

Investment planning rules in Europe

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Outline

- A. The EU Regulatory Framework: new challenges
- B. The Third Package: a new governance for the European energy sector
- C. The Infrastructure Package: a new impetus for investments in energy infrastructures

A. Beginning of the liberalization process in the EU

- Big national infrastructures already in place
- Technological innovation not a central issue
- Energy policy and regulation set at national level
- Short-term efficiency issues driving the debate



- ✓ competition when possible, regulation when necessary
- ✓ Technology neutral incentive regulation of network services
- ✓ Investments on generation decided by the market/the grid follows

A. The EU Regulatory Framework: new challenges

- Move towards a low carbon energy sector
- Increase security of supply
- Integration of national energy markets
- Spur technological innovation

A. Regulatory implication in 2 the new power generation mix

- Regulation even where competition is possible
- Move away from technology neutral regulation
 - Generation: RES-E incentives
 - Distribution: smart grids
 - Retail: smart metering
- **More risky environment for investors**
 - Uncertainties about: future demand; technology; regulation
 - How to make capital intensive low carbon investments feasible (eg. Price risk for nuclear plants)

A. The EU Regulatory Framework: networks

Network regulation:

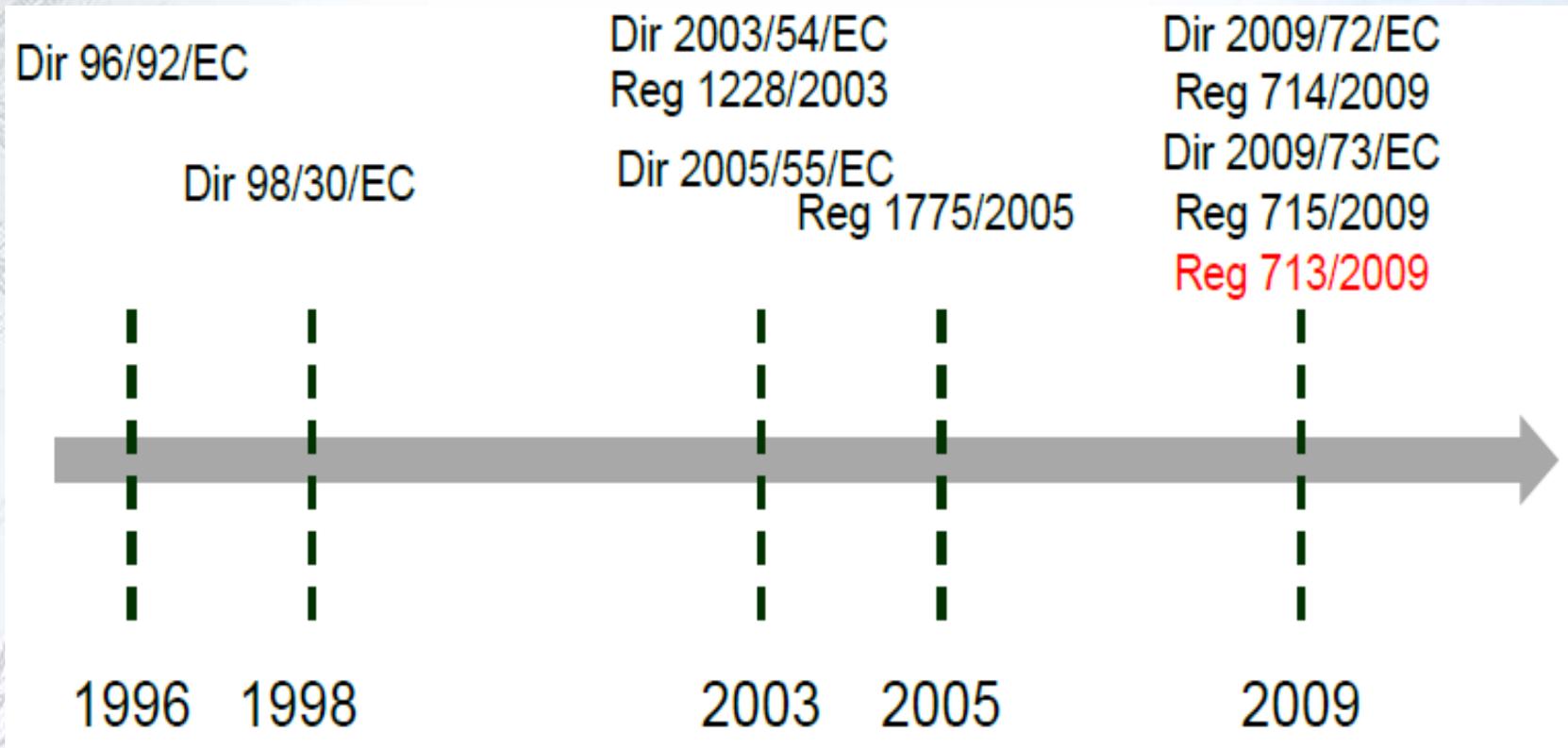
- Focus on **longer term time horizon** (eg. 20 yrs revenue stream for off-shore grids in UK)
- **Coordination** between grid expansion and connection of new plants: who should bare the risk of over or under investments?
- **Integration of national markets**: coordination among EU countries (efficiency) mechanisms to share costs among member states (equity)

What is EU doing?

