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What does the Energy Union offer?

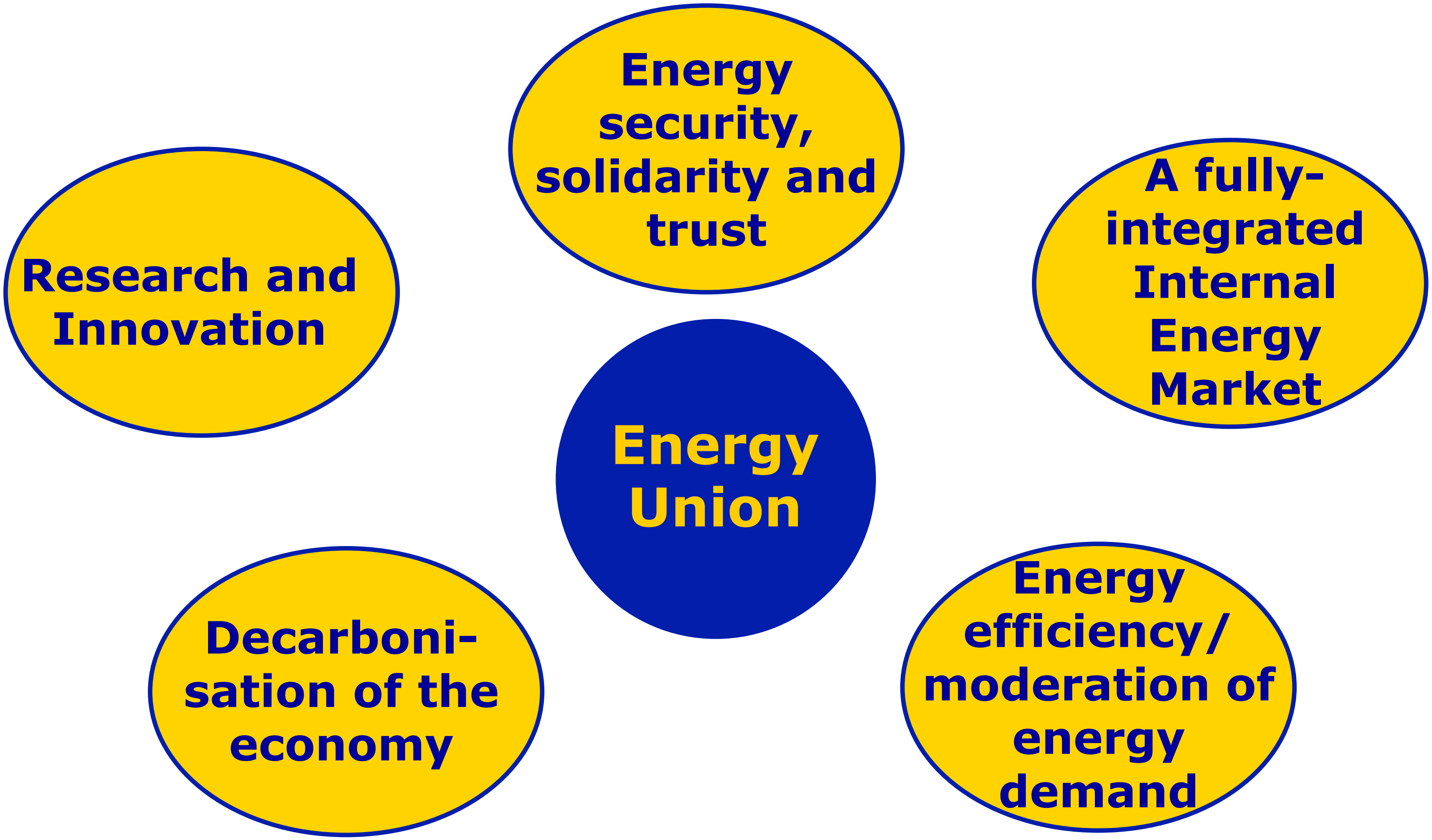
… and, as importantly, …

How can the Energy Union deliver?

Alberto Pototschnig, Director

World Energy Council, Slovenian Member Committee and
Energy Industry Chamber of Slovenia
Energy Policy Consideration - National Energy Concepts and Scenarios 2050
Ljubljana, 24 April 2015

The European Energy Union



A fully-integrated Internal Energy Market

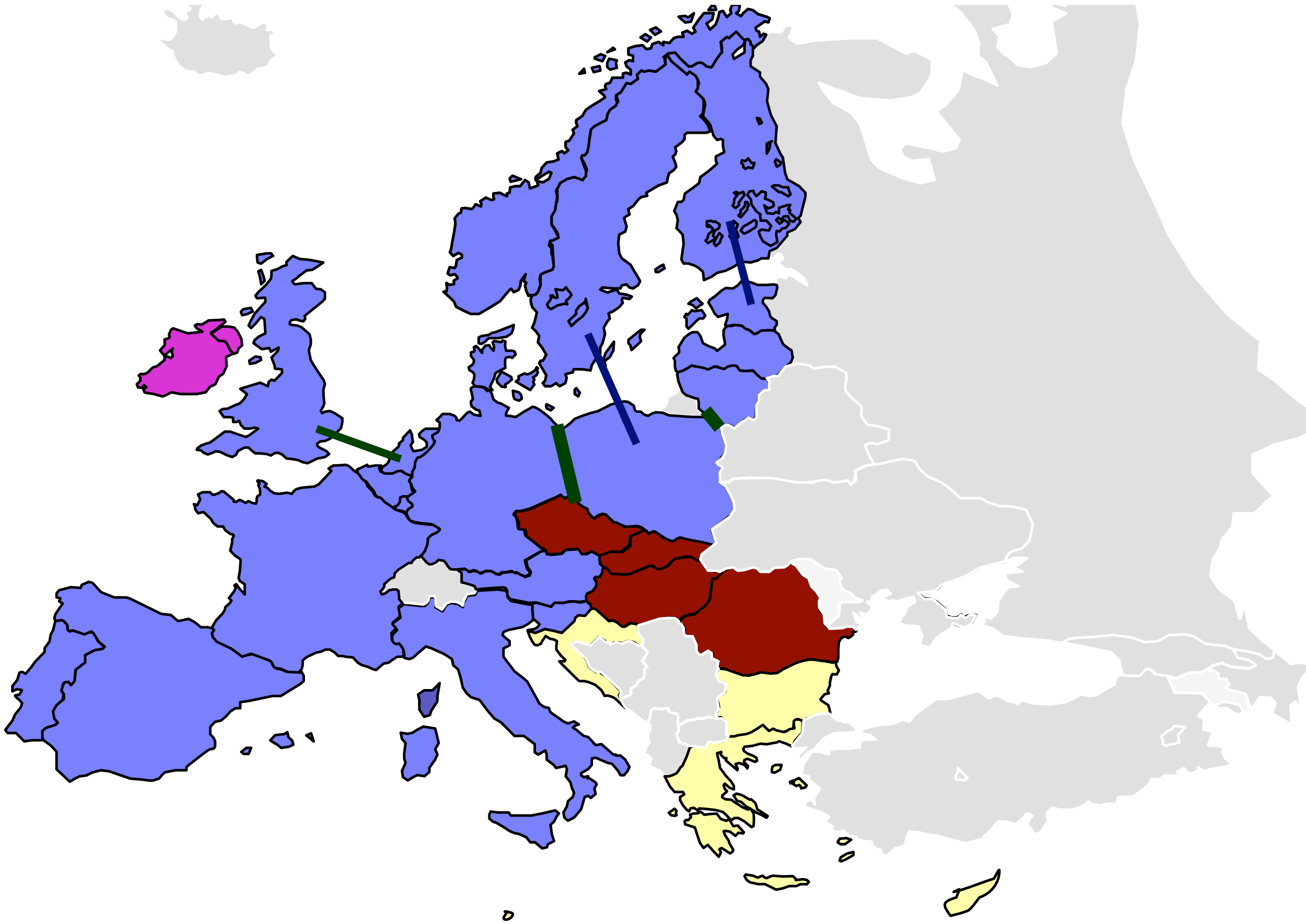
- Creating a well-functioning, single EU-wide wholesale market both in electricity and gas
- Creating open and competitive national electricity and gas retail markets, facilitating entry of new suppliers, to provide greater choice to consumers

