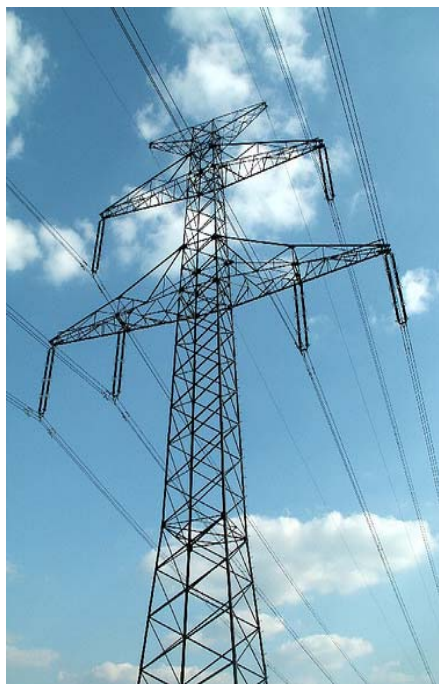




**European Commission
DG TREN**

***The Commission's impact assessment
of the 3rd package proposals***



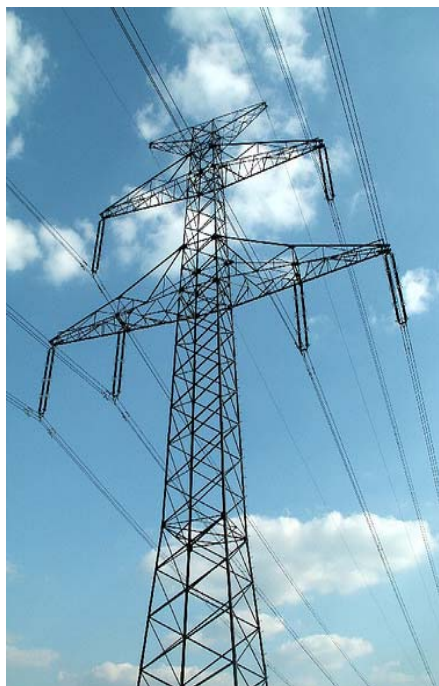
***Committee on Industry, Research and Energy
of the European Parliament
Brussels, 21 November 2007***

***Christof Schoser,
Unit C2 Internal Market for Electricity & Gas***





Overview



- *Process leading to the 3rd package*
- *Main topics of the impact assessment*
- *Detailed analysis of ownership unbundling*



Process leading to the 3rd package

- **3rd package is the result of a 2-year review process**

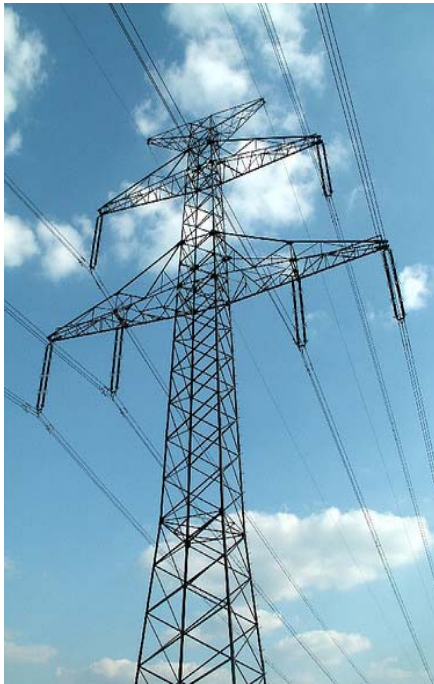


- Consultations:**
- Public consultation after publication of preliminary report of Sector Inquiry on 16 February 2006.
 - Public consultation after publication of the Green Paper on 8 March 2006. yielding 1 680 responses.
 - Country reviews to prepare the Internal Market Communication of 10 January 2007
 - Stakeholder consultation as part of the impact assessment in February/March 2007
 - Regulatory Forums for electricity (Florence) and gas (Madrid)





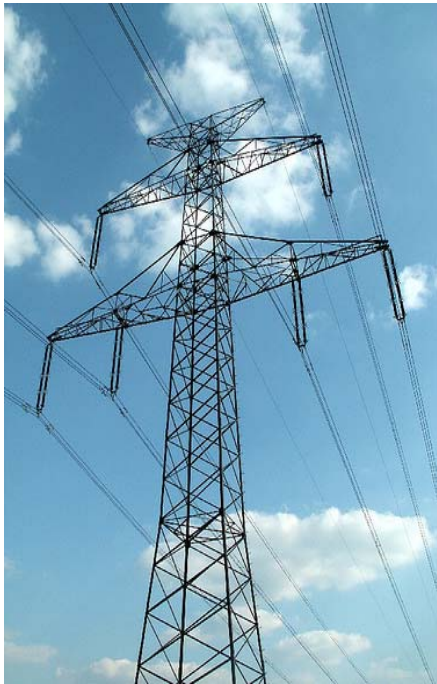
Impact assessment consultations



- **The impact assessment included a stakeholder consultation**
 - *A total of 339 questionnaires were filled in by organisations from 19 Member States.*
 - *In addition 73 replies from organisations not connected to a particular country.*
 - *Interviews with 56 additional stakeholders, mainly companies which could be affected by the unbundling of their assets or increased transparency requirements.*