B. The Third Package

C. Energy Infrastructures Regulation

B. Towards the Single Energy Market



B. The Third Package: main issues to be addressed

- Vertical integration and horizontal concentration
- Insufficient EU-wide market integration
 - Lack of TSO Cooperation
 - Need of infrastructures development
- Insufficient transparency
- NRA powers and competences vary

B. The Third Package: answers and steps forward

- EU-wide Network Development Plans (non-binding)
- EU-wide binding rules (Network Codes)
- Greater separation of Transmission and System Operation activities
- Stronger and more independent NRAs (with greater EU focus)
- EU-wide cooperation: ACER and ENTSOs

B. New Tools: EU 10 years network development plan

- has non-binding nature (art. 8.3b, Reg. 714/2009/EC)
- adopted by ENTSOs every two years and submitted to ACER for its opinion
- shall include the modelling of the integrated network, scenario development, a European generation adequacy outlook and an assessment of the resilience of the system
- its consistency with national 10-y development plans are monitored by ACER
- provides a long-term shared vision to all stakeholders

B. New Tools: Network Codes (NC)

- **NC are a set of harmonised rules having a cross border relevance** (i.e. rules on capacity allocation and congestion management; TPA; balancing; connection, etc.)
- **NC are drafted by ENTSOs** on the basis of:
 - priorities defined by the EC
 - Framework Guideline (FG) issued by ACER
- NC shall contribute to **non-discrimination, effective competition and the efficient functioning of the market**
- NC become **legally binding** upon EC approval (*art 6.9 Regulation 714/2009/EC*)

B. Electricity Sector: latest activities

- **FG on Capacity Allocation and Congestion Management**, Published on 29 July 2011 (NC ready for consultation by June 2012)
- **FG on Electricity Grid Connections**, Published on 20 July 2011 (NC under consultation, 24 Jan-20 Mar 2012)
- **FG on Electricity System Operation**, Published on 2 December 2011

C. Infrastructure Energy Package

- Proposal issued by the EC on 19 October 2011
- Main objective: to ensure **sufficient and timely development of infrastructures** to develop internal market, enhance security of supply, meet energy and climate goals and binding targets
- To be adopted under co-decision procedure
- The European Parliament and the Council have started to analyse the proposal

C. Main Problems to be faced and related solutions (1/2)

1) Lack of a EU common vision and coordination on cross border investments

Solutions:

- ✓ Focus on strategic energy networks (priority given to **12 strategic corridors**)
- ✓ Clear Rules to select **Projects of Common Interest (PCIs)** for the identified corridors

2) Costs not related to benefits provided

Solution:

- ✓ **Cost allocation** done according to benefits gained by the concerned MS

C. Main Problems to be faced and related solutions (2/2)

3) Lack of Financing (Difficulties to attract new institutional investors; Lack of proper funding instruments)

Solution:

- ✓ Eligibility of PCIs to Union financial assistance under a new “Connecting Europe Facility” (€ 9.1 billion devoted to energy)

4) Permit granting and public involvement (Complex process, lack of coordination, unclear time limits and documentation standards)

Solutions:

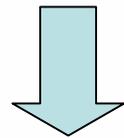
- ✓ Special regime for PCIs
- ✓ Appointment of **European coordinators** for PCIs facing difficulties
- ✓ Appointment of **one national competent authority** within each Member State

B+C. Link with the Third Package

- ENTSOs propose to ACER and EC a methodologies the elaboration of a harmonised energy system **cost-benefit analysis** (CBA => will be the main reference to allocate cross-border costs) for PCIs
- Advisory role for **ACER** (e.g. PCIs List)
- **TYNDP** as basis for PCIs selection (strongly supported by EU regulators)

Final remarks

- A. Regulation is acting in a new environment
- B. New rules for the proper management of EU infrastructures (N. C.) plus long term vision (10 y. P.)
- C. Clear EU priorities and rules for promoting the infrastructures development



From the coordination of national rules to the implementation of **common** EU rules

The background of the slide is a composite image. On the left, there is a faded, light-colored image of a high-voltage electricity pylon. On the right, there is a close-up, slightly blurred image of a gas stove burner with a blue flame. The overall background has a light blue and white color scheme with a subtle wave-like pattern at the top and bottom.

Thank you for your attention!

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