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Proposal for a

**REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL**

**amending Regulation (EC) No 1775/2005 on conditions for access to the natural gas  
transmission networks**

(presented by the Commission)

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## EXPLANATORY MEMORANDUM

Electricity and gas are at the heart of the Europe's well-being. Without a competitive and efficient European electricity and gas market, Europe's citizens will pay excessive prices for what is one of their most fundamental daily needs. The electricity and gas market is also essential for Europe's competitiveness as energy is an important input for European industry.

Furthermore, a competitive and efficient electricity and gas market is a pre-condition to tackle climate change. Only with a functioning market is it possible to develop an effectively functioning emissions trading mechanism and a renewable energy industry that will meet the ambitious objective, agreed by the European Council of ensuring that the EU's energy mix is sourced 20% from renewable energy sources by 2020.

Finally, a competitive EU-wide electricity and gas market is crucial to ensure the security of Europe's energy supply, as only a Europe-wide and competitive market generates the right investment signals and offer fair network access for all potential investors, and provides real and effective incentives to both network operators and generators to invest the billions of Euros that will be needed in the EU over the next two decades.

The process of liberalising the electricity and gas market started about 10 years ago. During these 10 years, many of Europe's citizens have benefited from more choice and more competition, with improved service and security. The assessment carried out by the Commission and Europe's energy regulators has however demonstrated that the process of developing real competitive markets is far from complete. In practice, far too many of the EU's citizens and businesses lack a real choice of supplier. Market fragmentation along national borders, a high degree of vertical integration and high market concentration are at the root of the lack of a truly internal market.

Since the entry into force of the present electricity and gas Directives in July 2003, the Commission has constantly monitored their implementation and their effects on the market, and it has been in regular contact with all stakeholders concerned. In particular, the Commission has, every year, published its benchmarking report on the implementation of the internal electricity and gas market. It has organised the Electricity Regulatory Forum of Florence and the Gas Regulatory Forum of Madrid bringing together on a regular basis ministries, national regulatory authorities, the Commission, transmission system operators, suppliers, traders, consumers, trade unions, network users and power exchanges.

At the end of 2005, the Hampton Court European Council called for a true European Energy Policy. In response to this call the Commission published on 8 March 2006 a Green Paper on developing a common, coherent European Energy Policy. The public consultation yielded 1 680 responses. Already in 2005, the Commission started an inquiry into competition in gas and electricity markets. The energy inquiry responded to concerns voiced by consumers and new entrants in the sector about the development of wholesale gas and electricity markets and limited choice for consumers. The Final Report of the inquiry was adopted by the Commission together with a comprehensive package of measures, to propose a new Energy Policy for Europe on 10 January 2007.

The Commission Communication of 10 January 2007 entitled "An Energy Policy for Europe"<sup>1</sup> highlighted the importance of completing the internal market in electricity and natural gas. It was backed by a comprehensive internal market report, the final results of the competition sector inquiry and in-depth reviews of the situation of the national electricity and gas market. In parallel, the Commission has carried out an impact assessment to assess policy options related to the completion of the internal gas and electricity market. The impact assessment included a stakeholder consultation. A total of 339 questionnaires were filled out by organisations having their roots in 19 countries. In addition 73 questionnaires were received by organisations not connected to a particular country. Interviews were conducted with 56 additional stakeholders, mainly companies which could be affected by the unbundling of their assets or increased transparency requirements.

The 2007 Spring European Council invited the Commission to propose further measures, such as:

- the effective separation of supply and production activities from network operation;
- the further harmonisation of the powers and enhanced independence of the national energy regulators;
- the establishment of an independent mechanism for cooperation among national regulators;
- the creation of a mechanism for transmission system operators to improve the coordination of networks operation and grid security, cross-border trade and grid operation; and
- greater transparency in energy market operations.

The European Council also underlined the need to strengthen security of supply in a spirit of solidarity between Member States.

In its Resolution on Prospects for the internal gas and electricity market adopted on 10 July 2007, the European Parliament expressed strong political support for a common energy policy, considering that "transmission ownership unbundling is the most effective tool to promote investments in infrastructures in a non-discriminatory way, fair access to the grid for new entrants and transparency in the market". Parliament underlined, however, that other measures were also necessary and that the differences between the electricity and gas markets might call for differing implementation arrangements. Parliament also called for enhanced "cooperation between national regulators at EU level, through an EU entity, as a way to promote a more European approach to regulation on cross-border issues".

The Council of European Energy Regulators (CEER) welcomed the Commission's Communication of 10 January, and strongly endorsed the call for new EU legislation to put the single energy market project back on track. On 6 June 2007, the European Energy Regulators published a set of six papers taking position on the main issues in the new energy legislation. They supported in particular the Commission's proposals for a strengthened

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<sup>1</sup> COM(2007) 1.

independent regulatory oversight at national and EU level, and for effective unbundling of the transmission networks. The regulators clearly recommended that ownership unbundling of transmission should, in principle, be the model required in new EU legislation and should apply to both electricity and gas.

These elements were taken fully into consideration in drawing up the current proposals, which are summarised below.

## **1. EFFECTIVE SEPARATION OF SUPPLY AND PRODUCTION ACTIVITIES FROM NETWORK OPERATIONS**

### **1.1. Existing unbundling provisions are not sufficient to ensure a well-functioning market**

Existing legislation requires that network operations be legally and functionally separated from supply and generation or production activities. Member States have complied with this requirement by applying different organisational structures. Several Member States have created a totally separate company for network operation, while others have created a legal entity within an integrated company. The requirements of legal and functional unbundling have made a positive contribution to the emergence of competitive electricity and gas markets in several Member States.

However, experience has shown that where the transmission system operator is a legal entity within an integrated company, three types of problems arise.

Firstly, the transmission system operator may treat its affiliated companies better than competing third parties. In fact, integrated companies may use network assets to make entry more difficult for competitors. The underlying reason is that legal and functional unbundling do not solve the fundamental conflict of interest within integrated companies, whereby the supply and production interests aim to maximise their sales and market share while the network operator is obliged to offer non-discriminatory access to competitors. This inherent conflict of interest is almost impossible to control by regulatory means as the independence of the transmission system operator within an integrated company is impossible to monitor without an excessively burdensome and intrusive regulation.

Secondly, under the current unbundling rules, non-discriminatory access to information cannot be guaranteed as there is no effective means of preventing transmission system operators releasing market sensitive information to the generation or supply branch of the integrated company.

Thirdly, investment incentives within an integrated company are distorted. Vertically integrated network operators have no incentive for developing the network in the overall interests of the market and hence for facilitating new entry at generation or supply levels; on the contrary, they have an inherent interest to limit new investment when this will benefit its competitors and bring new competition onto the incumbent's "home market". Instead, the investment decisions made by vertically integrated companies tend to be biased to the needs of supply affiliates. Such companies seem particularly disinclined to increase interconnection or gas import capacity and thereby boosting competition in the incumbent's home market to the detriment of the internal market.

To sum up, a company that remains vertically integrated has an in-built incentive both to under-invest in new networks (fearing that such investments would help competitors to thrive in “its” home market) and - wherever possible - to privilege its own sales companies when it comes to network access. This damages the EU's competitiveness and its security of supply and prejudices the attainment of its climate change and environmental objectives.

Investment figures from recent years show this: vertically integrated companies have, for example, reinvested significantly less of their receipts from cross-border congestion rents in new interconnectors than fully unbundled ones. Effective unbundling removes the kind of distorted investment incentives typical of vertically integrated transmission system operators. It thus promotes security of supply. The Commission has observed that effective unbundling of transmission system operators promotes TSO investment activity. The Member States concerned have subsequently attracted new infrastructure investors that, for example, build terminals for liquefied natural gas (LNG).

Moreover, the price of electricity on different markets in recent years shows the benefits of ownership unbundling: over the last 10 years, vertically integrated companies have raised prices more, and maintained higher prices, than fully unbundled ones.

## **1.2. More effective unbundling of transmission system operators is therefore clearly necessary**

The concrete proposal in this respect makes it clear that the preferred option of the Commission remains ownership unbundling. In practice this means that Member States must ensure that the same person or persons cannot exercise control over a supply undertaking and, at the same time, hold any interest in or exercise any right over a transmission system operator or transmission system. This provision also applies *vice versa*, that is, control over a transmission system operator precludes the possibility of holding any interest in or exercising any right over a supply undertaking.

This option allows for a situation in which the same person, for example a pension fund, holds non-controlling minority interests in both a transmission system operator and a supply undertaking. However, such a minority shareholder cannot have blocking rights in both undertakings, nor can it appoint members of their boards, nor can any person be a member of the boards of both undertakings. This option, making a clear ownership separation between transmission system operators and any supply undertakings, is the most effective and stable way of achieving effective unbundling of the transmission network and thus of solving the inherent conflict of interest.

In order to implement this option, Member States may choose the following arrangement which may help to fully preserve the interests of the shareholders of vertically integrated companies. The shares of the vertically integrated company may be divided into shares of the company owning the transmission system on the one hand and shares of the supply company on the other. Subsequently, these shares may be attributed to the shareholders of the previously vertically integrated company.

