

# **WHAT ARE THE REMAINING OBSTACLES TO THE COMPLETION OF THE EU INTERNAL ENERGY MARKET?**

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

Brussels, 21 February 2013



# KEY ACHIEVEMENTS IN THE CZECH ENERGY SECTOR

- EU Internal energy market directives & regulations fully implemented in Czech Energy Law in force from:
  - 2001 for 1<sup>st</sup> package
  - 2004 for 2<sup>nd</sup> package
  - 2011 for 3<sup>rd</sup> package
- Independent Energy Regulation Authority (ERÚ)
- Full ownership unbundling of the TSO (ČEPS)

## REGULATORY FRAMEWORK



- High but continuously decreasing market concentration (around 70%)
- Power Exchange Central Europe in Prague (PXE) increasingly important
- Prices for households / non-households not regulated

## WHOLESALE



- 25 active retailers operating in Czech market (but almost 400 licences for retail attributed)
- 3 main retailers (historically connected with 3 owners of distribution networks)
- Increasing switching rate (4<sup>th</sup> highest in the EU nowadays)

## RETAIL





# MARKET STATUS AND RECENT DEVELOPMENTS IN THE CZECH ENERGY MARKET

- **Czech market fully liberalized**
  - Full transposition of Third Package Directives
  - Developed retail market
  - Power Exchange Central Europe in Prague (PXE)
- **Continuing regional market integration**
  - Market coupling CZ/SK/HU since September 2012
  - CEE can join CWE/NWE in 2014
- **Wholesale prices distorted and depressed**
  - Negative influences of the RES deployment and EU-ETS collapse





# KEY CHALLENGES IN THE ENERGY SECTOR

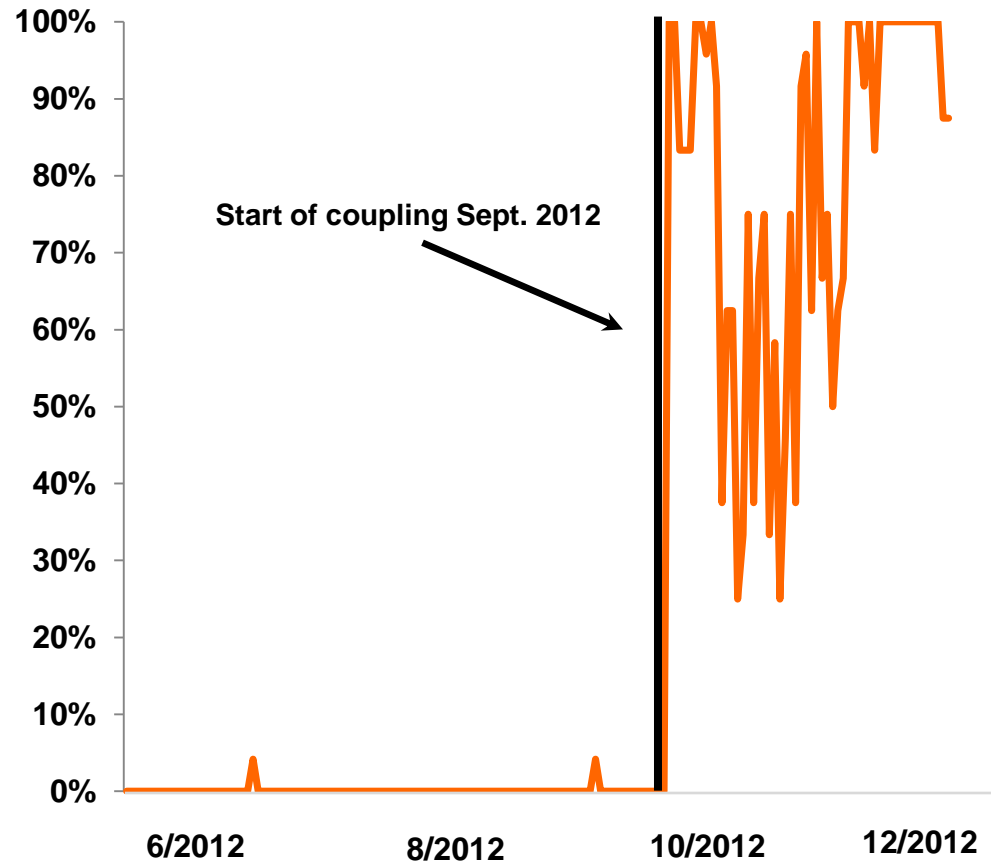
- **Markets to be coupled**
  - Missing coupling between CEE and CWE regions = energy markets not sharing generation portfolio optimally & lower efficiency of cross-border capacities usage
- **Distortions caused by RES integration**
  - Subsidized sources distort pricing on the wholesale markets
  - Destabilization of national grids, back-up, re-dispatch
  - Physical/commercial cross-border bottlenecks due to loop flows
  - Increased needs for flexible generation
- **Challenging environment for necessary generation investments**
  - Wholesale prices depressed
  - CO2 scheme collapsing
  - CEE demand growing, generation capacity replacements needed due aging portfolio and environmental constraints (IED)