Greater Choice

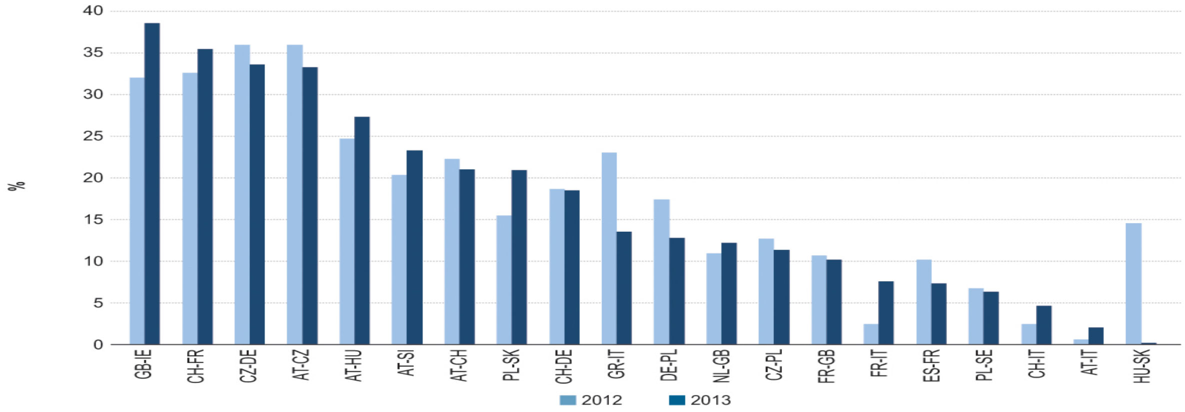
Better Prices

- Empowering consumers to take advantage of greater choice and better prices

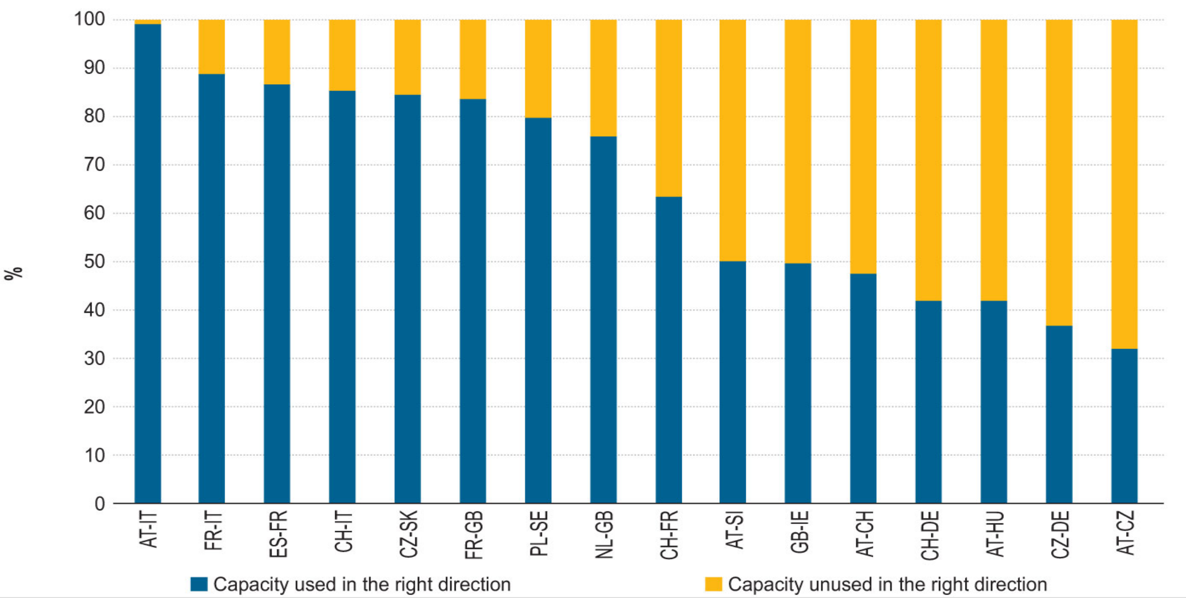
Electricity Day-Ahead Regional Integration (Market Coupling)



Wrong-way flows and capacity under-utilisation in electricity cross-border interconnectors persist …



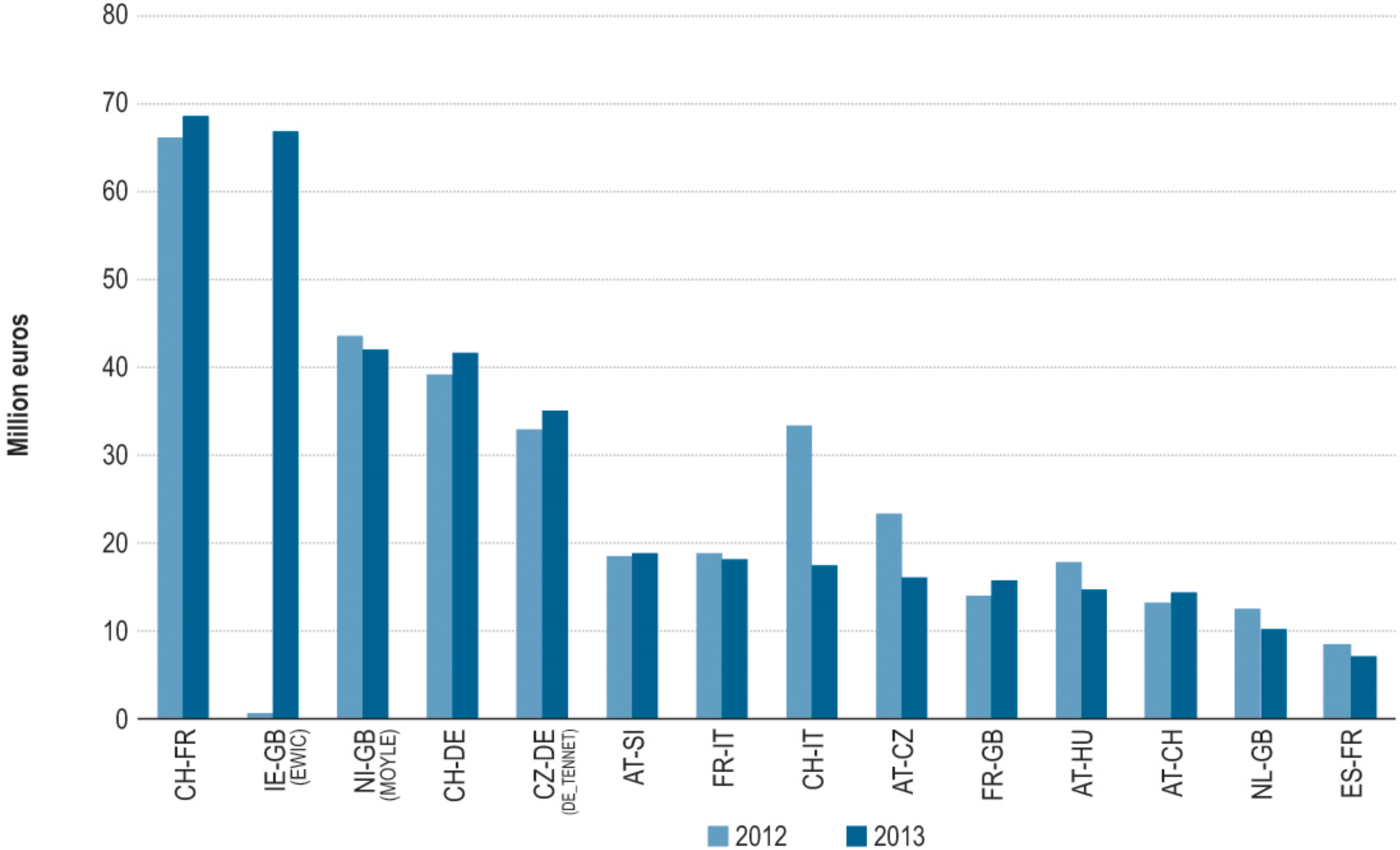
Percentage of hours with net day-ahead nominations against price differentials per border – 2012-2013 (%)