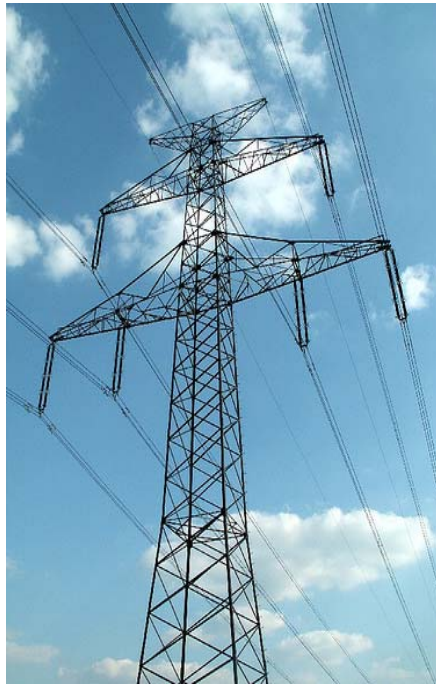
Main topics covered by the impact assessment report



- Enhancing the role of national regulators
- Coordination of regulators at EU level
- TSO coordination
- Increased transparency for wholesale markets
- Access to gas storage
- Framework for new major infrastructure
- DSO unbundling
- Enhancing retail competition
- Ownership unbundling of TSOs
- Macroeconomic impacts



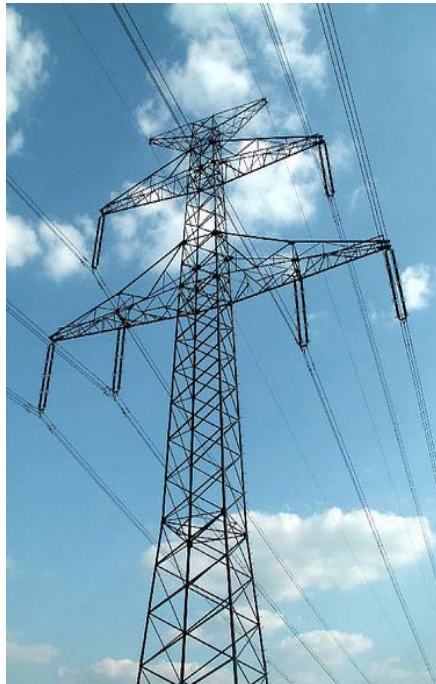
Impacts of ownership unbundling



- Investment
- Prices
- Market concentration
- System stability
- Market integration
- Credit ratings
- Company values
- Third country issues
- Macroeconomic impacts