Whilst the Commission considers that ownership unbundling remains the preferred option it does however provide an alternative option for Member States that choose not to go down this path. This option must, however, provide the same guarantees regarding independence of action of the network in question and the same level of incentives on the network to invest in new infrastructure that may benefit competitors. This option, a derogation from the basic

ownership unbundling approach, is known as the "Independent System Operator". This option enables vertically integrated companies to retain the ownership of their network assets, but requires that the transmission network itself is managed by an independent system operator - an undertaking or entity entirely separate from the vertically integrated company - that performs all the functions of a network operator. In addition, to ensure that the operator remains and acts truly independently of the vertically integrated company, regulation and permanent regulatory monitoring must be put in place.

In some instances, vertically integrated energy companies may be forced to dispose of some of their assets, notably their transmission networks, or to hand over the operation of such assets to a third party, in order to comply with the proposed requirements of effective unbundling. But there does not appear to be any alternative to the options proposed if we are to ensure the full independence of the TSOs.

The two options apply in the same manner to the electricity and gas sector. Although the Commission recognises that progress towards ownership unbundling generally speaking is currently more advanced in the electricity sector in the EU, the Commission has found no convincing argument to justify different treatment of the two sectors. In particular, the fundamental conflict of interest between the supply and production activities on the one hand and network operation and development on the other applies equally to both sectors. Moreover, the key to concluding long-term supply agreements with upstream gas producers is not the ownership of the network but the existence of a strong customer base. The EU will undoubtedly remain a highly attractive gas supply market irrespective of the ownership structure of the purchasing companies which, once effectively unbundled, will be able to compete for gas on an equal footing. The Commission recognises, moreover, that gas transportation, as opposed to electricity transmission, involves the physical movement of gas molecules through pipelines. The TSO therefore has a greater degree of control in defining the direction of flows and the capacity utilisation in the system. This means that effective unbundling of the gas networks is at least as important as for the electricity networks.

However, with a view to encouraging investment in new energy infrastructures by supply and production companies, the present proposal includes the possibility of a temporary derogation to ownership unbundling rules for the construction of new infrastructure. This exemption will be applied on a case by case basis, taking into account in the economics of the new investment, the internal market objectives and the security of supply objective.

In keeping with Article 295 EC, the proposal applies in the same way to publicly and privately owned companies. This means that irrespective of its public or private nature, no person or group of persons would be able alone or jointly to influence the composition of the boards, the voting or decision making of either transmission system operators or the supply or production companies. This ensures that where supply or production activities are in public ownership, the independence of a publicly owned transmission system operator is still guaranteed; but these proposals do not require state owned companies to sell their network to a privately owned company. For instance, to comply with this requirement, any public entity or the State could transfer the rights (which provide the "influence") to another publicly or privately owned legal person. The important thing is that in all cases where unbundling is carried out, the Member State in question must demonstrate that in practice, the results are truly effective and that the companies operate entirely separate from one another, providing a real level-playing field across the whole of the EU.

Finally, for Member States that have no gas or electricity transmission networks but only a distribution network, the provisions on the ownership unbundling of transmission networks do not apply

### **1.3. Third country aspects**

The present proposal requires the effective unbundling of transmission system operators and supply and production activities not only at national level but throughout the EU. It means in particular that no supply or production company active anywhere in the EU can own or operate a transmission system in any Member State of the EU. This requirement applies equally to EU and non-EU companies.

The package contains safeguards to ensure that in the event that companies from third countries wish to acquire a significant interest or even control over an EU network, they will have to demonstrably and unequivocally comply with the same unbundling requirements as EU companies. The Commission can intervene where a purchaser cannot demonstrate both its direct and indirect independence from supply and generation activities.

Furthermore, well functioning markets and networks are essential for the competitiveness of the economy and for the well-being of the citizens. The goal of the current proposal is to promote competition in the European energy markets and to promote the proper functioning of these markets. In this light it is imperative - without prejudice to the international obligations of the Community - to ensure that all economic operators active on European energy markets respect and act in accordance with market investor principles. Therefore, the Commission proposes a requirement that third country individuals and countries cannot acquire control over a Community transmission system or transmission system operator unless this is permitted by an agreement between the EU and the third country. The aim is guarantee that companies from third countries respect the same rules that apply to EU based undertakings in both letter and spirit - not to discriminate against them. Finally, the Commission will also hold a rapid and in-depth review of the wider aspects of the EU's external policy in energy, and will make the results of that work public.

Concluding on the important question of unbundling, the present proposals for effective unbundling are a necessary and decisive step to achieving EU-wide market integration. It may ultimately help to create supra-national transmission system operators as the operators are no longer held back by mutual distrust. But at the same time, if supra-national transmission operators were created without ensuring their full independence, competition between affiliated supply and production companies would likely be weakened due to the risk of collusion. In the absence of effective unbundling such cooperation would therefore give rise to competition concerns. Notably, the present proposals include several additional measures to promote EU market integration, relating in particular to improved cooperation among transmission system operators.

## **2. ENHANCED POWERS AND INDEPENDENCE OF NATIONAL REGULATORS**

### **2.1. Strong national regulators to oversee the running of electricity and gas markets**

The existing electricity and gas Directives require Member States to establish regulatory authorities. In several Member States, Regulatory authorities are well-established bodies with substantial powers and resources, allowing them to ensure proper market regulation. In other

Member States, regulatory authorities have only recently been established and their powers are weaker or dispersed over different bodies. The comprehensive country reviews carried out by the Commission have revealed this lack of uniformity and in many cases the weakness of the regulatory authority.

The experience of Member States whose markets have been open for several years, and of other utility sectors open to competition, clearly indicates that strong regulators are necessary for a properly functioning market, in particular as regards the use of network infrastructures.

For these reasons, the present proposal aims to strengthen the powers of the regulatory authorities. First, they would be given a clear mandate to cooperate at European level, in close cooperation with the Agency for the Cooperation of Energy Regulators and the Commission, to ensure competitive, secure and environmentally sustainable internal electricity and gas markets within the European Union, and effective market opening for all consumers and suppliers.

Second, it is proposed to strengthen their market regulation powers, in particular in the following areas:

- monitoring compliance of transmission and distribution system operators with third party access rules, unbundling obligations, balancing mechanisms, congestion and interconnection management;
- reviewing the investment plans of the transmission system operators, and providing in its annual report an assessment of how far the transmission system operators' investment plans are consistent with the European-wide 10-year network development plan; monitoring network security and reliability, and reviewing network security and reliability rules;
- monitoring transparency obligations;
- monitoring the level of market opening and competition, and promoting effective competition, in cooperation with competition authorities; and
- ensuring that consumer protection measures are effective.

Electricity and gas differ fundamentally from other traded goods because they are network-based products that are impossible or costly to store. This makes them sensitive to market abuse and regulatory oversight over undertakings active in the electricity and gas market need to be increased. Regulators therefore need to have access to information on the operational decisions of the companies. It is proposed to oblige companies to keep record of the data related to their operational decision for five years at the disposal of national regulatory authorities, as well as at the disposal of competition authorities and the Commission, so that these authorities are able to control effectively allegations of market abuse. This will limit the scope of market abuse, increase the trust in the market, and thereby stimulate trade and competition.

Some types of traders (e.g. banks) already have such obligations under the Markets in Financial Instruments Directive, and they should not have double obligations. Therefore the record keeping obligations should be without prejudice to, and compatible with, the existing Community legislation on financial markets. Regulators of the energy market and the financial markets, need to cooperate in order to enable each other to have an overview over



the markets concerned. Prior to adoption of guidelines defining record keeping requirements, the Agency for the Cooperation of Energy Regulators and the Committee of European Securities Regulators (CESR) are invited to cooperate and advise the Commission on the content of the guidelines.

To enable them to perform their duties, regulatory authorities would be given the powers to investigate, to request all necessary information and to impose dissuasive sanctions. They are also requested to take full account of energy efficiency objectives while performing their regulatory functions.

## **2.2. Demonstrable independence of regulators brings market confidence**

The independence of regulatory authorities is a key principle of good governance and a fundamental condition for market confidence. Existing legislation calls for regulatory authorities to be wholly independent of the interests of the gas and electricity industry. However, it does not specify how such independence can be demonstrably ensured, and it does not guarantee independence from short-term political interests.

As underlined by the 2007 Spring European Council conclusions and by the European Parliament, strengthening national energy regulators' independence is therefore a priority.

It is proposed that the regulatory authority be legally distinct and functionally independent of any other public or private entity, and that its staff and any member of its decision-making body act independently of any market interest and neither seek nor take instruction from any government or other public or private entity. For that purpose, it is proposed that regulatory authorities have legal personality, budgetary autonomy, appropriate human and financial resources and independent management.