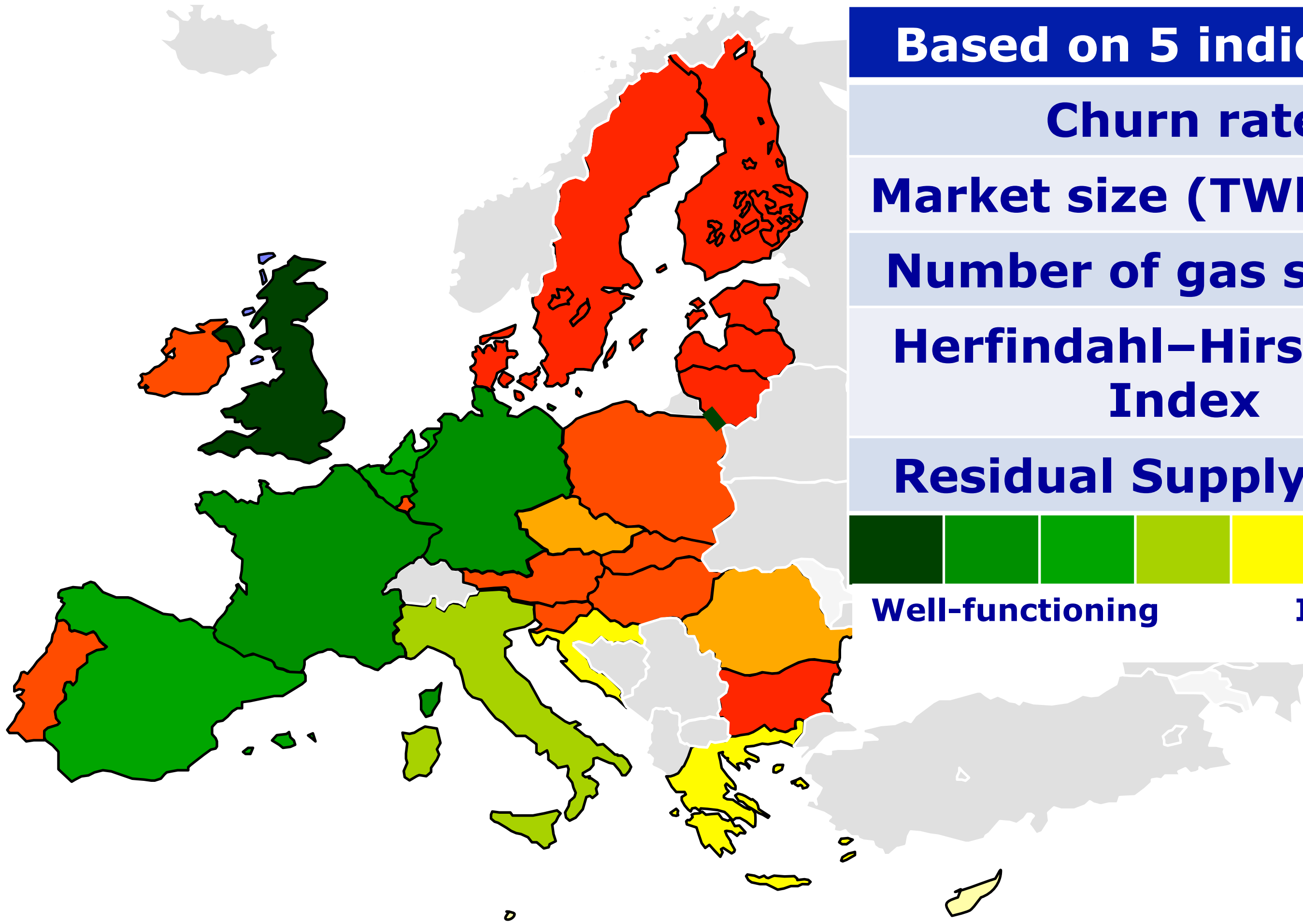
Percentage of available capacity (NTC) used in the 'right direction' in the presence of a significant price differential, per border – 2013 (%)

… resulting in loss of social welfare

Estimated 'loss of social welfare' due to the absence of market coupling by region/border – 2012-2013 (million euros)



Performance of Wholesale Gas Markets in 2014
GTM 2011 criteria



Based on 5 indicators:
Churn rate
Market size (TWh/year)
Number of gas sources
Herfindahl–Hirschman Index
Residual Supply Index

Well-functioning … Inadequate

European Council Conclusions – 4 Feb 2011

Market Integration (by 2014)

Removal of Energy Islands (by 2015)

More Efficient Use of Existing Infrastructure

Infrastructure Expansion

Market Design Improvements

Efficient Infrastructure Planning and Development

Completing the Internal Energy Market

Shared Vision: "Target Model" → Common Rules (Framework Guidelines and Network Codes) → Implementation and monitoring

A Parallel Process to deliver tangible benefits to EU energy consumers as soon as possible

Formal Framework Guidelines / Network Codes Process

Voluntary Early Implementation of the Target Model

Framework Guideline and Network Codes

Priority Area	FG adopted by the Agency	NC Status
Electricity		
Grid Connection	20.07.2011	3 NCs recommended for adoption
Capacity Allocation and Cong. Manag.	29.07.2011	1 NC recommended for adoption 1 NC approved in Comitology
System Operation	02.12.2011	3 NCs recommended for adoption 1 NC being drafted by ENTSO-E
Balancing	18.09.2012	1 NC: the Agency is drafting Recommendation
Gas		
Capacity Allocation	03.08.2011	OJ: 14.10.2013 EiF: 1.11.2015
Balancing	18.10.2011	OJ: 26.03.2014 EiF: 1.10.2015
Interop. & Data Exch.	26.07.2012	1 NC approved in Comitology
Harm. Tariff Struct.	29.11.2013	Reasoned Opinion issued by the Agency. ENTSOG reviewing the NC

Electricity Capacity Allocation and Congestion Management Cross-regional Roadmaps

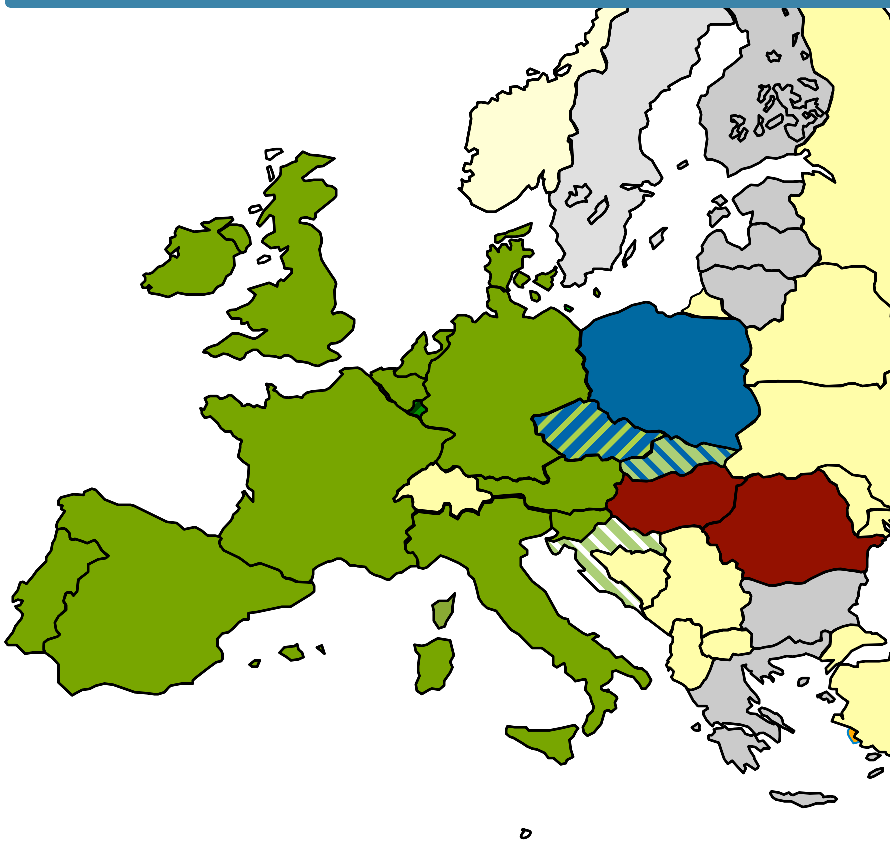
… for the early, voluntary implementation of the Target Model

Day-Ahead	**SINGLE EU PRICE COUPLING** to optimise use of existing day-ahead cross-border capacities at EU level
Intraday	**SINGLE EU CONTINUOUS TRADING** with the possibility of auctions
Long Term	**SINGLE EU ALLOCATION PLATFORM** one-stop shop for allocating long-term transmission rights
Capacity Calculation	**FLOW-BASED METHOD** to improve network security and the level of available capacity

Current CAM Pilot Projects (as of 7 April 2015)

CAM

COORDINATED AUCTIONS for the allocation of a common set of cross-border bundled capacity products



