

Energy Transition – A multi-faceted Challenge for Europe

1st symposium: The completion of the internal energy market by 2014: feasible or illusory?



Solutions for the completion of the EU internal energy market

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Reputation built on Results



Completion of the internal energy market – the pursuit of the holy grail?

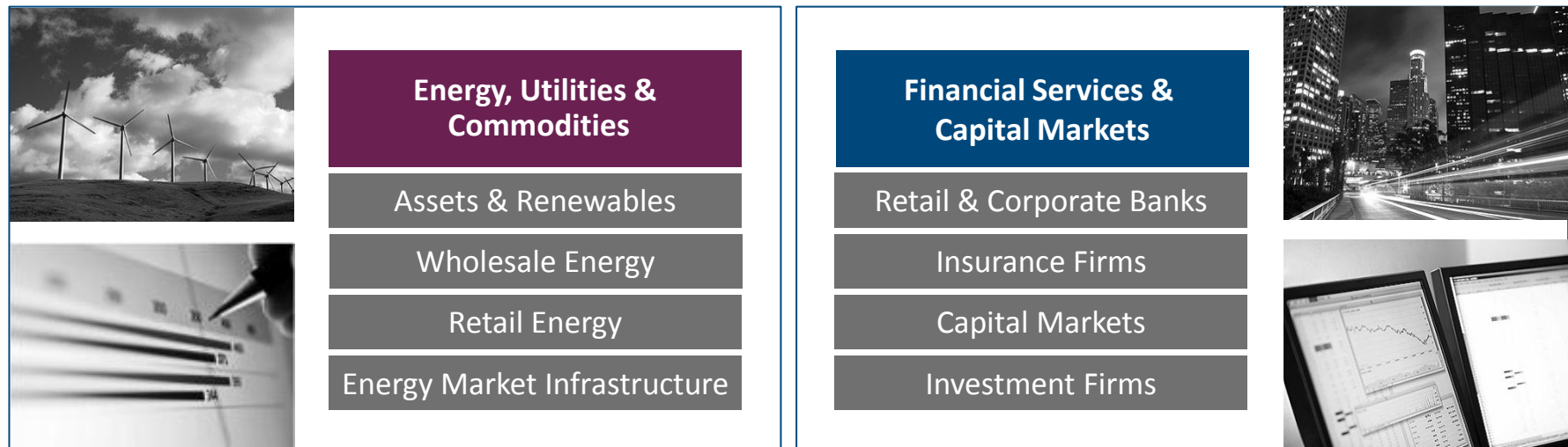
The young have aspirations that never come to pass, the old have reminiscences of what never happened.

Saki

British (Burman-born) short story author (1870 - 1916)