## **3. AN INDEPENDENT MECHANISM FOR NATIONAL REGULATORS TO COOPERATE AND TAKE DECISIONS: THE AGENCY FOR THE COOPERATION OF ENERGY REGULATORS**

### **3.1. The positive experience of ERGEG needs to develop into a formal cooperation structure**

Although the internal market for energy has developed considerably, a regulatory gap remains on cross-border issues. In order to tackle this issue, the Commission initiated self-regulatory forums like the Florence (electricity) forum and the Madrid (gas) forum. These forums bring stake holders together in order to strengthen cooperation.

In addition, an independent advisory group on electricity and gas, called the "European Regulators Group for Electricity and Gas" (ERGEG) was established by the Commission in 2003 to facilitate consultation, coordination and cooperation between the national regulatory authorities in the Member States, and between these authorities and the Commission, with a view to consolidating the internal market in electricity and natural gas. ERGEG is composed of representatives of the national regulatory authorities.

ERGEG activities over recent years have made a very positive contribution to the completion of the internal market in gas and electricity by issuing non-binding guidelines and addressing recommendations and opinions to the Commission. Nevertheless, the initiation of self-regulatory forums and setting up of ERGEG has not resulted in the real push towards the development of common standards and approaches that is necessary to make cross-border

trade and the development of first regional markets, and ultimately, a European energy market a reality.

As time has progressed the energy sector has become more complex and detailed, and involves to a greater extent different financial interests. The present approach within ERGEG, which in practice usually requires the agreement of 27 regulators and more than 30 transmission system operators to reach agreement, is not producing sufficient results. It has led to a number of non-binding codes and efforts to reach agreement on common approaches through "gradual convergence" but has not led to real decisions on the difficult issues that now need to be taken.

At present the technical rules that electricity companies must operate under, "grid-codes", differ enormously between Member States and often even within a single Member State. These need to undergo a process of convergence and then harmonisation if we are to integrate energy markets in the EU.

The Commission has evaluated the different options for organising the required tasks, including whether the Commission would be able to pursue these tasks itself. Harmonising these issues, as well as making progress on new infrastructure, is not a task that typically falls within the Commission's sphere of activities. The Commission has actually never carried out such an activity. It requires the specialist expertise in the 27 national regulatory agencies (NRAs) to work together; it is they that need to agree on amending their national grid codes. In practice, only a body emanating from the national regulators can catalyse all the necessary resources of national regulators that is fundamental to achieving success on these issues. The Agency can through its Regulatory Board – which consists of NRAs – call upon the staff of these NRAs. The Commission is not in that position.

The Commission has concluded that the tasks required could be best fulfilled by a separate entity, independent and outside the Commission. Both the European Council in the spring of 2007 as well as recent European Parliament resolutions, endorsed this conclusion<sup>2</sup>.

The creation of a more powerful network of national energy regulators was therefore considered. The network of competition authorities created in 2004 under Council Regulation (EC) No 1/2003 provides a model. Nevertheless, this would necessitate the creation of autonomous powers for the Commission in the energy sector (currently these powers only exist in the area of competition rules). The powers of the NRAs should, in any event, be reinforced and harmonised.

Furthermore, the model of the system of European Central Banks could be applicable, but it lacks a legal basis in the Treaty. Such a model would simply require an amendment of the Treaty.

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<sup>2</sup> The European Council agrees in its conclusions to the establishment of an independent mechanism for national regulators to cooperate and take decisions on important cross-border issues, whereas the adopted Vidal Quadras report states that the EP "Welcomes the Commission's proposal to enhance cooperation between national regulators at EU level, through a EU entity, as a way to promote a more European approach to regulation on cross-border issues; underlines that the Commission should play a determining role, whilst not undermining the independence of regulators; believes that decisions by the regulators should be made on specifically defined technical and trade issues and on an informed basis considering, when appropriate, the views of TSOs and other relevant stakeholders, and should be legally binding".

The Commission therefore came to the conclusion that if an independent body should be established which can make proposals to the Commission regarding decisions that involve substantive decisions and take individual regulatory decisions which are binding on third parties concerning detailed technical issues that are delegated to them, the only solution would be to establish an Agency.

The main proposed tasks would complement at European level the regulatory tasks performed by the national regulators. The structure should provide a framework for national regulators to cooperate, a regulatory review of the cooperation between transmission operators and scope for taking individual decisions concerning infrastructure in the territory of more than one Member State. This analysis reflects the principles defined by the Commission in the draft inter-institutional agreement on the operating framework for the European regulatory agencies<sup>3</sup>, in particular as regards the power to adopt individual decisions which are legally binding on third parties.

The following proposal draws also on the "ERGEG+" option mentioned in the Commission Communication of 10 January 2007 "An Energy Policy for Europe"<sup>4</sup>.

### **3.2. Main tasks of the proposed Agency for the Cooperation of Energy Regulators**

The Agency would complement at European level the regulatory tasks performed at national level by the regulatory authorities by:

- *Providing a framework for national regulators to cooperate.* It is proposed to improve the handling of cross-border situations. The Agency will lay down procedures for cooperation between national regulators, in particular as regards the exchange of information and the apportionment of competence where more than one Member State is involved. This framework will also promote regional cooperation between national regulators.
- *Regulatory oversight of the cooperation between transmission system operators.* The Agency will have responsibility for monitoring and reviewing the activities of the European Network of Transmission System Operators for Electricity and of the European Network of Transmission System Operators for Gas. In particular, it will be involved in the setting of priorities through the Networks' work programme, in the review of their 10-year investment plan, and in the preparation of technical and market codes. The review of the investment plan is without prejudice to the transmission system operators' liability for technical failures as defined under national law. As regards the technical and market codes, the Agency will be empowered to ask transmission system operators to modify their drafts or to tackle more specific issues in detail. It will also be able to recommend that the Commission make these codes legally binding where voluntary implementation by transmission system operators proves to be insufficient or not suited to certain issues. The Agency may recommend modifying the transmission operators' draft or recommend additional provisions to the Commission. In practice, this mechanism will take the form of a constructive and continuous dialogue between the Agency, transmission system operators and the Commission. The involvement of the Agency will be the key to ensuring that cooperation among transmission system operators proceeds in an efficient and transparent way to the benefit of the internal market.

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<sup>3</sup> COM(2005) 59.

<sup>4</sup> OJ C , , p . .

- *Individual decision powers.* With a view to handling specific cross-border issues, it is proposed to vest the Agency with individual decision powers on exemption<sup>5</sup> requests concerning infrastructure assets of European interest and to decide on the regulatory regime applicable to infrastructure within the territory of more than one Member State. In addition, the Agency would be able to take specific decisions on individual technical issues when these are granted to the Agency under specific Guidelines adopted pursuant to the gas and electricity Directives, under a comitology procedure.
- *General advisory role.* The Agency would in general have an advisory role vis-à-vis the Commission as regards market regulation issues and could issue non-binding guidelines to publicise good practices among the national regulators. On a case-by-case basis, it would also have the power to review, in the light of implementing measures adopted by the Commission in application of Community legislation in the gas and electricity sector, any decisions taken by a national regulatory authority that directly impact on the internal market and provide an opinion to the Commission.

Even though its powers cannot be extended to cover normative decisions (such as the formal adoption of obligatory guidelines) the new Agency will overall play a crucial role in the development and implementation of European gas and electricity market rules.

### **3.3. Governance of the proposed Agency for the Cooperation of Energy Regulators**

The institutional setting and governance principles of the Agency for the Cooperation of Energy Regulators are in principle based on standard rules and practices for Community regulatory agencies.

However, the necessary independence of regulatory functions needs to be taken into account. For that purpose, besides the Administrative Board responsible for all administrative and budgetary matters, it is proposed to create a Board of Regulators, responsible for all regulatory matters and decisions. The Director, appointed by the Administrative Board, after consulting the Regulatory Board, will be chosen from a shortlist adopted by the Commission. The Director will represent the Agency and shall be responsible for the day-to-day management. In addition, the structure of the Agency foresees in a Board of Appeal, which is competent to handle appeals against decisions adopted by the Agency.

### **3.4. Financial aspects**

It is proposed that the Agency should have, given its tasks, a limited staff of 40-50 people. This assessment is based on an extensive analysis of the staff requirements of national regulatory authorities and a careful analysis of the minimum resources necessary to carry out the tasks proposed, in particular in the light of possibilities for synergies in harnessing the resources within national regulatory authorities to assist the work of the agency. The proposed staff is in line with these authorities' needs<sup>6</sup>. As mentioned above, if the Commission were to endeavour to perform the Agencies' tasks, the number of staff required would be much higher.

The total annual costs of the Agency are estimated at approximately € 6-7 million per year, of which € 5 million for staff expenditure (taking as the average per person the cost of European Commission staff, i.e. € 0.117 million per year, which includes expenditures associated with

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<sup>5</sup> As defined in Article 22 of Directive 2003/55/EC and in Article 7 of Regulation (EC) No 1228/2003.

<sup>6</sup> An organigram will be attached to the Explanatory Memorandum.

buildings and related administrative expenditures), € 1 million operational costs (meetings, studies, as well as translation, publication and public relations costs) and the rest for capital expenditures (relating to the acquisition of movable property and associated expenditure) and mission expenditures.

