



ANNUAL REPORT 2010

**E-CONTROL**

Let's take a look at 2010.

WORKING FOR YOU - WHEREVER YOU NEED ENERGY



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Let's take a closer look at 2010.

WORKING FOR YOU - WHEREVER YOU NEED ENERGY



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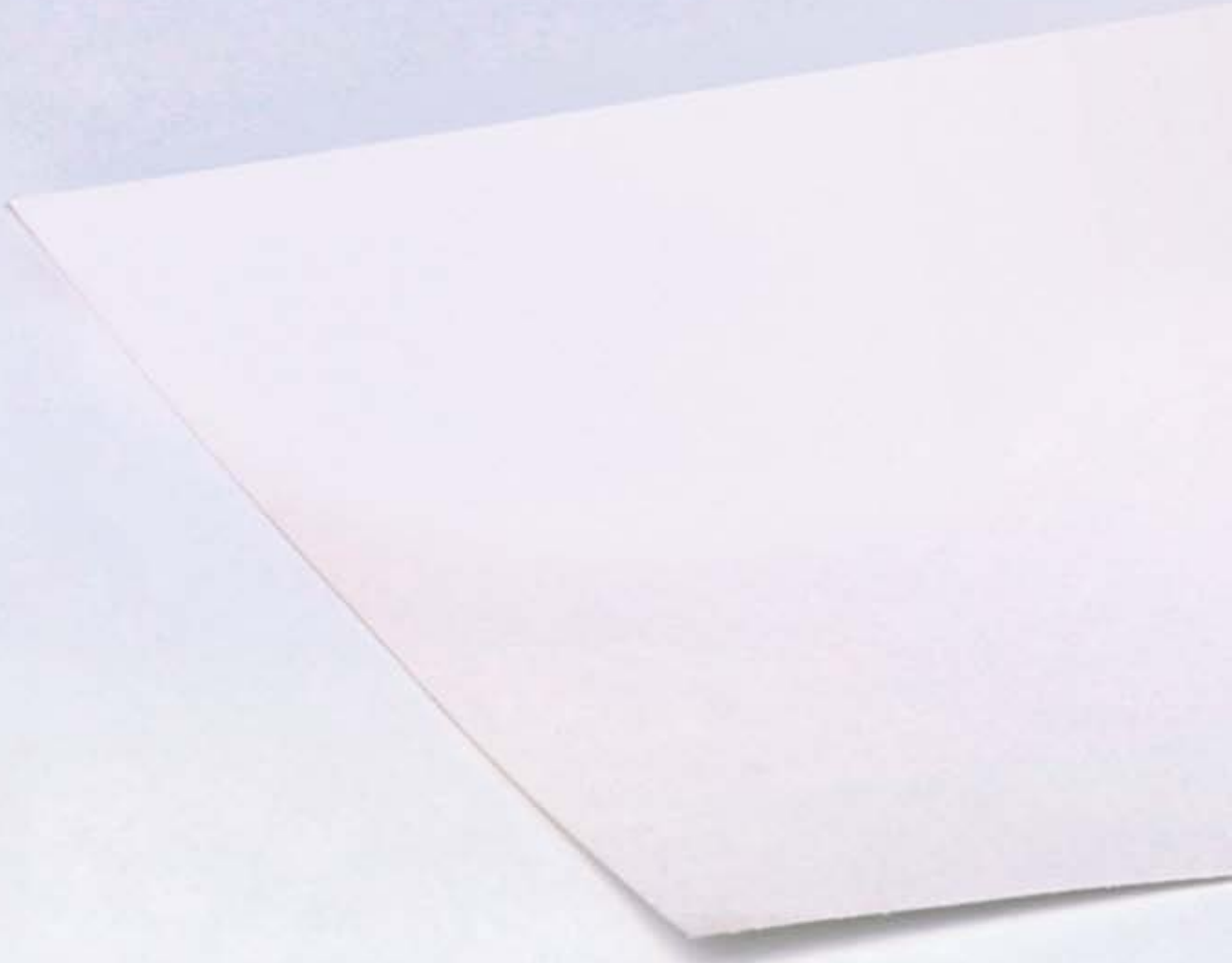
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The liberalised energy market  
still looks a bit grey ...





... but E-Control is busy  
brightening things up



Regulation is essential where competition needs a helping hand. And for all market players to enjoy equal treatment, regulators must be politically and financially independent. Regulation must come at a reasonable cost – so efficiency is our watchword.

