

**ACER**

Agency for the Cooperation  
of Energy Regulators



## The EU energy market: policy & regulation

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**ESADEgeo – Center for Global Economy and Geopolitics**  
**The energy market at a cross-road**  
**Madrid – 25 November 2014**

## European Council Conclusions – 4 Feb 2011

### Market Integration Target

- *“The internal market should be completed by 2014 so as to allow gas and electricity to flow freely” (§ 4)*

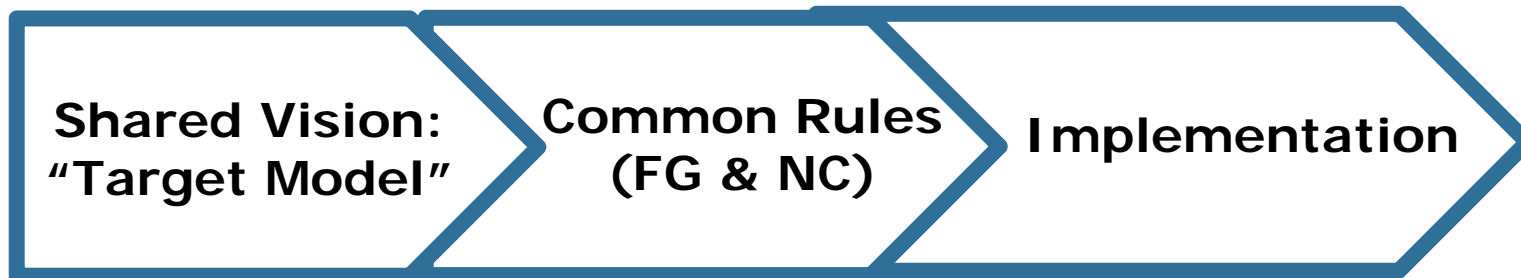
### Removal of Energy Islands Target

- *“No EU Member State should remain isolated from the European gas and electricity networks after 2015” (§ 5)*

*The European Council reaffirmed these objectives in the Conclusions (§ 1) of its meeting on 22 May 2013*

## Completing the Internal Energy Market

- The completion of the Internal Energy Market in 2014 should deliver tangible benefits to European consumers:
  - More choice of suppliers/offers
  - “Better” prices, reflecting the demand/supply fundamentals



- The Internal Energy Market will not be completed just by the adoption of the rules, but only when they will be fully and correctly implemented

# Rulemaking and Early Implementation: Electricity

## Formal Framework Guidelines / Network Codes process

FG/NC on Electricity Grid Connection

FG/NC Capacity Allocation and Congestion Management

FG/NC on System Operation

FG/NC on Electricity Balancing

## Voluntary Coordinated Implementation of the Target Model

Agency Electricity Stakeholders Advisory Group (AESAG)

Regional and Cross-Regional Roadmaps

Capacity calculation

Long-term capacity allocation

Day-ahead capacity allocation

Intra-day capacity allocation

## Rulemaking and Early Implementation: Gas

### Formal Framework Guidelines / Network Codes process

FG/NC on Capacity Allocation Mechanisms

FG/NC on Balancing Rules

FG/NC on Interoperability

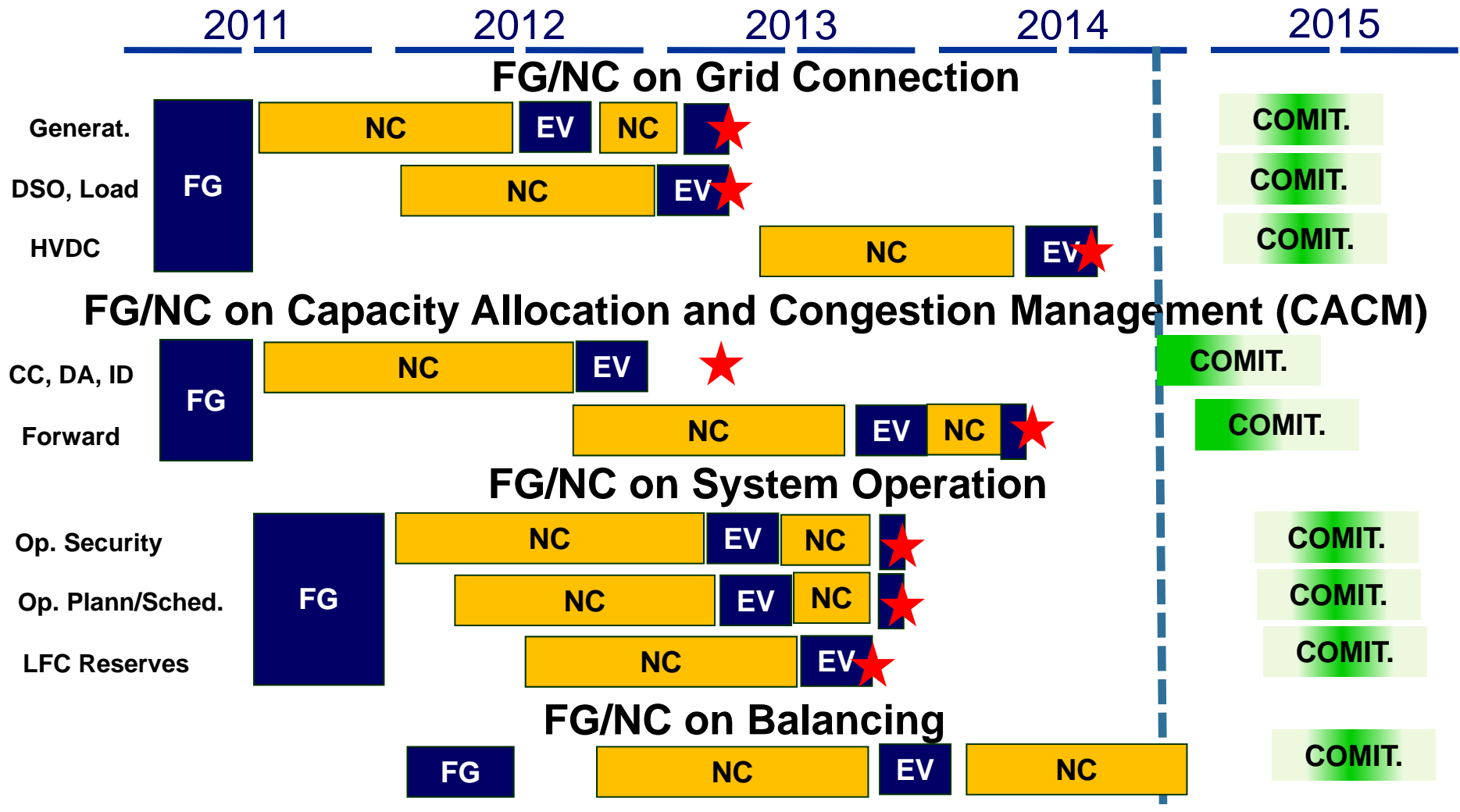
FG/NC on Harmonised Transmission Tariff Structures