AT, BE, DK, ES, DE, FR, IE, IT, NL, PT, SI, UK	PRISMA Platform
PL	GSA Platform: Bundled Capacity at Polish IPs + Pilots
HU, RO	Regional Booking Platform: Auctions of Bundled Capacity
LU/DE	**Pilot** Project w/ PRISMA
DE/CZ & PL/CZ	2 bundling **Pilot** Projects: PRISMA: DE/CZ GSA: PL/CZ
CZ/SK	Discussion on Pilot(s) between eustream (SK) & I) GSA II) PRISMA
SI/HR	Discussion on PRISMA Pilot
BG, GR, SE, FL, LT, LV, EE	undecided

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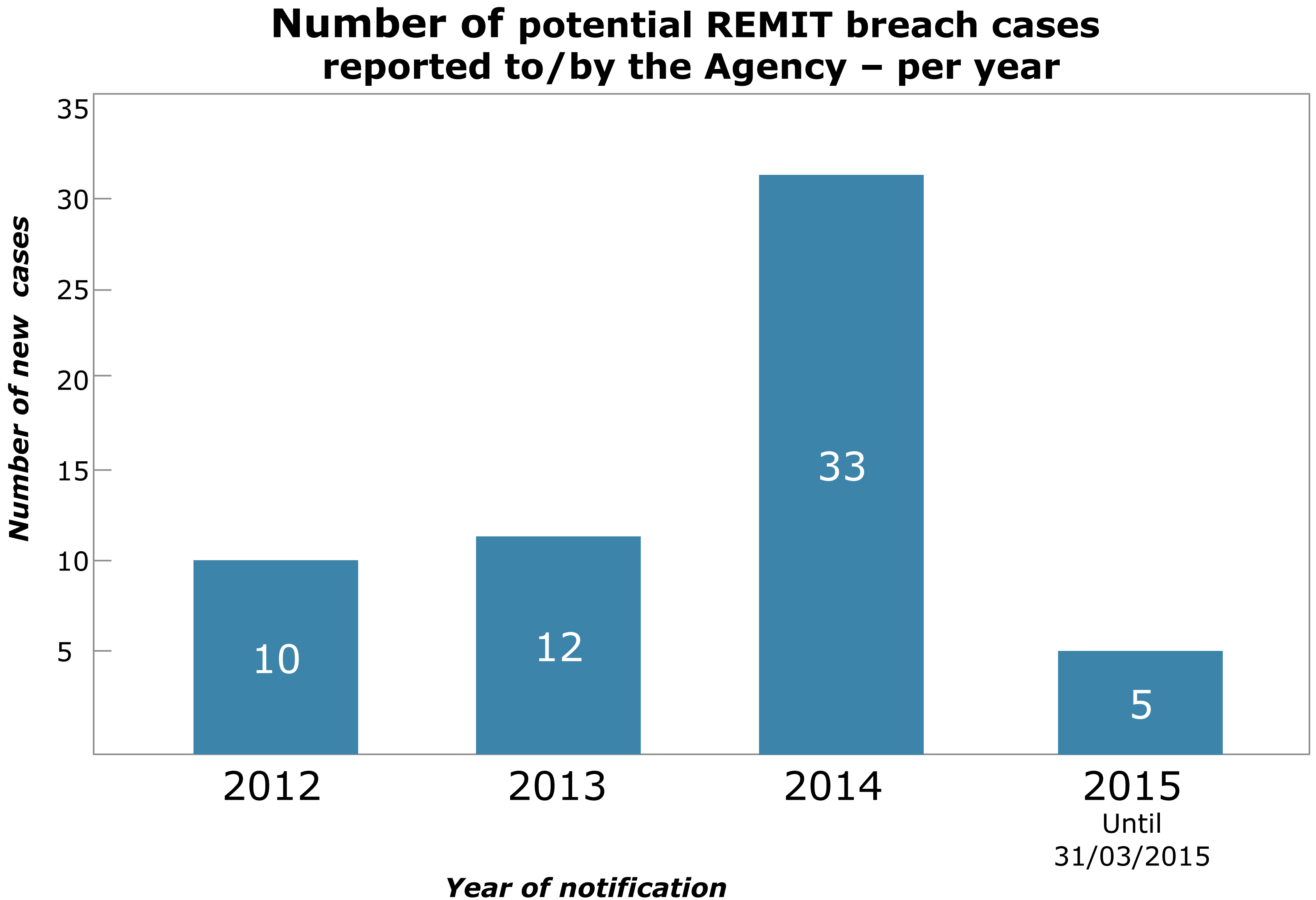
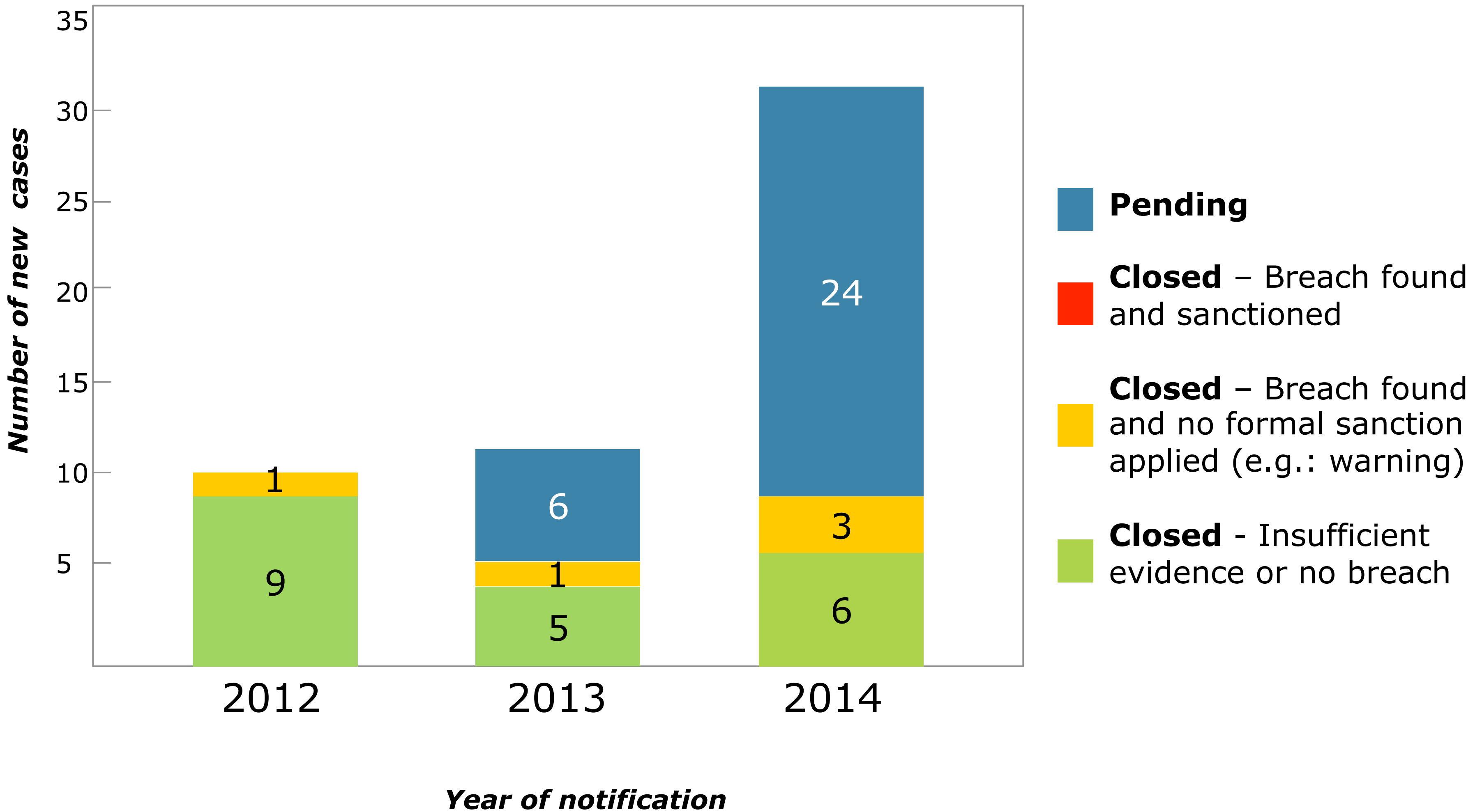
REMIT at a Glance

Integrity	**Explicit prohibitions of abusive practices (market manipulation, attempted market manipulation and insider trading) in wholesale energy markets**
Transparency	**Obligations for market participants to disclose inside information**
Monitoring	**A new, sector-specific, comprehensive and effective monitoring framework for wholesale energy markets**
Cooperation	**Close cooperation and coordination between ACER (EU-wide monitoring) and NRAs (national monitoring, investigation and enforcement)**