The Agency's annual costs will be covered by Community grants. The Agency has limited revenues stemming from fees to be paid by third parties which are charged when the Agency takes certain decisions.

### **3.5. The role of the Commission**

There are in principle three different safeguards to secure the Commission's position and role as a guardian of the Treaty.

First of all, if the Agency takes a decision, such a decision would only be binding for specific technical situations explicitly foreseen in the Regulation and Directives or provided on a case-by-case basis by binding Guidelines. The Agency would have no political discretion outside this framework.

Secondly, if TSO cooperation or decisions by NRAs threaten effective competition and the efficient functioning of the market, the Commission shall immediately be informed by the Agency and can adopt subsequently the necessary measures to remedy the situation. The Commission may also choose to act on its own initiative.

Third, where a substantive decision needs to be taken, this can only be done by the Commission. In these cases the Agency has a preparatory and advisory role only. The Commission Legal Service has scrutinised the text carefully in this respect to ensure that the Agency has no power of discretionary substantive decision.

Furthermore, it would be for the Commission, through the adoption of binding Guidelines to further specify and lay down the role of the Agency.

## **4. EFFICIENT COOPERATION BETWEEN TRANSMISSION SYSTEM OPERATORS**

### **4.1. Strong cooperation between transmission system operators is necessary for electricity and gas market integration**

For market integration to take place, there also needs to be effective cooperation among transmission system operators (TSOs) and a clear and stable regulatory framework, including regulatory coordination. Network access rules and operational rules need to be compatible, there has to be effective exchange of information between transmission system operators and a good coordination of new investment to increase interconnection capacities. Transmission system operators in gas and electricity already cooperate voluntarily in existing structures such as the European Transmission System Operators (ETSO) and Gas Transmission Europe (GTE). They cooperate on operational issues at regional level and participate in technical bodies such as the Union for the Co-ordination of Transmission of Electricity (UCTE) and the European Association for the Streamlining of Energy Exchange (EASEE-Gas). These multi-layer cooperation initiatives have made a significant contribution to the internal market and have boosted the efficiency and the safety of the networks.

However, this voluntary cooperation has shown its limits for example in the form of network incidents and electricity black-outs due to poor coordination of network operation or missing links in the electricity and gas networks, and difficulties in proposing or agreeing common technical standards. It is therefore proposed to task the transmission operators with strengthening their cooperation in a number of key areas, focusing on the following main issues.

- *Development of market and technical “codes”*. For the integration of the electricity and gas markets a coherent set of technical and market codes are needed. Today, these codes exist on a national basis or through recommendations of organisations such as UCTE or EASEE-gas. The problem with the current situation is threefold: firstly the existing rules do not cover all areas that need to be harmonised in order to make an integrated market function, secondly the national codes are often not compatible with each other and thirdly they are often not legally binding or enforceable. Examples of these codes are UCTE operational handbook for security and reliability of the electricity transmission networks and EASEE-gas recommendations on gas qualities.
- The proposal preserves the voluntary process of the transmission system operators as a pragmatic way of developing detailed technical and market codes. These codes are often technically complicated and there needs to be an efficient process to amend them when necessary. The proposal adds a strong regulatory oversight on the content and on monitoring of compliance and enforcement of these rules by national regulatory authorities, the Agency, and/or the Commission, depending on the nature of the proposal in question. In case the transmission system operators are not able to agree on necessary technical and market codes or do not implement them, these rules can be proposed and adopted through the comitology procedure on the proposal of the Commission.
- In total, the present proposal defines eleven main areas of cooperation. The annual work programmes of the European Network of transmission system operators (see Chapter 1.2), prepared in consultation with all stakeholders and the new Agency for the Cooperation of Energy Regulators (see Chapter 3), will set priorities and specify in more detail what technical and market codes are needed. Cooperation between transmission system operators should also include implementation monitoring of the technical and market codes.
- *Research and innovation activities of common interest*. TSO cooperation should establish a framework to identify, finance and manage research and innovation activities necessary driving the sound technical development and evolution of the European electricity and gas networks, in particular to promote security of supply and energy efficiency and to enable penetration of low carbon technologies.
- *Coordination of grid operation*. TSO cooperation includes the common operation of networks according to the agreed market and technical codes. It also refers to the exchange of network operational information and the coordinated publication of information on network access, for example through a common transparency platform.
- *Investment planning*. So as to make sufficient transmission capacity available to meet demand and to integrate national markets, network operators would need coordinated long-term planning of system development with a view to planning network investments and monitoring the development of transmission network capacities. The idea is that the European Networks of transmission system operators will publish network development

plans, to include the integrated network modelling, scenario development and an assessment of the resilience and deliverability of the integrated system. These development plans should be sufficiently forward looking (e.g. at least 10 years) so as to allow for the early identification of investment gaps, more especially with cross border capacities in mind.

For the last two of these tasks in particular, regional initiatives play a positive role in market integration. The cooperation of transmission system operators at European level should indeed be complemented at regional level, in order to ensure real practical progress, optimum management of the network<sup>7</sup> and appropriate investment planning and delivery. The regulatory framework should promote, coordinate and develop regional initiatives between transmission system operator and regulatory authorities, as happens with the Regional Initiatives led by ERGEG and initiatives such as the Pentalateral forum in Northwest Europe and as recommended by major stakeholders like Eurelectric.

#### **4.2. An improved cooperation mechanism**

It is important for the transmission system operators' cooperation structures to be fully recognised at European level as having the authority to carry out the above tasks. For that purpose, the Commission will formally designate the European Networks of (gas and electricity) transmission system operators in charge of these tasks.

As companies, transmission system operators must be transparent about the way they cooperate. They may build on existing structures such as GTE and ETSO. However, the tasks and responsibilities required of the transmission system operators will mean a need for a central and permanent cooperation structure both in terms of organisation and practical tools for planning and operating the networks.

The Agency for the Cooperation of Energy Regulators will monitor how the European Network of transmission system operators carries out the tasks conferred upon it.

Involvement and consultation of stakeholders, such as producers, suppliers, customers and distribution system operators will be developed as standard practice by the transmission system operators from the beginning of their work on a specific subject. For that purpose, stakeholders will be consulted on any draft market and technical code prepared by the transmission system operators and they will be able to comment on the annual work programme of the transmission system operators. The Agency will oversee that consultation is done properly.

### **5. IMPROVING THE FUNCTIONING OF THE MARKET**

The present proposal also aims at improving the legislative framework to facilitate third party access to key infrastructures, to increase transparency on the market, to enhance market integration and to improve access to retail customers.

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<sup>7</sup> For example, in electricity, it is clear that the setting of technical codes needs to be determined for each synchronous area for some issues.

## **5.1. Exemption regime**

The current legislation allows major new infrastructure to be exempt from regulated third party access rules for a pre-determined period. Several infrastructures have been completed or are under way, including gas and electricity interconnectors and LNG facilities that have made use of this possibility. This has helped to take forward projects which benefit security of supply and competition. At the same time, experience so far shows that project developers, regulators and the Commission could benefit from a streamlined procedure for applying for and granting exemptions as well as a clarification of some of the conditions. Therefore, the Commission proposes to formulate guidelines to assist applicants and regulators in applying the conditions for an exemption. To ensure that exempted infrastructure can nevertheless be used optimally by the market, it is proposed to make general the minimum requirements for the allocation of capacity and congestion management provisions for the new infrastructure that have so far been applied on a case-by-case basis.

## **5.2. Transparency**

The internal electricity and gas market is suffering from a lack of liquidity and transparency hindering the efficient allocation of resources, limiting risk hedging possibilities and blocking new entrants. Trust in the market, its liquidity and the number of market participants need to increase, by increasing the information that is available to the market.

Current requirements on transparency focus on publication of capacity of the network, so that market participants are able to see if capacity is available and if all available capacity is being offered to the market. However, market participants also need to have equal access to information that determines wholesale price movements.

Currently, incumbents who are responsible for the largest part of the gas and electricity flows, and who own the majority of the assets in the market, have more and better access to information than new entrants. In electricity, there are requirements in the form of guidelines attached to the regulation setting out transparency requirements on the generation of electricity, but they are not sufficient, and in gas no such requirements exist at the moment. Therefore it is proposed to extend the transparency requirements to cover gas stocks, forecasts of demand and supply, costs for balancing the network and trading.

The correct and full application of these requirements needs to be controlled and monitored by the national regulatory authorities, so their powers need to be strengthened accordingly.

On the issue of transparency regarding derivatives and financial instruments with respect to which these proposals do not provide for additional requirements on the companies concerned, the Commission will examine this issue in detail and reach a conclusion towards the middle of 2008. The Agency for the Cooperation of Energy Regulators and the Committee of European Securities Regulators are invited to cooperate to further investigate and advise on the question whether transactions in gas and electricity supply contracts and gas and electricity derivatives should be subject to pre and/or post-trade transparency requirements.