Guidelines on Congestion Management Procedures

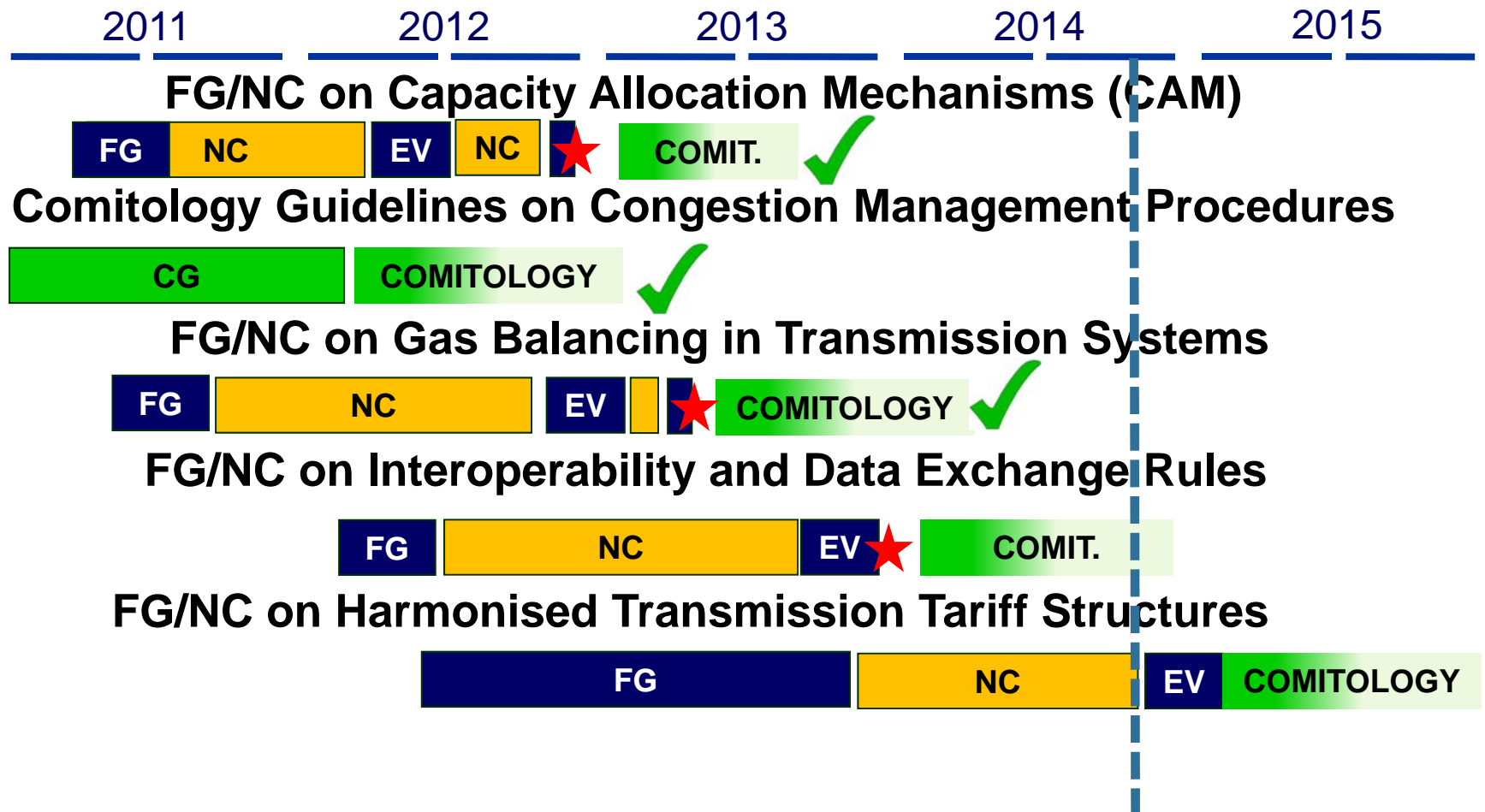
### Voluntary Coordinated Implementation of the Target Model

Pilot Projects and Platform for the Early Implementation of CAM (coordinated allocation, through market-based mechanisms, of a common set of bundled capacity products), ...

# Network Code Development: Electricity



## Network Code Development: Gas



# 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

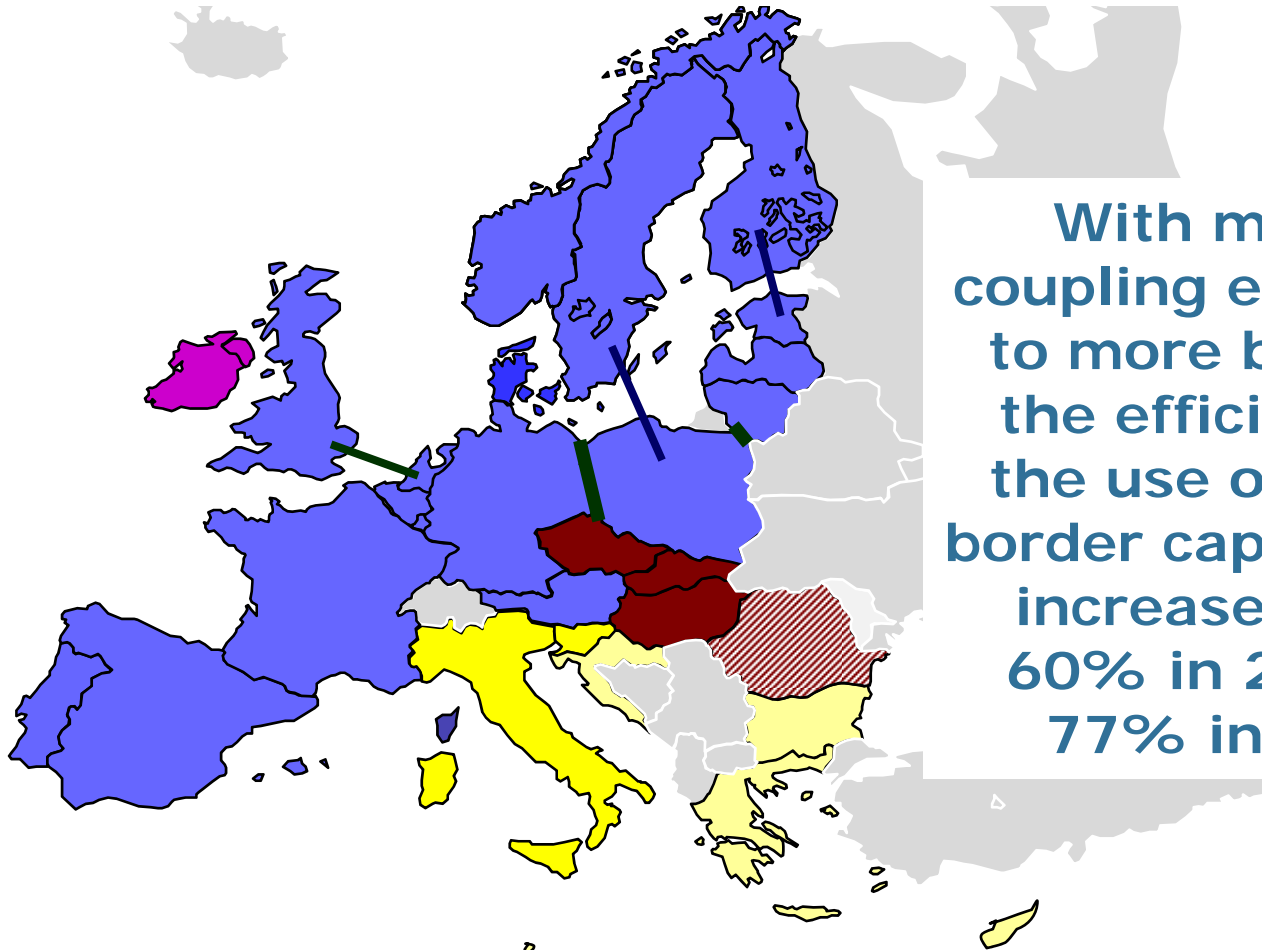
**SINGLE EU ALLOCATION PLATFORM**  
one-stop shop for allocating long-term transmission rights

