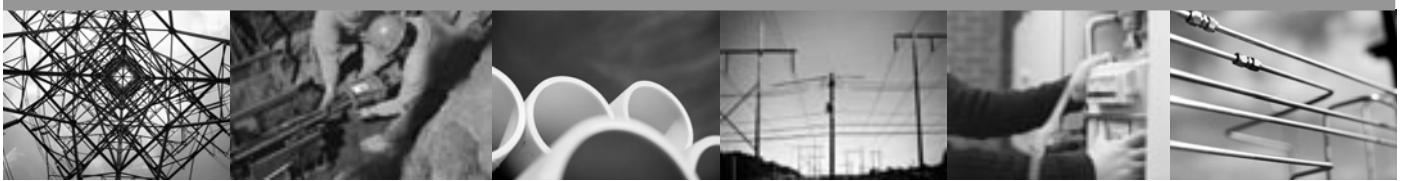


EU Energy Policy



Key points

- National Grid wants the European Commission to hold its nerve and go for complete unbundling, with independent ownership of transmission networks.
- This offers the European consumer lower costs, lower carbon emissions, increased investment and increased reliability.
- Britain is increasingly interconnected to Europe so we need the European energy markets to work well, for the UK energy markets to work well.

Introduction

In January 2007, the European Commission published its Strategic European Energy Review, *An Energy Policy for Europe*. The paper set out an Action Plan with proposals on climate change, energy efficiency, renewable energy, and the internal market. The Commission's goal is to build on previous proposals and legislation to have a complete internal energy market with open competition and effective regulation in place by January 2009. This includes a single contiguous electricity grid in Europe.

The Commission is publishing its third legislative package on

energy liberalisation on 19 September.

Key issues for National Grid from the third package:

More detailed and prescriptive rules for transmission unbundling.

The Commission are proposing strong measures on gas and electricity transmission unbundling. Many European energy companies are vertically integrated with a mix of regulated transmission activities and competitive activities, such as generation or gas production, as well as arms of the company that supply end consumers.

The European Commission clearly favoured ownership unbundling; derogations will only be available if a very deep Independent System Operator is established that will operate the network and determine the network's investment plans.

A New European regulatory agency (ACER).

This will complement the work of national regulators by providing a framework for co-operation between the regulatory authorities. It will also perform an advisory role to the Commission and will "oversee" the new transmission bodies.

Formal transmission bodies (ENTSOs).

The proposals advocate two new formal bodies (one each for gas and electricity) to improve co-operation and co-ordination between transmission companies at European and regional levels. The European Commission expect that these new organisations will make substantial progress towards the single market.

National Grid's response:

National Grid welcomes the Commission's strategic energy review and the expected third package proposals. They support the goal of liberalised energy markets, investment in networks and greater interconnection in Europe. These are key drivers of security of supply. It follows that the correct role of EU energy policy is to establish structures within which the energy industry that can promote competition and investment.

Unbundling

Full ownership unbundling is the right solution.

This is the situation in Britain. Due to the vertical integration of energy companies in Europe, competition is limited. Full ownership unbundling would bring the following benefits:

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- **Lower costs:** Unbundling would allow all producers and generators access to the transmission network; creating a more open market and increasing competition, which would drive down prices for customers.
- **Lower carbon:** Open access to the transmission networks would allow more renewables to connect to the system. Due to the open market in Britain, National Grid is managing nearly 37GW of signed connection contracts for new generation – compared to 77GW of generating capacity currently connected to the transmission system.
- **Increased investment:** Since 1990, over €8bn has been invested in the unbundled electricity transmission network in England and Wales – around double the investment seen under the previous vertically-integrated regime. This compares well with the US – investment is around three times higher than the US and 40% higher than continental Europe. Between 2007-2013 National Grid is investing €9.5bn in its gas and electricity transmission networks to increase network capacity of new gas imports and to replace ageing fossil fuel stations with carbon-free generation from wind power.

- **Increased reliability:** Network reliability in England and Wales has averaged 99.9998% since 1990 – around five times higher than continental Europe.

The Independent System Operator (ISO) option is second best. The Commission should be commended that they have learnt the lessons of ISOs in the US that have failed to deliver benefits. The ISO model that the European Commission proposes is therefore a step up from any models that exist today. However, any ISO model means that additional complex regulation needs to be put in place and this option does not deliver the full benefits of keeping transmission ownership and system operation together. It therefore increases cost to the consumer.

Our electricity and gas with continental Europe

Britain is interconnected with Europe through an electricity interconnector with France. National Grid has announced that it is building an additional interconnector with the Netherlands, known as 'BritNed'. National Grid is also working on other electricity interconnection projects.

Britain is connected to Europe through two gas interconnectors: IUK, which is connected to Belgium, and the BBL interconnector from the Netherlands.

Glossary

Transmission – the high voltage electricity system or high pressure gas pipeline network that bulk supply electricity or gas to local distribution systems.

BritNed

New 260km electricity interconnector between Netherlands and UK. This €600m joint-venture project between National Grid and Dutch Transmission Operator, TenneT, is expected to be commissioned by late 2010.

French Interconnector

A 70km high-voltage direct current electricity interconnector between UK and France, owned by National Grid and RTE and in operation since 1986.

BBL is a gas interconnector between UK and Netherlands, owned by Gasunie, E.ON and Fluxys. In operation since December 2006, it can transport approximately 15 billion cubic metres of gas per year.

IUK is a gas interconnector between UK and Belgium, owned by seven companies and able to import up to 23.5 billion cubic metres of gas per year.