## **5.3. Access to storage**

The existing Directive on the internal gas market provides that where storage is an essential facility in order to be able to supply customers, storage operators have to give access to third parties. Member States have the choice to ensure access to these storage facilities either



through conditions defined by the regulator or by obliging storage system operators to negotiate access conditions with customers. The requirements in the Directive are limited to the principles, and leave a great deal of freedom to the Member States in defining their regulatory framework. Body was subsequently given to these principles through the Madrid Forum, where all stakeholders agreed to voluntary 'Guidelines for Good Third Party Access Practice for Storage System Operators' (GGPSSO). However, ERGEG has concluded that overall implementation of these guidelines is poor.

For them to be effectively applied, the Commission proposes four measures:

- Make the principles in the guidelines legally binding and allow for detailed implementation of the guidelines through comitology;
- Establish legal and functional unbundling of storage system operators who are part of supply undertakings;
- Enhance the powers of national regulatory authorities to oversee access to storage;
- Require clarity on the regulatory regime that is applied to storage facilities.

To make the guidelines legally binding, the Regulation will be extended to define how storage system operators must offer third party access services, and how they should allocate capacity and manage congestion. It will also define the transparency requirements and propose measures to enable a secondary market in storage capacity to develop. These rules should ensure that all storage that is available to third parties is offered to the market in a non-discriminatory and transparent manner, and that capacity-hoarding is strongly discouraged. These rules shall also serve to ensure consistency with the proposed minimum requirements on exempted infrastructure.

By requiring legal and functional unbundling of storage system operators, effective access to storage will be greatly enhanced. The fact that currently, when suppliers need storage, they have to contact their competitors to contract their storage need, does not enhance market confidence and is a serious barrier for new entrants. Requiring unbundled storage operators will improve this situation and it will enable competitors and regulators to check that all available storage capacity is offered to the market.

The Commission proposes to erase the ambiguity that exists on the proportion of storage capacity that is offered to the market, requiring that all Member States need to define criteria when and how third party access to storage applies and this has to be made public. The regulator consequently has the task to control if these criteria are applied correctly to all storages.

#### **5.4. Access to LNG terminals**

The role of LNG in the supply of gas to the European Union is becoming ever more important, and a lot of investment in LNG terminals is planned or under way. For that reason, transparent rules on access to LNG terminals are needed. Regulators have identified the need, and ERGEG has prepared guidelines with a goal create a common approach to third party access for LNG terminals.

Although many LNG terminals constructed have used the possibilities to be exempted from third party access and regulatory intervention under Article 22 of the Directive, there are also

LNG terminals for which third party access rules apply. -Since the current Directive only imposes a general requirement that access has to be regulated, this leaves room to diverging interpretations among Member States. Moreover, an exemption under Article 22 is always temporary, and when the exempted period has passed, LNG terminals will become regulated. Therefore the Commission proposes to impose more clearly defined third party access rules to LNG terminals. To make the guidelines legally binding, the Regulation will be extended to define how LNG terminal operators should offer third party access services, and how they should allocate capacity and manage congestion. It will also define the transparency requirements and propose measures to enable a secondary market in terminal-capacity to develop. These rules shall also serve to ensure consistency with the proposed minimum requirements on exempted infrastructure.

### **5.5. Long-term supply agreements**

Downstream bilateral supply agreements provide an opportunity to energy intensive industries to obtain more predictable prices. However, such agreements risk foreclosing the downstream market by preventing consumers from switching and thus limiting competition. To reduce uncertainty on the market, the Commission will, in the coming months, provide guidance in an appropriate form on the compliance of downstream bilateral long-term supply agreements with EC competition law.

### **5.6. A framework for the gradual establishment of a European retail market**

Neither in the electricity nor the gas market is it yet possible to speak of a European retail market (households and small enterprises), as customers, assuming they have a choice, are still obliged to choose a supplier established in the same country. Establishing a true European end-user market is the ultimate goal of the internal electricity and gas markets: it is necessary for creating competitive markets and for achieving maximum efficiency. Liberalisation in the retail market is important to ensure that all EU citizens are able to benefit from competition. If liberalisation applied only to large customers, European households would end up subsidising their industry and investment signals for new generation and supply would be distorted. From 1 July 2007, all retail markets in the EU have opened up to competition, but in practice many consumers are tied to their historic suppliers because an appropriate legal framework had not been put in place as required. A European retail market can only be created gradually. To stimulate this process the Commission is considering setting up a retail forum by analogy with the positive experience of the Florence and Madrid Forums. This forum would allow to focus on specific retail issues, and it should serve as a platform for all stakeholders to promote the establishment of an EU wide retail market. The forum would provide guidance for the proposed obligations on the Member States and the regulatory authorities to establish clear rules on competition in the retail market, with a view to gradually harmonising the market rules to allow cross-border retail markets.

Well-functioning retail markets will also play a very important role in increasing people's awareness of domestic energy consumption and the cost of energy, as all measures to reduce CO<sub>2</sub>-emissions and increase energy efficiency require action from households. Competition over supply to households will enhance people's energy-awareness. However, current practices whereby consumers only receive the final bill for their consumption after a year do not create such awareness, neither does it enable suppliers to develop competitive services that distinguish between households with specific needs. Suppliers therefore need to give more information to ensure that customers get more frequent information on their energy consumption and costs.

It is obvious that freedom of choice for consumers must be accompanied by strong guarantees on the rights of the customers. Vulnerable customers have already a high degree of protection in the current directive to ensure that they will have access to the energy they need to lead a normal life. These measures have however been incorrectly applied in some countries, and to clarify the framework, the Commission proposes to define binding guidelines. At the same time, the Commission proposes to strengthen the rights of all customers, among others by giving them the right to change supplier at any time and requiring energy companies that bills are settled within a month after a consumer switches supplier.

Finally, the Commission has come to the conclusion that for Distribution System Operators (DSOs) the current legal and functional unbundling rules are sufficient. It does not therefore propose to extend the ownership unbundling rules outlined in Chapter 4 above to DSOs.

## **6. COOPERATION TO REINFORCE SECURITY OF SUPPLY**

### **6.1. Security of supply monitoring by transmission system operators**

It is important to ensure that the electricity and gas systems can meet demand even in peak times. In the case of electricity, this is only possible when there is enough generation capacity (generation adequacy) and the network is capable of transporting the energy from generators to final consumers (network adequacy). In the case of gas, sufficient import and storage capacity need to be in place.

Directive 2005/89/EC requires the national regulators, with the help of the transmission system operators, to report yearly to the Commission on security of electricity supply. Directive 2004/67/EC requires Member States to report on the security of gas supply situation and on the regulatory framework to enhance investment in infrastructure. The proposed amendments to Regulations (EC) No 1228/2003 and (EC) No 1775/2005 give the task of making system adequacy forecasts for every summer and winter as well for the long term to the Network of European Transmission System Operators. A European outlook is necessary to take into account the possibilities to export and import electricity and gas in peak demand conditions. Due to the cross-border electricity and gas flows within the internal market, the outlook needs to be carried out at the European level.

### **6.2. Cooperation of Member States**

EU legislation has two instruments dealing with security of gas supply. First, Directive 2003/55/EC introduced general monitoring obligations for the Member States. Second, Directive 2004/67/EC specifically concerns measures to safeguard security of gas supply. This later directive establishes the Gas Coordination Group and defines a "Community mechanism" in the event of supply disruption.

These instruments provide for a coordination platform. They do not define quantitative objectives as regards security of supply, nor do they impose any obligation as regards gas stocks. Finally, they do not provide a framework for regional cooperation in case of severe supply disruptions.

Directive 2004/67/EC was only recently transposed by the Member States. Its Article 10 provides for the Commission to report by 19 May 2008 on its implementation and in particular on the effectiveness of its instruments and that it may issue further proposals

concerning security of supply. In particular, this report will address security of supply measures in relation to gas stocks.

For that reason, as a first step, the present proposals do not modify Directive 2004/67/EC and only address two issues:

- *Increased transparency obligations on the level of commercial stocks.* Each storage operator would have the obligation to publish on a daily basis the amount of working gas it has in its facilities. This obligation would considerably increase mutual confidence for regional and bilateral assistance in case of severe supply disruptions.
- *Solidarity* It is proposed that Member States cooperate in order to promote regional and bilateral solidarity. This cooperation is intended to cover situations which would be likely to result in severe disruptions of gas supply affecting a Member State. Examples of this coordination are the streamlining of national measures to deal with emergencies and the elaboration of practical modalities for mutual assistance. The Commission will adopt guidelines for regional solidarity cooperation, if needed.

Proposal for a

**REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL**

**amending Regulation (EC) No 1775/2005 on conditions for access to the natural gas transmission networks**

**(Text with EEA relevance)**

THE EUROPEAN PARLIAMENT AND THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty establishing the European Community, and in particular Article 95 thereof,

Having regard to the proposal from the Commission<sup>8</sup>,

Having regard to the opinion of the European Economic and Social Committee<sup>9</sup>,

Having regard to the opinion of the Committee of the Regions<sup>10</sup>,

Acting in accordance with the procedure laid down in Article 251 of the Treaty<sup>11</sup>,

Whereas:

- (1) The internal market for gas, which has been progressively implemented since 1999, aims at delivering real choice for all consumers in the Community, be they citizens or business, new business opportunities and more cross-border trade, so as to achieve efficiency gains, competitive prices, higher standards of service, and to contribute to security of supply and sustainability.
- (2) Directive 2003/55/EC of the European Parliament and of the Council of 26 June 2003 concerning common rules for the internal market in natural gas and repealing Directive 98/30/EC<sup>12</sup> and Regulation (EC) No 1775/2005 of the European Parliament and of the Council of 28 September 2005 on conditions for access to the natural gas transmission networks<sup>13</sup> have made significant contributions towards the creation of such an internal market for gas.
- (3) However, at present, the right to sell gas in any Member State on equal terms, without discrimination or disadvantage cannot be guaranteed to any company in the

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<sup>8</sup> OJ C , , p. .

