Exchange of views with the ITRE Committee on the Agency’s activities

Alberto Pototschnig, Director
Lord Mogg, Chairman of the Board of Regulators

European Parliament - ITRE Committee
Brussels, 5 November 2014
✓ Honored for **the support of the European Parliament and the ITRE Committee** to the Agency, since its very early days

✓ **Regular opportunities** to present the Agency’s activities and exchange views greatly appreciated

✓ **Successful experience with the ITRE ACER Contact Group:** two visits to the Agency in Ljubljana (August 2012 and March 2014)
ACER - an independent European Agency accountable to the European Parliament and EU Institutions

How ACER contributes to the IEM

at the heart of its mission is to foster cooperation among European energy regulators

ACER promotes market integration, harmonisation of regulatory frameworks and market integrity in line with EU’s energy policy objectives to the benefit of customers
Main findings from the **Market Monitoring Report**

Progress in completing the **Internal Energy Market** (the “2014 Goal”)

The Agency’s **2015 Work Programme**

**Bridge to 2025** Conclusions Paper

**REMIT** Implementation
Main findings from the Market Monitoring Report
Four main areas covered:

- Retail electricity and gas markets (in a single chapter)
- Electricity wholesale markets and network access
- Natural gas wholesale markets and network access
- Consumer protection and empowerment
Retail prices continue to increase despite

- **Weak electricity and gas demand** in most MSs
  - Electricity demand decreased in 2013 in 19 MSs
  - Gas demand decreased in 2013 in 17 MSs

- ... but this does not result in lower final retail prices
  - Electricity
    - Household prices increased in 27 MSs + NO
    - Industrial prices increased in 20 MSs
  - Gas:
    - Household prices increased in 21 MSs
    - Industrial prices increased in 18 MSs over the 2008-2013 period
Taxes and RES levies drive retail prices up in many MSs.

Energy commodity component is less than 50% of end-user prices:
- in 23 MSs + NO for electricity
- in 9 MSs for gas
  (based on standard offers in the capital cities)

Reduced scope for competition between suppliers.

No correlation between wholesale prices and the energy component of retail prices in some MSs.
Household consumers still reluctant to switch supplier

- **Switching rates of household consumers remain relatively low** - 6% EU average switching rate
- ...due to:
  - lack of awareness
  - regulated prices
  - loyalty to incumbents and (perceived) complexity of the switching process

- Switching rates higher when greater savings can be achieved (especially in gas)
- NO (elec), BE, ES, GB, NL continue to have higher switching rates in both electricity and gas
Main Findings

- Significant scope to improve competition in retail markets
- Majority of MSs define vulnerable customers but apply different policies
- Equally, there are many legal provisions on consumers protection applied, but scope for improvement remains

Key Recommendations

✔ Remove barriers to retail competition (notably by removing regulated prices as soon as practical) and facilitate switching
✔ Full enforcement of Consumer rights
✔ Improve Consumer protection
Progress in completing the Internal Energy Market (the “2014 Goal”)
A parallel process to speed up the completion of the Internal Energy Market... and deliver benefits to consumers as soon as possible.
ACER has delivered **all 8 Framework Guidelines and recommended 11 (of 13) Network Codes for adoption**

<table>
<thead>
<tr>
<th>FG adopted by the Agency</th>
<th>NC Status</th>
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<tbody>
<tr>
<td><strong>Electricity</strong></td>
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<td>Grid Connection</td>
<td>20.07.2011</td>
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<tr>
<td>Capacity Allocation and Cong. Manag.</td>
<td>29.07.2011</td>
</tr>
<tr>
<td>System Operation</td>
<td>02.12.2011</td>
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<td>Balancing</td>
<td>18.09.2012</td>
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<td>Capacity Allocation</td>
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<tr>
<td>Interop. &amp; Data Exch.</td>
<td>26.07.2012</td>
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<td>Harm. Tariff Struct.</td>
<td>29.11.2013</td>
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### Electricity Capacity Allocation and Congestion Management Cross-regional Roadmaps

... for the early, voluntary implementation of the Target Model

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<td>FLOW-BASED METHOD to improve network security and the level of available capacity</td>
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Huge triumph: Regional Day-Ahead market coupling
With market coupling extending to more borders, the **efficient use of cross-border interconnectors** increased from 60% in 2010 to 77% in 2013.

