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Energy market opening in Austria and future challenges for the Internal Energy Market

Martin Graf, Executive Director of E-Control

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Agenda

- Introduction and Motivation
- Liberalisation of electricity and gas markets in Austria
- Current issues and challenges for the IEM
- Internal Energy Market – the road ahead

Challenges lie ahead



New technologies and integration of renewables
Environment and long-term sustainability



Competition, pricing and the IEM
Efficiency and profitability
Consumer protection



Security of supply and network stability
Investment in “smartness”

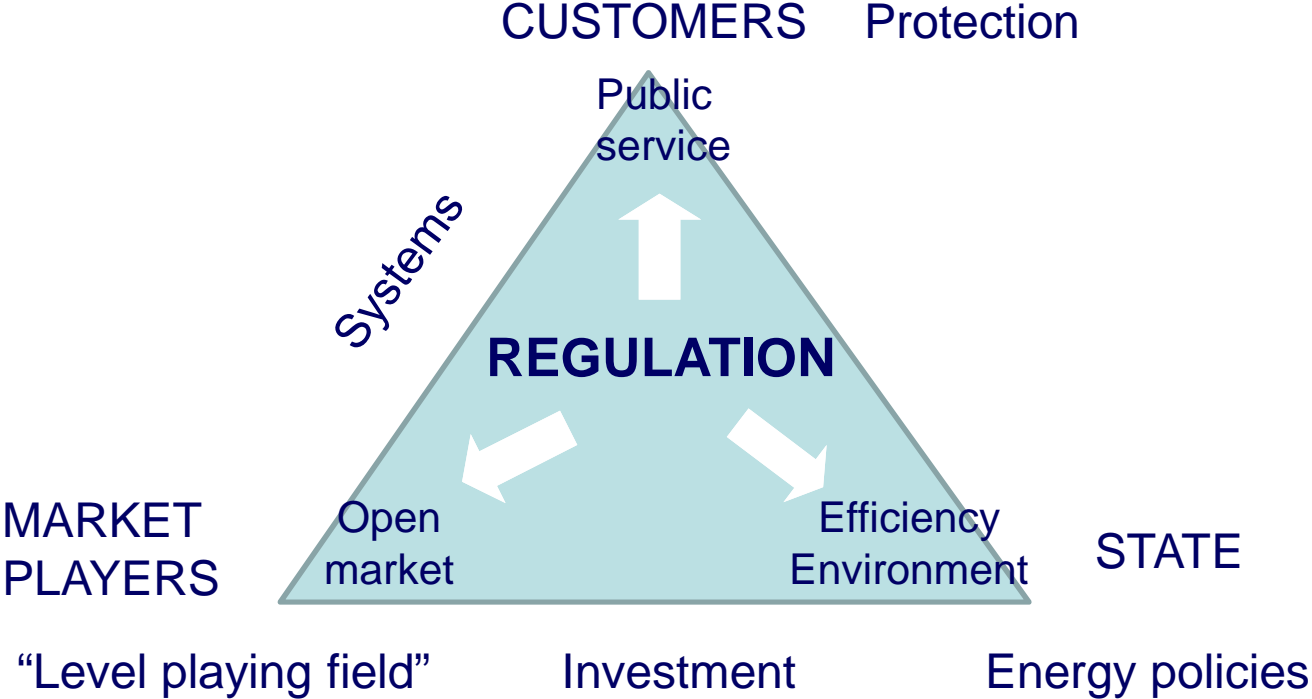
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Objectives of EU energy regulation

- Promoting competitive, safe/secure and environmentally sustainable **internal energy market**
- Eliminating constraints in **energy trading** between EU member states and supporting development of cross-border capacities
- Support in developing **customer oriented systems** while integrating renewables and distributed generation,
- Facilitating **access** to networks
- Stimulating operators and system users to improve **efficiency** and increase **market integration**
- Carry forward of the effects of (efficient) market functioning – **customer protection**

Energy regulation as a balancing act mid-way between art and science



Development of regulating tariffs

Regulatory experiences since 2001



- Developing along the major energy reform milestones:
 - 1) 2001: cost-plus regulation
keyword: reduction of monopoly rents
 - 2) 2006: incentive-based regulation
(two periods a 4 years)
keyword: stabilise tariffs
 - 3) 2014: new regulatory regime
keyword: incentives for „smartness“

Liberalisation in Austria: 10 years+

- Free supplier switching for all customers



- Experiences in the past decade generally **positive**
 - Higher efficiency in energy supply
 - Better services for final consumers
 - Fair share for customers in liberalisation “dividend”
 - Efficient regulation with a decrease in costs and high levels of security of supply

There is still room for improvement.

- Mixed developments on **wholesale level**
 - Liquidity on exchanges and trading facilities is on the rise
 - For natural gas oil indexed contracts are diminishing in importance
 - But structural problems persist (market concentration), lack of harmonisation
- For **final consumers** competition has increased slowly
 - Low switching rates, incumbents and local players dominate
 - Economic effects however are positive
 - Final consumers have benefited from lower prices: ~12 Bn EUR

LIBERALISIERUNGSEFFEKTE 2001-2009 (MRD EURO)		
	Strom	Gas
Gewerbe	8,90	1,20
Haushalte	1,30	0,08
Summe	10,20	1,28

SME´s / Industry
Households

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Security of supply

- The importance of security of supply is clear



- Concerns voiced recently:
 - Effect of German nuclear shutdowns on system adequacy
 - Increasing intermittents changing the merit order: Gas-fired plants no longer profitable, back-up missing
 - Economic climate adversely affecting investment in generation capacity

The winter outlook usually depends on weather conditions

- During severe weather conditions import grows in importance



Source: ENTSO-E Winter Outlook 2011/2012

Are national solutions efficient?