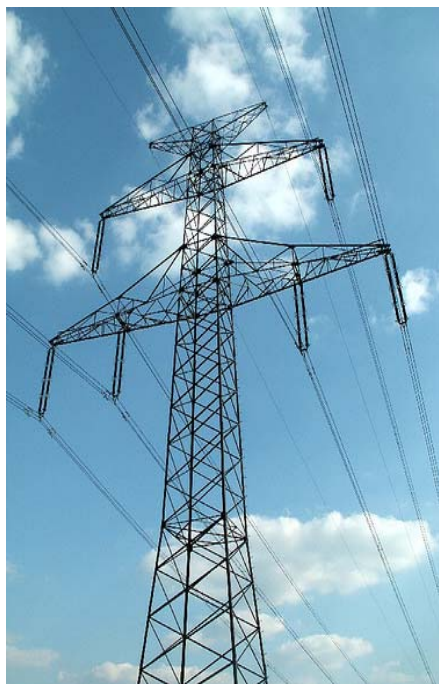
Network investment



- *Impact of ownership unbundling on network investment?*



Network investment



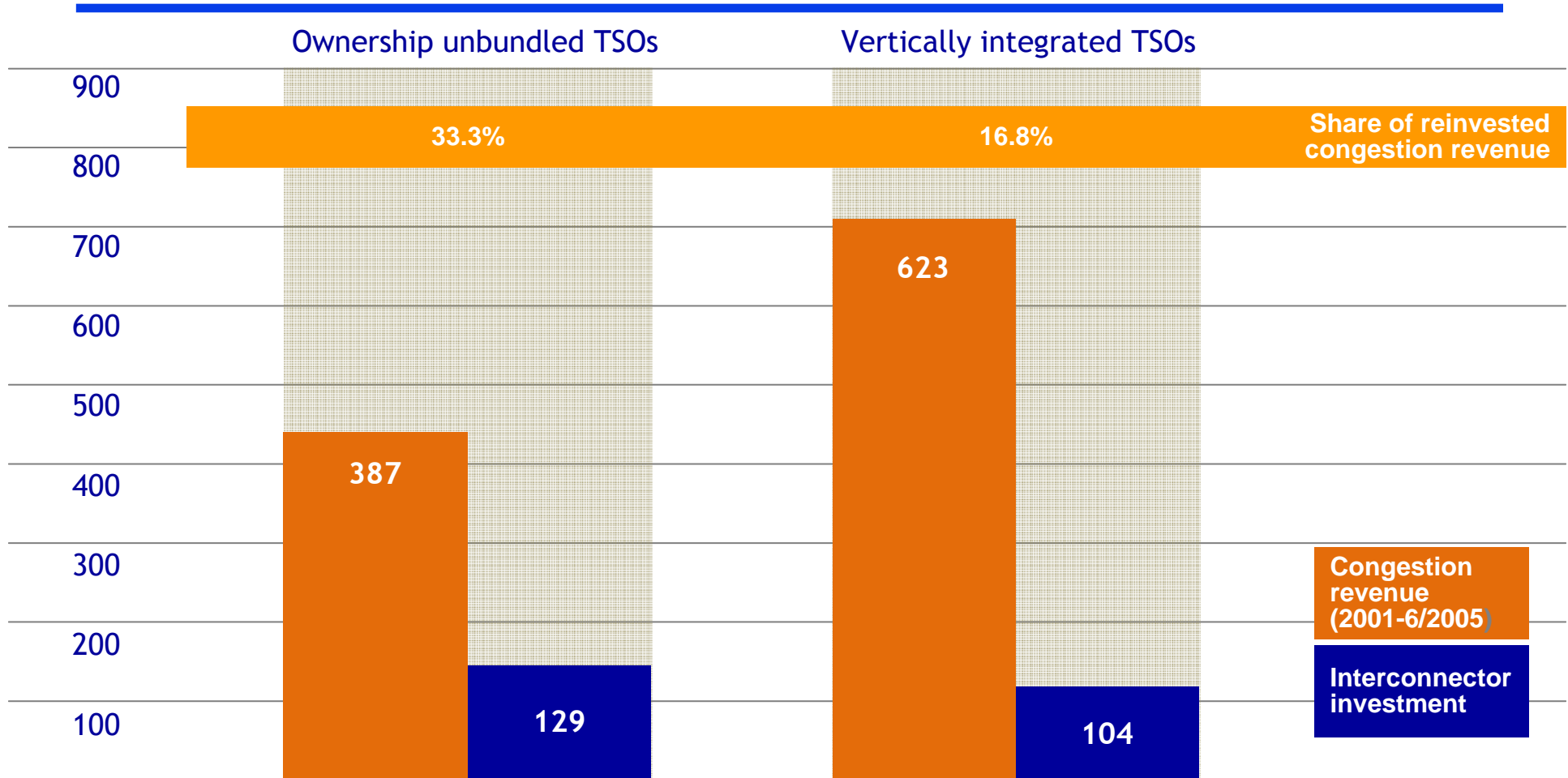
- Network operator is no longer influenced by supply interest
 - *Independent network operator has for example greater interest to diversify energy sources to reduce dependence from a particular supplier*

- Inclination to invest also influenced by other factors
 - *Tariff regulation*
 - *Market growth*
 - *State of infrastructure*

- Methodology
 - *According to the above considerations, investment in interconnection is preferable indicator*
 - *Investment in transmission networks also a possible indicator when comparing situation before and after ownership unbundling*