# HIGHER INTEGRATION FOSTERED BY EUROPEAN-WIDE MARKET COUPLING PROVIDES MORE EFFICIENT AND COMPETITIVE POWER GENERATION AND TRANSPARENT ENVIRONMENT FOR INVESTORS

- Higher efficiency in the utilisation cross-border capacities resulting from implicit allocation system
- Optimal sharing of generation portfolios across borders permitted by the physical infrastructure
- Enhanced competition promoting the most efficient investment across countries

Percentage of hours with the same price in SK and HU





# MARKET COUPLING IN CENTRAL EUROPE

**CEE CAN JOIN CWE/NWE MARKET COUPLING IN 2014 CONTRIBUTING TO THE ESTABLISHMENT OF A EUROPEAN INTERNAL ELECTRICITY MARKET IN 2015**

- HU joined CZ/SK in Q3 2012
- CWE+Northern countries = NWE (late 2012)

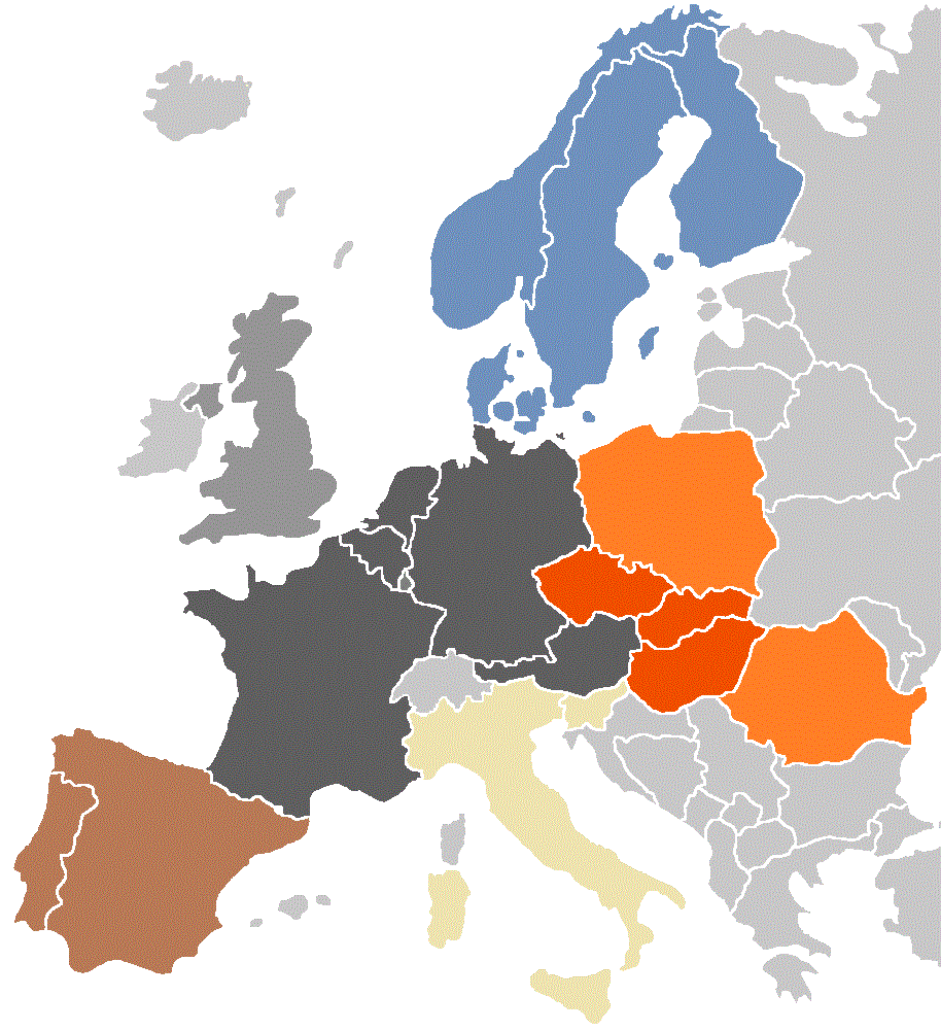


**CEE market coupling fully compatible with CWE/NWE**



**CEE can join CWE/NWE 2014**

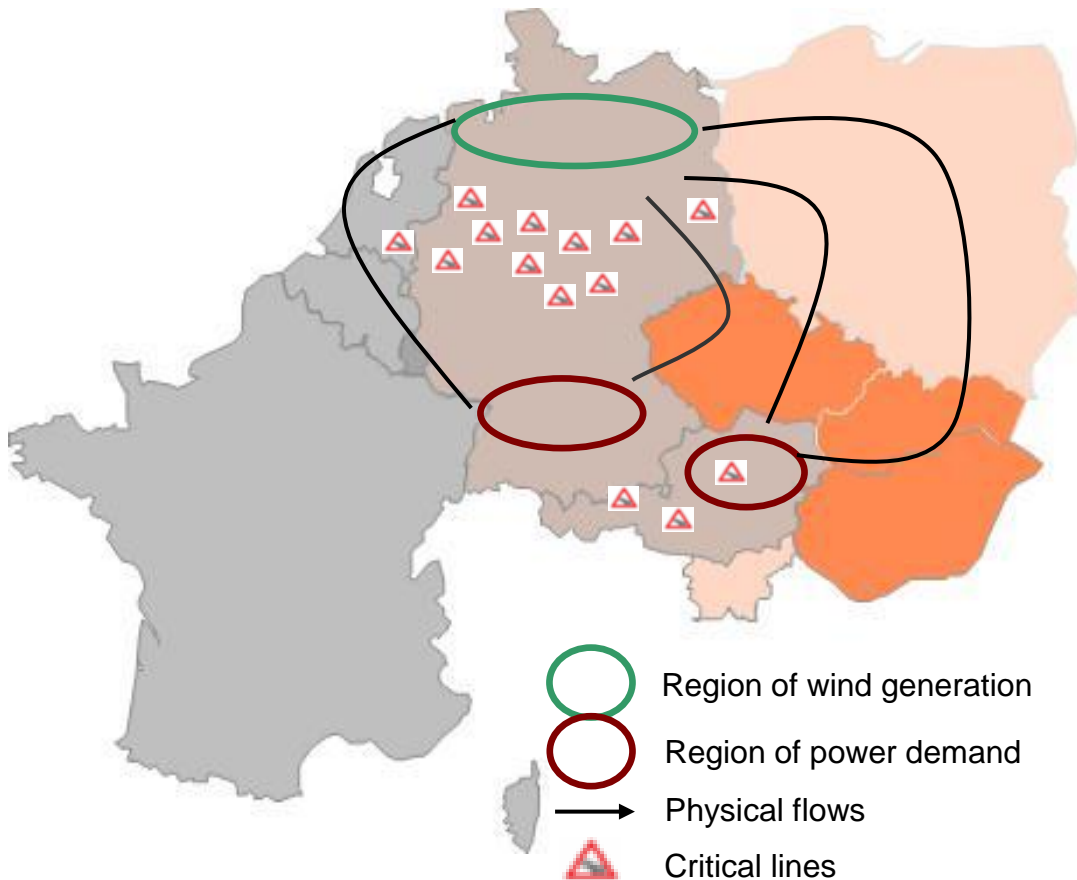
- RO/PL join in 2014/2015?
- European internal electricity market in 2015?





# RES INTEGRATION: THE LACK OF GRID INVESTMENTS HAS PUSHED GERMANY TO USE THE NEIGHBOURING GRIDS FOR BALANCING RES GENERATION