## Capacity Calculation

**FLOW-BASED METHOD**  
to improve network security and the level of available capacity



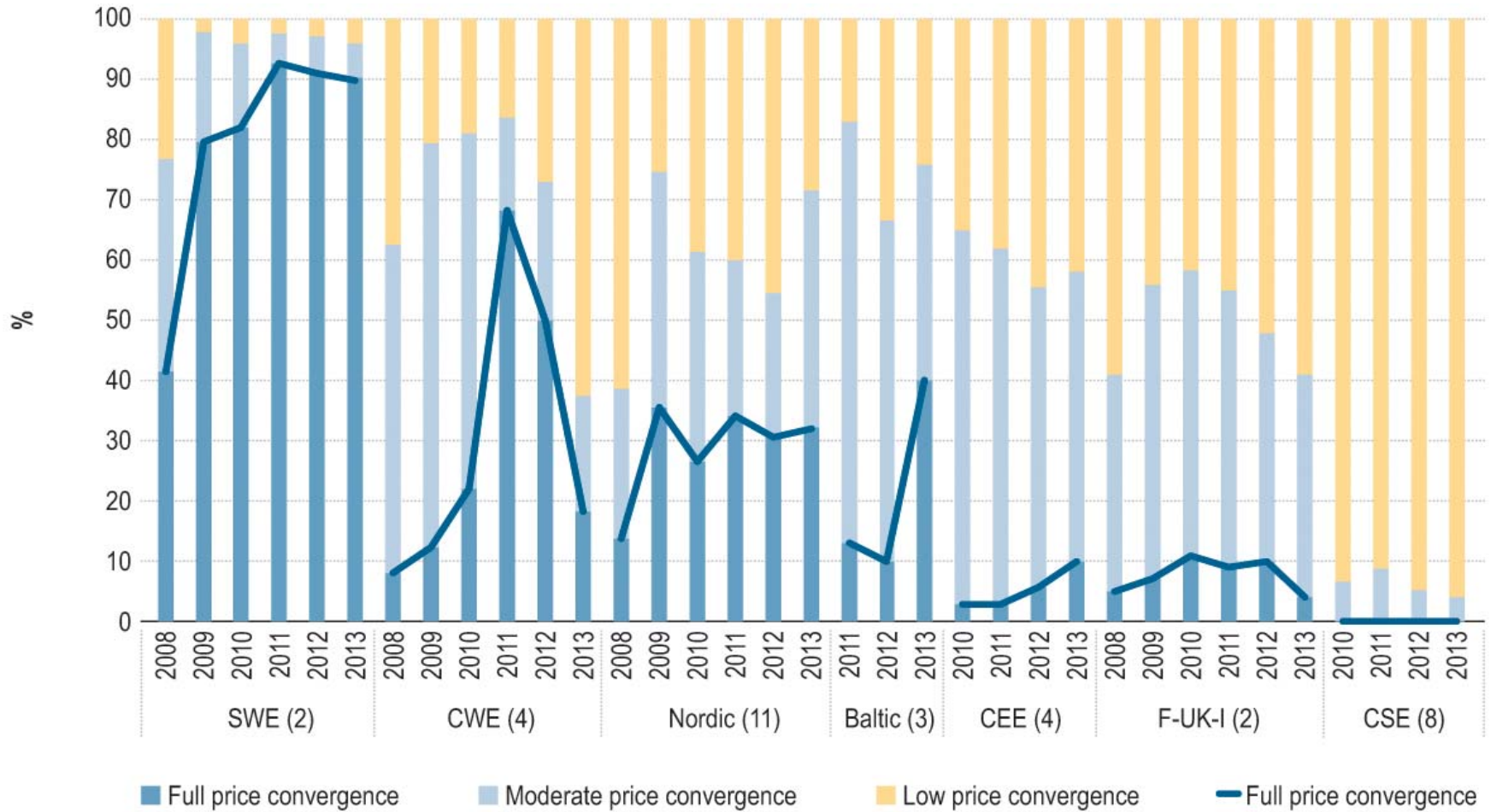
## Electricity Day-Ahead Regional Integration (Market Coupling)



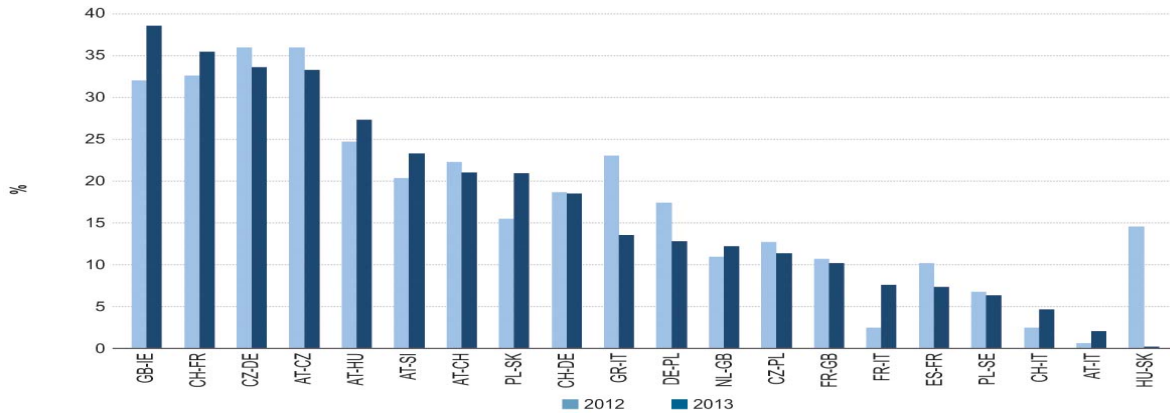
With market coupling extending to more borders, the efficiency of the use of cross-border capacity has increased from 60% in 2010 to 77% in 2013

## Despite the extension of market coupling, significant scope for further price convergence

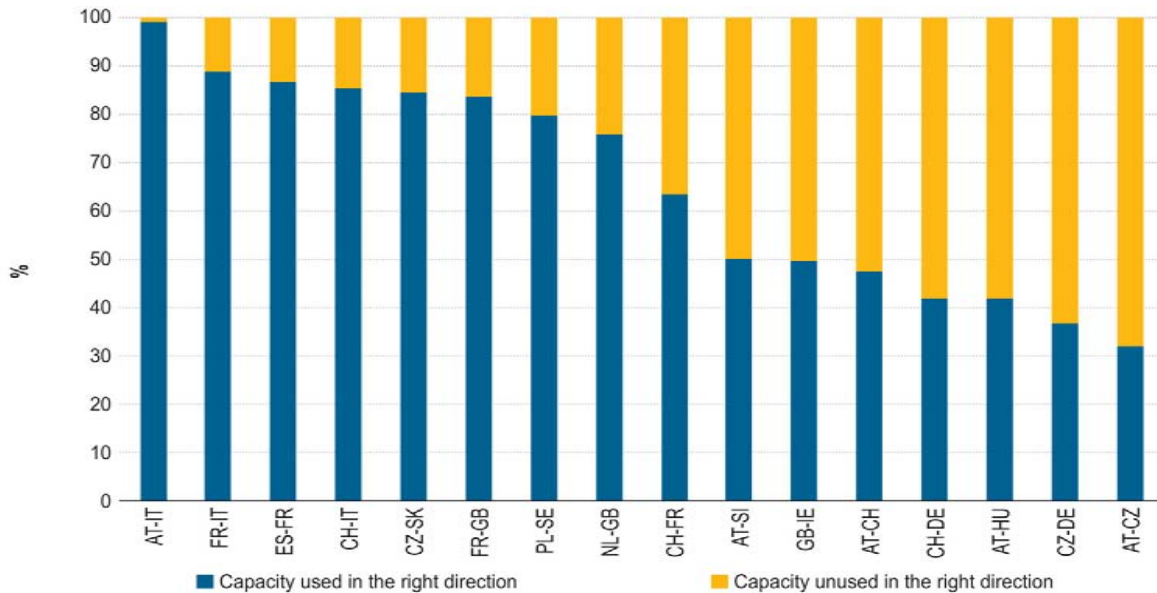
Price convergence in Europe by region (ranked) — 2008 to 2013 (% of hours)



