CHALLENGES TO CREATE AN INTEGRATED ENERGY MARKET

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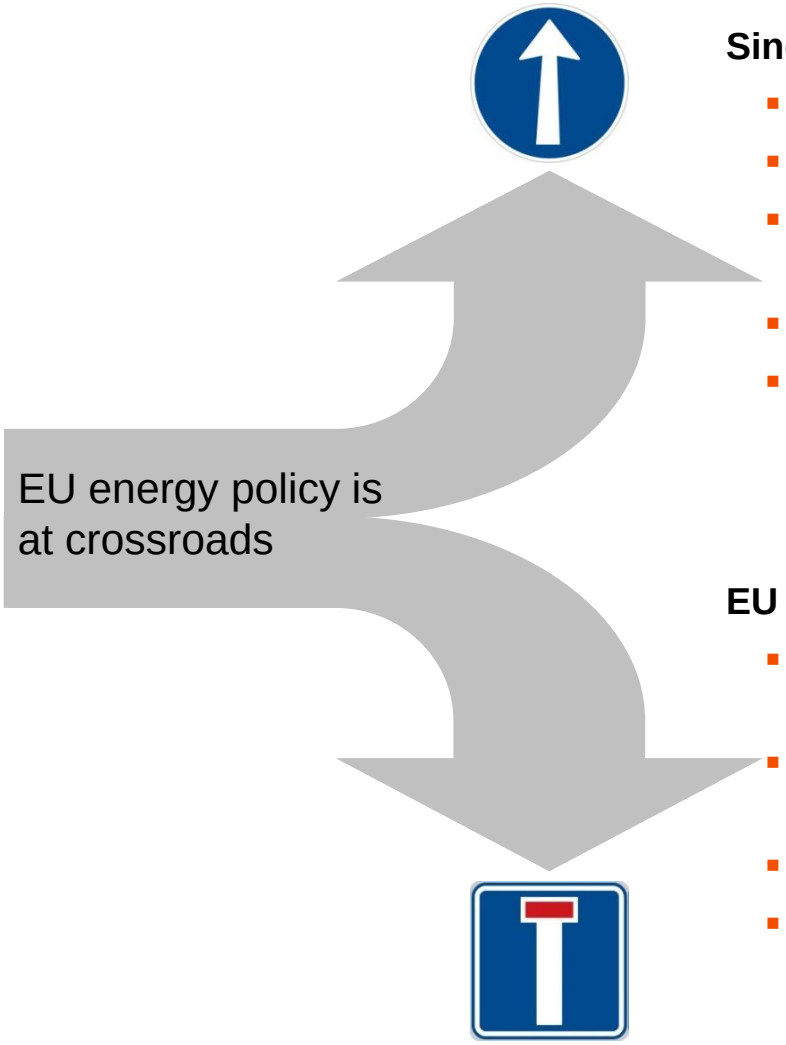
THE EUROPEAN ENERGY POLICY NEEDS TO STRENGTHEN THE SINGLE ENERGY MARKET OTHERWISE IT WILL BREAK UP INTO 27 NATIONAL SYSTEMS



Single energy market restored as a clear EU priority

- Re-unify, strengthen and stabilize power markets
- Foster and maintain long-term CO_2 market credibility
- Set up a unified and efficient RES support system (green certificates)
- Further integrate market via market coupling
- If required, set up a single and controlled reserve generator support scheme (capacity mechanisms)

EU energy market breaks up into 27 national systems

- National markets implement their own rules that negatively interfere with each other
- The energy market cannot work like up to now, more regulation is introduced
- Higher power price for end consumers
- Other sector might follow in the disintegration – the principle of unified EU is at risk

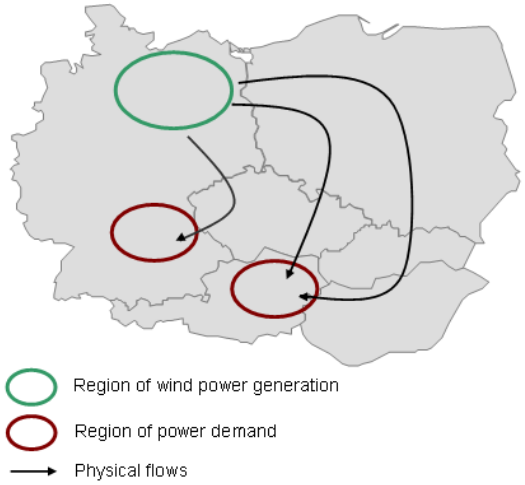
HOW RENEWABLES CAN CONTRIBUTE TO PREVENT BREAKING UP FROM HAPPENING? BY PROMOTING THEM IN A FAIR AND EFFICIENT WAY!