Share of congestion revenue reinvested in interconnection

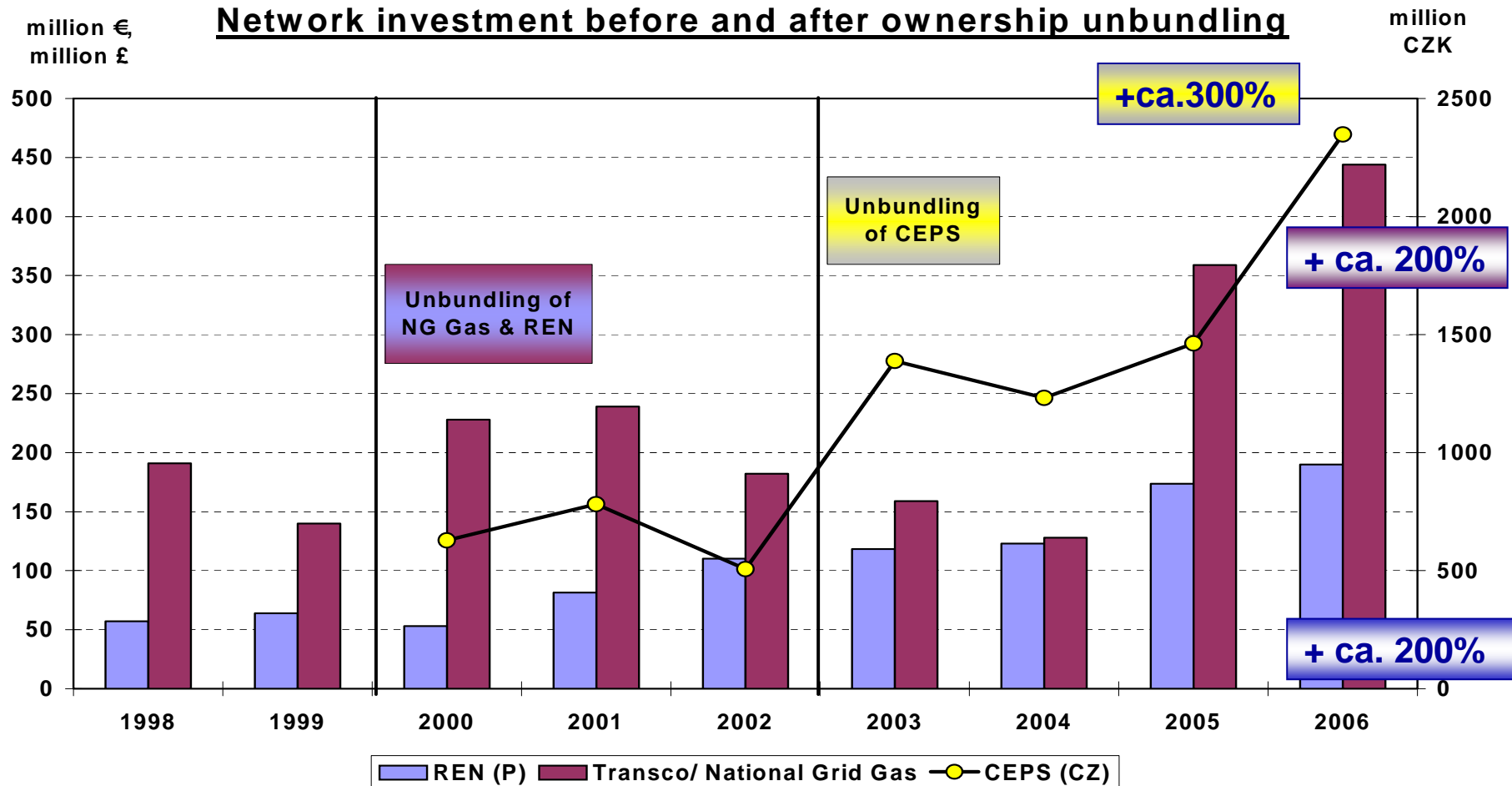


Source: Energy sector inquiry





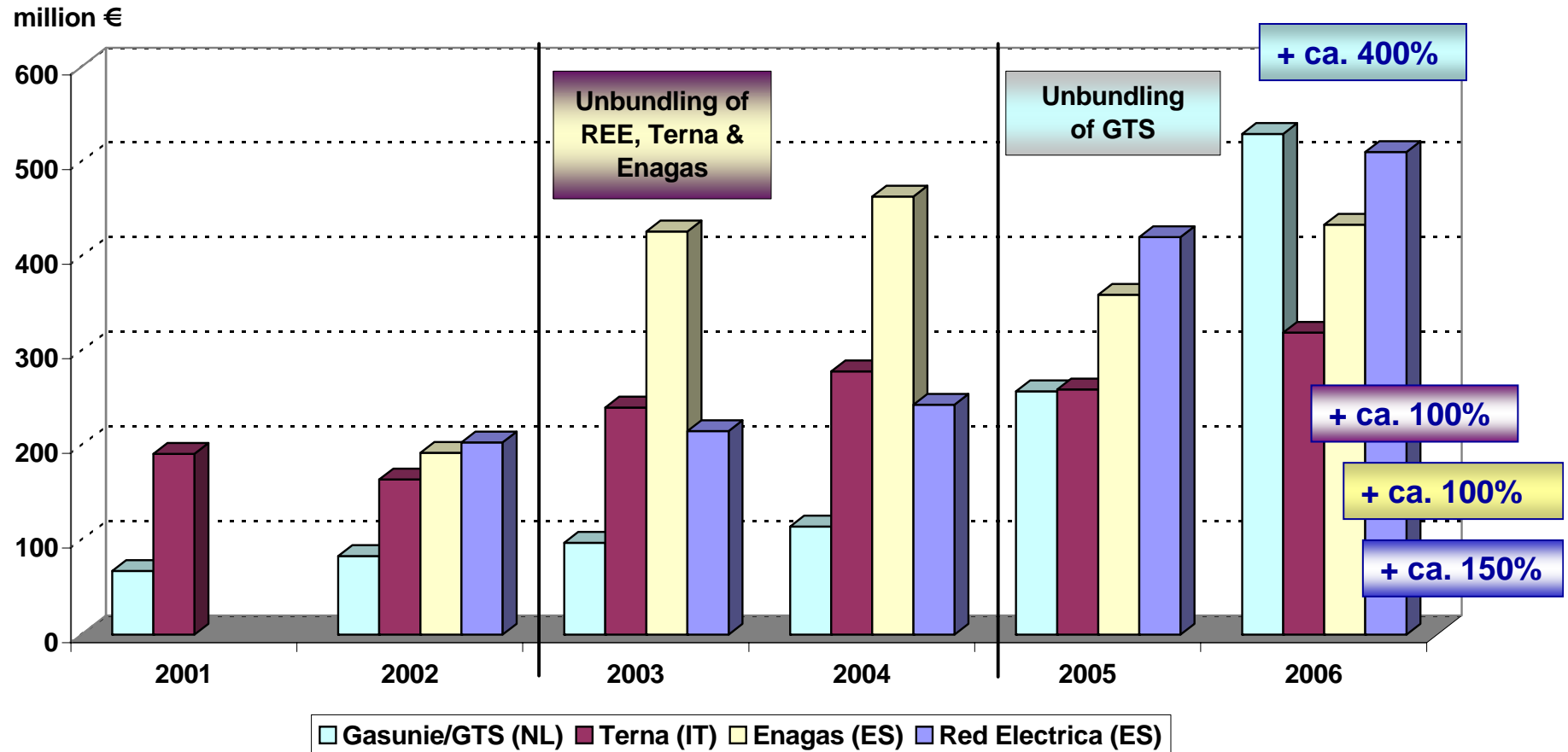
Network investment





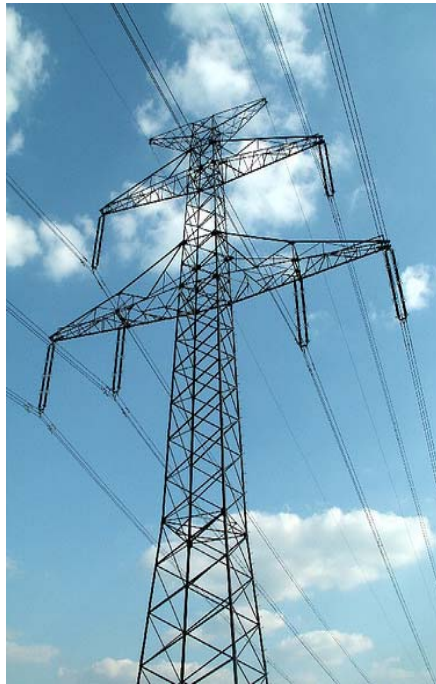
Network investment

Network investment before and after ownership unbundling





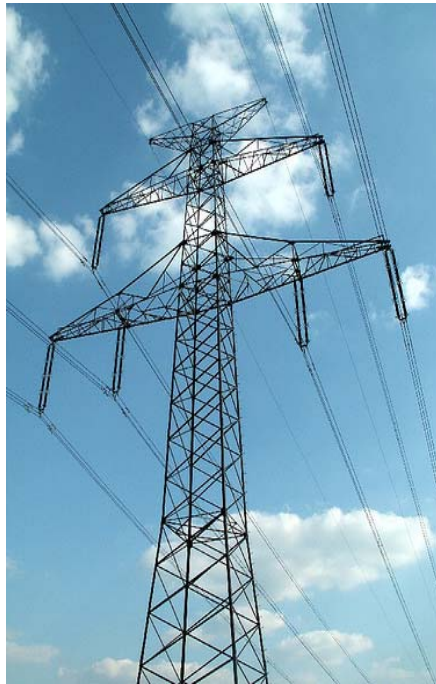