<sup>9</sup> OJ C , , p. .

<sup>10</sup> OJ C , , p. .

<sup>11</sup> OJ C , , p. .

<sup>12</sup> OJ L 176, 15.7.2003, p. 57.

<sup>13</sup> OJ L 289, 3.11.2005, p. 1.

Community. In particular, non-discriminatory network access and an equally effective level of regulatory supervision in each Member State do not yet exist.

- (4) The Communication of the Commission to the European Parliament and the Council entitled "An Energy Policy for Europe"<sup>14</sup> highlighted the importance of completing the internal market in natural gas and to create a level playing field for all gas companies in the Community. The Communication from the Commission to the European Parliament and to the Council on prospects for the internal gas and electricity market<sup>15</sup> and the Communication from the Commission "Inquiry pursuant to Article 17 of Regulation (EC) No 1/2003 into the European gas and electricity sectors (Final Report)"<sup>16</sup> showed that the present rules and measures do not provide the necessary framework to achieve the objective of a well functioning internal market.
- (5) Regulation (EC) No 1775/2005 needs to be adapted in line with these communications to improve the regulatory framework of the internal market in gas.
- (6) In particular, increased cooperation and coordination among transmission system operators is required to ensure progressive compatibility of the technical and commercial codes for providing and managing effective access to the transmission networks across borders, and to ensure coordinated and sufficiently forward looking planning and sound technical evolution of the transmission system in the Community, with due regard to the environment, and promote energy efficiency and research and innovation notably with respect to ensuring penetration of renewables and dissemination of low carbon technology. Transmission system operators should operate their networks according to these compatible technical and market codes.
- (7) In order to ensure an optimal management of the gas transmission network in the Community a European network of the transmission system operators should be established. Its tasks should be carried out in compliance with Community competition rules which remain applicable to the decisions of the European network of the transmission system operators. Its tasks should be well-defined and their working method should be such as to ensure efficiency, representativity and transparency. Given that more effective progress may be achieved through an approach at regional level, transmission system operators should set up regional structures within the overall cooperation structure, whilst ensuring that results at regional level are compatible with codes and investment plans at Community level. Cooperation within such regional structures presupposes effective unbundling of network activities from production and supply activities in the absence of which regional cooperation between transmission system operators gives rise to a risk of anti-competitive conduct.
- (8) All market participants have an interest in the work expected of the European network of transmission system operators. The consultation process is therefore essential and existing structures set up to facilitate and streamline the consultation process, such as EASEE—gas (the European Association for the Streamlining of Energy Exchange), should play an important role.

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<sup>14</sup> COM(2007) 1.

<sup>15</sup> COM(2006) 841.

<sup>16</sup> SEC(2006) 1724.

- (9) To enhance competition through liquid wholesale gas markets, it is vital that gas can be traded independently of its location in the system. The only way to do this is to give network users the freedom to book entry and exit capacity independently, thereby creating gas transport through zones instead of along contractual paths. The preference for entry-exit systems to facilitate the development of competition was already expressed by most stakeholders at the 6<sup>th</sup> Madrid Forum.
- (10) There is substantial contractual congestion in the gas networks. The congestion management and capacity allocation principles for new or newly negotiated contracts are therefore based on the freeing-up of unused capacity by enabling network users to sublet or re-sell their contracted capacities and the obligation of transmission system operators to offer unused capacity to the market, at least on a day-ahead and interruptible basis. Given the large proportion of existing contracts and the need to create a truly level playing field between users of new and existing capacity these principles need to be applied to all contracted capacity, including existing contracts.
- (11) Market monitoring undertaken over recent years by the national regulatory authorities and by the Commission has shown that current transparency requirements and rules on access to infrastructure are not sufficient.
- (12) Equal access to information on the physical status of the system is necessary to enable all market participants to assess the overall demand and supply situation and identify the reasons for movements in the wholesale price. This includes more precise information on supply and demand, network capacity, flows and maintenance, balancing and availability and usage of storage. The importance of this information for the functioning of the market requires the lifting of the limitations to publication for confidentiality reasons.
- (13) To enhance trust in the market, its participants need to be sure that abusive behaviour can be sanctioned. Competent authorities should be enabled to effectively investigate allegations of market abuse. Therefore access to data by the competent authorities is necessary that provides information on operational decisions made by supply undertakings. In the gas market all these decisions are communicated to the system operators in the form of capacity reservations, nominations and realised flows. System operators should keep this information available to the competent authorities for a fixed period of time.
- (14) Competition for household-consumers requires that suppliers not be blocked when they want to enter new retail markets. Therefore rules and responsibilities governing the supply chain need to be known to all market parties, and they need to be harmonised with a view to enhancing Community market integration.
- (15) Access to gas storage facilities and LNG facilities is insufficient, and therefore rules need to be improved. Monitoring by the European Regulators' Group for electricity and gas (EREG) concluded that the voluntary guidelines for good third party access practice for storage system operators, agreed by all stakeholders at the Madrid Forum, are being insufficiently applied and therefore need to be made binding.

- (16) Regulation (EC) No 1775/2005 provides that certain measures are to be adopted in accordance with Council Decision 1999/468/EC of 28 June 1999 laying down the procedures for the exercise of implementing powers conferred on the Commission<sup>17</sup>.
- (17) Decision 1999/468/EC has been amended by Decision 2006/512/EC, which introduced a regulatory procedure with scrutiny for measures of general scope designed to amend non-essential elements of a basic instrument adopted in accordance with the procedure referred to in Article 251 of the Treaty, including by deleting some of those elements or by supplementing the instrument by the addition of new non-essential elements.
- (18) In accordance with the joint statement of the European Parliament, the Council and the Commission<sup>18</sup> on Decision 2006/512/EC, for this new procedure to be applicable to instruments adopted in accordance with the procedure laid down in Article 251 of the Treaty which are already in force, those instruments must be adjusted in accordance with the applicable procedures.
- (19) As regards Regulation (EC) No 1775/2005, power should be conferred on the Commission in particular to establish or adopt the guidelines necessary for providing the minimum degree of harmonisation required to achieve the aim of this Regulation. Since those measures are of general scope and are designed to amend non-essential elements of Regulation (EC) No 1775/2005 and to supplement Regulation (EC) No 1775/2005 by the addition of new non-essential elements, they should be adopted in accordance with the regulatory procedure with scrutiny provided for in Article 5a of Decision 1999/468/EC.
- (20) Regulation (EC) No 1775/2005 should therefore be amended accordingly,

HAVE ADOPTED THIS REGULATION:

*Article 1*

Regulation (EC) No 1775/2005 is amended as follows:

- (1) Article 1 is replaced by the following:

*"Article 1  
Subject matter and scope*

This Regulation aims at:

- (a) setting non-discriminatory rules for access conditions to natural gas transmission systems taking into account the specificities of national and regional markets with a view to ensuring the proper functioning of the internal gas market;

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<sup>17</sup> OJ L 184, 17.7.1999, p. 23. Decision as amended by Decision 2006/512/EC (OJ L 200, 22.7.2006, p. 11).

<sup>18</sup> OJ C 255, 21.10.2006, p. 1.



- (b) setting non-discriminatory rules for access conditions to LNG facilities and storage facilities;
- (c) facilitating the emergence of well functioning and transparent cross-border retail markets and a well functioning and transparent wholesale market; it provides mechanisms to harmonise these rules in order to allow trading and supplying gas to retail customers across borders.

This Regulation, with the exception of Article 6a(4), shall only apply to storage facilities falling under Article 19(3) or (4) of Directive 2003/55/EC.

The objectives referred to in the first subparagraph shall include the setting of harmonised principles for tariffs, or the methodologies underlying their calculation, for access to the network, the establishment of third party access services and harmonised principles for capacity allocation and congestion management, the determination of transparency requirements, balancing rules and imbalance charges and facilitating capacity trading."

(2) Article 2 is amended as follows:

(a) in paragraph 1, the following definitions are added:

- "24. 'LNG-facility capacity' means capacity at an LNG-terminal for the liquefaction of natural gas or the importation, offloading, ancillary services, temporary storage and re-gasification of LNG,
- 25. 'space' means the volume of gas which a user of a storage facility is entitled to use for the storage of gas ;
- 26. 'deliverability' means the rate at which the storage user is entitled to withdraw gas from the storage facility;
- 27. 'injectability' means the rate at which the storage user is entitled to inject gas into the storage facility;
- 28. 'storage capacity' means any combination of space, injectability and deliverability
- 29. 'Agency' means the Agency for the Cooperation of Energy Regulators established by Regulation (EC) No ...<sup>19</sup> "

(b) paragraph 2 is replaced by the following:

"2. Without prejudice to the definitions in paragraph 1 of this Article the definitions contained in Article 2 of Directive 2003/55/EC, which are relevant for the application of this Regulation, shall also apply with the exception of the definition of transmission in point 3 of that Article.