# Wrong-way flows and capacity under-utilisation in electricity cross-border interconnectors ...



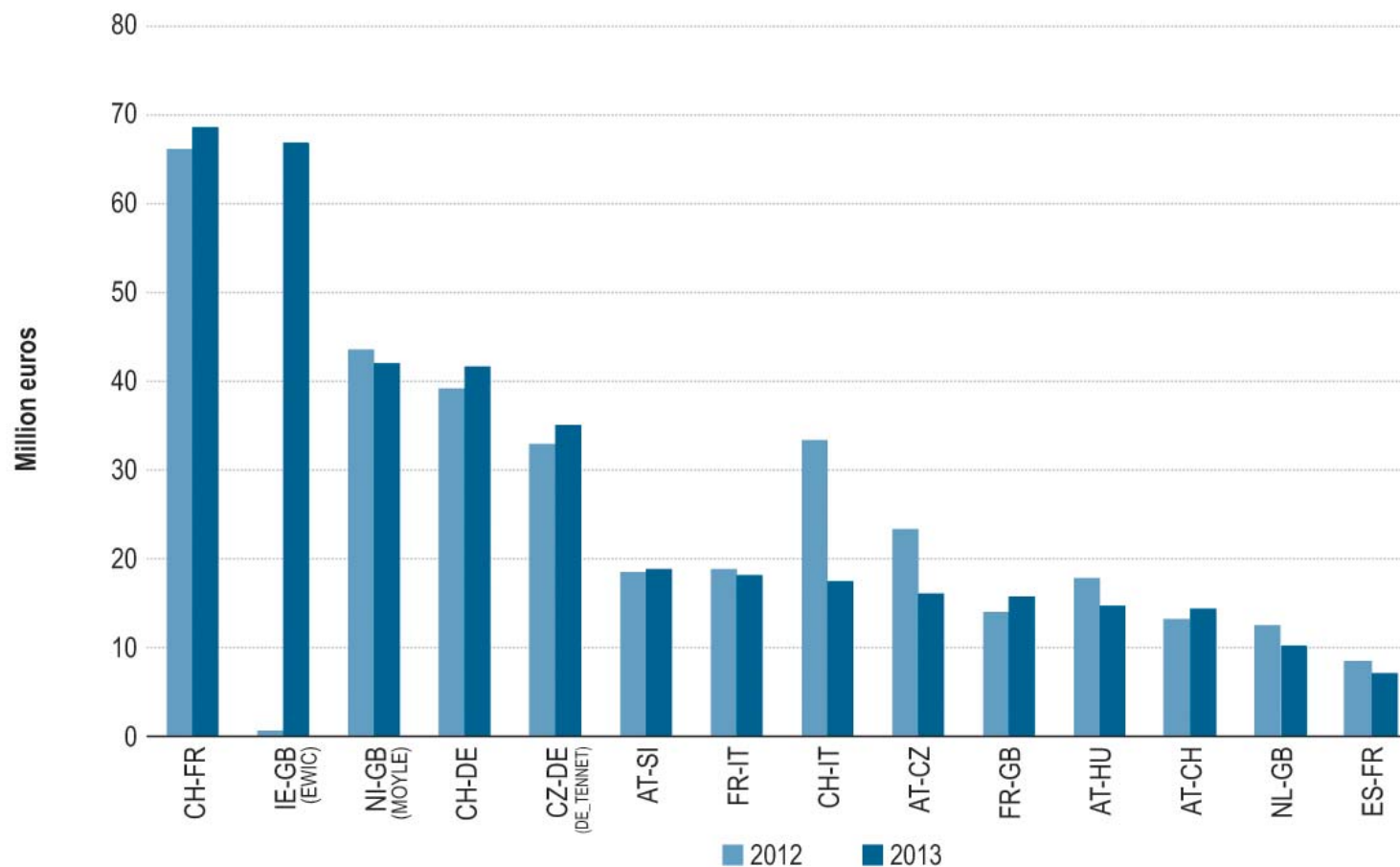
*Percentage of hours with net day-ahead nominations against price differentials per border – 2012-2013 (%)*



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

## ...causing loss of social welfare

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



# Electricity Capacity Allocation and Congestion Management Cross-regional Roadmaps

... for the early, voluntary implementation of the Target Model

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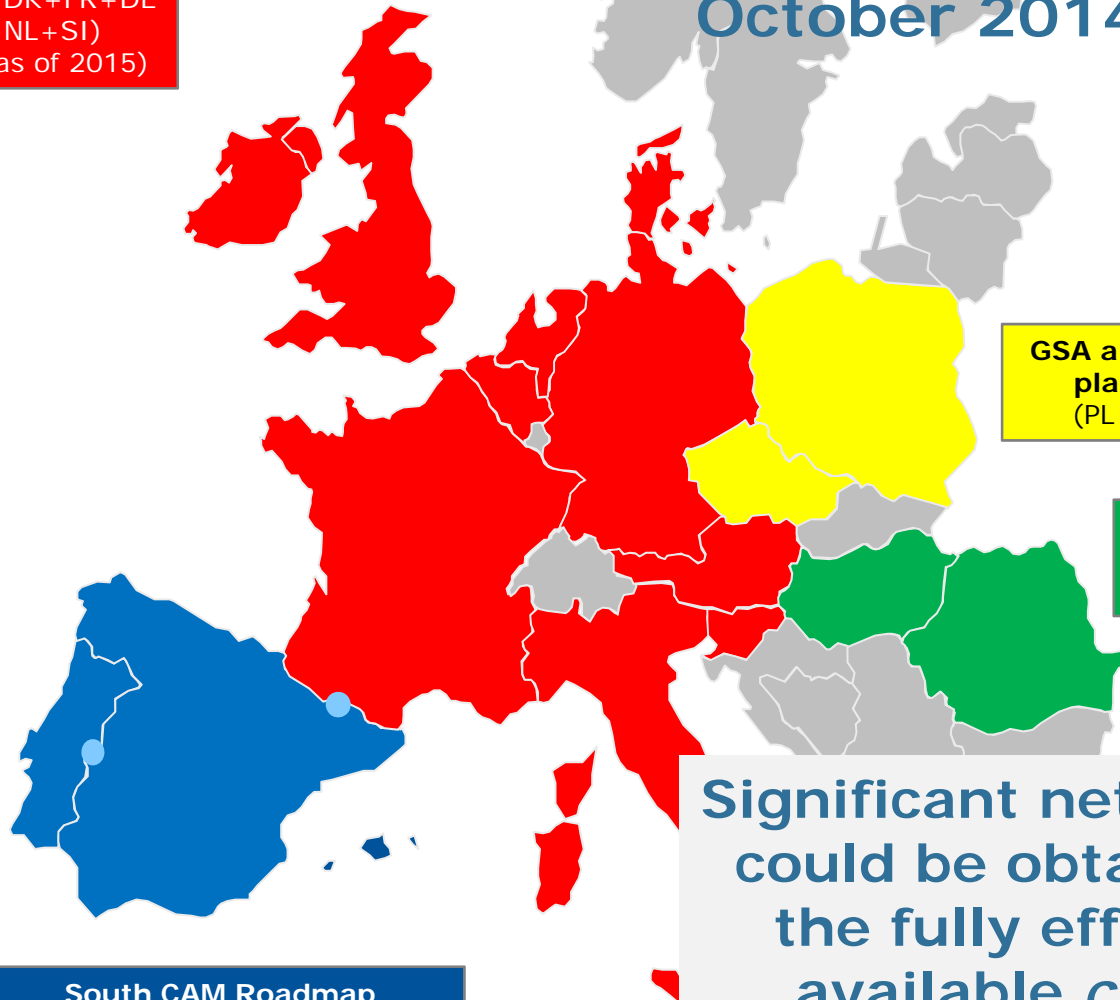
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**FLOW-BASED METHOD**  
to improve network security and the level of available capacity

