

A SINGLE ELECTRICITY MARKET IN EUROPE – or FIFTEEN?

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THE EU FRAMEWORK

- The origins of the single market initiative, rooted in Article 95 of the EC Treaty
- The EC Treaty is based on the concept of subsidiary
- EC Directives do not guarantee an identical outcome in all member states
- The EC Commission is not a federal regulator
- EC regulations do have “direct effect”

Main Features of the IME Directive I

- Competition in generation
 - free market entry with authorisation process
 - competitive tendering
- Retail competition
 - negotiated third party access
 - single buyer model
 - eligible customers with annual consumption > 100 GWh
 - progressive market opening to c.35%

Main Features of the IME Directive II

- Unbundling (functional only)
 - TSO/DSO “independent at least in management terms”
 - broad responsibility for operations, maintenance and “if necessary” expansion in order to “guarantee security of supply”
 - non-discrimination obligation
 - can give priority to renewables and indigenous funds (up to 15%)
(Not very prescriptive)

Main Features of the IME Directive III

- Negotiated TPA based on published “indicative range of prices”
- Regulated access adopted in most member states
- Single buyer access based on published non-discriminatory tariff but eligible customers can contract directly
- Dispute resolution procedures

Main Features of the IME Directive IV

- Grandfathering of public service obligations (PSOs)*
- Derogations for stranded cost recovery*
- Negative reciprocity clause

* Subject to notification

The IME Directive 96/92/EC

- Effective on 19 February 1999 in most member states (not Belgium, Ireland or Greece)
- Very different outcomes (e.g. max. opening : Germany, min. : France)
- EC proposals to amend the Directive and for a Regulation (first in the energy sector) published in March 2001
- Failed to reach political agreement in Stockholm in Spring 2001 (France and Germany)

Proposals for Amendment I

- Corporate separation of TSOs
- TSOs to exercise full control over all assets necessary to operate, maintain and develop the network
- TSO compliance program
- TSOs may be required to meet minimum levels of investment

Proposals for Amendment II

- Further market opening to cover all non-domestic customers by 2003 and domestic customers by 2005
- Regulated TPA for all
- Response to access requests within 2 weeks
- Detailed PSOs, notification system and benchmarking
- Tendering system for new generation only as last resort

Article 22 of the Directive

- Makes a national regulator compulsory
- Appears to preclude market-based transmission prices and merchant interconnectors

Regulation on Cross-Border Networks - the Problem

- Difficult to choose a supplier in a different member state
- Variety of pricing structures
- Pricing not cost-reflective
- Can result in pancaking

Regulation on Cross-Border Networks - Objectives

- Cost-reflective charges avoiding “excessive transaction costs”
- Transparent non-discriminatory rules for allocation of scarce interconnector capacity to avoid long-term reservation contracts
- Efficient economic signals to market participants and TSOs

(DG Comp. paper indicating reservation contracts only permitted to raise finance)

Regulation on Cross-Border Networks - Principles I

- EC allowed to set level of compensation payments between TSOs
- EC can issue guidelines “detailing further relevant principles and methodologies” for e.g. cost calculations or powerflow measurements
- TSOs compensated for hosting transit flows (including loop flows) based on long-run average incremental costs

Regulation on Cross-Border Networks - Principles II

- Access charges to be cost-reflective and no distance-related
- Access charges recouped mainly by charge on consumption
- Tariffs to provide locational signals as to losses and congestion
- General principles of congestion management
- Congestion rents to be applied to reduce expansion costs
- No pancaking

Organisation of Discussions

- ETSO
- CEER
- Florence Forum
- EC Commission

Relevance to US Debate

- More prescriptive as to powers of TSOs/RTOs (and a tendency towards the design)
- Regulation is a critical issue at member state and federal level
- Focus on seams and interconnections:
 - pricing
 - expansion
- Not yet trying to impose larger markets
- Long way to go