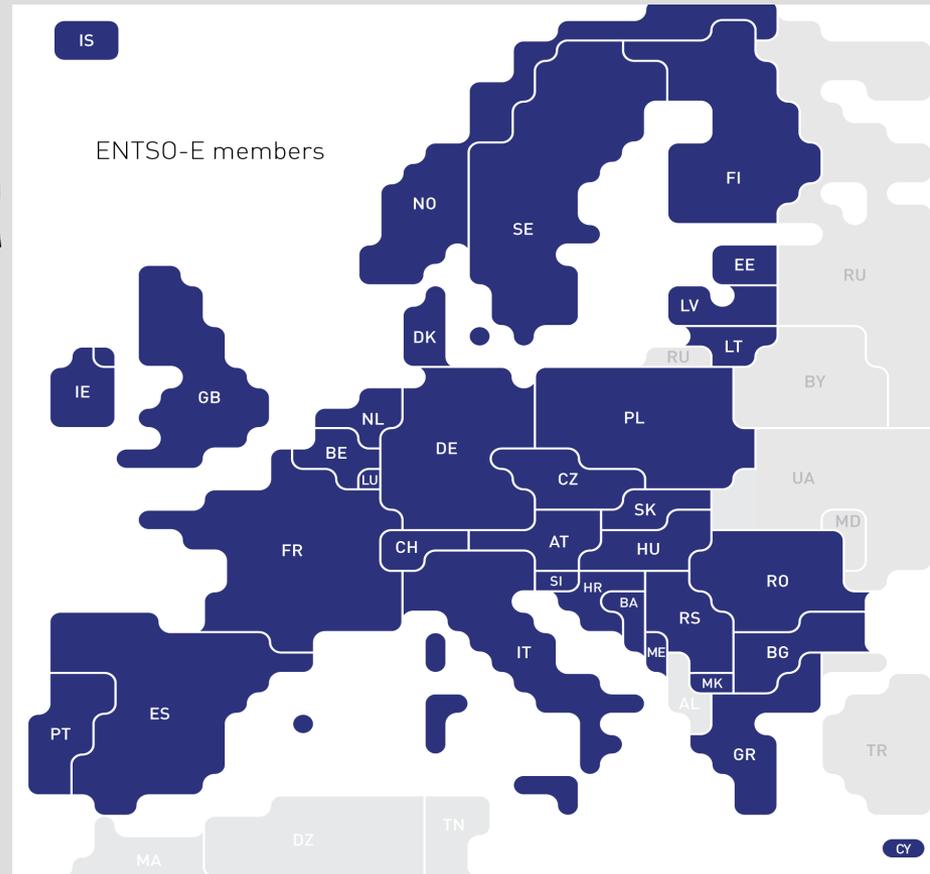




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**Hydropower Investment
Promotion Project (HIPP)**

Internal Market for Electricity in EU and ETM



June 2012



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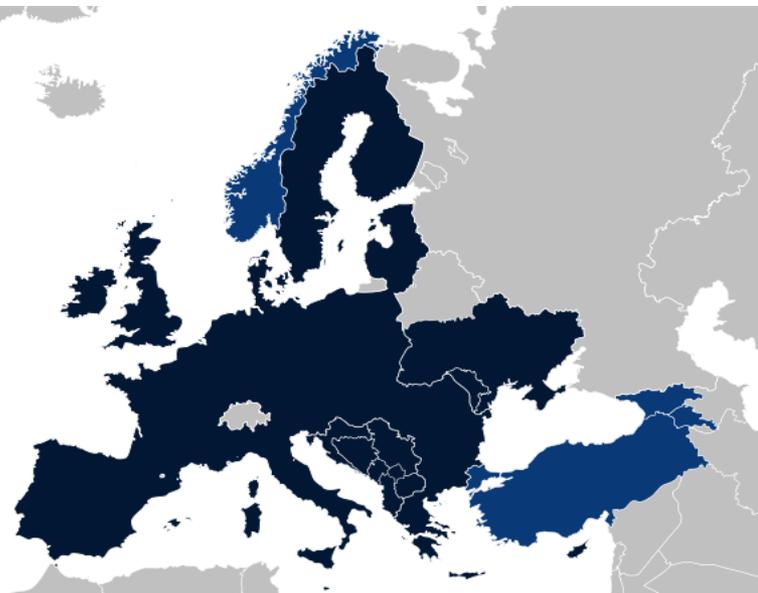


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Why do we care for EU Energy Policy?