## CAM Roadmap Pilot Projects October 2014

**PRISMA**  
(AT+BE+DK+FR+DE  
+IT+NL+SI)  
(IE+UK as of 2015)



**GSA allocation  
platform**  
(PL + CZ)

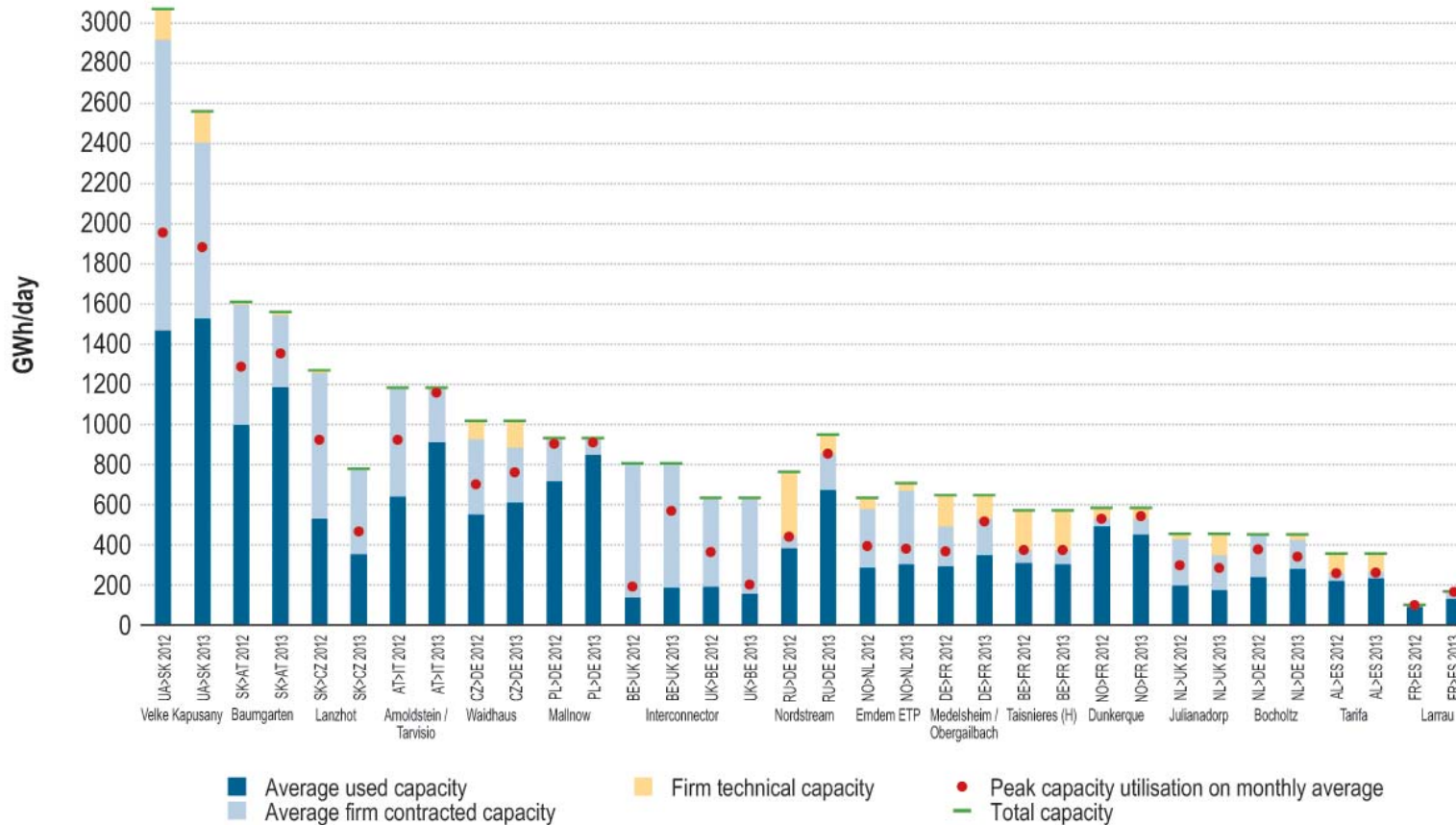
**Regional Booking  
Platform**  
(HU+RO)

**South CAM Roadmap**  
(FR+ES+PT)  
(using PRISMA as of 2014)

Significant net welfare gains  
could be obtained through  
the fully efficient use of  
available *cross-border*  
interconnection capacities

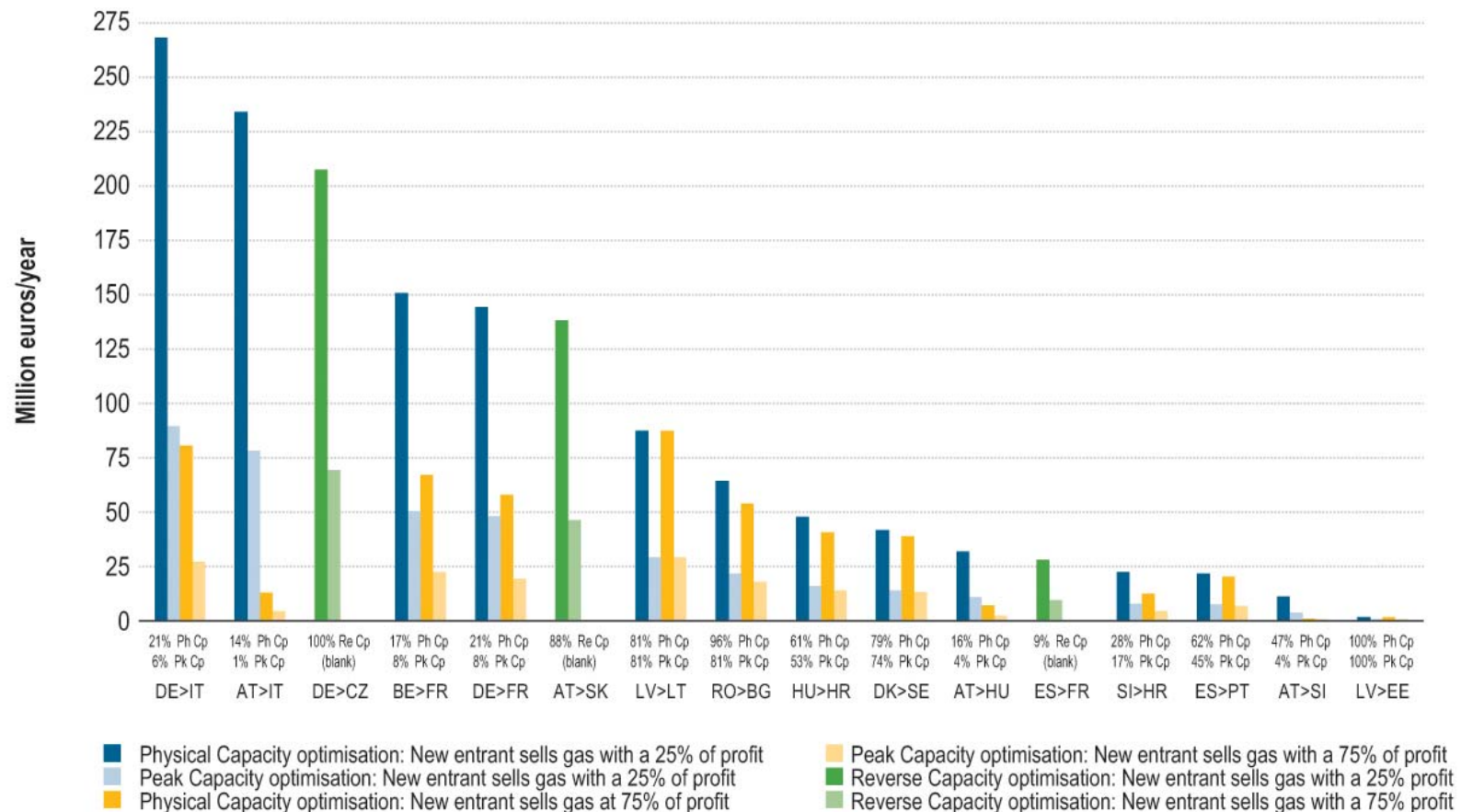
# Gas cross-border interconnection capacity is often booked, but not fully used

Average used versus booked capacity at natural gas IPs in the EU – 2012 and 2013 (GWh/day)



# Welfare gains from fully and efficiently using available gas interconnection capacity

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)