- Inhibited liberalization and market integration
  - State specific environment
  - Cross-border capacities reserved for renewables
  - Protective measures in some countries
- Inefficiency
  - Rigid and artificial state regulations and subsidies are distorting traditional market incentives and signals
  - Regulation often lags behind market trends creating extremely favorable conditions for inefficient investment in RES that can grow exponentially
  - High costs transferred to the end- consumers
  - Inefficient geographical location means high additional infrastructure costs
- Threatened security of supply
  - Excessively quick development of renewables without infrastructure strengthening jeopardizes system stability
  - Lack of incentives for investing in traditional stable power sources

Focus on regulations and subsidies is a „step back“ towards national markets

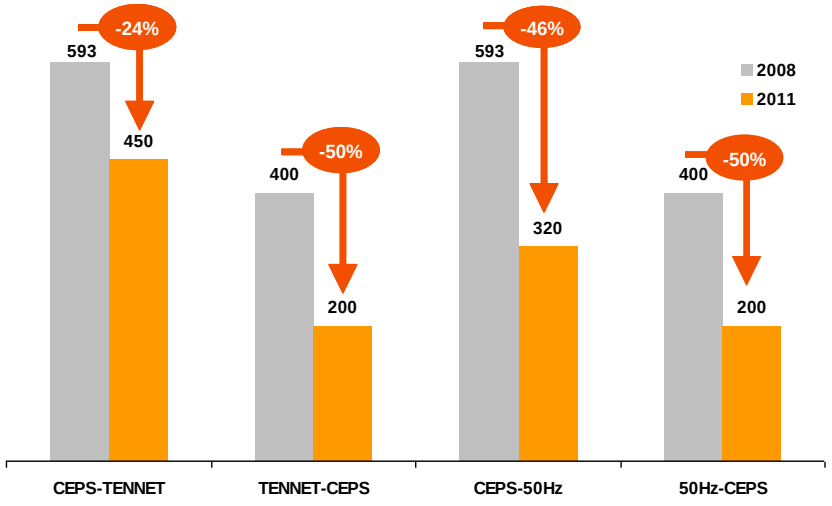
- Plans for fulfilling targets are set at the national level
- Each country adopts its own system of incentives (feed-in tariffs, green certificates,…)
- Large quantitative and qualitative differences in support schemes make the generation portfolio highly country-specific
- Inter-state competition based on the efficiency would be to a large extent restrained by subsidies

HOW RENEWABLES CAN CONTRIBUTE MORE? BY AVOIDING INTER-REGIONAL POWER OVERFLOWS CAUSED BY RES GENERATION SURGES!



- Geographical concentration of renewable sources differs from the regions with high power demand which, together with large volatility of RES generation, creates pressures on the transmission grid
- Majority of subsidies is allocated directly to the RES and not to the development of infrastructure
- Volume of RES incentivized by subsidies can grow very fast whereas building infrastructure is a long and complicated process (8-10 years)

- German wind generation floods the Czech transmission grid and overloads it
- CEPS has to reserve part of the trans-border capacities for the unpredictable flow of RES electricity
- Long term (annual, monthly) capacity allocation, important for forward electricity sales, is lower with negative impact on the competitiveness
- Protecting national markets (phase-shifters in NL, PL) only amplifies problems of others and decouples the markets



HOW ENERGY EFFICIENCY CAN CONTRIBUTE?

- Enhanced system efficiency grace to market integration
  - Market coupling is efficient
    - **CEE market coupling fully compatible with CWE/NWE**
    - **CEE can join CWE/NWE in late 2012/early 2013**
  - Maximum use of cross-border capacities
  - Optimal sharing of generation porfolios across borders permitted by the infrastructure = energy efficiency on industrial scale
  - Enhanced competition promoting the most efficient investment

- Support changes in customers‘ behaviour
  - The energy efficiency is crucial especially in the sector of buildings
  - Well functioning market needs not only supply “push” but, even more importantly, demand “pull”
  - Tailor-made solutions to achieve common targets
  - Cost-recovery mechanisms should be a precondition for any obligation scheme
  - Alternative or complementary instruments are important!

- Promote efficiency in heating and cooling
  - Assess the potential for all low carbon heating and cooling technologies
  - Minimise negative impacts on competition within liberalising energy markets
  - Take a longer view (20-30 years) of the heating and cooling forecast
  - Identify through cost-benefit analysis at district/regional level opportunities
  - Vital to have enabled choice of technology and sitting of new facilities!