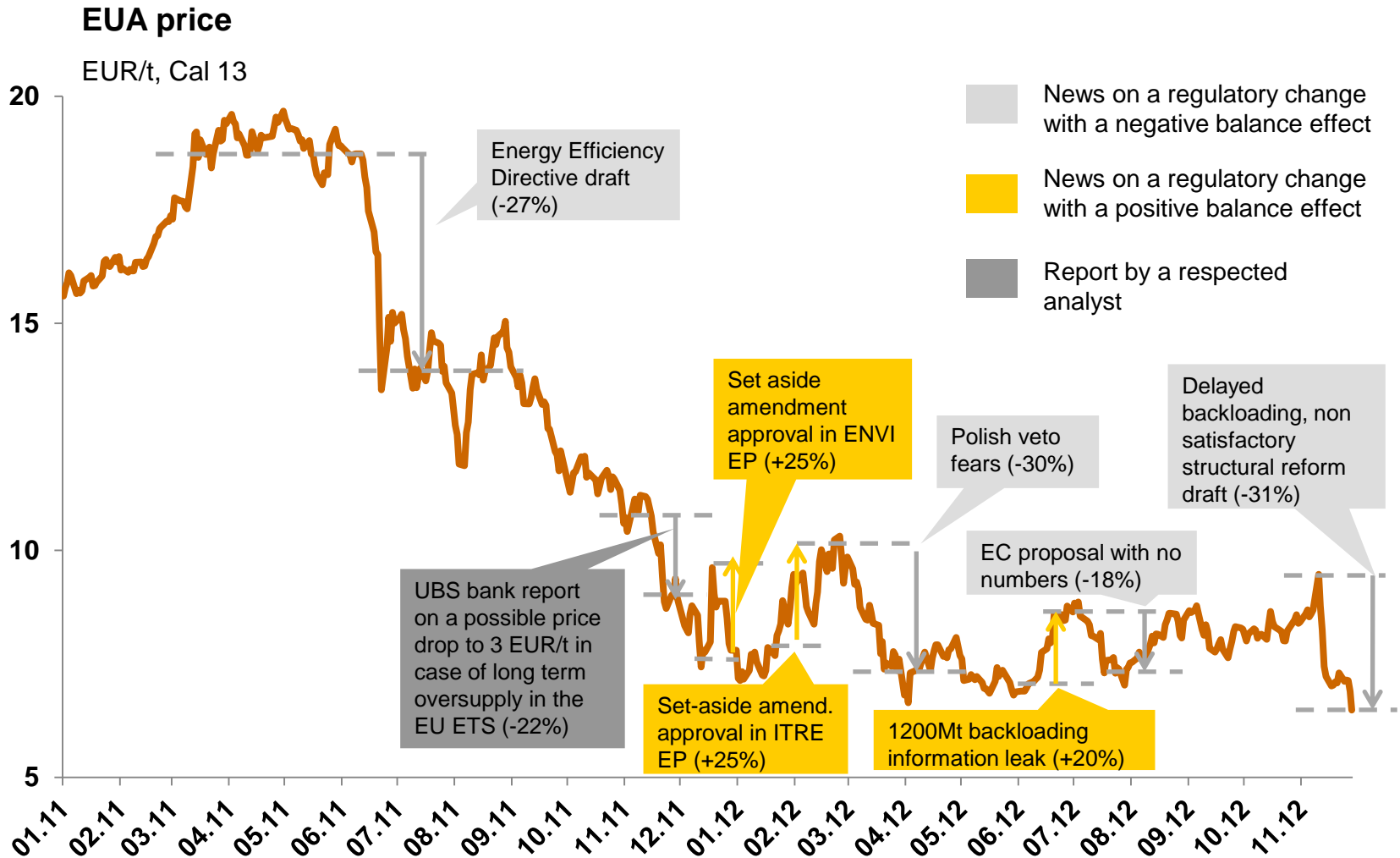
## Physical Flows of Wind Power in Central Europe



- RES electricity from the Northern Germany flows to the demand centers in the South which, together with large volatility of RES generation, creates pressure on the transmission grid
- Management of flows has become increasingly difficult after the first phase-out wave of nuclear units
- TSOs in CEE are forced to reduce the cross-border capacities due to limited capacity of critical lines in Germany and Austria