**Wrong-way flows and capacity under-utilisation** still persist where market coupling is not implemented yet ... causing **loss of social welfare** running in hundreds of million Euros.

**Unscheduled flows** still cause significant **loss of social welfare**, on some borders in excess of €100m.
Electricity Capacity Allocation and Congestion Management Cross-regional Roadmaps
... for the early, voluntary implementation of the Target Model

**Day-Ahead**
- SINGLE EU PRICE COUPLING to optimise use of existing day-ahead cross-border capacities at EU level

**Intraday**
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**Long Term**
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The 2014 IEM Goal: Early implementation
## Electricity Capacity Allocation and Congestion Management Cross-regional Roadmaps

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The 2014 IEM Goal: Early implementation
CAM Roadmap Pilot Projects October 2014

Significant net welfare gains could be obtained through the fully efficient use of available cross-border interconnection capacities

South CAM Roadmap (France, Spain, Portugal – VIPs) (using PRISMA as of 2014)

PRISMA (Austria, Belgium, Denmark, France, Germany, Italy, the Netherlands, Slovenia; UK & Ireland as of 2015)

GSA allocation platform (Poland, Czech Rep.)

Regional Booking Platform (Hungary, Romania)
Main Findings

- Wholesale market integration improving, but:
  - RES integration and loop flows reduce electricity price convergence
  - Limited hub liquidity and long-term contract commitments delay EU gas markets integration

Key Recommendations

- Full transposition and implementation of the 3rd Package
- Development and adoption of the first set of Network Codes and their rapid (early) implementation
- Implement short-term/ad-hoc solutions for unscheduled flows
- Promote liquidity in gas hubs and more transparent transportation charges
- Ensure consistency of energy policies and regulation between Member States and at EU level
ACER has delivered on its mission despite an expanding remit and limited resources

“ACER has become a credible and respected institution playing a prominent role in the EU regulatory arena and has focused on the right priorities.”

“[The Commission] congratulates ACER for having been able to undertake activities necessary to ensure a smooth implementation of REMIT and the TEN-E Regulation already ahead of those Regulations entering into force and the corresponding budgetary adjustment becoming available to ACER” internal energy market”

European Commission

- Second EC assessment of ACER to be issued in 2015
The Agency’s 2015 Work Programme
Theme 1: (Post-) IEM Completion
- Complete transposition of third Package
- Implementation and Monitoring of Network Codes

Theme 2: Wholesale Energy Market Integrity and Transparency
- REMIT Implementation
- Wholesale Market Monitoring

Theme 3: The Infrastructure Challenge
- Gas TYNDP
- Selection of PCIs for the 2nd EU list
- Cross-Border Cost Allocation

Theme 4: Future Challenges, including RES Integration Challenge
- “Bridge” Future Challenges
- Review of the Electricity and Gas Target Models
The “Bridge to 2025” Conclusions Paper
A strategic look at the next decade from Regulators’ perspective

- Move to a **low-carbon society** with increasing **penetration of non-programmable RES**, will require greater **flexibility** in system and response (including from the demand side)

- **Uncertain future for gas** but new roles

- Increasing **market integration** will require greater role for European-wide entities both existing (ENTSOs) and new

- Increased **cooperation with energy neighbours**, especially Energy Community after the Proposals of the High Level Reflection Group of the EnC
Key Proposals (1) reflected in the WPs

- Adopt and fully implement all Network Codes and the Electricity and Gas Target Models
- Coordinated and consistent approach to system adequacy
- Bring RES-based generation more into the market
- Facilitate the development of flexible response
- Analyse gas SoS and take measures where necessary
- Assess progress towards well-functioning gas markets, using GTM criteria, and take measures where necessary
- Greater cooperation between electricity and gas TSOs and between TSOs and DSOs
Key Proposals (2)