# At a glance – efficient regulation



## **REGULATION IS PAYING OFF**

- > International studies of regulatory efficiency show that the Austrian regulator, Energie-Control GmbH (E-Control) is heading in the right direction.
- > An international company survey conducted by Electricity Journal 2008 rated E-Control's work as "very competent".
- > An investigation of best practice by the University of Cambridge in 2010 ranked Austria's energy market regulation system as the world's most efficient.

## **COMPETITION IS PICKING UP STEAM**

- > E-Control's responsibilities include network regulation, competition oversight, and compiling and publishing of energy price comparisons.

## **THE THIRD PACKAGE IS BRINGING GOOD NEWS**

- > The third energy package will give "strong" regulators more leeway to work for a fully functioning energy market.
- > The third package will be transposed into Austrian law in the course of 2010–2011; the deadline for completion is 3 March 2011.
- > The third package builds on efforts under way since the 1990s to create an internal European energy market.
- > A new European regulatory agency, ACER, has been created to enhance cooperation between the national regulators on their cross-border responsibilities.

## **BOTH SUPPLIERS AND CONSUMERS ARE BENEFITING**

- > The third package brings new unbundling rules for transmission system operators.
- > The procedure for setting the system charges has been changed.
- > The regulatory authority faces a heavier administrative workload.
- > The switching period is being cut to three weeks.





# Showing our true colours – efficient regulation

Regulation is all about creating the conditions for competition to flourish. It opens up new opportunities for companies that want to compete – but it also costs money. And to keep costs to a minimum whilst also achieving its goals, regulation needs efficient processes.

## **AUSTRIAN ENERGY REGULATION IS HEADING IN THE RIGHT DIRECTION – THE VIEW FROM ABROAD**

The authors of international studies, and regulators and energy managers in their responses to surveys, have expressed the view that E-Control is on the right track when it comes to efficient regulation.

### ***International comparisons***

- > The results of an international company survey (based on responses from 75 energy managers in 17 countries), published in **Electricity Journal 2008**,<sup>1</sup> rated E-Control as “very competent” and one of the world's top five best practice regulators.
- > A **2010 University of Cambridge study of best practice**,<sup>2</sup> the first of its kind to be based on structural data, confirmed Austria's status as the country with the world's most efficient regulator, established by a 2009 survey<sup>3</sup> (energy transmission and distribution networks; best practice score for electricity).

### ***European comparisons***

- > In its 2004<sup>4</sup> survey of independence among the regulators in the EU-15, Danish research institute AKF ranked E-Control second in terms of independence in decision making, sixth and seventh in terms of independence from government, eighth in terms of independence from stakeholders, and 12th–15th as regards financial and organisational autonomy. Overall, E-Control came seventh in the independence index for the EU-15 regulators.
- > Cooperation between regulators is crucial to the creation of an internal European energy market. E-Control collaborates with its European counterparts at EU level (e.g. in its role as a member of the European Regulators' Group for Electricity and Gas [EREG], which advises the European Commission) and on a bilateral basis. Sharing best practice with E-Control

<sup>1</sup> The Electricity Journal, Volume 21, Issue 6, July 2008, pp. 79–89, A Different Perspective on Energy Network Regulation: An International Survey of Regulation Managers, Paul H.L. Nillesen; <http://www.sciencedirect.com/science/article/B6VSS-4T719VH-2/2/aa6c157ba879b6b609c515b38b093343>.

<sup>2</sup> Austria scored seven out of a possible eight points (electricity score). No country scored eight points. S. EPRG Working Paper 1012, Exploring the Determinants of best practice in Network Regulation: The Case of the Electricity Industry, March 2010, contact: [ab748@cam.ac.uk](mailto:ab748@cam.ac.uk); <http://www.eprg.group.cam.ac.uk/wp-content/uploads/2010/03/BrophyHaneyPollittCombinedEPRG20121.pdf>.

<sup>3</sup> Efficiency Analysis of Energy Networks: An International Survey of Regulators, Aoife Brophy Haney and Michael Pollitt, June 2009, <http://www.eprg.group.cam.ac.uk/wp-content/uploads/2009/10/binder51.pdf>.