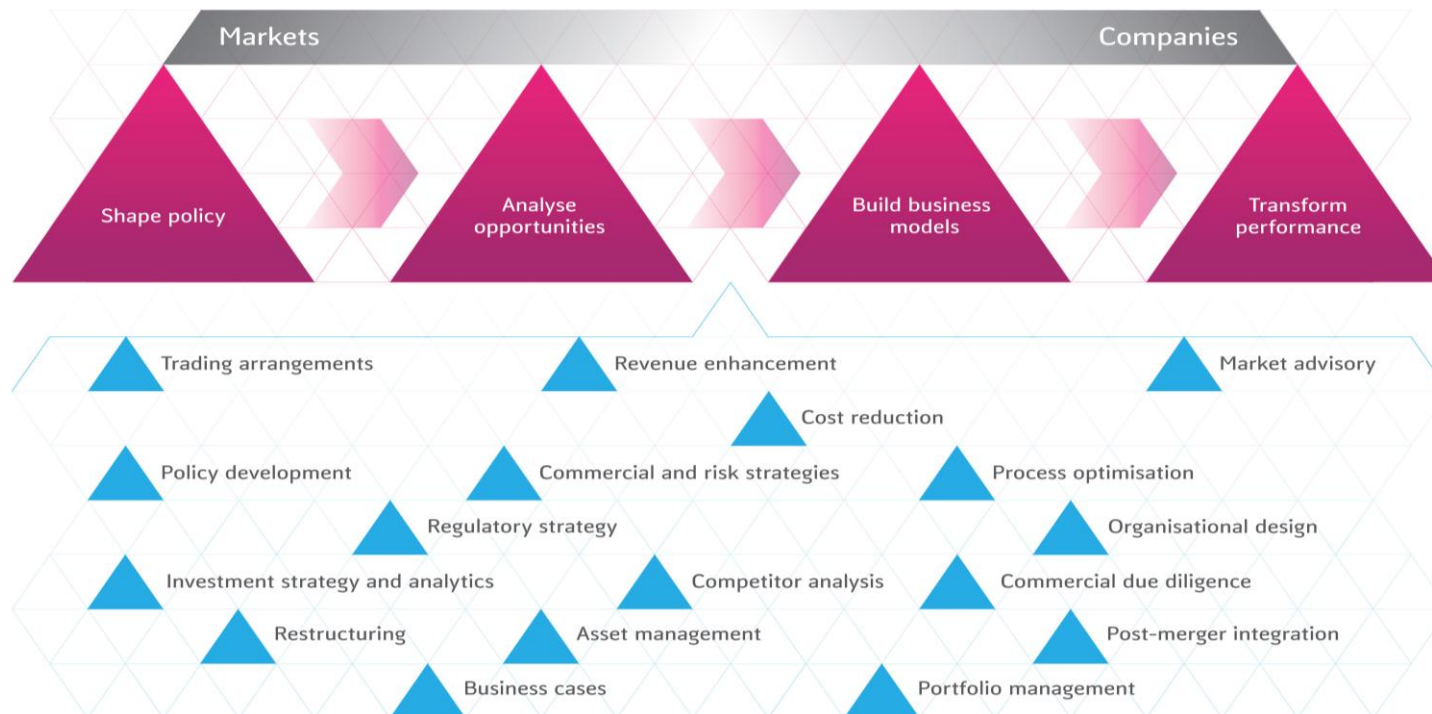
Baringa Partners LLP – Profile

- ▶ Baringa Partners LLP is a market-leading consulting company with a **focus on energy, commodities and financial services**
- ▶ Founded in the UK in 2000 – Baringa Partners has a market turnover of **approx. £50m, with more than 270 professionals**. A **German branch office** has been opened in 2011 to increase support of our clients in central and eastern Europe
- ▶ Baringa Partners has a strong track record working with numerous companies in the international commodities trading markets – our capabilities and experiences extend across Oil, Gas, Power, Coal, Carbon and Soft Commodities; our clients comprise **Oil Majors, Utilities, Investment Banks, Exchanges and Investment Funds**
- ▶ Through the **merger with Redpoint Energy** Baringa Partners has expanded its strategic advisory capabilities to serve strategic projects and transformation projects at the interface between business and technology challenges in the energy wholesale and retail domains.



Baringa – Our services

- ▶ Baringa Partners supports its clients in strategy-related projects and policy setting, as well as with the design and implementation of new business models and products. Baringa leads transformation projects to implement new organizational models and technological architectures to improve business efficiency and effectiveness



The Internal Energy Market – The ambition

“The EU aims to fully integrate national energy markets by 2014, to give consumers and businesses more and better products and services, more competition, and more secure supplies. Progress has already been made: consumers can switch suppliers for gas and electricity, and suppliers must provide clear explanations of terms and conditions. Work still to be done includes aligning national market and network operation rules for gas and electricity as well as making cross-border investment in energy infrastructure easier.”

The 3rd Energy Package – overview

1990s

- First Energy Package

2003

- Second Energy Package

2009

- Third Energy Package passed by EU

Mar
2011

- EU member states to implement 3rd Energy Package into their respective national laws

Transmission System Unbundling

- Obligations for vertically integrated energy companies to unbundle their transmission network activities under one of three options
 - Fully unbundled - transmission system owned & operated by company where a vertically integrated energy company only has a minority, non-controlling interest
 - ISO – network is owned by a vertically integrated company but is operated by an Independent System Operator
 - TSO – network is owned & operated within a vertically integrated company under ring-fencing provisions
- Once a transmission company is considered fully bundled it can not revert to ISO or TSO status. This restricts the structural options for an unbundled company.

