

EC Third Energy Package – Overview & Update

Nicholas Morris

European Policy Analyst

nationalgrid

The power of action.™

Contents & Agenda

EC Third Energy Package – Background

- ◆ Background and proposal intentions
- ◆ Basic Principles

Impacts and changes

- ◆ ENTSOE TSO Organisation Evolution
- ◆ Anticipated resultant changes

Timeline, Next Steps and Summary

EC Third Energy Package – Background

In January 2007, the European Commission (EC) published sector enquiry findings, highlighting the need to further progress the Internal Gas and Electricity markets.

Third Package – September 2007

- ◆ The effective separation of supply and production activities from network operation
- ◆ Further enhancement and harmonisation of powers for National Regulatory Authorities (NRAs)
- ◆ Establishment of an independent mechanism for cooperation amongst NRAs
- ◆ Greater coordination between TSOs on network operation, security and cross-border trade
- ◆ Increased transparency in energy market operations

Proposed Legislation

Five proposed pieces of legislation – relating to Electricity, Gas and Regulation

Potentially significant impacts areas to electricity and gas organisations and operators

- ◆ Ownership Unbundling
- ◆ Strengthened powers of National Regulatory Authorities (NRAs)
- ◆ Establishment of European Agency Regulator (ACER)
- ◆ Increased TSO Cooperation (ENTSOE/G)
- ◆ Network Investment & Transparency

EU Development & National Legislation

Directive

- ◆ A legislative act of the European Union which member states are required to transpose in national law – typically within 18 months

Regulation

- ◆ A legislative act of the European Union which becomes immediately enforceable as law in all member states simultaneously

<2000

- ◆ **First EU electricity directive requires EU Member States' (MSs) Industrial and commercial markets (1996)**
- ◆ **UK gas / electricity markets open to full competition**

~2003

- ◆ **Second EU directive envisages that all domestic markets should be opened up to competition by 2007**
- ◆ **Energy Act 2004**

2007

- ◆ **Third Package introduced to help facilitate an open, transparent and fully competitive market**

Ownership Unbundling

‘Full ownership Unbundling’ is the EC’s preferred option

- ◆ Complete separation of Transmission from Production/Generation, Supply activities

Independent System Operator (ISO) alternative

- ◆ Deep ISO option proposed – responsible for operating, maintaining and developing the transmission system
- ◆ Requires strict regulatory oversight

There is much detail behind these proposals, points of interest including:

- ◆ Cross border vertical integration barred
- ◆ Possibility of exemption for significant investment projects

More recently, a third ITO Model alternative has been proposed

Unbundling – The Latest Proposals

Full Ownership Unbundling

-European Parliament's preference

-National Grid fully supportive



ISO Alternative

-Deep ISO model

-Required to be kept fully independent

ITO "Compromise"

-Asset & Operation Retention

-Separate Mgt with 'key decision making rights' / Compliance Team

nationalgrid

The power of action.

National Regulatory Authorities (NRAs)

The power and objectives of NRAs are increased and harmonised with proposals including:

- ◆ The duty to cooperate on cross-border issues
- ◆ The objective to develop regional markets
- ◆ The requirement for NRAs to be legally distinct and functionally independent of Government

Agency Regulator (ACER)

Establishment of an Agency for the Cooperation of Energy Regulators (ACER)

- ◆ To promote cooperation of, and complement, NRAs at EU level
- ◆ Power appears limited to supervisory/monitoring role
- ◆ Decision-making powers on specific issues, particularly cross-border
- ◆ Providing a means of monitoring NRAs

Establishment of ENTSO(E/G)

The Commission proposes the creation of two separate European Networks of TSOs (ENTSO) for both Gas and Electricity

- ◆ To improve cooperation at regional and European level
- ◆ Development of common network related codes, work & investment programmes and annual reports
- ◆ To ensure optimal management and sound technical evolution of the European Transmission network

Scope and Output of ENTSOs

Significant scope anticipated for the ENTSO organisations

Main emphasis on co-ordinating cross-border issues

Each ENTSO is to adopt:

- ◆ Common network operation tools and research plans
- ◆ 10-year network development plan every 2 years
- ◆ Annual work programme
- ◆ Annual report
- ◆ Annual summer and winter supply outlooks (supply/adequacy)
- ◆ Network related codes