Prices



- *Influence of ownership unbundling on prices?*



Prices

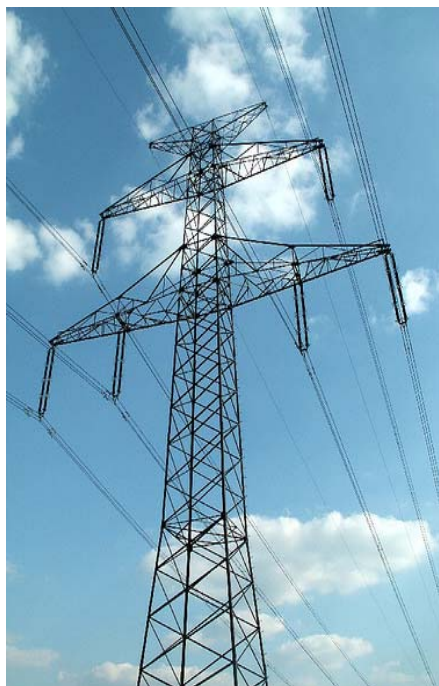


- **Methodology**
 - *Little meaning to compare absolute price levels*
 - *Influence of fuel mix, taxes, labour costs etc.*
 - *Instead price evolution since ownership unbundling*
- **Data**
 - *Eurostat price data excl. taxes and fees*