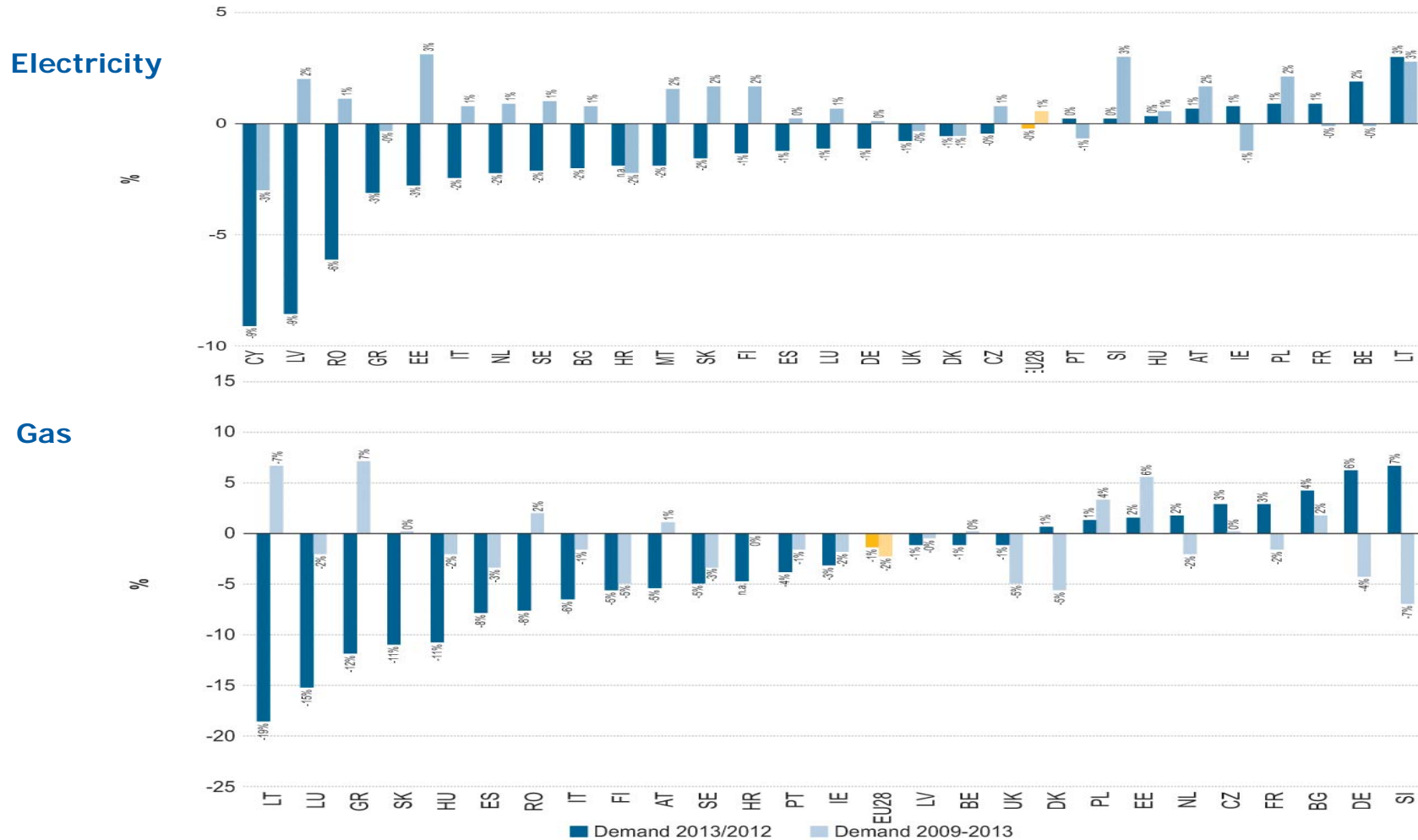
## Conclusions

- **Significant progress** in energy market integration towards the completion of the **internal energy market**
  - » Electricity day-ahead market coupling
  - » Gas cross-border capacity allocation
- ... but **more yet to be achieved**
  - » Electricity long-term coordinated capacity allocation
  - » Liquidity in gas hubs
- ... while **significant delays** are experienced in
  - » Electricity intra-day market coupling

**But are EU consumers reaping the benefit of energy market integration?**

# Decreasing electricity and gas demand in many MSs...

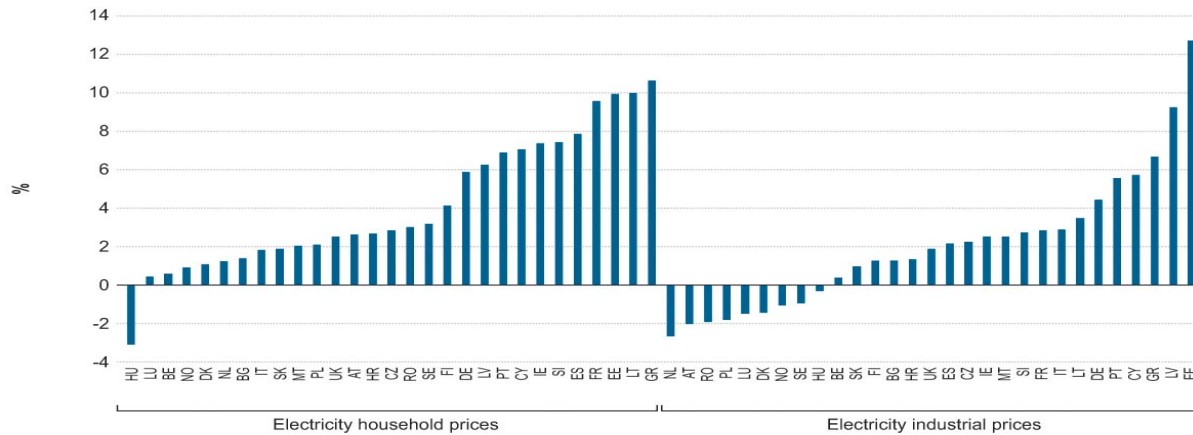
Change in electricity and gas demand in EU28 – 2012 to 2013 and 2009 to 2013 (%)



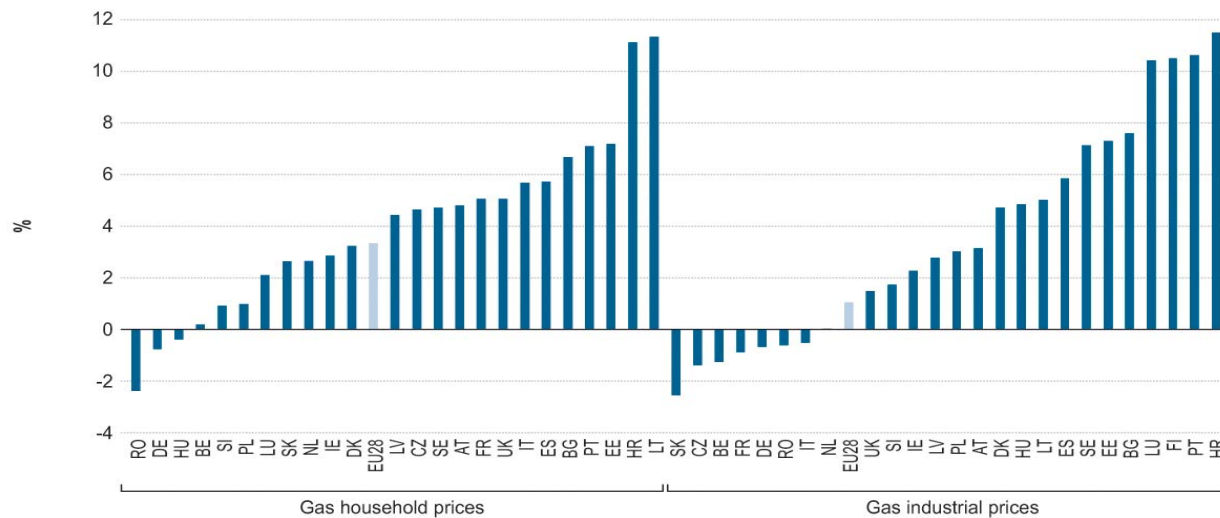
# ...does not result in lower final retail prices

Post-tax retail prices: compounded annual growth rate in EU28 from 2008 to 2013 (%)