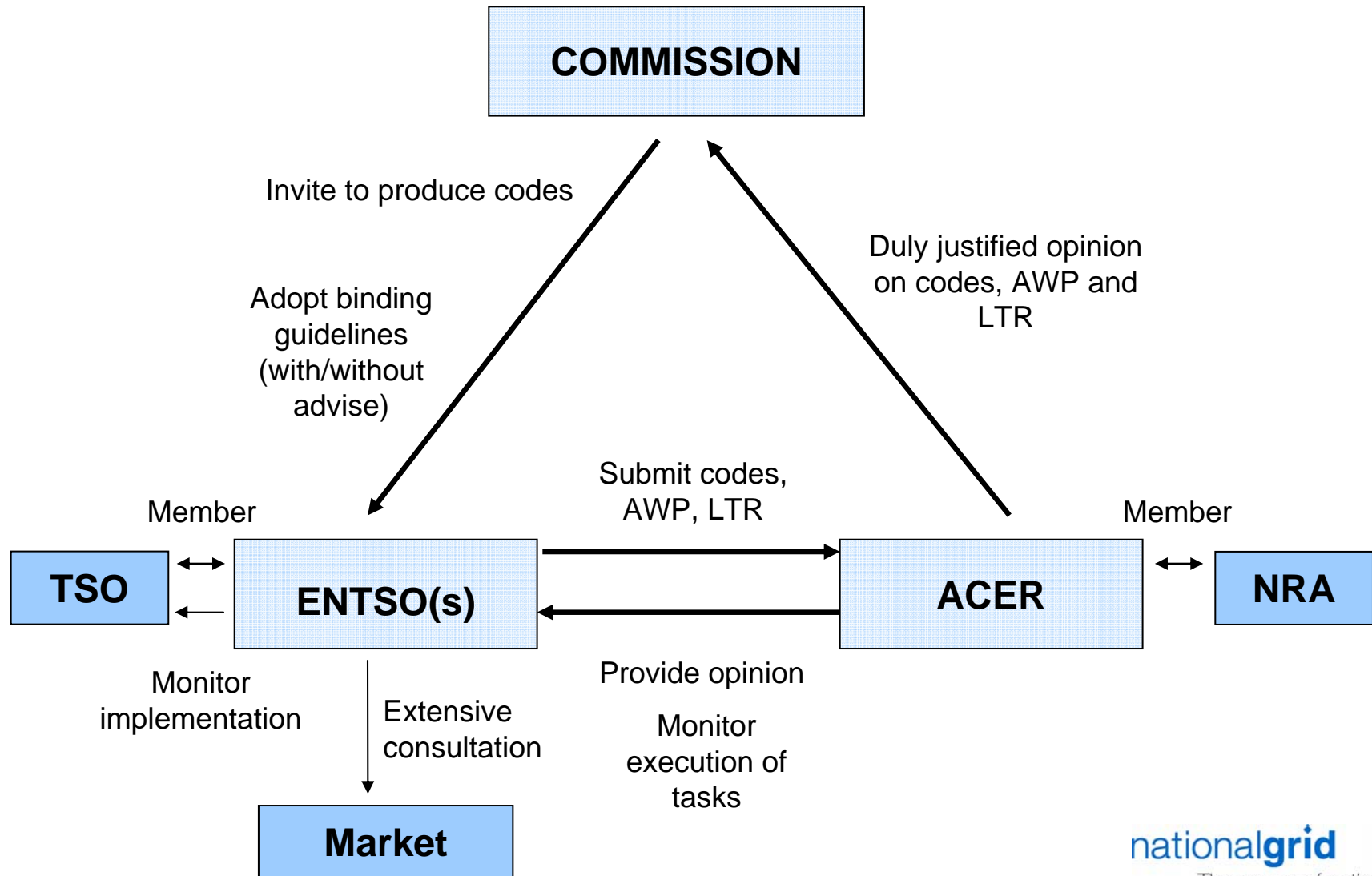
Codes Areas – Scope of ENTSOE

The scope of the network codes is particularly broad, and fairly significant, covering the following areas:

- ◆ Security and reliability
- ◆ Grid connection and access rules
- ◆ Data exchange and settlement rules
- ◆ Interoperability rules
- ◆ Operational procedures in cases of emergencies
- ◆ Capacity allocation and congestion management rules
- ◆ Rules for trading
- ◆ Transparency rules
- ◆ Balancing rules
- ◆ Rules regarding harmonised transportation tariff structures
- ◆ Inter-TSO Compensation mechanisms
- ◆ Energy efficiency regarding networks

Desire to avoid comitology and enforcement where appropriate

Proposed Relationship Framework



Regional Initiative Cross-Border Balancing

EREG FR-UK-IRE Regional Initiative on Cross Border Balancing (led by Ofgem)

Development of mechanisms for SOs to access balancing services between neighbouring markets (CBB)

- ◆ Current system changes underway to facilitate CBB on the French (IFA) link:

Interim Solution – Expected February 2009 – Manual work-around, although significantly increased functionality. Six- price structure anticipated

Final Solution – Expected Late Summer 2009 – Capability for full hourly gate structure, “Real Time” balancing

Progression Expectations

Desire to progress in parallel to Renewables legislation

- ◆ Although French Presidency is currently placing more emphasis on the Climate change package

Timescales moving forwards are expected to be as follows:

- ◆ September 2007 – Draft Proposals Published
- ◆ June 2008 – Member states broadly agree to version of unbundling
- ◆ June-July 2008 – Parliament Plenary (First reading)

-
- ◆ **November 2008 – Common position sent to parliament**
 - ◆ **Target for completion Q2 2009**
 - ◆ Autumn 2009 – New European Commission Term Starts
 - ◆ 2010 – Third package implemented(?)

Summary

The Third EC Energy Package aims to increase the speed of a liberalised European Energy market through facilitating

- ◆ The effective separation of supply and production activities from network operation;
- ◆ With increased regulatory oversight, TSO cooperation and transparency measures

High levels of debate and discussion has surrounded the legislation, with Member States; and current negotiations between Council and Parliament is ongoing

- ◆ Negotiations and progression is expected to fall into Q2 2009, with a view to finalising before the end of the current term.

The evolution of ENTSOE/G is well underway – current progress on schedule