- Protect and empower consumers
- Develop common criteria for well-functioning retail markets
- Enhance regulatory cooperation among NRAs, including through the Agency taking EU-wide regulatory decisions
- Review and improve regulatory oversight of ENTSOs and of new EU-wide bodies
- Strengthen regulatory cooperation with our neighbours
- Participation of NRAs from Energy Community, also proposed in the High Level Reflection Group’s report, and EEA in ACER’s work and provide training
Outline of the Presentation

- REMIT Implementation
Market Monitoring without REMIT

NRAs’ perspective

**Energy price manipulation 'could account for at least 50% of bill rises'**

*Five of the big six companies have raised bills recently, all blaming their actions in part on the current wholesale price*

Simon Neville
The Guardian, Wednesday 14 November 2012

**Gas prices: Labour calls for transparent trading after whistleblower claims**

Caroline Flint says people 'don't trust' energy sector after former price reporter claims firms manipulated wholesale market

Peter Walker
guardian.co.uk, Tuesday, 13 November 2012 11:31 GMT
Is the EU really committed to energy market integrity and transparency?

- Market integrity and transparency is of fundamental importance to promote confidence of market participants and energy consumers.

- A single failure will sparkle major political interest and threaten confidence.

- Adequate skilled resources at ACER and NRAs essential!
**REMIT at a Glance**

**Integrity**
Explicit prohibitions of abusive practices (market manipulation, attempted market manipulation and insider trading) in wholesale energy markets

**Transparency**
Obligations for market participants to disclose inside information

**Monitoring**
A new, sector-specific, comprehensive and effective monitoring framework for wholesale energy markets

**Cooperation**
Close cooperation and coordination between ACER (EU-wide monitoring) and NRAs (national monitoring, investigation and enforcement)
11 months to go!
Trade data reporting obligation will start applying in October 2015

- Adoption of the Implementing Acts
- Entry into Force of the Implementing Acts
- Registration of Market Participants
- Data reporting and monitoring by ACER

Expected Timeline:
- December 2014
- January 2015
- February/March 2015
- October 2015

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Two key components of a complex process

Data Acquisition
- Trade Data
- Fundamental Data

Monitoring Methodology: “Anomalous Events” definition

Automatic Screening to identify “Anomalous Events”

Coordination of NRAs (if needed)

Notification of “Suspicious Events” to NRA(s)

Preliminary analysis of “Anomalous Events”
Staff assigned to ACER: 15 (REMIT Financial Statement)
Additional staff required for operating REMIT: 30 FTE

<table>
<thead>
<tr>
<th>Team/Tasks</th>
<th>2014</th>
<th>Addit.</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Policy</td>
<td>3</td>
<td>4</td>
<td>7</td>
</tr>
<tr>
<td>Data Management</td>
<td>4</td>
<td>3</td>
<td>7</td>
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<tr>
<td>Surveillance and Analytics</td>
<td>3</td>
<td>8</td>
<td>11</td>
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<tr>
<td>Conduct</td>
<td>3</td>
<td>14</td>
<td>17</td>
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<tr>
<td>HoD and Support</td>
<td>2</td>
<td>1</td>
<td>3</td>
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<tr>
<td><strong>Total</strong></td>
<td><strong>15</strong></td>
<td><strong>30</strong></td>
<td><strong>45</strong></td>
</tr>
</tbody>
</table>

Director’s proposal (45 FTE required to operate REMIT) fully supported by the Board of Regulators and the Administrative Board
**Constraints**

Staffing already **tight** throughout the Agency

**New expertise** required for REMIT Operations

**Very Limited Scope for Staff Redeployment**

**International Benchmark**

- **FERC (US)**
  - Data Management: 6 FTEs
  - Monitoring: 35 FTEs
  - Surveillance: 20-25 FTEs
  - Total: 60-65 FTEs

- **FCA (UK)**
  - Market Monitoring: 55 FTEs
In 2013 FERC concluded a number of Market Abuse Investigations, including on:

- **J.P. Morgan Venture Energy Corporation**
  - Civil penalty: US$ 285 million
  - Disgorged unjust profits: US$ 125 million

- **Barclays Bank PLC (and four of its traders)**
  - Civil penalty: US$ 453 million
  - Disgorged unjust profits: US$ 35 million
The number of new cases has increased significantly in 2014.