## Electricity

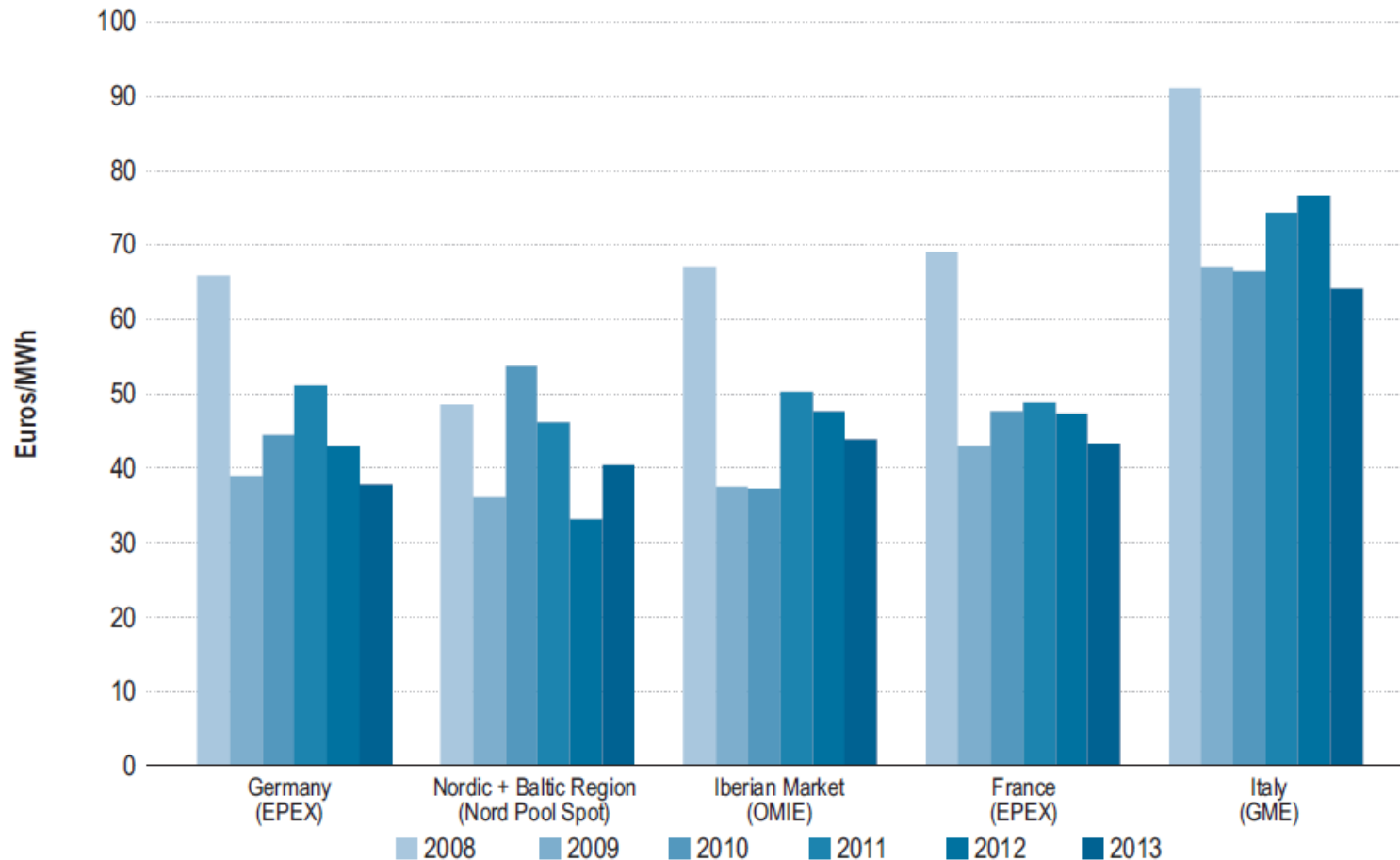


## Gas



## In many Member States wholesale prices are decreasing ...

*Evolution of European wholesale electricity prices at different European power exchanges – (euros/MWh)*



# ...but no correlation between wholesale prices and the energy component of retail prices in some MSs

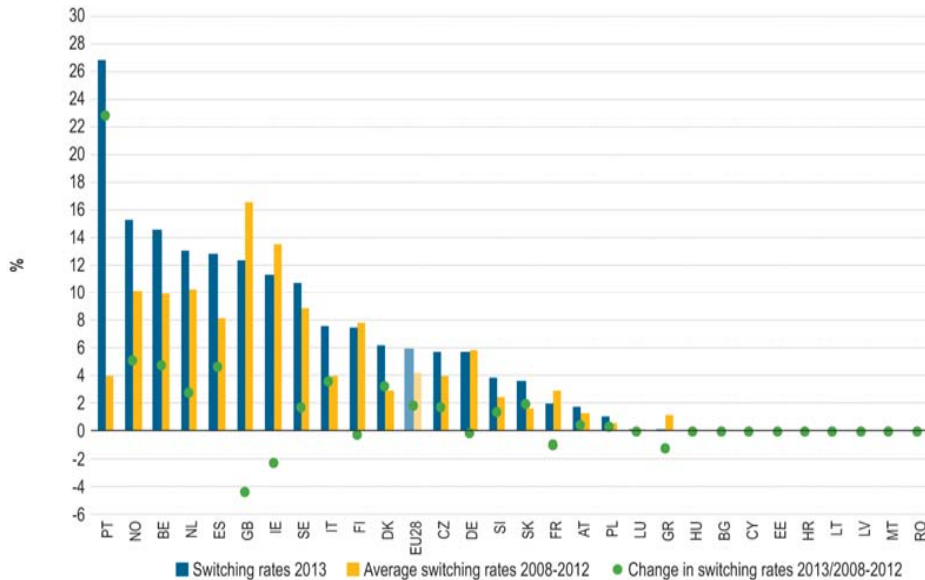
- Relationship between the energy component of the retail electricity price and the wholesale electricity price and mark-up in a selection of countries – 2008–2013 (euros/MWh)



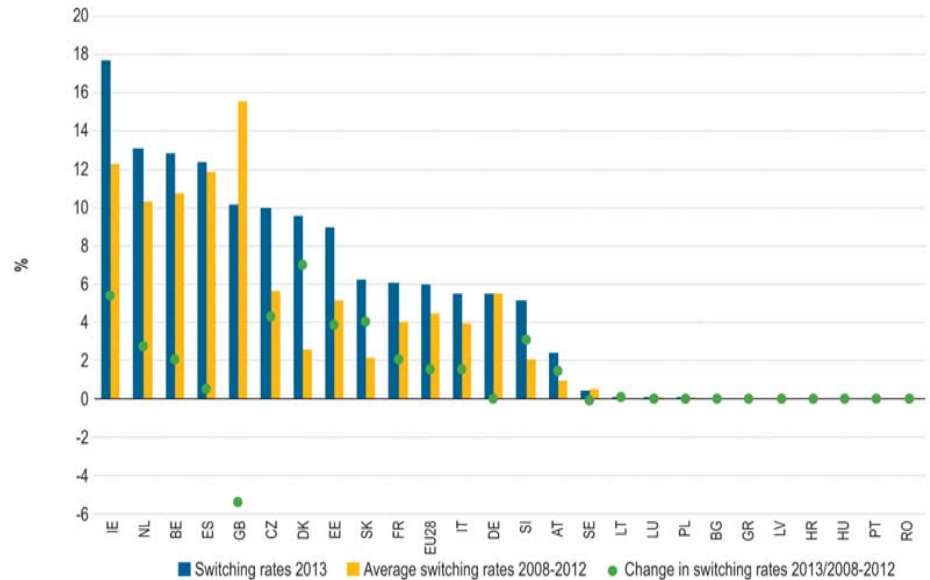
# Switching rates of household consumers are increasing, but are still low in many Member States