TSO Co-operation & Transparency

- The 3rd Package established a new regulatory framework (ACER) for cross border trade with provisions for legally binding European network codes
- Co-ordination of grid operations and creation of entry-exit systems
- Abolishes contract path tariffs
- Includes legally binding transparency requirements

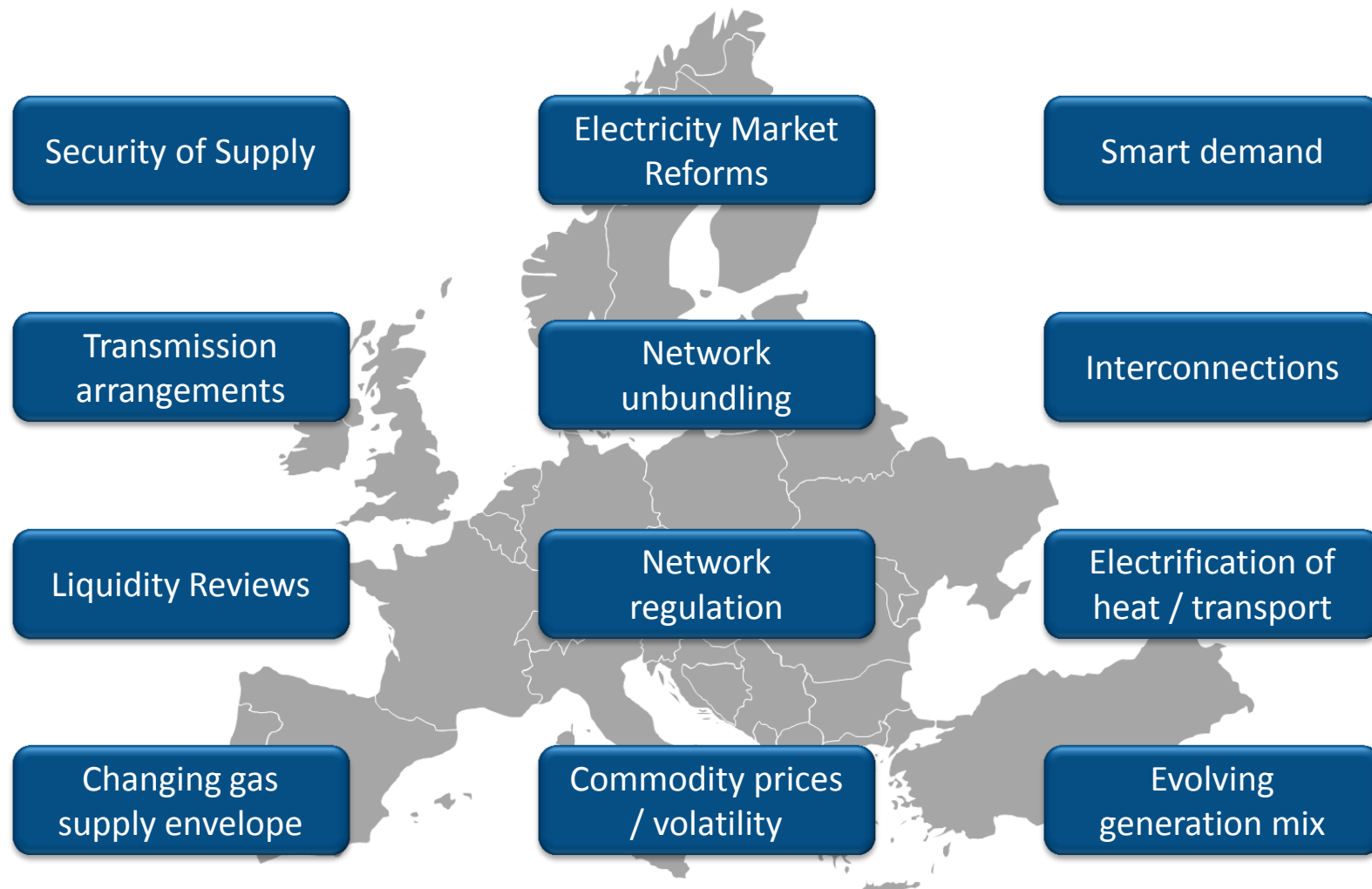
Strengthening of National Regulators

- The 3rd Energy Package seeks to bring consistency in EU member states approach to energy regulators
- National Energy Regulators (NRAs) must:
 - Be legally distinct and independent of any other public or private entity
 - Must act independently of any market interest
 - Neither seek nor take instruction from government
- NRAs have increased powers to review TSO investment plans and monitor TSO in their performance
- NRAs have been given a European wide obligation to promote “a competitive, secure and environmentally sustainable internal market in natural gas within the Community
- The package creates an Agency for the Co-operation of Energy Regulators to support energy regulation across Europe

Access to Storage and LNG

- Aims to improve the operation of the gas storage market and LNG facilities
- The 3rd Energy Package includes requirements for the legal and operational unbundling of gas storage system operators (SSOs) to ensure their independence
- It strengthens third party access to storage facilities that are technically and/or economically necessary for providing efficient access to the system