Reported Suspicious Cases



Status of potential REMIT breach cases reported to/by the Agency – per year



* Breach found and no formal sanction applied – 2 cases with Art.3 / 1 case Art. 4 / 1 case with Art.5 and 1 case with Art. 15 breach

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Implementing the Energy Union Strategy: a well-integrating Internal Energy Market

- Complete the **implementation of the Third Energy Package**, including the **adoption and implementation of Guidelines and Network Codes**
- Ensure application of the new rules as soon as possible (including through **early, voluntary implementation**)
- Supplement the current Electricity Target Model to address the **adequacy and flexibility challenges**
- Revised Gas Target Model: Improve the **liquidity of wholesale gas markets** (including through market integration)
- Implement **REMIT** effectively

Infrastructure Planning and Development

TEN-E Guidelines (2006)

Projects of Common/European Interest
- Long list of approx. 550 projects
- Selection based on political agreement
- No revision of the list envisaged in 7 yrs

Third Energy Package (2009)

TYNDPs
- Non-binding, … but reference for national NDPs
- EU dimension in Network Planning
- TYNDPs updated every two years

TEN-E Regulation (2013)

Projects of Common Interest (PCI)

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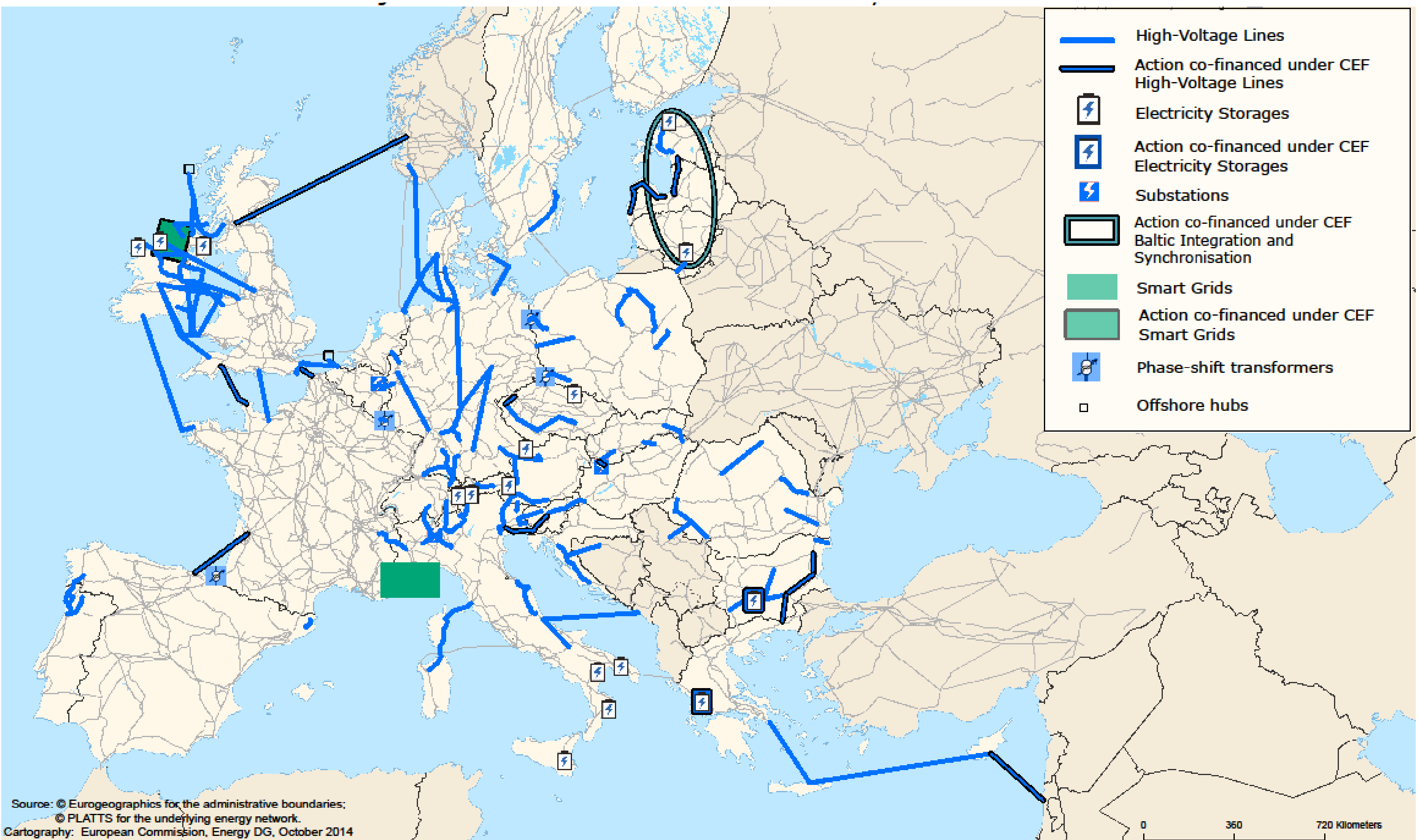
Electricity and Smart Grids PCIs



Energy

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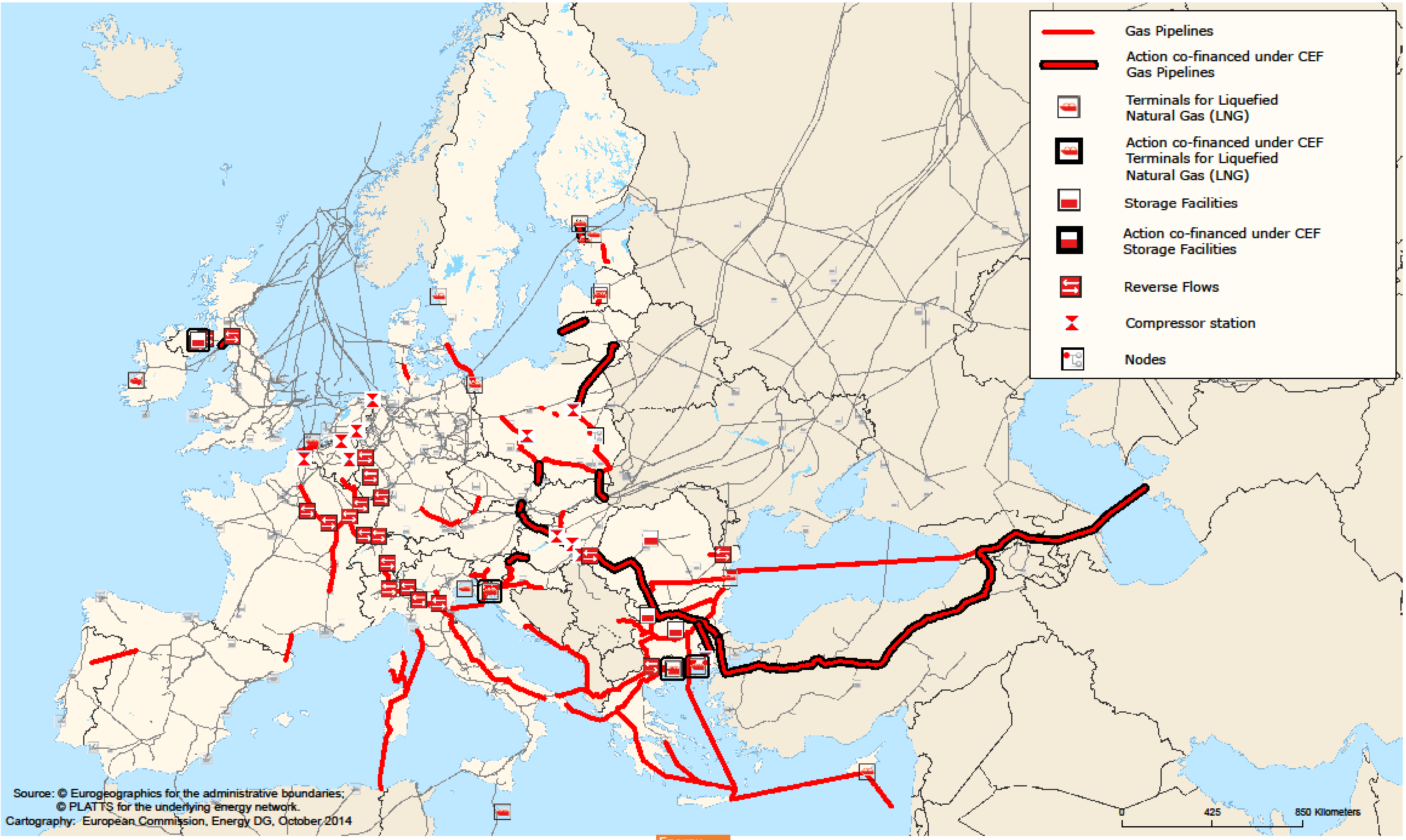
Gas PCIs