<sup>4</sup> Independent Regulatory Authorities – A Comparative Study of European Energy Regulators by Katja Sander Johannsen, Lene Holm Pedersen, Eva Moll Sorensen, April 2004 <http://www.akf.dk/udgivelser/2004/pdf/ira.pdf>.



was the most common reason for bilateral cooperation mentioned by the neighbouring Czech, German, Hungarian, Italian and Slovak regulators.<sup>5</sup>

All in all, other countries take a very positive view of E-Control's work, even though the Austrian regulator's budget is below the EU average.

#### **WE WATCH THE MONOPOLIES AND DRIVE COMPETITION AHEAD**

Up to now, the legal basis for E-Control's activities has been the *Energie-Regulierungsbehördengesetz* (Energy Regulatory Authorities Act) 2001.

E-Control's duties have included network regulation (determining the system charges), competition oversight, the preparation and publication of energy price comparisons, and (in the gas sector) oversight of the unbundling of system operation from the wholesale and retail functions. We have also been responsible for drawing up proposals for the regulatory framework of a properly functioning market – the market rules – and for technical and organisational rules (TOR), as well as approving the general terms and conditions of system operators and other market participants. In addition it has been possible to call on E-Control to arbitrate in disputes between market participants. We have carried out wide-ranging statistical studies and activities aimed at maintaining security of supply, such as supply monitoring and emergency response planning. Finally, E-Control has been the secretariat of the E-Control Commission.

Intervention against anti-competitive activities is usually a matter for the Federal Competition Authority and the cartel prosecutor. E-Control could apply to the cartel court for investigations of potentially anti-competitive behaviour.

Neither the E-Control Commission nor E-Control has been able to enforce their decisions themselves. In principle, all decisions of the regulatory authorities are contestable. Appeals to the E-Control Commission against E-Control rulings have automatically had a suspensive effect unless this is excluded by the first-instance decision. Decisions by the E-Control Commission can be challenged in the Constitutional Court and/or the Administrative Court of Appeal. In such cases an appeal only has a suspensive effect after a preliminary decision of the court. The regulator's decisions are enforced by the courts of execution.

<sup>5</sup> Europe Economics Interim Report, 2006 (unpublished).



Non-compliance with energy legislation is normally an administrative offence. The enforceability of these provisions has been weak. Normally, any administrative penalties have had to be imposed by the district administrations, which are not equipped to deal with – often highly complex – energy legislation. Moreover, in many cases the fines have been low (up to a maximum of EUR 50,000) and bear no relation to the financial rewards of breaking the law. Consequently such penalties have had no deterrent effect.

#### **GOOD NEWS FOR THE FREE MARKET – THIRD PACKAGE TO BRING BIG IMPROVEMENTS**

The third energy package provides for a number of additional regulatory powers and emphatically advocates strong regulators in the interests of a well functioning internal energy market. Without sufficient funding and staffing the regulatory authorities will be unable to carry out their new responsibilities.

In 2010/2011 the big issue in Austria will be transposing the third package into Austrian law. The deadline for national transposition of the Directives is 3 March 2011. The Regulations that also form part of the legislative package already became applicable as of 3 September 2009. They mainly relate to cross-border energy trading and the establishment of the Agency for the Cooperation of Energy Regulators (ACER).

The third package continues the EU's consistent efforts since the 1990s to create an internal European energy market. The new legal framework is intended to contribute to the Europeanisation of energy policy<sup>6</sup> by:

- > extending the powers of the national regulatory authorities, but requiring them to take account of the effects of their decisions on the internal market;
- > creating a new European regulatory agency, ACER, which will elevate cooperation between the national regulators on their cross-border responsibilities to a new institutional level;<sup>7</sup>
- > obliging national regulators to cooperate more closely with their peers, not only through ACER but also at bilateral and regional levels;
- > creating arrangements for closer cooperation between transmission system operators (TSOs) and their new European organisations (the European Networks of Transmission System Operators), national regulators, the Commission and ACER;
- > prescribing the development of framework guidelines and network codes, designed to lead to market rules applicable throughout Europe.
- > providing for the preparation of harmonised national and Community-wide ten-year network development plans, designed to ensure that infrastructure is developed in a coordinated manner.

<sup>6</sup> See W. Urbantschitsch, *Europäisierung der Energieregulierung (Europeanisation of energy regulation)*, *Österreichische Juristen-Zeitung (ÖJZ)* 2009, 849.

