

Regulation Policy of the EU

Experience from the Czech Republic

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Experience from 2nd package



n Crucial points:

- .. Regulated access to infrastructure
- .. Legal unbundling
- .. Full market opening
- .. Transparency requirements

n Results

- .. A lot of national modifications
- .. Several exemptions
- .. Very slow implementations

3rd package expectations



n Crucial points

- .. Cooperation of regulators – ACER
- .. Coordinated cooperation of TSOs in gas and electricity
- .. More independent and powerful national regulators
- .. TSOs' ownership of assets (more important than ownership unbundling)

Extra regulation policy for electricity and gas?



n Electricity

- .. European rules and standards binding and enforceable across EU
- .. Reliability achievable on the EU level

n Gas

- .. Common rules only for access to grids
- .. Dominant part of the chain (production) is excluded from this rules
- .. SoS is not possible without cooperation/relationship with non-EU countries

Significant progress in cross border trading – CZ example



n Before 2002

n Today

Allocation rules

- .. Capacity allocated by administrative decision usually based on “pro rata” principle

- .. Coordinated auctions on all profiles

Time flexibility

- .. Annual and monthly allocation
- .. Lengthy procedure

- .. Annual, monthly and daily auctions with clear and transparent rules
- .. Intraday allocation with SEPS and VET

Admin requirements

- .. License needed for imports

- .. No requirements on top of standards usual in trading

Other constraints

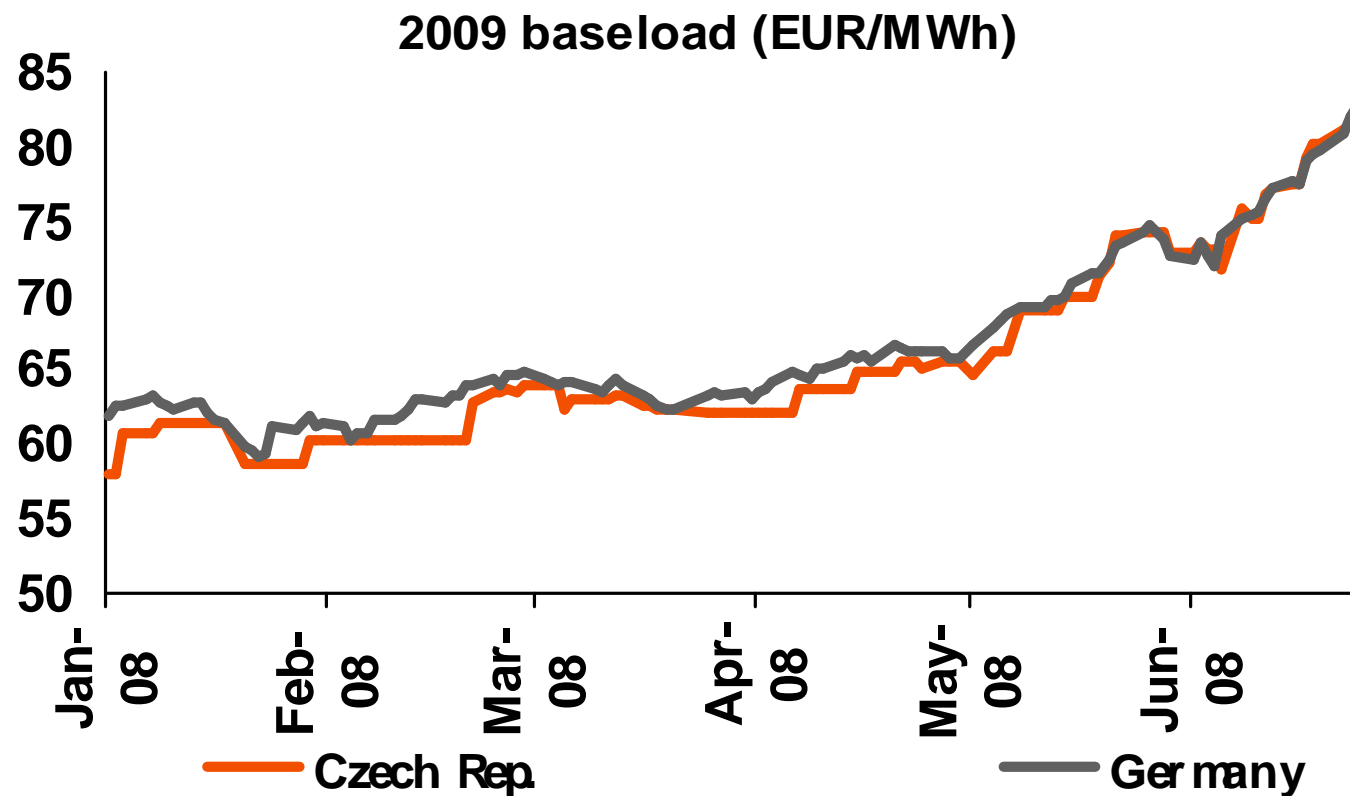
- .. Limited access to markets with slower market opening (Poland, Slovakia)
- .. Political issues with imports to Austria/Germany
- .. Threat of using reciprocity clause

- .. No major constrains
- .. Cancellation of all long-term agreements on all profiles