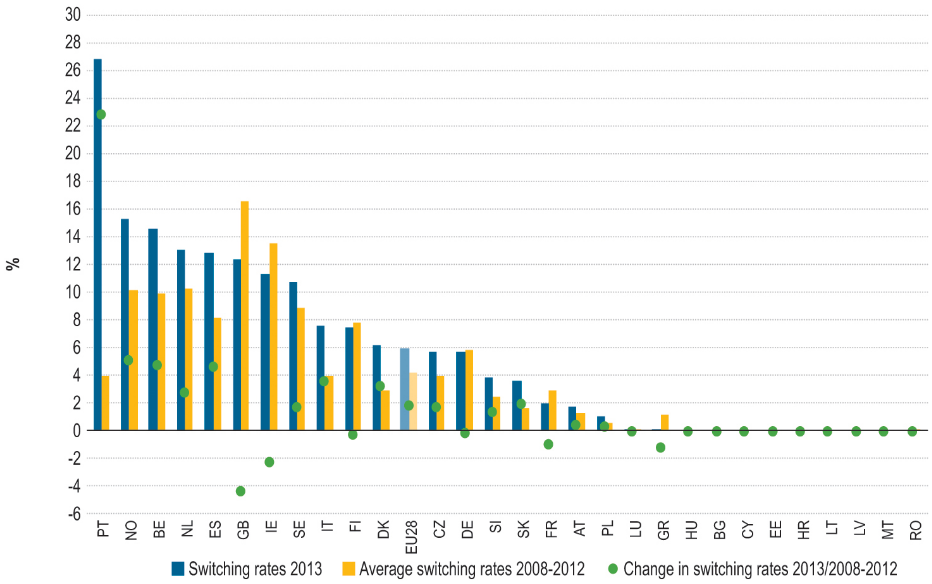


How are we delivering the benefits to consumers?

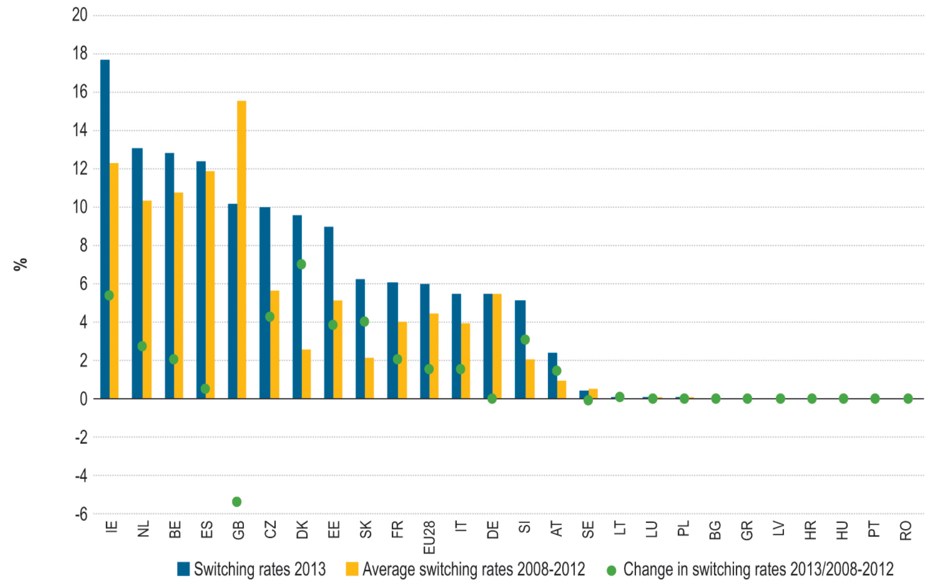
Switching rates of household consumers are increasing, but are still low in many Member States

Switching rates for electricity/gas household consumers in Europe - 2008-2012 and 2013 (ranked according to switching rates in 2013)

Electricity



Gas

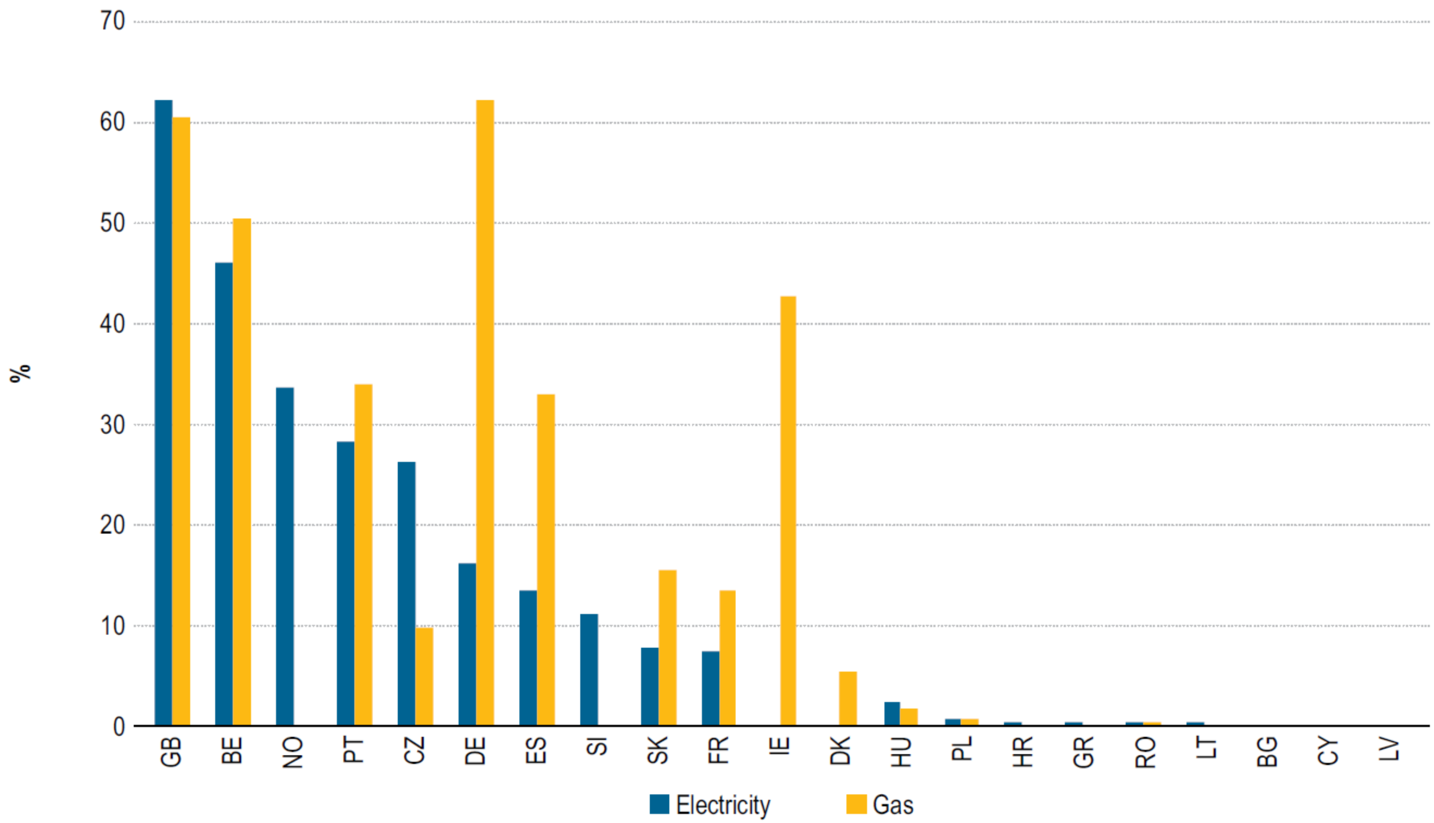


The average switching rate in the EU is 6%, both for electricity and gas

Source: CEER National Indicators Database (2014)

Contracting with alternative suppliers is still very low in the majority of Member States

Proportion of electricity and gas consumers with a different supplier than their incumbent supplier – December 2013 (%)



Notes: For Belgium, the electricity figure is based on data for Flanders only (representing around 58% of the overall electricity market - based on the number of access points), while the gas figure is based on data for Flanders and Wallonia (representing 86% of the overall gas market – based on the number of access points).