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<sup>19</sup> OJ L .....

The definitions in points 3 to 23 in paragraph 1 of this Article in relation to transmission shall apply by analogy in relation to storage and LNG facilities."

- (3) The following Articles 2a to 2h are inserted:

*"Article 2a*

*European Network of Transmission System Operators for Gas*

All transmission system operators shall cooperate at Community level through establishing the European Network of Transmission System Operators for Gas in order to ensure the optimal management and sound technical evolution of the European gas transmission network

*Article 2b*

*Establishment of the European Network for Transmission System Operators for Gas*

1. By [...] at the latest the transmission system operators for gas shall submit to the Commission and to the Agency the draft of statutes, a list of future members and draft rules of procedure, including the rules of procedure on the consultation of other stakeholders, of the European Network for Transmission System Operators for Gas to be established.
2. Within six weeks from receipt, the Agency shall provide an opinion to the Commission on the draft statutes, list of members and draft rules of procedure.
3. The Commission shall deliver an opinion on the draft statutes, list of members and draft rules of procedure within 3 months from the receipt of the opinion of the Agency.
4. Within 3 months from the receipt of the Commission's opinion, the transmission system operators shall establish the European Network for Transmission System Operators for Gas, adopt its statutes and rules of procedure and publish them.

*Article 2c*

*Tasks of the European Network of Transmission System Operators for Gas*

1. The European Network of Transmission System Operators for Gas shall adopt:
  - (a) technical and market codes in the areas mentioned in paragraph 3;
  - (b) common network operation tools and research plans;
  - (c) a 10-year investment plan every two years;
  - (d) an annual work programme;
  - (e) an annual report;
  - (f) annual summer and winter supply outlooks.

2. The annual work programme referred to in paragraph 1(d) shall contain a list and description of the technical and market codes, a plan on coordination of operation of the network and research and development activities, to be drawn up in that year and an indicative calendar.
3. The detailed technical and market codes shall cover the following areas, according to the priorities defined in the annual work programme:
  - (a) security and reliability rules;
  - (b) grid connection and access rules;
  - (c) data exchange and settlement rules;
  - (d) interoperability rules;
  - (e) operational procedures in an emergency;
  - (f) capacity allocation and congestion management rules;
  - (g) rules for trading;
  - (h) transparency rules;
  - (i) balancing rules including rules on nominations procedures, rules for imbalance charges and rules for operational balancing between transmission system operators systems;
  - (j) rules regarding harmonised transportation tariff structures;
  - (k) energy efficiency regarding gas networks.
4. The European Network of Transmission System Operators for Gas shall monitor the implementation of the technical and market codes and include the results of its monitoring activities in the annual report referred to in paragraph 1(e).
5. The European Network of Transmission System Operators for Gas shall publish a Community-wide 10-year network investment plan every two years. The investment plan shall include the modelling of the integrated network, scenario development, a supply and demand adequacy report and an assessment of the resilience of the system. The investment plan shall, in particular, build on national investment plans and on the Guidelines for Trans-European energy networks in accordance with Decision No 1364/2006/EC of the European Parliament and of the Council<sup>20</sup>. The investment plan shall identify investment gaps, notably with respect to cross border capacities.
6. Upon request of the Commission, the European Network of Transmission System Operators for Gas shall advise the Commission on the adoption of Guidelines as laid down in Article 9.

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<sup>20</sup> OJ L 262, 22.9.2006, p. 1.

*Article 2d*  
*Monitoring by the Agency*

1. The Agency shall monitor the execution of the tasks referred to in Article 2c(1) of the European Network of Transmission System Operators for Gas.
2. The European Network of Transmission System Operators for Gas shall submit the draft technical and market codes, the draft 10-year investment plan and the draft annual work programme, including the information regarding the consultation process, to the Agency

The Agency may provide an opinion to the European Networks of Transmission System Operators for Gas within 3 months.

The Agency shall provide a duly justified opinion to the Commission where it considers that the draft annual work programme or the draft 10-year investment plan do not ensure non-discrimination, effective competition and the efficient functioning of the market.

*Article 2e*  
*Establishment and evaluation of technical and market codes*

1. After consulting the Agency, the Commission may invite the European Network of Transmission System Operators for Gas, within a reasonable period of time, to prepare codes in the areas listed in Article 2c(3) where it considers that such codes are necessary for the efficient functioning of the market.
2. The Agency shall provide a duly justified opinion to the Commission where it considers that:
  - (a) a technical or market code adopted by the European Network of Transmission System Operators for Gas in the areas listed in Article 2c(3) does not ensure non-discrimination, effective competition and the efficient functioning of the market; .
  - (b) the European Network of Transmission System Operators for Gas fails to agree within a reasonable period of time on a technical or market code in the areas listed in Article 2c(3);
  - (c) the transmission system operators fail to implement a technical or market code adopted by the European Network of Transmission System Operators for Gas in the areas listed in Article 2c(3).
3. The Commission may adopt, on its own initiative or upon recommendation of the Agency, guidelines on the areas listed in Article 2c(3) when it considers that:
  - (a) a technical or market code adopted by the European Network of Transmission System Operators for Gas in the areas listed in Article 2c(3) does not ensure non-discrimination, effective competition and the efficient functioning of the market;

- (b) the European Network of Transmission System Operators for Gas fails to agree within a reasonable period of time on a technical or market code in the areas listed in Article 2c(3);
- (c) the transmission system operators fail to implement a technical or market code adopted by the European Network of Transmission System Operators for Gas in the areas listed in Article 2c(3).

Those measures designed to amend non-essential elements of this Regulation by supplementing it shall be adopted in accordance with the regulatory procedure with scrutiny referred to in Article 14(2).

- 4. Paragraph 3 shall be without prejudice to the Commission's right to adopt and amend guidelines as laid down in Article 9.

#### *Article 2f Consultations*

- 1. In carrying out its tasks, the European Network of Transmission System Operators for Gas shall consult extensively, at an early stage and in an open and transparent manner, in particular while preparing the technical and market codes and its annual work programme referred to in Article 2c(1) and (3), with all appropriate market participants; the consultation shall include supply undertakings, customers, system users, distribution system operators, LNG system operators and storage system operators, including relevant (industry) associations, technical bodies and stakeholder platforms.
- 2. All documents and minutes of meetings related to the issues referred to in paragraph 1 shall be made public.
- 3. Before adopting the annual work programme and the technical and market codes referred to in Article 2c(1) and (3), the European Network of Transmission System Operators for Gas shall indicate the observations received in the consultation and how these observations have been taken into consideration. It shall provide reasons where observations have not been taken into account.

#### *Article 2g Costs*

The costs related with the activities of the European Network of Transmission System Operators for Gas mentioned in Articles 2a to 2h shall be borne by the transmission system operators and shall be taken into account in the calculation of tariffs.

#### *Article 2h Regional cooperation of transmission system operators*

- 1. Transmission system operators shall establish regional cooperation within the European Network for Transmission System Operators for Gas to contribute to the

tasks mentioned in Article 2c(1). In particular, they shall publish a regional investment plan every two years, and may take investment decisions based on the regional investment plan.

The regional investment plan may not be contradictory to the 10 year investment plan referred to in Article 2c(1)(c).

2. Transmission system operators shall promote operational arrangements in order to ensure optimum management of the network, and promote the development of energy exchanges, the allocation of cross-border capacity through implicit auctions and the integration of balancing mechanisms.
3. The geographical area covered by each regional cooperation structure may be defined by the Commission. That measure, designed to amend non-essential elements of this Regulation by supplementing it, shall be adopted in accordance with the regulatory procedure with scrutiny referred to in Article 14(2).

For that purpose, the Commission may consult the European Network of Transmission System Operators for Gas and the Agency."

- (4) In Article 3(1) the following fourth subparagraph is added :

"Tariffs for network users shall be set separately and independently per entry point into or exit point out of the transmission system. Network charges shall not be calculated on the basis of contract paths."