REMlTT: Cases notified to/by ACER

Year of notification

Number of Cases

<table>
<thead>
<tr>
<th>Year</th>
<th>Pending</th>
<th>Closed Breach found and sanctioned</th>
<th>Closed Breach found but no formal sanction applied (e.g.: warning)</th>
<th>Closed - Insufficient evidence or no breach</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>9</td>
<td>1</td>
<td>1</td>
<td>0</td>
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<tr>
<td>2013</td>
<td>7</td>
<td>1</td>
<td>3</td>
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<tr>
<td>2014</td>
<td>20</td>
<td>3</td>
<td>6</td>
<td>1</td>
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</tbody>
</table>

Until 31/10/2014
What happens if ACER and NRAs remain under-staffed and under-skilled

**Ineffective Implementation of REMIT**

- **Reputational risk for ACER, and the EU institutions**, if market abuse instances emerge (e.g. through whistleblowers) which went undetected (by a €4 million system)

- **NRAs** must investigate and enforce under REMIT with limited resources – **will not be able to handle large number of notifications of possible abuses, nor properly enforce**

  ✓ NRAs do not have visibility of the whole EU market and they are thus less effective in identifying market abuse
Thank you for your attention

www.acer.europa.eu
Back-up
Decreasing electricity and gas demand in many MSs...

Change in electricity and gas demand in EU28 – 2012 to 2013 and 2009 to 2013 (%)

Electricity

Gas

Source: Eurostat and ACER calculations
Main findings of the MMR

...Decreasing electricity and gas demand in many MSs...does not result in lower final retail prices...

*Post-tax retail prices: compounded annual growth rate in EU28 from 2008 to 2013 (%)*

**Electricity**

**Gas**

Source: Eurostat and ACER calculations
...while the energy component continues to represent a relatively small part of the final bill, especially for electricity...

Post-tax retail price break-down – incumbents’ standard offers for households in capital cities – 2013 (%)

Source: ACER retail database and information from NRAs (2013)
...and its share in the final bill is decreasing

The compounded annual growth rate (CAGR) of the electricity energy component and the non-contestable part of POTPs for households and industry – Europe – 2008–2013 (%)

Household (electricity )

Industrial (electricity)

Source: Eurostat (21/7/2014) and ACER calculations, data for gas not available for these years
Switching rates of household consumers remain relatively low...

Switching rates for electricity/gas household consumers in Europe - 2008-2012 and 2013 (ranked according to switching rates in 2013)

Source: CEER National Indicators Database (2014)
... and seem to be positively related to price differentials, more so in gas than in electricity

Relationship between countries’ overall switching rates and annual savings available in capital cities – 2013 (%)

Source: ACER Retail Database and CEER National Indicators Database (2014) and ACER calculations
Main findings of the MMR

No correlation between wholesale prices and the energy component of retail prices in some MSs...

*Relationship between the energy component of the retail electricity price and the wholesale electricity price and mark-up in a selection of countries – 2008–2013 (euros/MWh)*

Source: NRAs and European power exchanges data (2014) and ACER calculations
Significant net welfare gains could be obtained through fully efficient use of available interconnection capacities

Potential yearly net welfare gains in different EU MSs if cross-border physical unused capacities were fully utilised – 2013 basis, monthly aggregated (millions euro per year)

Source: Eurostat Comext, Platts, NRAs and CEER Database Indicators data and ACER calculations
Main findings of the MMR

- Wrong-way flows and capacity under-utilisation still persist where market coupling is not implemented yet ...

**Percentage of hours with net day-ahead nominations against price differentials per border – 2012-2013 (%)**

**Percentage of available capacity (NTC) used in the ‘right direction’ in the presence of a significant price differential, per border – 2013 (%)**

*Source: ENTSO-E, data provided by NRAs through the ERI, Vulcanus (2014) and ACER calculations*
...causing loss of social welfare

Estimated ‘loss of social welfare’ due to the absence of market coupling by region/border – 2012-2013 (million euros)

Source: ENTSO-E, data provided by NRAs through the ERI, Vulcanus (2013) and ACER calculations