<sup>7</sup> Until now, the regulators have belonged to the Council of European Energy Regulators (CEER) – a private association under Belgian law – and the European Regulators' Group for Electricity and Gas (ERGEG), which is a consultative body established by the second energy package to advise the Commission.

**AND QUITE RIGHT, TOO –  
CONSUMERS' RIGHTS AND COMPETITION STRENGTHENED**

The EU's third legislative package for the electricity and gas markets, which consists of two Directives and three Regulations, came into force on 3 September 2009. The Directives must be transposed by 3 March 2011, and the Regulations are directly applicable from this point. Directives 2009/72/EC and 2009/73/EC concerning common rules for the internal markets in electricity and natural gas contain numerous new provisions, including requirements for the establishment and independence of national regulatory authorities, the strengthening of consumer protection and the promotion of effective competition.

The Austrian Parliament passed the *Elektrizitätswirtschafts- und -organisationsgesetz* (Electricity Act) 2010 and the *Energie-Control-Gesetz* (E-Control Act) replacing the *Energie-Regulierungsbehördengesetz* (Energy Regulatory Authorities Act) in order to transpose the new Electricity Directive. Under the constitutional division of powers, the federal government is responsible for framework legislation, and the provinces for implementing legislation. The provinces must be given at least six months to enact such legislation. The Electricity Act 2010 and the E-Control Act were published on 22 December 2010,<sup>8</sup> and the Gas Directive is to be transposed in 2011.

BGBI. (Federal Law Gazette [FLG] No 2/2008) amended Art. 20 *Bundes-Verfassungsgesetz* (Federal Constitution Act) to the effect that the supreme institutions of the state must have a right to oversee public bodies which are not bound by ministerial directions. FLG I No 30/2010 accordingly inserted Section 19a into the Energy Regulatory Authorities Act. This gives the Minister of Economy, Family and Youth the right to request information about all matters dealt with by the E-Control Commission.

***The only good TSO is a certified TSO***

The unbundling rules for electricity transmission system operators have been completely transformed. The relevant provisions in the Electricity Act 2010 are based on the new Electricity Directive, and large parts of them are taken over from it word for word. The new requirements give Austrian TSOs a choice between four options (ownership unbundling; independent system operator [ISO]; independent transmission operator [ITO]; and more effective independence of the transmission system operator [ITO+]). This passes on the right of member states to opt for one of the prescribed unbundling models to the TSOs themselves. Before the latter can be designated as such by member states they must be certified by their national regulators. The regulators must notify their decisions on the certification of TSOs to the European Commission, which must then deliver its opinion to the regulators. They must take the fullest possible account of the Commission's opinion.

<sup>8</sup> BGBI. (Federal Law Gazette [FLG]) I No 110/2010

The procedure for the determination of the system charges has also been revised. In particular, the relevant legal provisions are now far more detailed for the regulatory authority, as regards both the principles of cost and quantity determination and the individual components of the charges. The procedure itself has been modified, in that system operators' cost bases must first be determined by notice of the regulatory authority, and the system charges then set by order of the latter on the basis of the notices. In essence, the new legislative requirements very largely conform to existing regulatory practice. However, these amendments will significantly increase the regulator's administrative workload.

### Speeding up switching

The rules governing the duties of system operators and electricity suppliers to their customers have also been revised. The switching period has been reduced to three weeks in line with the Directive's requirements, and the provision regarding the supplier of last resort has been modified. There are now special rules on disconnection, consumer information and - likewise in accordance with the new EU legislation - smart meters. The Minister of Economy, Family and Youth can require the introduction of intelligent metering systems after a cost-benefit analysis has been carried out. In this case the regulator must determine the standards that these devices must meet by order.

The Electricity Act imposes new responsibilities on E-Control. These mainly concern the aforementioned unbundling rules, and monitoring of the behaviour of system operators and suppliers. The regulator can apply to the cartel court for the imposition of fines if system operators fail to meet their obligations with regard to unbundling. The new provisions are partly directly applicable federal law and partly framework legislation that must be implemented by the provinces. Most of the Electricity Act's provisions come into force on 3 March 2011.





***Greater powers and more independence for regulators –  
in the interests of consumers***

One of the main objectives of the third package is to give regulators greater powers and more independence from government. For example, recital 34 Electricity Directive states that “regulators need to be able to take decisions in relation to all relevant regulatory issues”, and to be “fully independent from any other public or private interests.” Art. 35 of the Directive, which deals with the regulatory authorities themselves, reflects this goal. Put briefly, these provisions determine that member states may not designate more than one national regulatory authority, and that this must be legally distinct and functionally independent from any other public or private entity. The staff and the persons responsible for the regulator's management must act independently from any market interest, and may not seek or take direct instructions from any government or other public or private entity.

