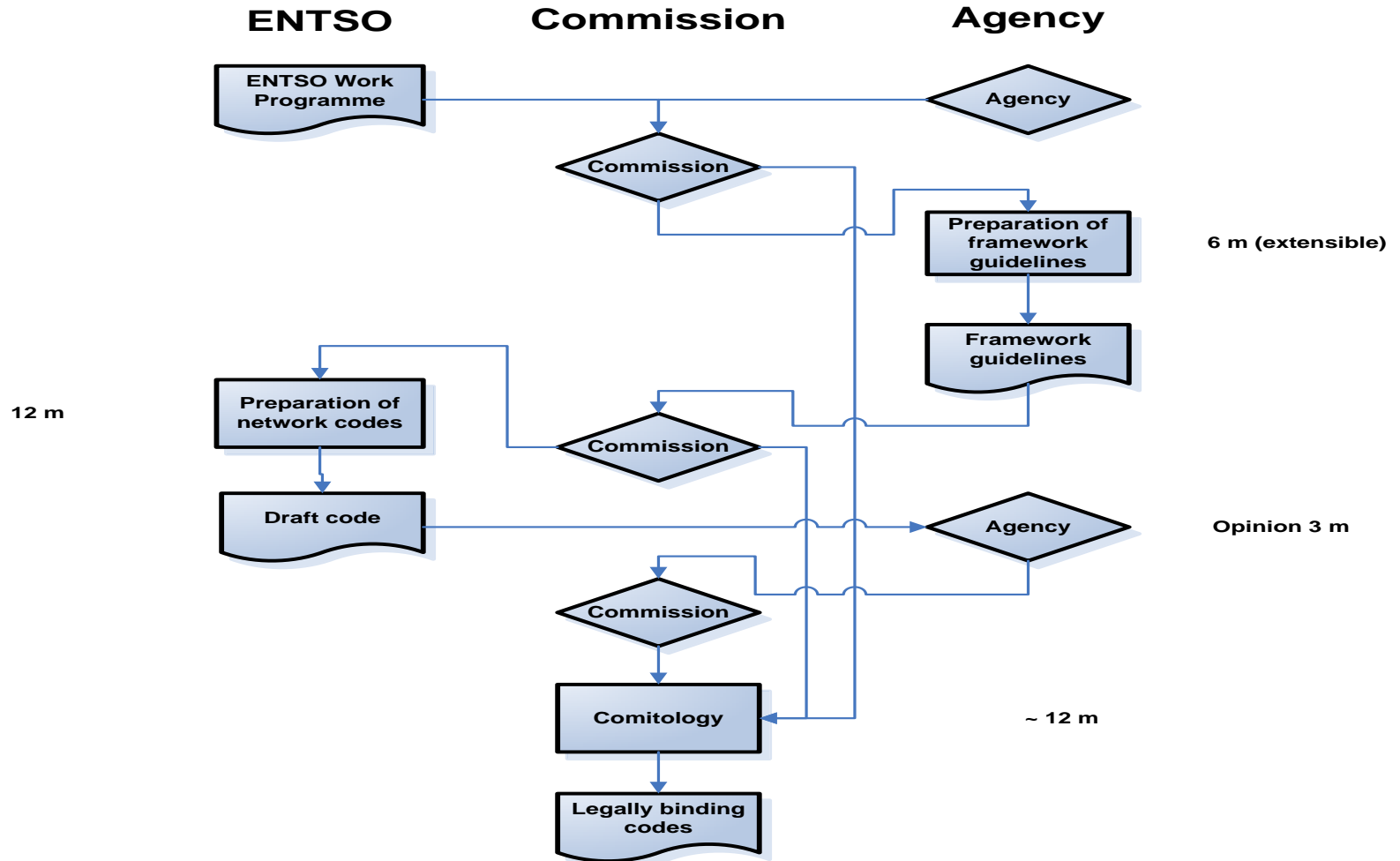
- Good upstream coordination with many Member States (informal assessment of draft laws, bilateral meetings, correspondence, ...)
- Issues that give rise to most questions:
  - » Unbundling provisions
  - » Powers of NRAs, e.g. on tariffication transmission services
  - » Public service obligations and regulated retail prices



## ● The Third Package enables stronger market harmonization through Network Codes

- Harmonisation of national network access rules
- True market integration
  - » We must be ambitious
  - » Not only aim for smallest common denominator
  - » National systems will need to adapt
- Member States are invited to actively contribute to the process rather than seek national solutions

● Network code process involves 3 key actors and all interested stakeholders



- The Commission will be focusing on the most important market rules leading to 2014 goal

<b>Gas (Framework) Guidelines</b>	<b>Electricity (Framework) Guidelines</b>
Capacity allocation	Capacity allocation and Congestion Management
Congestion Management	Network Connection
Balancing	System operation
Tariffication	Tariffication
Interoperability	Balancing
Data Exchange, Settlement rules	Incentives to increase cross-border trade, Investment incentives to TSOs

# Baltic electricity and gas markets need to end isolation – regional approach (BEMIP)

- February 2011 EU Council Conclusions call for ending isolated markets by 2015 – target date for Baltic Member States to connect their electricity and gas networks to EU and to establish functioning energy markets
- Estonia and Latvia still have derogations for gas sector under Third Package while Lithuania opted for full implementation
- BEMIP project is a very important forum taking forward key electricity and gas issues; key goals are
  - » Electricity: de-synchronization from Russian system and synchronization with EU system; joining regional electricity market
  - » Gas: diversification of supplies (LNG and interconnectors) and creation of national/regional market