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STRATEGY PAPER - OUTLINE

MEDIUM TERM VISION FOR THE INTERNAL ELECTRICITY MARKET

Overall Objective

The Community is seeking to create a competitive market for electricity for an enlarged European Union, not only where customers have choice of supplier, but where **all impediments to cross border exchanges are removed** including those barriers associated with insufficient interconnection capacity.

The aspiration that, for example, a pan-European company with many branches in many Member States, could be served by a single supplier and receive a single bill, should become a reality. Similarly at household level, the entry of new suppliers from other Member States needs to be encouraged so that customers can be offered a range of different possibilities that they can tailor to their needs, whether this be innovative tariff structures, a multi-utility concept, choices such as green energy or different payment options.

Specific Areas of Work

- i. In order to encourage such competition suppliers should, subject to physical constraints, be able to move power freely across borders subject only to a **coherent cost-reflective charges for the use of European transmission network**. As far as possible, such charges should function as if there were a single transmission operator for the internal market. At the same time, the removal of **other distortions of cross border trade** resulting from taxation structures, environmental support mechanisms or security of supply measures must be reduced or, where possible, removed.
- ii. The European transmission system as a whole should be **operated so as to promote competition**. This means that, within acceptable security standards, the availability and use of interconnectors, both within and between Member States, should be maximised and that capacity should be allocated on a non-discriminatory basis. Increased co-ordination of existing system operators and, ultimately, the appointment of a single system operator will contribute to the achievement of this objective.
- iii. **Interconnection capacity between Member States** should be increased in order to increase the scope for cross border competition. Clear political and regulatory impetus should be provided to encourage and/or compel TSOs to increase capacity.

- iv. In addition, measures should be taken to **reduce the dominant position** of certain power generation companies in individual Member States. Potential measures include a combination of; greater integration of wholesale markets, removal of market designs beneficial to dominant players and specific divestment or capacity release measures.
- v. **Customers should be given the confidence** to exercise their right to choose via simplified procedures, clear information and an assurance, backed up by regulation, that there will be no subsequent penalty, explicit or otherwise, if they wish or need to return to the original supplier.

Individual Actions Required

The achievement of these objectives still require significant regulatory effort as set out in the sections below. However, it must also be acknowledged that different Member States and regions are at different stages in this process. This, and the continued existence of limited interconnection capacity, suggests that some regions of the internal market may develop more quickly than others towards the common objectives. This is already a reality in, for example, the Nordic region.

Harmonisation efforts should, therefore, not prevent individual or groups of Member States for advancing more rapidly the general level of integration. This may lead, initially, to the emergence of a number of regional markets each at a different stage of development. At the same time however, this situation, should not prevent a progressive adoption of more generally applicable harmonisation rules which move in the direction of the ultimate objective.

Coherent European Transmission (and other) Charges

- All contract-path related charges, including import, export and transit charges to be removed.
- G and L charges should provide long term economic signals at both national and European level as to the siting of generation and load.
- Other than the economic signals above, the procedures for calculating the remaining charges to generators and load in Member States should be harmonised.
- There should be compensation between Member States' TSOs for hosting cross border flows.
- There should be consistent treatment of excise taxes for generators in all Member States.
- A consistent system for the support of renewable energy across the EU should be adopted.
- There should be a consistent approach to security of supply in terms of, for example, availability payments.

Pro-Competitive System Operation

- All Member States should move towards common wholesale market design based on bilateral contracts. Obligatory “Pool” based approaches should evolve towards a power exchange model. Each Member State should ensure the establishment of a power exchange or attach itself to an existing exchange. The notification process for all power exchanges should be harmonised.
- Agreements should be reached between neighbouring TSOs to promote “co-ordinated system management” areas¹. Within these areas, markets for interconnection capacity should be integrated with power exchanges (i.e. market splitting approach). However at the same time the possibility for longer term purchase of capacity through, for example financial contracts, should be retained. Reserve prices on interconnectors should be removed.
- Balancing markets should be progressively integrated with adoption of common procedures on notification, gate closure etc. to allow an appropriate degree of integration of balancing markets.
- There should be an agreed approach to the security rules being used in different parts of the network to ensure consistency and the promotion of competition.
- System operators should provide an audited account of the amounts collected in capacity allocation methods and the use made of these.

Increasing Interconnection Capacity

- The targets identified in Barcelona relating to interconnection should be achieved, or, where appropriate to dilute market dominance exceeded.
- There should be a clear decision making process between regulators/Governments regarding key interconnection projects and certainty for investors in terms of the regulatory treatment of profits or losses from interconnector projects.
- Underground cables should be used to a larger extent for interconnectors over shorter distances to avoid environmental concerns\planning delays.

Reducing Market Concentration

- Active measures should be adopted to dilute the market power of dominant generating companies through either divestment or capacity release programmes.
- There should be strict control on further mergers

¹ analogous to RTOs used in United States

Facilitate Competitive Choice By Customers

- A low cost standardised customer transfer procedure without significant cost to either the customer or new supplier should be adopted.
- All Member States should adopt a model where the customer only has a contract with the supplier and the supplier then has a contract with networks.
- To provide confidence to customers, transmission and distribution companies must have an obligation enforced by regulator to maintain a certain minimum level of service to all customers.
- Procedures should be adopted to ensure continuity of supply even in the event of bankruptcy\withdrawal of new supplier
- Customers should be able to return to incumbent without losing out.
- Regulators should ensure that clear promotional information is provided by all retail suppliers.