

# SINGLE EU ENERGY MARKET

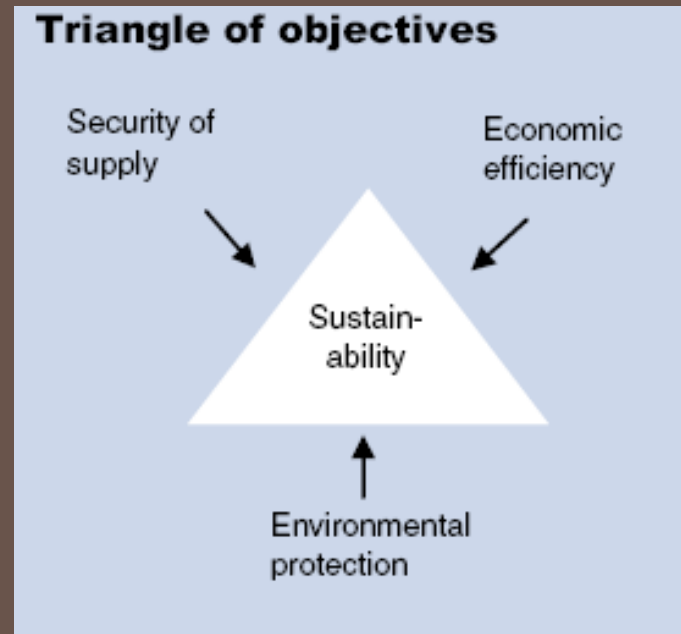
Filip Černoch

FSS MU

Energy policy of the EU

# Single energy market

- **SEM**: trade area with common policies on product regulation and free movement of energy, where the maximum competition between suppliers and providers of different types of energy is essential. The barriers among the MS are, therefore, removed to maximum.
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- 1) Market liberalisation
- 2) Interconnections



Tento projekt je spolufinancován Evropským sociálním fondem a státním rozpočtem České republiky.



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# Liberalization

- **Economic liberalization:** refers to fewer govt. regulations and restrictions in the economy in exchange for greater participation of private entities.
  - Arguments for economic liberalization include greater efficiency and effectiveness that would provide greater profit for everybody. Thus, liberalization in short refers to the removal of controls, to encourage economic development. (wiki).
  
- **Advantages of liberalized (= competitive) market:**
  - Allocative efficiency
  - Innovation
  - Cost reduction
  - ...

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# Liberalization – pros and cons in en. sector

- Prices are set by the market and competition drives prices lower **vs** market pricing
- Consumers pay the actual price of energy **vs** some customers may not be able to afford such costs (public service obligation)
- - Stress on profit may weaken the incentives to some investments
- - Companies are not concerned about public or state interests

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# Traditional vs liberal paradigm

- ❑ **Traditional paradigm** emphasizes stability, reliability of supply, and public service, it is a model of technical organization involving the central control over a synchronized network.
- ❑ The term refers not only to the certain ways of organizing government relations with electricity and gas industries, but also to a set of ideas about the scope of competition and the appropriate legal and institutional methods to achieve public policy aims.
- ❑ **Liberal paradigm** stresses a greater reliance on markets. It sought to introduce competition whenever possible, encouraging openness, decentralized production with network access, and profit based on the market prices, not costs. (regulation for competition).

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# Liberal paradigm

## □ Some basic characteristic:

- Separation of activities in order to facilitate the introduction of competition wherever possible (unbundling)
- Freedom of entry and freedom of investment into competitive activities, instead of a centrally-planned approach
- Freedom of contract and competitive formation of prices
- Access to the network and infrastructure
- Supervision of the model by an independent regulator

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# Specific features of gas and electricity industry

- ❑ Networks: **natural monopoly** is a monopoly in an industry in which it is most efficient for production to be concentrated in a single firm. This gives the largest supplier in an industry, often the first supplier in a market, an overwhelming cost advantage over other actual and potential competitors.
- ❑ Some specific characteristic of electricity:
  - ❑ Lack of storage potential
  - ❑ High cost of outages
  - ❑ Fluctuation
  - ❑ Lack of import dependence (in the EU) – but interconnectors are poor and missing
- ❑ Some specific characteristic of gas:
  - ❑ Geopolitics
  - ❑ Gas chain
  - ❑ Storage and timing of actions

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# First initiatives for SEM

- Four basic principles in energy policy
  - A gradual approach (to enable industry to adjust to its new competitive environment)
  - A degree of subsidiarity to enable MS to choose the system they feel fits their situation best
  - The avoidance of excessive regulation
  - Continuing political dialogue with the Council, EP, ECOSOC. (Klom, A.M.) .

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# First initiatives for SEM

- 1988 Working Document on the Internal Energy Market
  - „...the greatest possible transparency with regard to potential obstacles“.
- First activities of the Commission date from 1989.
  - Communication from the Commission: Transparency of consumer energy prices. COM (89)123, 1989
  - Towards completion of the internal market for natural gas. Communication from the Commission. Proposal for a Council Directive on the transit of natural gas through the major systems. COM (89) 334, 1989
  - Increased intra-Community electricity exchanges: a fundamental step towards completing the internal energy market. Proposal for a Council Directive on the transit of electricity through transmission grids. COM (89) 336, 1989.
  - And the others ...

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# First liberalization package

- Directive 96/92/EC of the European Parliament and of the Council of 19 December 1996 concerning common rules for the internal market in electricity
- Directive 98/30/EC of the European Parliament and of the Council of 22 June 1998 concerning common rules for the internal market in natural gas

	Unbundling of networks	Access to networks	Market opening	National regulation
First legislative package	Separate management and accounts	Negotiated or regulated terms of access	Power: 35% open by 2003 Gas: 33% open by 2018	Mechanism for regulation