Source: CEER National Indicators Database (2014) and ACER calculations

Retail Market Competition and Switching

Low switching rates could be consistent with either:

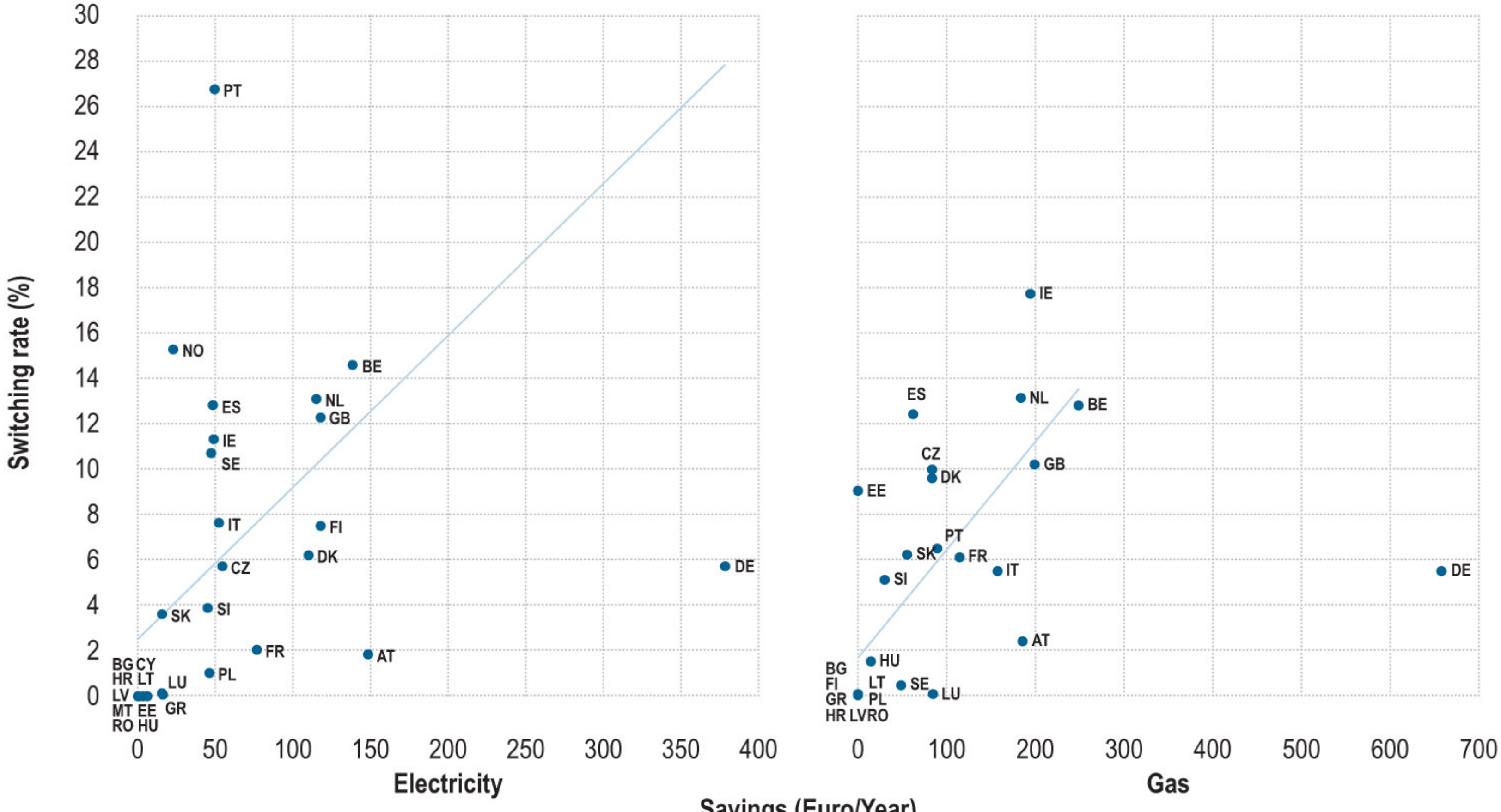
- Barriers to entry into the retail market and only one or few suppliers
- High suppliers' margins
- Lack of choice for consumers

or

- Many fiercely-competing suppliers
- Low suppliers' margins
- Many, but similar, offers available to consumers …
- … but non-price competition may develop

Households can save by switching suppliers …
… but they do not necessarily switch

Relationship between countries' overall switching rates and annual savings available in capital cities – 2013 (%)



Source: ACER Retail Database and CEER National Indicators Database (2014) and ACER calculations

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Delivering benefits to energy consumers

Barrier	Action
Switching perceived to be complex, risky and time-consuming	**Promote/introduce integrated "comparison and switching tools"**
Regulated prices disengage consumers from switching	**Remove regulated prices while protecting vulnerable consumers in effective and efficient ways**
Different legislation and regulatory regimes/ complex licensing, non-accredited licences across MSs	**Harmonise regulatory regimes/ "retail passport"?**
Lack of full unbundling	**Enforce unbundling and rules on commercial practices**

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Thank you
for your attention

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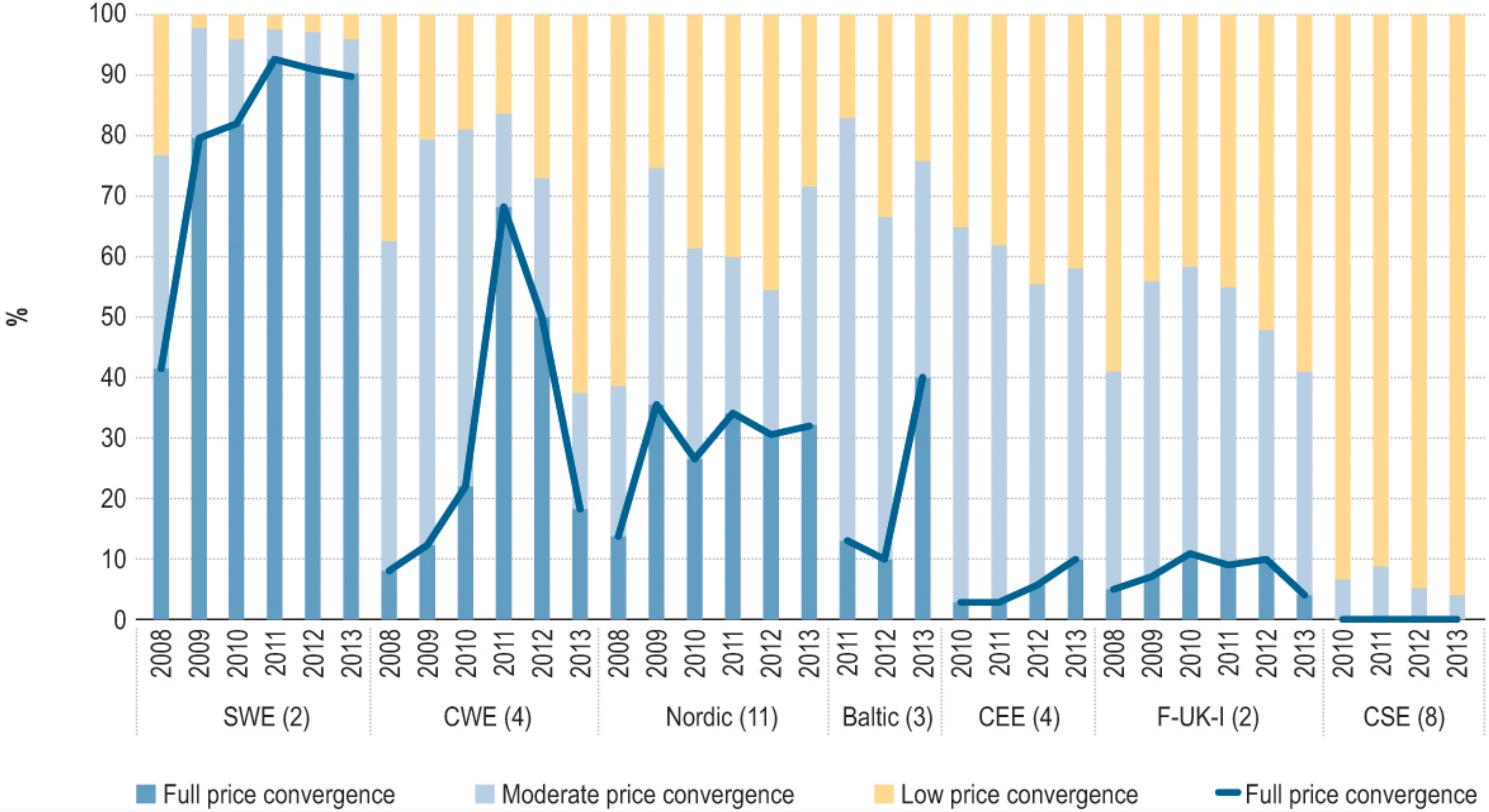
Electricity day-ahead market price convergence