- According to the [Article 96](#) of the Treaty, **any neighboring third country** may be accepted as an Observer to the Energy Community.
- Under the Observer status, country may **attend the meetings** of the institutions, without taking part in the discussions and voting.
- Georgia is one of the 4 observer countries, for Energy community, since 2007
- This one of the ways to integrate with EU
- ETM is good starting point for integration





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Three main directions of the EU energy Policy

- Competitive energy market, liberalization –creation of Internal Energy Market (Directive 2009/72/EC)
- Security of Supply
- Climate change activities



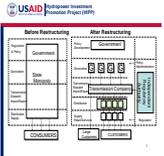


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Why competition?

- Prior to the 1980s, most utilities were national companies, often state owned, vertically-integrated monopolies;
- In 80's economists started arguing:
 - Monopoly status removed the incentives to operate efficiently
 - Mistakes should not be passed on the consumers
 - Public utilities were more likely operating based on political not on economic incentives
- Still... Construction and operation of the network is a monopoly





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Internal Electricity Market in EU

- **“Second package”**
 - Electricity Directive 2003/54/EC
 - Regulation on conditions for access to the network for cross-border exchanges of electricity 1228/2003/EC
- **“Third Package” (repeal the second package).**
 - Directive Electricity 2009/72/EC
 - Regulation 714/2009 (Access conditions of Electricity)



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New Generation Facilities

- Competitive market requires not only the legal right for customers to choose their supplier but also that they have a real choice of supplier.
- In creating internal market for electricity, this means that: Electricity companies situated in other countries must be able to export and import -free movement of goods
- Any company must be free to generate electricity in any country of the EU -free establishment.



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Authorization Procedure

- For the new generation facilities, the “Second Package” Directive provides 2 procedures for construction of new facilities:
 - Tendering
 - Authorization procedure
- **Tendering:** open, transparent and competitive procedure to select investor in the new generation facilities
- **Authorization:** pre-defined procedure and set of criteria and that needs to be met in order to have a right to build and operate the new facility.
- The “Third Package” provides only for an authorization procedure as the normal manner for permitting new generation to be licensed.



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Third Party Access (TPA)

- Right to access the infrastructure necessary for delivery of electricity.
- The owner of the grid must allow any electricity supplier non-discriminatory access in order to supply its customers (regulated access).



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Unbundling

- Unbundling is separation of the competitive activities (generation and supply) from monopolistic, network business (transmission and distribution).
- First, second and third electricity directives recognize this issue and required different levels of unbundling
- Third package requirement- “Ownership Unbundling”- is still insurmountable for major part of EnC members



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National Regulatory Authorities

- Given the nature of the monopoly (network) a sector specific regulator is necessary to ensure effective and non-discriminatory access.
- A requirement for Member States to establish regulators with specific competences was introduced with the 2nd Package directives in 2003.
- As a result, energy regulators were established in all Member States.



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Transit

- The 1st electricity directives did not cover transit as this was covered by the specific legislation -the transit directives for electricity (1990).
- The transit directives were repealed by the second electricity directives (2nd package). Since adoption of those directives, transit would –with respect to TPA – simply be considered as any other transmission service.
- Thus tariffs for transit –like any other transmission tariffs –need to be approved by the regulator and be published.



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Cross Border Regulations

- Part of the 2nd and 3rd packages are also specific legal documents which regulate conditions for network access for cross-border electricity exchanges:
- 2nd Package Electricity: Regulation 1228/2003
- 3rd Package Electricity: Regulation 714/2009



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Thank you for your attention!