Energy Landscape in Europe – Facing a period of sustained change



Progress – A brief summary

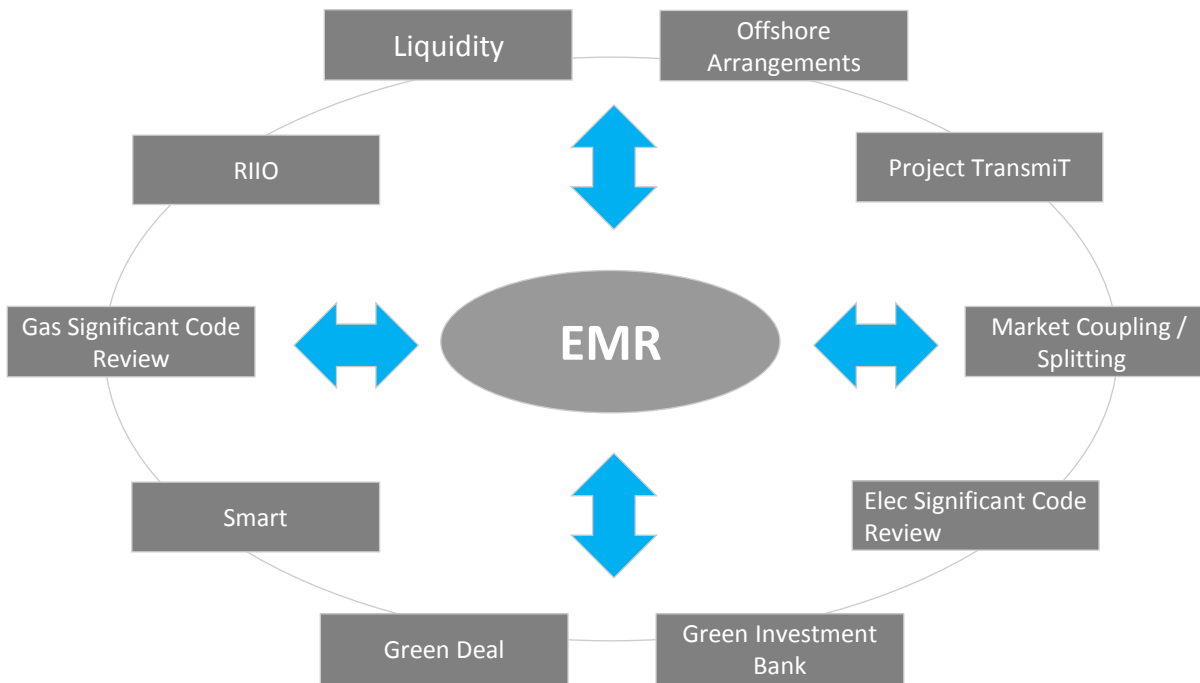
“Making the internal energy market work”
 European Commission 15 November 2012

<p>Choice and flexibility</p>	<p>Liquid and transparent w/s markets</p>	<p>More secure supplies</p>	<p>Coordination with third-countries</p>
<p>... but actual level of retail competition?</p>	<p>... but questions about liquidity and consolidation</p>	<p>... but sustaining generation margin and gas s-o-s</p>	<p>... but still exposed to third-country disputes</p>

“The Regional Initiatives and the road to 2014”
 ACER, February 2013

<p>More work to do on smart grids and smart consumption</p>	<p>Access to transmission grids</p>	<p>Development and efficient use of transmission grids</p>	<p>Enforcement and protections</p>
<p>“Price coupling has experienced delay but the 2014 deadline is achievable”</p>	<p>“Intraday project has had a major delay ... but a pilot solution to be delivered in 2013”</p>	<p>“Harmonised allocation rules for long-term rights are on track”</p>	<p>“Flow-based method postponed ...”</p>
<p>“Early implementation of CAM and pilots”</p>	<p>“Network Code harmonisation”</p>	<p>“Increased transparency”</p>	<p>“Regional investment plans and agreement”</p>