 - *Industrial consumers and households*
 - *Sufficient sample size only for electricity*



Prices

- Cumulative and aggregated electricity price changes in EU-27 (1998-2006)**



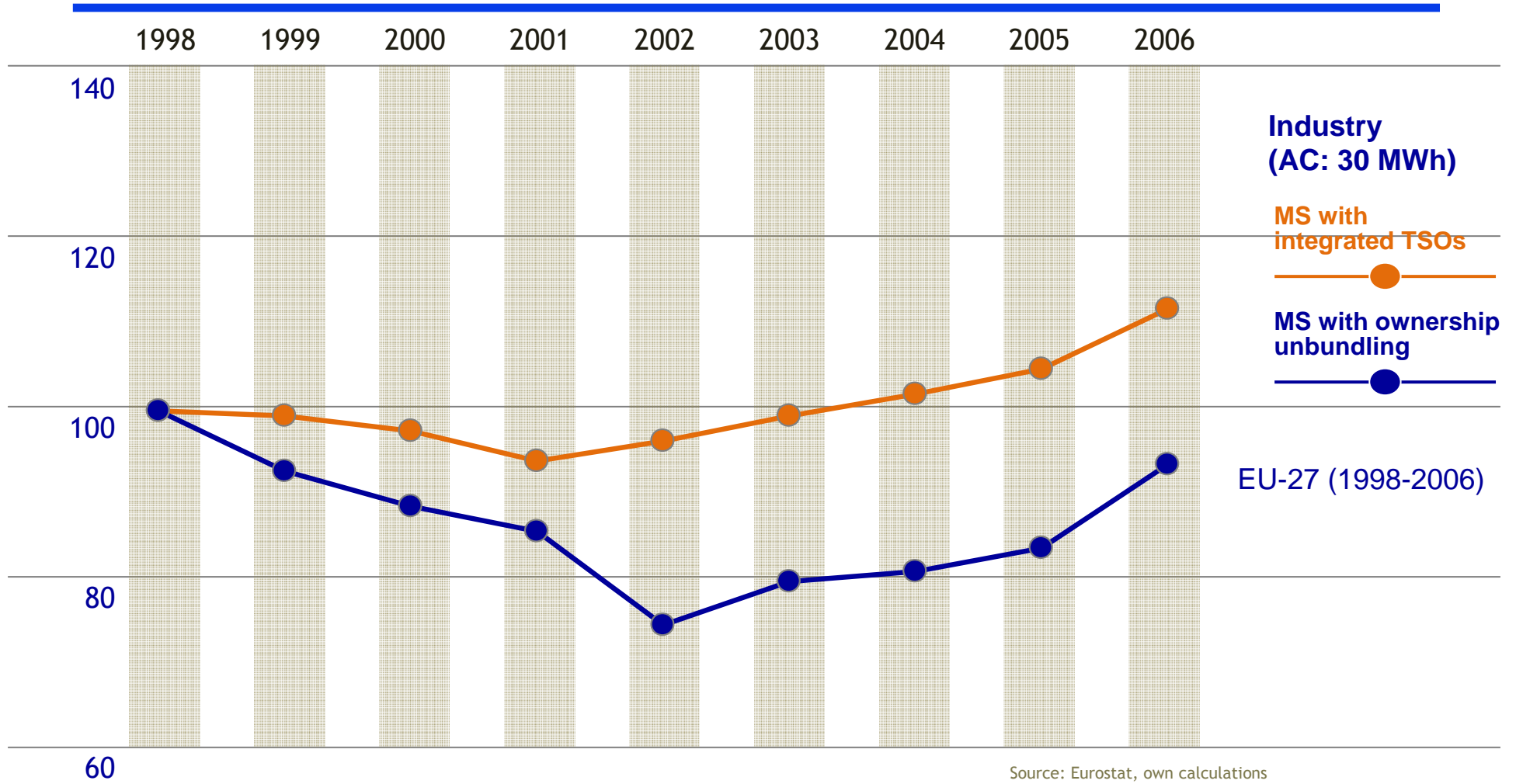
	Electricity prices			
	industry		households	
	MS with OU	MS with integr. TSOs	MS with OU	MS with integr. TSOs
Change 1998 - 2006	-3,01%	6,01%	5,91%	29,46%