- (5) The title of Article 4 is replaced by the following:

"Third party access services concerning transmission system operators;"

- (6) The following Article 4a is inserted:

*"Article 4a*

*Third Party Access services concerning storage and LNG facilities*

1. LNG and storage system operators shall:
  - (a) ensure that they offer services on a non-discriminatory basis to all network users that accommodate market demand; in particular, where an LNG or storage system operator offers the same service to different customers, it shall do so under equivalent contractual terms and conditions;
  - (b) offer services that are compatible with the use of the interconnected gas transportation systems and facilitate access through cooperation with the transmission system operator;
  - (c) make relevant information public, in particular data on the use and availability of services, in a time frame compatible with the storage and LNG facility users' reasonable commercial needs.
2. Storage system operators shall:

- (a) provide both firm and interruptible third party access services; the price of interruptible capacity shall reflect the probability of interruption;
  - (b) offer to storage facility users both long- and short-term services;
  - (c) offer to storage facility users both bundled and unbundled services of storage space, injectability and deliverability.
3. LNG and storage facility contracts shall not result in arbitrarily higher tariffs in cases in which they are signed
- (a) outside of a natural gas year with non-standard start dates or
  - (b) with a shorter duration than a standard transportation and storage contract on an annual basis.
4. Where appropriate, third party access services may be granted subject to appropriate guarantees from network users with respect to the creditworthiness of such users. Such guarantees must not constitute any undue market entry barriers and must be non-discriminatory, transparent and proportionate.
5. Contractual limits on the required minimum size of LNG facility capacity and storage capacity shall be justified on the basis of technical constraints, and shall permit smaller storage users to gain access to storage services."
- (7) Article 5 is amended as follows;
- (a) the title is replaced by the following:
 

"Principles of capacity allocation mechanisms and congestion management procedures concerning transmission system operators";
  - (b) paragraph 3 is replaced by the following:
 

"3. Transmission system operators shall implement and publish non-discriminatory and transparent congestion management procedures which are based on the following principles:

    - (a) in the event of contractual congestion, the transmission system operator shall offer unused capacity on the primary market at least on a day-ahead and interruptible basis;
    - (b) network users who wish to re-sell or sublet their unused contracted capacity on the secondary market shall be entitled to do so. Member States may require notification or information of the transmission system operator by network users."
  - (c) paragraph 4 is deleted;
  - (d) the following paragraph 6 is added:

"6. Transmission system operators shall regularly assess market demand for new investment. When planning new investments, transmission system operators shall assess market demand."

(8) The following Article 5a is inserted:

*"Article 5a  
Principles of Capacity allocation mechanisms and congestion management procedures  
concerning storage facilities and LNG facilities*

1. The maximum storage and LNG facility capacity shall be made available to market participants, taking into account system integrity and operation.
2. LNG and storage system operators shall implement and publish non-discriminatory and transparent capacity allocation mechanisms which shall:
  - (a) provide appropriate economic signals for the efficient and maximum use of capacity and facilitate investment in new infrastructure;
  - (b) be compatible with the market mechanism including spot markets and trading hubs, while being flexible and capable of adapting to evolving market circumstances;
  - (c) be compatible with the connected network access systems.
3. LNG and storage facility contracts shall include measures to prevent capacity-hoarding, by taking into account the following principles, which shall apply in cases of contractual congestion:
  - (a) the system operator shall offer unused LNG facility and storage capacity on the primary market; for storage facilities this shall be at least on a day-ahead and interruptible basis,
  - (b) LNG and storage facility users who wish to re-sell their contracted capacity on the secondary market shall be entitled to do so."

(9) Article 6 is amended as follows:

- (a) the title is replaced by the following:

"Transparency requirements concerning transmission system operators"

- (b) paragraph 5 is deleted;
- (c) the following paragraph 7 is added;

"7. Transmission system operators shall make public ex-ante and ex-post supply and demand information, based on nominations, forecasts and realised flows in and out of the system. The level of detail of the information that is made public shall reflect the information available to the transmission system operator.



Transmission system operators shall make public measures taken as well as costs incurred and revenues generated to balance the system.

The market participants concerned shall provide the transmission system operators with the data referred to in this Article."

(10) The following Articles 6a and 6b are inserted:

*"Article 6a*

*Transparency requirements concerning storage facilities and LNG facilities*

1. LNG and storage system operators shall make public detailed information regarding the services they offer and the relevant conditions applied, together with the technical information necessary for LNG and storage facility users to gain effective access to the LNG and storage facilities.
2. For the services provided, each LNG and storage system operator shall make public information on contracted and available storage and LNG facility capacities on a numerical basis on a regular and rolling basis and in a user-friendly standardised manner.
3. LNG and storage system operators shall always disclose the information required by this Regulation in a meaningful, quantifiably clear and easily accessible way and on a non-discriminatory basis.
4. All LNG and storage system operators shall make public the amount of gas in each storage or LNG facility, inflows and outflows, and the available storage and LNG facility capacities, including for those facilities exempted from third party access. The information shall also be communicated to the transmission system operator who shall make it public on an aggregated level per system or subsystem defined by the relevant points. The information shall be updated at least every day.

*Article 6b*

*Record keeping for system operators*

Transmission system operators, storage system operators and LNG system operators shall keep at the disposal of the national regulatory authority, the national competition authority and the Commission all information referred to in Article 6 and 6a, and in part 3 of the Annex for a period of five years."

(11) Article 7 is amended as follows:

- (a) the following sentence is added at the end of paragraph 1: "Balancing rules shall be market based.";
- (b) paragraph 2 is replaced by the following:
  - "2. In order to enable network users to take timely corrective action, transmission system operators shall provide sufficient, well-timed and reliable on-line based information on the balancing status of network users.

The information provided shall reflect the level of information available to the transmission system operator and the settlement period for which imbalance charges are calculated.

No charge shall be made for the provision of such information."

(c) paragraphs 4, 5 and 6 are deleted.

(12) Article 8 is replaced by the following:

*"Article 8  
Trading of capacity rights*

Each transmission, storage and LNG system operator shall take reasonable steps to allow capacity rights to be freely tradable and to facilitate such trade. Each such operator shall develop harmonised transportation, LNG facility and storage contracts and procedures on the primary market to facilitate secondary trade of capacity and recognise the transfer of primary capacity rights where notified by system users.

The harmonised transportation, LNG facility and storage contracts and procedures shall be notified to the regulatory authorities."

(13) The following Article 8a is inserted:

*"Article 8a  
Retail markets*

In order to facilitate the emergence of well functioning and transparent cross border retail markets on a regional and Community scale, Member States shall ensure that the roles and responsibilities of transmission system operators, distribution system operators, supply undertakings and customers and if necessary other market participants are defined with respect to contractual arrangements, commitment to customers, data exchange and settlement rules, data ownership and metering responsibility.

These rules shall be made public, be designed with the aim of harmonising access to customers across borders and be subject to review by the regulatory authorities."

(14) In article 9, paragraphs 1 and 2 are replaced by the following:

"1. Where appropriate, guidelines providing the minimum degree of harmonisation required to achieve the aim of this Regulation shall specify:

- (a) details of third party access services including the character, duration and other requirements of these services, in accordance with Articles 4 and 4a;
- (b) details of the principles underlying capacity allocation mechanisms and on the application of congestion management procedures in the event of contractual congestion, in accordance with Articles 5 and 5a;

- (c) details on the provision of information and definition of the technical information necessary for network users to gain effective access to the system and the definition of all relevant points for transparency requirements, including the information to be published at all relevant points and the time schedule according to which this information shall be published, in accordance with Articles 6 and 6a;
  - (d) details on tariff methodology, in accordance with Article 3;
  - (e) details on balancing rules, in accordance with Article 7;
  - (f) details on procedures on the primary market to facilitate trading of capacity on the secondary market and the transfer of primary capacity rights between network users, in accordance with Articles 8;
  - (g) details on the retail market issues covered by Article 8a;
  - (h) details on the topics listed in Article 2c(3).
2. Guidelines on the issues listed in paragraph 1(a), (b) and (c) are laid down in the Annex with respect to transmission system operators.

The Commission may amend the guidelines referred to in the first subparagraph and adopt guidelines on the issues listed in paragraph 1. Those measures designed to amend non-essential elements of this Regulation *inter alia* by supplementing it, shall be adopted in accordance with the regulatory procedure with scrutiny referred to in Article 14(2)."

(15) Article 14, paragraph 2 is replaced by the following:

- "2. Where reference is made to this paragraph, Article 5a(1) to (4), and Article 7 of Decision 1999/468/EC shall apply, having regard to the provisions of Article 8 thereof."

(16) Article 16, point (b) is replaced by the following:

- "(b) interconnectors between Member States, LNG and storage facilities and significant increases of capacity in existing infrastructures and modifications of such infrastructures which enable the development of new sources of gas supply as referred to in Article 22(1) and (2) of Directive 2003/55/EC which are exempted from the provisions of Articles 7, 18, 19, 20 or 25(2), (3) and (4) of that Directive as long as they are exempted from the provisions referred to in this subparagraph, with the exception of Article 6a.4 of this Regulation; or"

(17) The Annex is amended as follows:

- (a) the title of point 1. is replaced by the following:

"Third party access services concerning transmission system operators";

- (b) the title of point 2. is replaced by the following:

"Principles of capacity allocation mechanisms and congestion management procedures concerning transmission system operators and their application in the event of contractual congestion, and".

*Article 2*

This Regulation shall enter into force on the 20th day following that of its publication in the *Official Journal of the European Union*.

This Regulation shall be binding in its entirety and directly applicable in all Member States.

Done at Brussels, [...]

*For the European Parliament*  
*The President*

*For the Council*  
*The President*