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- Renewables:
 - Feed-in tariffs
 - Fixed subsidies for investment
 - Market premiums
 - A mixture of the above
- Market design
 - Energy only markets
 - Capacity payments, capacity obligations
 - Strategic/operating reserves
 - Different balancing energy markets

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A new role for infrastructure

- Electricity Transmission
 - Expansion in Europe (North-South)
 - What about transit (loop flows)



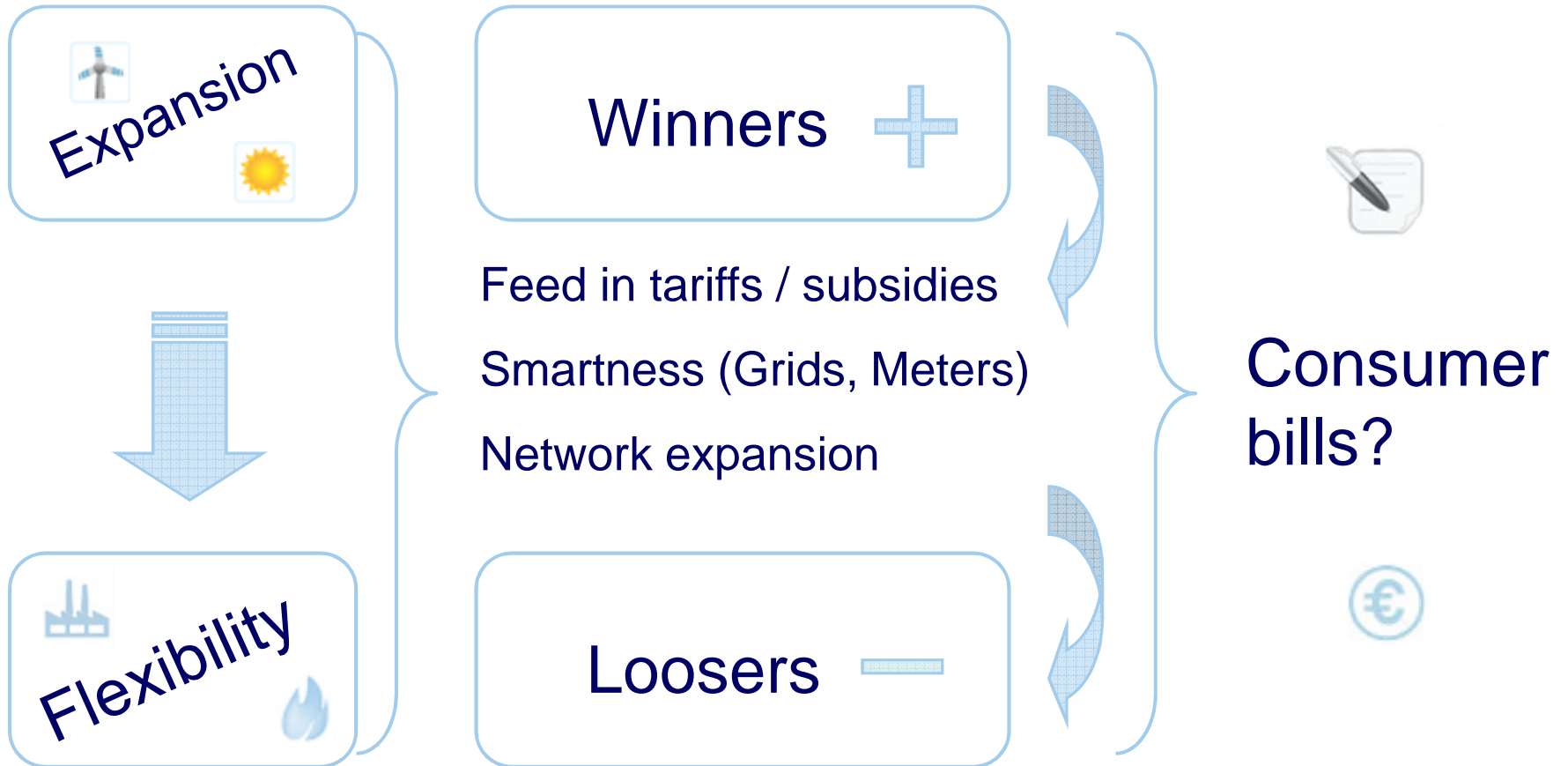
- Electricity Distribution
 - New investment incentives through smart meters?

- Gas Transmission
 - Expansion necessary
 - Increased flexibility (no main flow direction)



- Gas Distribution
 - In some countries built back – competition from other sources of energy

Ultimately the future of the IEM will have an impact on consumer bills.



The road ahead – careful exploration of different options necessary.

- Investment in infrastructure
 - Network expansion necessary to integrate intermittents
 - Key: Speed up decisions made by authorities on go ahead of new infrastructure
- Further Harmonisation
 - Common network codes
 - Market Coupling
 - Common oversight framework: Third package, REMIT
- Integration of renewables into the market
 - See for example introduction of market price top up in Germany
 - Investigation into future role of EU ETS and relation to national feed in tariffs
 - Harmonisation of subsidy schemes towards IEM



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