Source: Eurostat data, own calculations; all prices excluding taxes



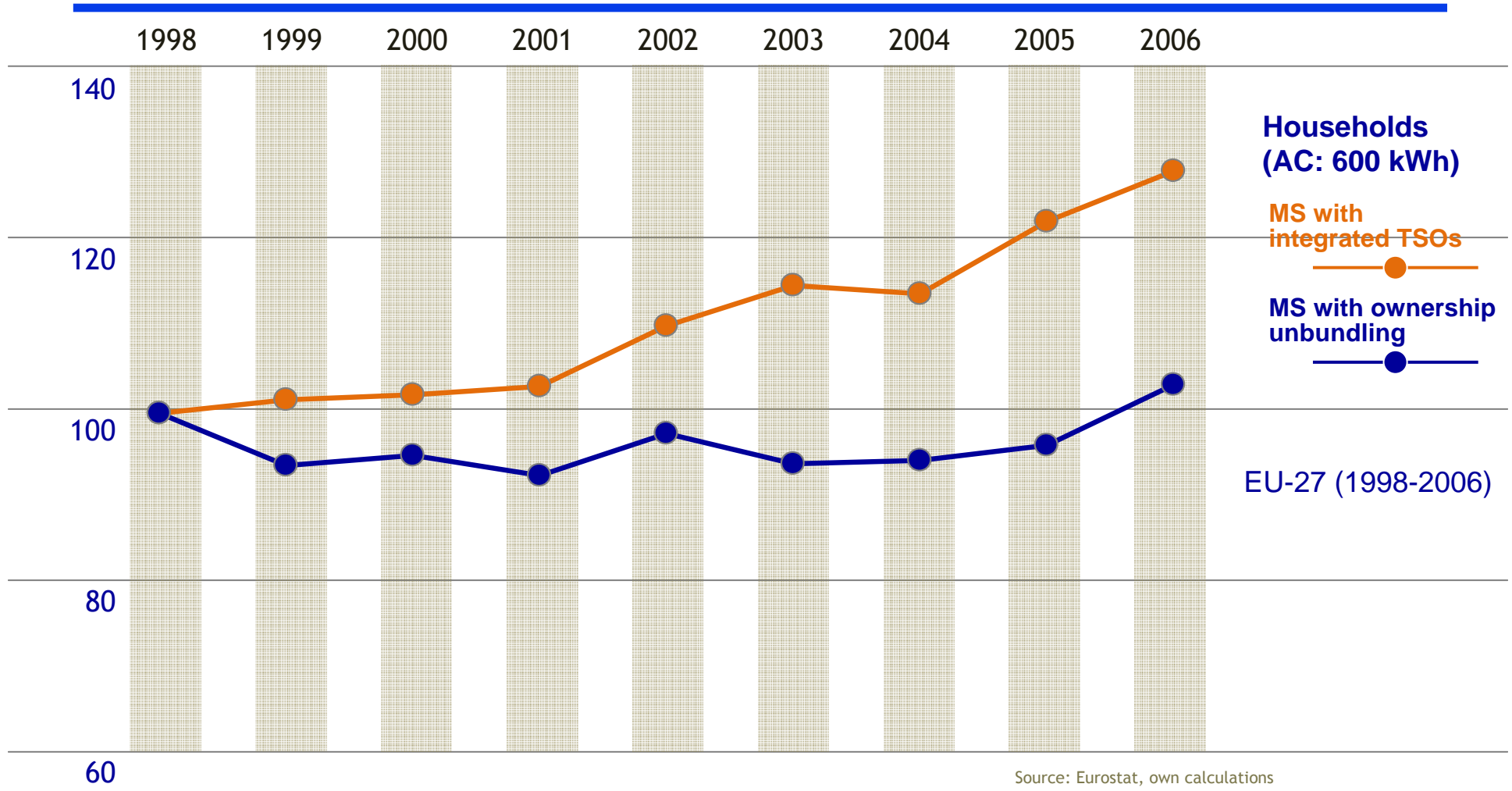


Industry electricity prices



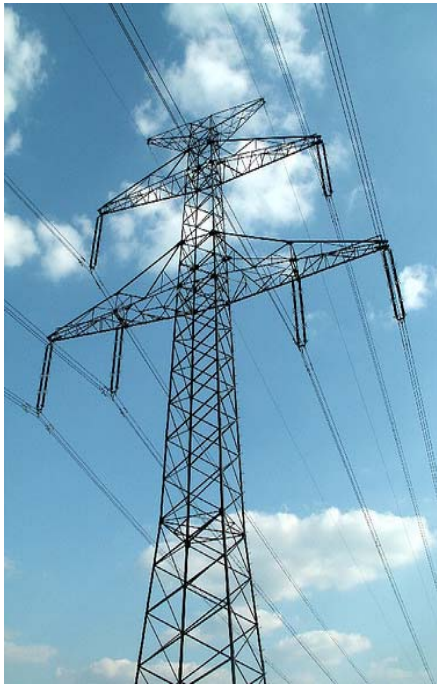


Household electricity prices





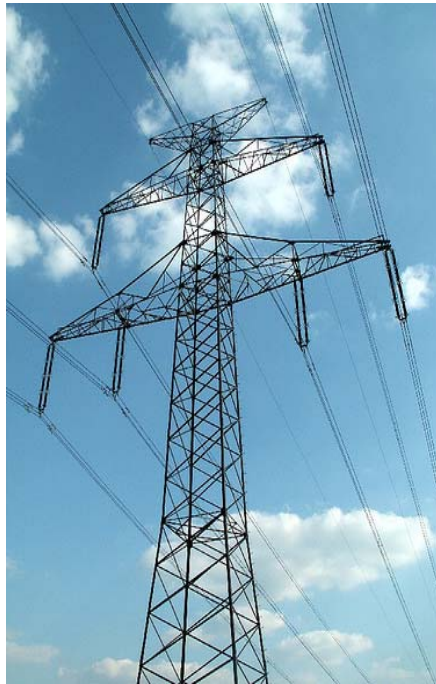
Market concentration



- *Does ownership unbundling increase competition and reduce market concentration?*



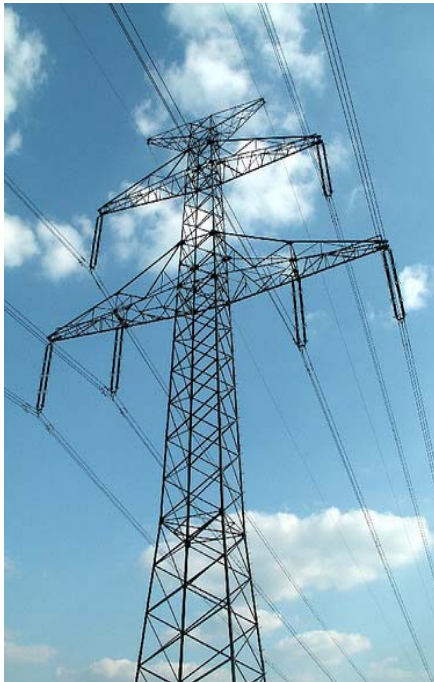
Market concentration



- In Member States with vertically integrated electricity TSO
 - *incumbents have a higher market share*
 - *their market share decrease more slowly*
- than in Member States with ownership unbundled TSOs



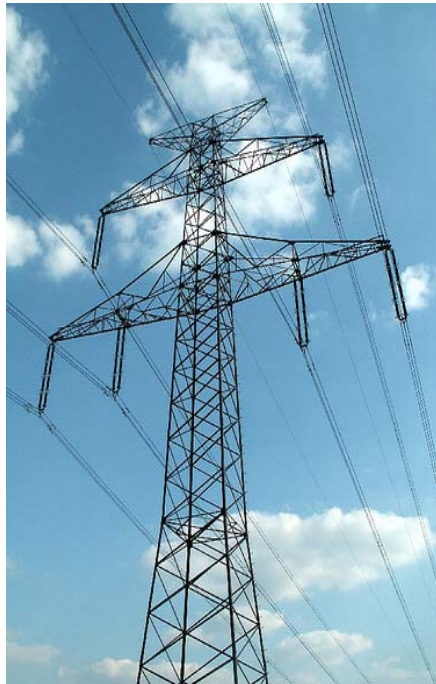
Testing for negative impacts



- ***No negative impacts of ownership unbundling could be observed on***
 - **Technical stability**
 - **Market integration**
 - **Company values**
 - **Credit ratings**
 - **Relation to external suppliers**



ISO model



- **Impact assessment analyses ISOs in**
 - *Scotland, Italy, Switzerland, US (PJM)*
- **Observations**
 - *Limited lifetime (IT, CH, HU)*
 - *Risk of coordination problem due to additional interface*
 - *Risk of lack of investment (IT, PJM)*
 - *Need for strong regulatory oversight*
- **Conclusions**
 - *Need for full independence of ISO*
 - *Clear and comprehensive task definition*



End