Regional integration

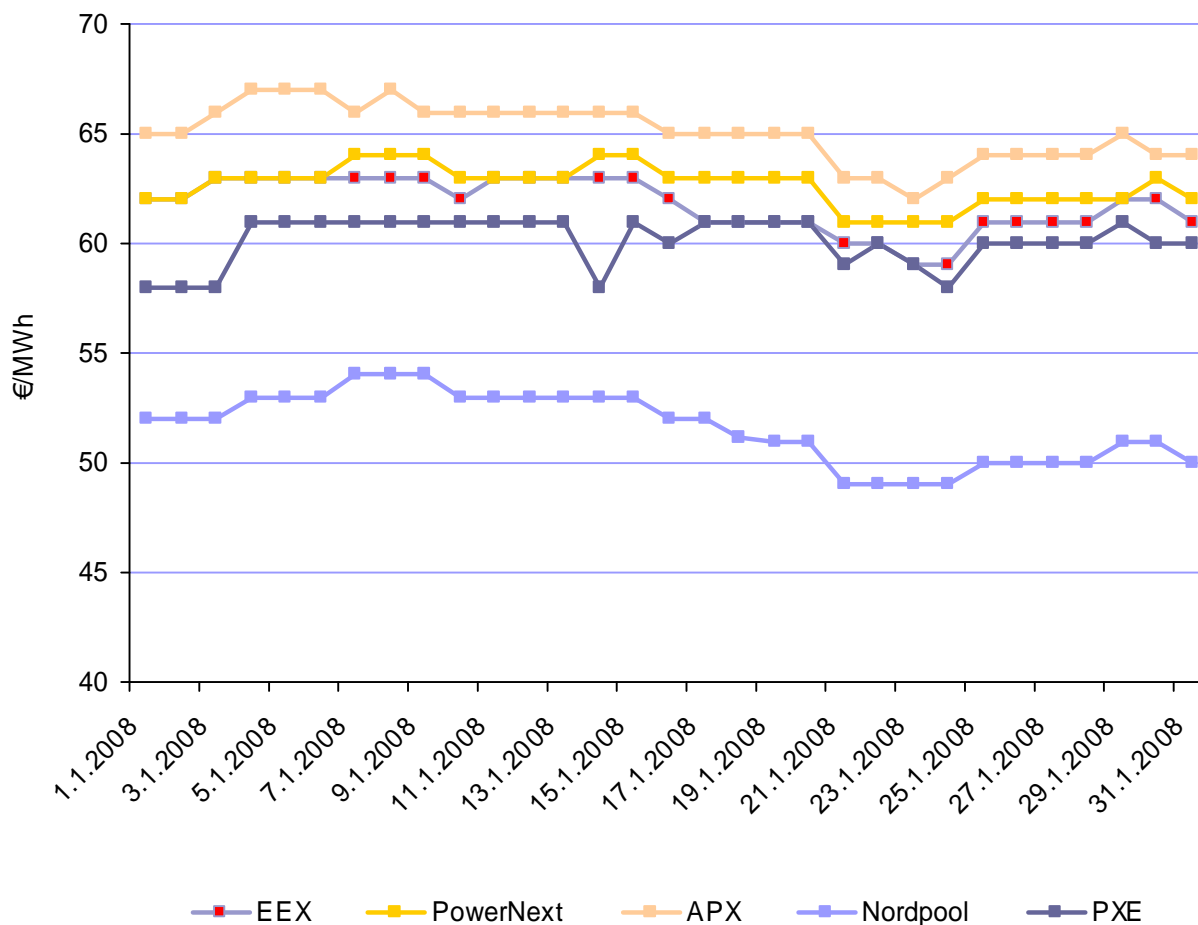
- n Prices in the Czech Republic are created by the market and in a transparent way (power exchange)
- n Price levels in the Czech Republic and the neighbouring countries are almost identical
 - ∅ The Czech electricity market is very strongly integrated in the regional market
 - ∅ Because of the huge cross-border trade and at the same time existing minimum cross-border prices of capacities, there is close interconnection with neighbouring markets.

Strong correlation with EEX



Power price convergence

Electricity Forward prices Cal09, January 2008



§ Markets price-setting has become more transparent

§ Prices are now dominantly influenced by market conditions: the underlying fuel and emission markets and demand/supply balance

§ Nordpool has lower prices due to larger hydro capacity but copies the price development pattern

Cross-border trading development

- n Cross-border intraday capacity trading CZ versus its neighbours
 - ∅ May 2006 ⇒ ČEPS v. SEPS
 - ∅ September 2007 ⇒ ČEPS v. VE-T
 - ∅ ČEPS v. E.ON Netz ⇒ testing
- n **Common spot market with Slovak Republic**
 - ∅ Expected from July 2009 (Dry run in April 2009)
 - ∅ Part of ČEPS – SEPS cross-border profile devoted to this market (thus excluded from cross-border capacity auction)
 - ∅ Based on implicit auction (Market Coupling/Splitting)
 - ∅ Energy bid/offer only. No separate capacity trading.
 - ∅ Capacity is traded in conjunction with traded volume of electricity and is utilized optimally (i.e. amount of traded volume is equal to amount of transmitted energy).
 - ∅ Mechanism generate nomination of cross-border flow in right direction and revenues for TSO for congestion management (the difference between price areas is price of the cross-border profile)

Similarities and differences between Czech and Slovak regulation

n Similarities

- .. Technical structure of networks and infrastructure
- .. Dependence on Russian gas
- .. Dominant gas transit flows

n Differences

- .. Stronger political influence into regulation in SK
- .. Absence of energy exchange
- .. Smaller and less transparent market in SK

Thank you for your attention

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