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

## Electricity



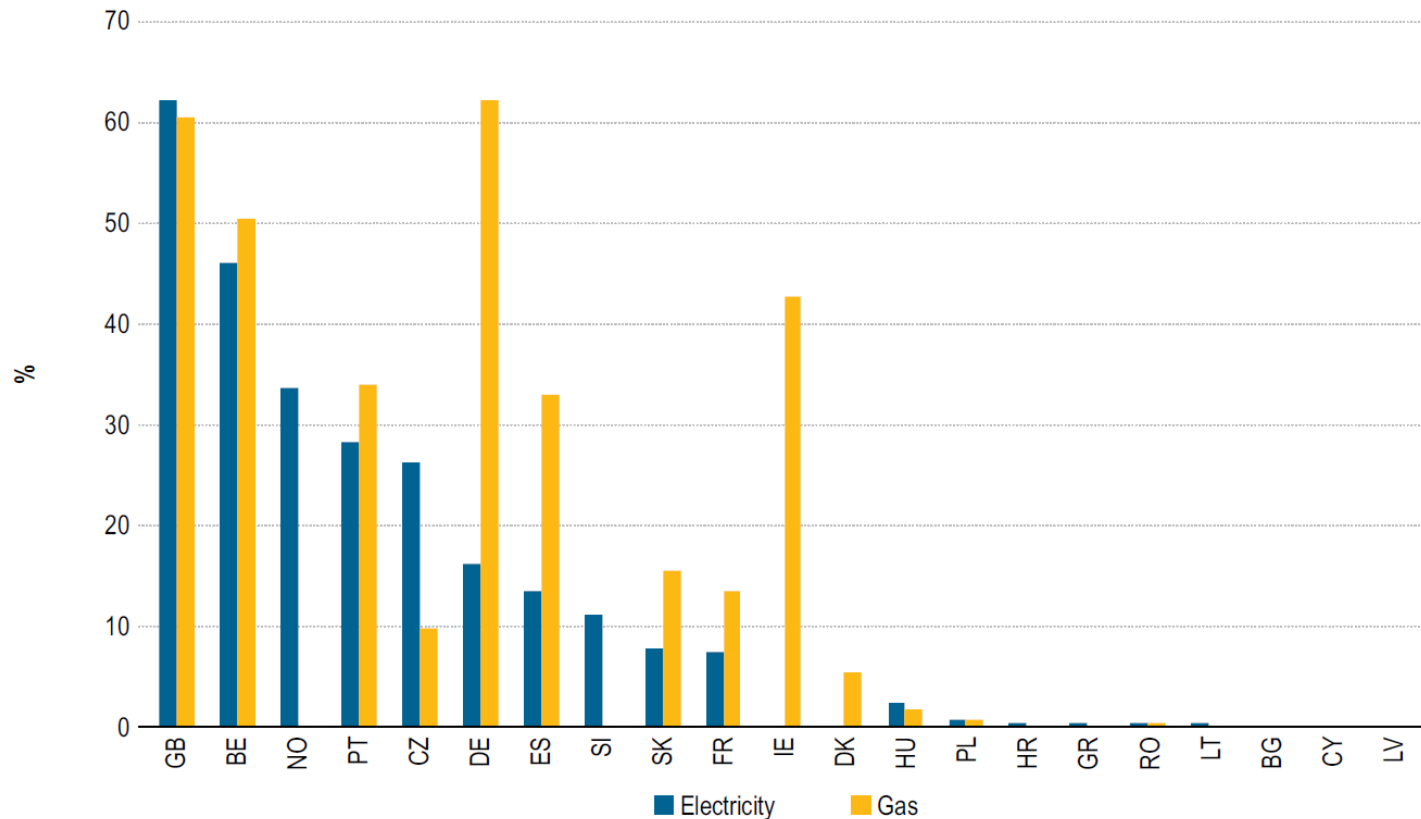
## Gas



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

## 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).*

## 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 supplier' margins
- Lack of choice for consumers



or

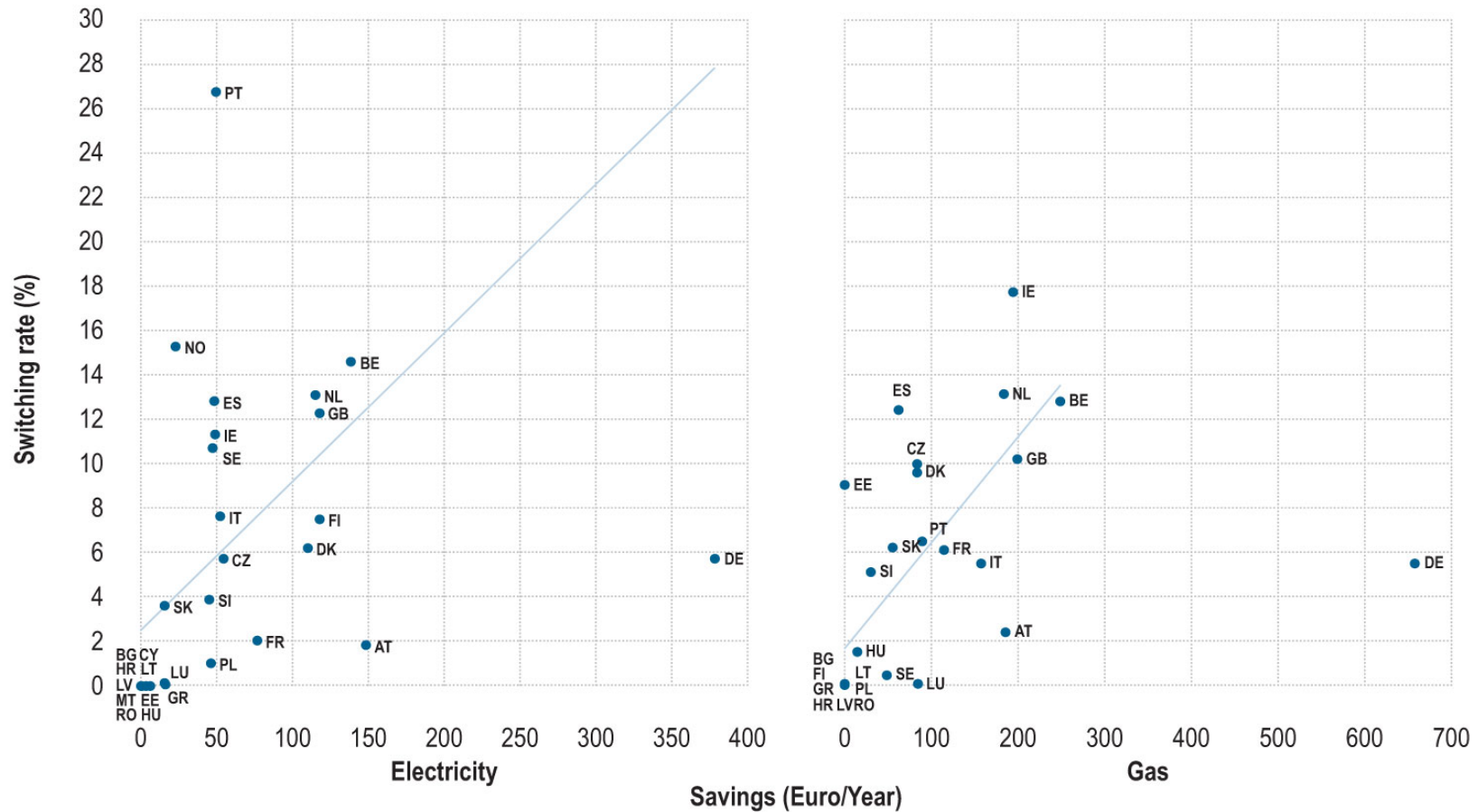
- Many fiercely-competing suppliers
- Low suppliers' margins
- Many, but similar, offers available to consumers
- ...
- ... but non-price competition may develop





# 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 (%)*



## Barriers to entry persist

- Consumer switching behaviour
  - » loyalty to local, publicly-owned suppliers
  - » switching perceived to be complex, risky and time-consuming
- Retail-price regulation
  - » disengages consumers from switching: "*Regulated prices must be good*"
  - » if set below expected entry cost, it acts as an absolute barrier to entry
- Regulatory framework
  - » different regulation and legislation regimes
  - » complex licensing, non-accredited licenses across MSs
- Lack of full unbundling
  - » in many MSs, not fully implemented yet
  - » re-branding of DSOs/retailers

**Thank you for your attention**

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