In the light of the existing structure of the Austrian regulatory authorities for the electricity and gas industries, it is clear that action is required as a result of these provisions. Firstly, there are currently two regulatory authorities, namely, E-Control and the E-Control Commission, and their regulatory duties have been divided between them under the Energy Regulatory Authorities Act; these arrangements do not conform to the unitary authority required by European law. Secondly, the constitutional court has ruled that E-Control's legal form as a public entity organised as a limited company is only legal if it is obliged to take directions from a supreme administrative institution – yet the duty to take instructions is precisely what is now forbidden under European law.



## On top form – as a public authority

The new legislation takes its cue for the reorganisation of the energy regulator from the legal form of the Austrian Financial Market Authority (FMA), which is a public authority. Within the limits of constitutional law, there are few restrictions on the structure of public corporations, and since the amendment of the Federal Constitution Act by FLG No 2/2008 it has been possible to free them from a duty to abide by ministerial directions on any of the grounds set out in Art. 20(2) of the Act. In future the organisation of the new authority will be governed by the *Bundesgesetz über die Regulierungsbehörde in der Elektrizitäts- und Erdgaswirtschaft* (E-Control Act), which will come into force on 3 March 2011. This provides for the establishment of “Energie-Control Austria für die Regulierung der Elektrizitäts- und Erdgaswirtschaft (E-Control)”. E-Control's governing bodies will be an executive board, a regulation commission and a supervisory board, and they will not be obliged to observe ministerial directions when performing regulatory functions (Art. 20(2)(8)). A regulatory advisory council, consisting of representatives of federal government ministries, interest groups and provincial governments, will be set up to advise the regulatory authority on tariff-related and other matters.

The two-strong Executive Board will be responsible for managing day-to-day operations and representing the authority. The members will be appointed for five years, and reappointment for one further term will be possible. The Regulation Commission will have five members. Like the E-Control Commission it will qualify as a tribunal in the meaning of Art. 6 ECHR, and will take decisions by a simple majority. The members of the Regulation Commission will also be appointed for five years and reappointable for one term of office. The division of responsibilities between the Executive Board and the Regulation Commission is determined by the E-Control Act. All the functions not assigned to the Commission by section 12 of the Act will normally be the responsibility of the Executive Board.

The determination of the charges for the system operators' services is a special case. In future this will be a two-stage process, and involve both bodies. The determination of the system operators' costs will be by notice of the Executive Board, and that of the charges by order of the Regulation Commission. While it will not usually be possible to appeal against decisions of the Executive Board and Regulation Commission by way of administrative law, cost determination notices can be appealed to the Regulation Commission.

The Supervisory Board will perform the supervisory functions described in sections 15 et seq E-Control Act.

***E-Control also works in the public interest – and that's worth paying for***

Apart from its regulatory duties, the authority will perform public interest functions (e.g. tasks related to energy emergency intervention measures, renewables and the administration of subsidies; see section 5[4] E-Control Act) under the direction of the Minister of Economy, Family and Youth. The Minister will rule on appeals against decisions of the E-Control Executive Board on such matters. To maintain the independence of the regulatory authority, separate annual budget allocations must be made to it pursuant to Art. 35 Electricity Directive.

As before, the performance of our regulatory functions will be funded by contributions from market participants, whereas the cost of the public interest activities will be borne by the federal government. This will ensure that E-Control has adequate financial resources. The E-Control Executive Board can appoint a sufficient number of employees to ensure adequate staffing levels. The tasks of the new regulatory authority are largely governed by the substantive legislation. The unbundling and certification provisions give rise to many new areas of activity for E-Control. The E-Control Act itself deals with the general responsibilities of the regulatory authority, such as the oversight of market participants, the arbitration powers and the reporting duties. E-Control also abides by all the decisions of ACER and the European Commission, and cooperates with them and with other national regulators. The regulatory authority is armed with wide-ranging supervisory and inspection rights to enable it to perform its tasks effectively, and can search companies' premises in some cases.