Fundamental reforms in gas and electricity regulation – the devil in the detail



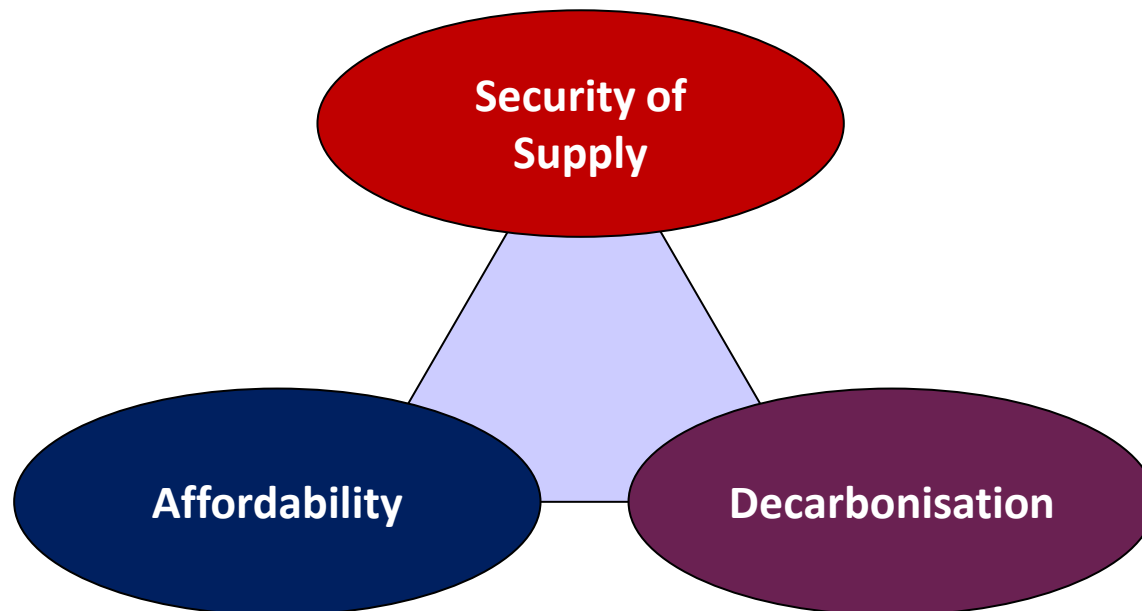
Key interaction points between EMR and significant market & regulatory developments

There are significant regulatory and market reform programmes that are being developed to further regional and local issues and priorities.

These programmes are typically operating at a level of detail below the target model, but do often represent a significant tension with the target model.

The 2014 goals are a step to delivering against a more challenging agenda for energy

Climate change is a real and growing issue ...



... but will need to be consistently addressed against the trilemma we face

The 2014 goals are a step to delivering against a more challenging agenda for energy

The challenge is not just delivering a single market ...

European Goals	<ul style="list-style-type: none">• European goals as part of global action• A market for carbon that works• A focus on the priorities	Coherence Consistency Coordination ... and political determination
Pathways	<ul style="list-style-type: none">• Alignment of the pathways to decarbonisation• Applying market principles to the maximum extent• Consideration of alternative trajectories	
Codes	<ul style="list-style-type: none">• Principles to guide the development of detail – capacity mechanisms, incentive arrangements, interconnectors, cross-border participation ...	

... but also to position Europe for the effective, efficient, and affordable energy solution of the future

Why Baringa Partners

Baringa Partners' reputation is built on results and we bring a track record of leading and delivering strategy and transformation programmes based on insight, expertise and a collaborative approach

Our Energy Experience

- ▶ We have worked with many of Europe's leading energy companies in shaping and delivering their strategies
- ▶ We are proven specialists in delivering Target Operating Models and complex business and IT change programmes where we have become trusted advisors in driving and delivering positive change
- ▶ Following the merger with Redpoint we are uniquely positioned with knowledge, experience and insight into the changing landscape of the European Energy Markets

Our Approach

- ▶ We build a sustainable client capability by working collaboratively with our clients' people and partners
- ▶ Baringa is pragmatic in the way we tackle problems and propose solutions. We do not propose a "one size fits all" methodology, instead we choose the appropriate approach to tackling the specific client challenge
- ▶ Our propositions are based on deep industry expertise

Programme Leadership

- ▶ We take on programme leadership roles to assist our clients in delivering complex, multi-dimensional programmes
- ▶ We apply consistent methodology, and drive teams to ensure positive organisational, operational and technical change
- ▶ We understand the complexities of working across vertically integrated, multi-function organisations operating in multiple locations

Delivery Track Record

- ▶ We have undertaken over 40 major transformation programmes over the last five years for a variety of energy companies
- ▶ Our consultants consistently deliver large-scale business transformation programmes combining strategy, process, capability, technology and organisational elements