# THE EU-ETS MARKET IS UNDER PRESSURE DUE TO LACK OF CLARITY ON THE REGULATORY REFORM



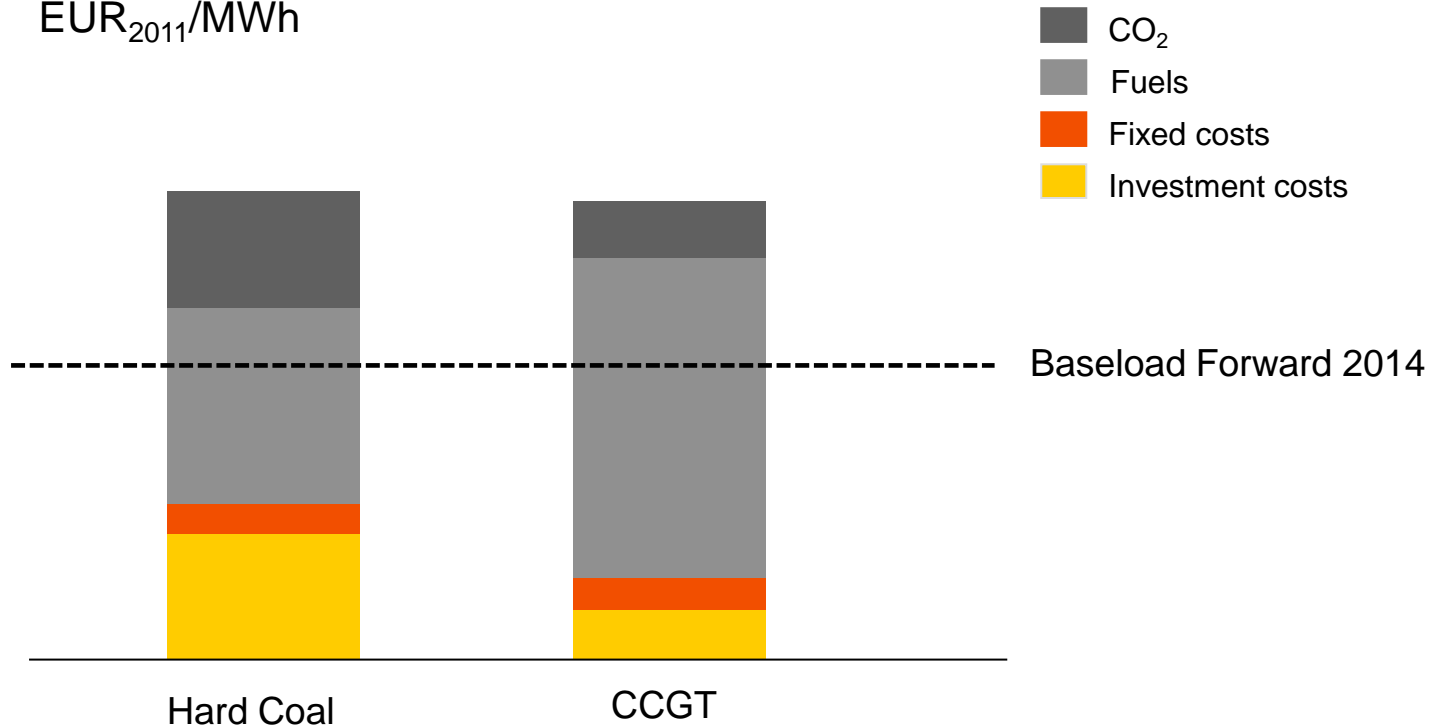




# CURRENT ELECTRICITY PRICES DO NOT SUPPORT INVESTMENT INTO NEW CONVENTIONAL SOURCES

## Full costs of new power plant

EUR<sub>2011</sub>/MWh



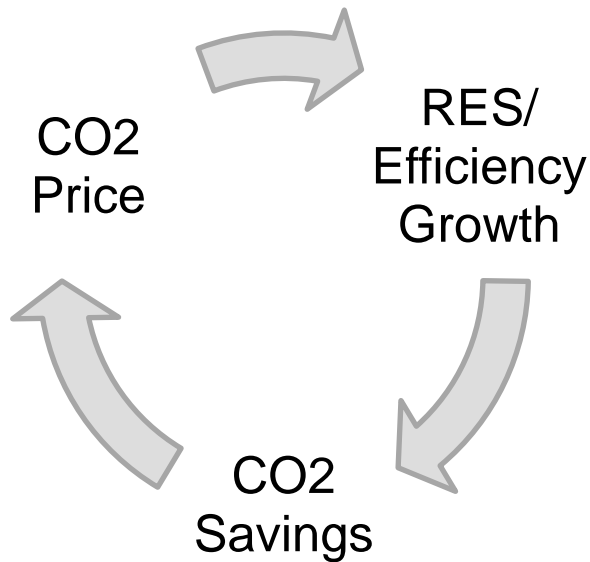


## RECOMMENDATIONS

- **Restore single energy market as a clear EU priority**
  - Re-unify, strengthen and stabilize the role of the energy markets
  - Foster and maintain long-term CO<sub>2</sub> market credibility through permanent set-asides and aiming on lowering carbon intensity in the long-term
  - Set up a unified and efficient RES support system (market-driven green certificates and driven by CO<sub>2</sub> in the long term)
  - Further integrate markets via market coupling
  - If required, set up a single and controlled reserve support scheme for new investments (only till EU-ETS is reformed and RES integrated)



# CARBON MARKET SHOULD RESTORE ITS PREVIOUSLY PROJECTED LEADING ROLE IN THE ENERGY SECTOR TRANSFORMATION



- Low carbon price does not stimulate emission savings
- Negative price feedback between CO2 price and RES production will ensure a long term organic growth of renewable energy sources
- This system would bring predictability and long term stability needed for long-term investment