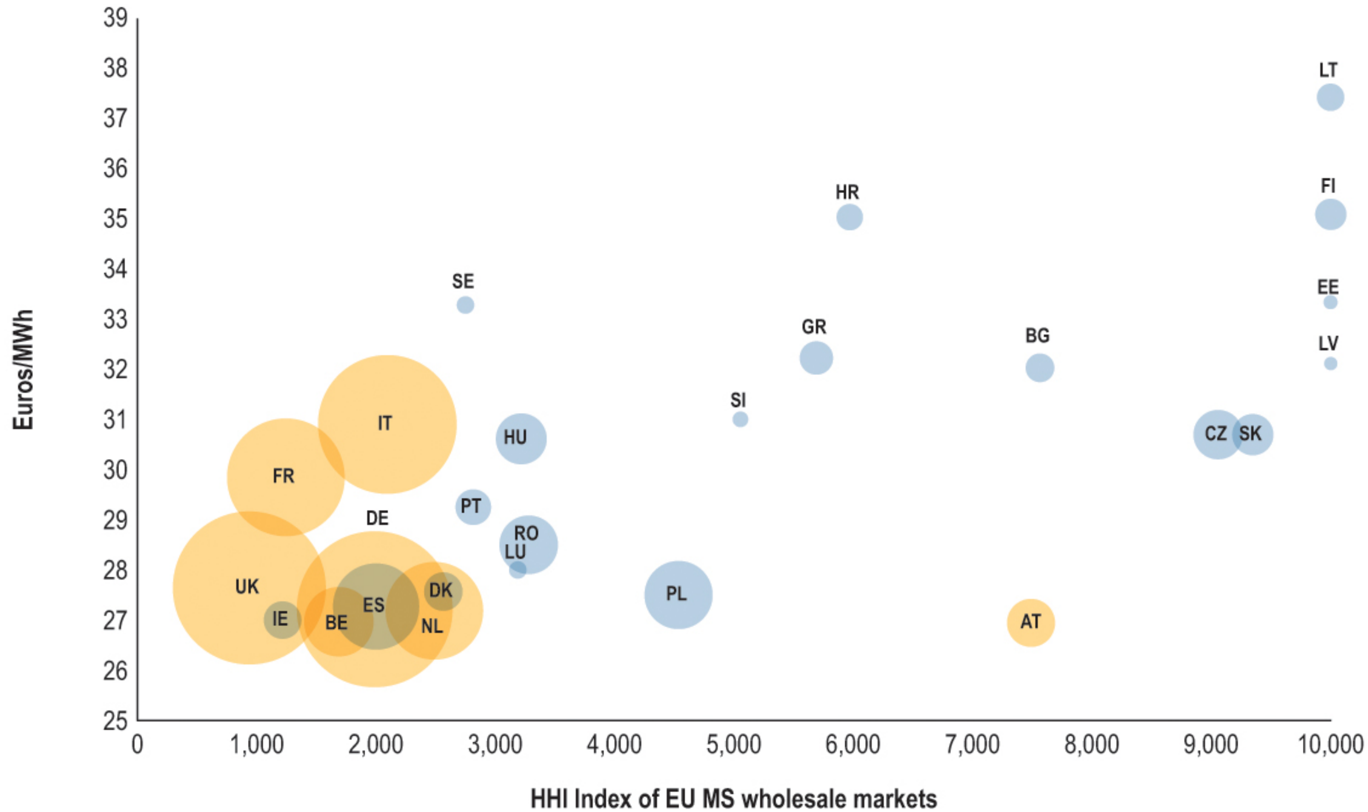
Price convergence in Europe by region (ranked) — 2008 to 2013 (% of hours)



Source: Platts, PXs, and NRAs data (2014) and ACER calculations

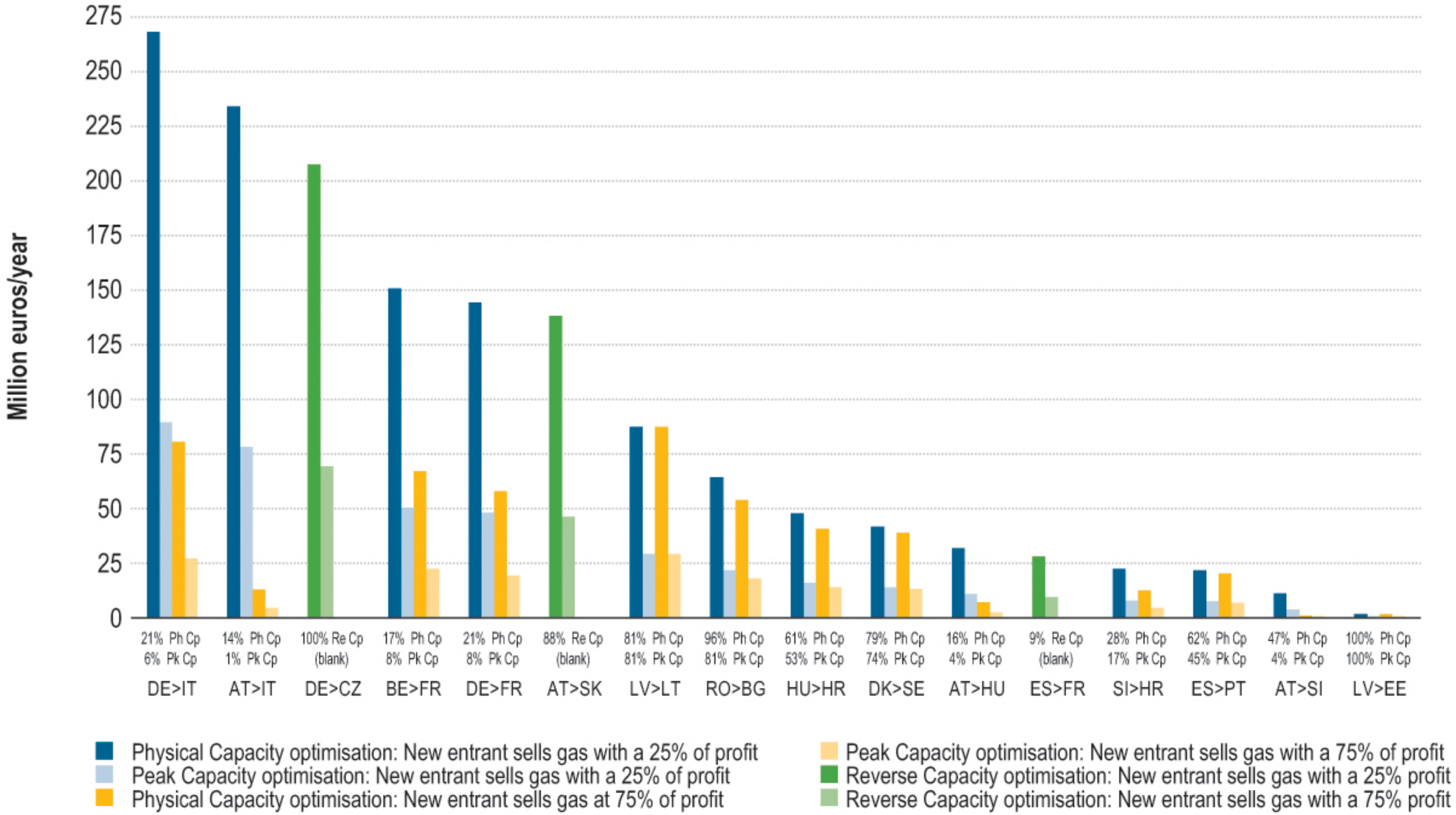
Wholesale gas prices, market concentration and gas demand in EU Member States

Gas wholesale prices in EU MSs compared with market concentration and gas demand – 2013 (euro/MWh)



Significant net welfare gains from fully-efficient use of gas available interconnection capacities

Potential yearly net welfare gains in different EU MSs if cross-border physical unused capacities were fully utilised – 2013 basis, monthly aggregated (millions euro per year)



Source: Eurostat Comext, Platts, NRAs and CEER Database Indicators data and ACER calculations