As mentioned above, the new authority will start operating as the universal successor to Energie-Control GmbH on 3 March 2011, and will assume responsibility for all proceedings pending at E-Control and the E-Control Commission at that time.

### **KEEPING THE BIG PICTURE IN FOCUS – ACER**

The new Agency for the Cooperation of Energy Regulators (ACER) will play a key role in international market integration.

The voluntary cooperation of some energy regulators through the Council of European Energy Regulators (CEER) has evolved, through a number of stages, into a highly professional framework for collaboration at European level. ERGEG, established by the European Commission in 2003, advises the Commission on issues related to the internal market. The establishment of ACER as a separate EU agency in 2011 will address the need for still closer cooperation between European energy regulators.

Once ACER has been set up, ERGEG will be discontinued, and the new agency will assume most of its responsibilities, while the others will pass to CEER. CEER will continue to exist as a voluntary line-up of European energy regulators and a platform for cooperation on their common interests.

ACER will be a Community institution with a legal personality, and will correspond to the pattern of a typical European regulatory agency. ACER's functions will include:

- > The preparation of framework guidelines and opinions on the network codes developed by the ENTSOs on the basis of those guidelines;
- > Oversight and monitoring of the ENTSOs;
- > Other monitoring duties, such as watching competitive conditions in the electricity and natural gas sectors – especially retail prices, network access and compliance with EU directives;
- > Closer coordination of the national energy regulators;
- > Filling the “regulatory gap” at Community level by creating a higher instance to take decisions if the national regulators are unable to agree.



### ***Keeping Europe in focus – from Ljubljana***

ACER will be based in Ljubljana, Slovenia. The Seat Agreement between the Republic of Slovenia and the Commission was signed in late November 2010. Alberto Pototschnig was appointed as Director in spring 2010 after a favourable opinion from the Board of Regulators. He took up his duties in mid-September 2010 and is currently at work on establishing the agency.

Besides the Director there will be an Administrative Board, a Board of Regulators and a Board of Appeal. The Commission has published a call for interest in serving on the latter, but the members have not yet been selected. The Administrative Board was constituted in March 2010 and elected a chairman. It has five members appointed by the European Council, and the European Commission and European Parliament each nominate two members. It is mainly concerned with administrative matters, and also nominates the members of the other bodies.

### **A strong role for Austria – Walter Boltz as vice-chairman of the Board of Regulators**

The Board of Regulators, which is made up of high-ranking representatives of the national regulators and a (non-voting) member of the European Commission, held its inaugural meeting in early May 2010. Ofgem Chairman Lord Mogg was elected as its chairman, and E-Control Managing Director Walter Boltz as its vice-chairman. In contrast to ERGEG, the Board of Regulators will operate on a one member state, one vote basis, meaning that the smaller member states like Austria will have a stronger influence than before. Austria's vote will weigh just as much as those of the large countries like Germany and France.





The details of ACER's activities in 2011 are set out in the work programme<sup>9</sup> approved by the agency's Administrative Board in September 2010. At present the European Commission is tending to extend ACER's powers with regard to all regulatory proposals.<sup>10</sup> ACER plans to focus on:

- > Developing four framework guidelines each for the gas and electricity sectors, dealing with high-priority areas defined by the European Commission;
- > Submitting opinions on the compliance of the network codes developed by the system operators' associations, ENTSO-E and ENTSOG, with the framework guidelines;
- > Submitting opinions on the draft statutes of the network operators' associations, which must also constitute themselves formally by 3 March 2011; ENTSO-E and ENTSOG have anticipated this step and set up organisations, but a formal opinion on their statutes must be provided after 3 March;
- > Monitoring internal energy market developments.

***Freedom and security go hand in hand – working for closer market integration***

The third package requires the electricity and gas TSOs, working through the ENTSOs, to develop binding network codes for integrated markets for the first time. These will lay down rules for transparency, third-party access, operational procedures in emergencies, energy efficiency, investment coordination and other areas. It will be necessary to ensure that these rules promote competition rather than market foreclosure.

<sup>9</sup> [http://www.acer.europa.eu/portal/page/portal/ACER\\_HOME/The\\_Agency/Work\\_programme/ACER%20Work%20Programme%202011.pdf](http://www.acer.europa.eu/portal/page/portal/ACER_HOME/The_Agency/Work_programme/ACER%20Work%20Programme%202011.pdf).


<sup>10</sup> See Article 6(8) Regulation (EU) No 994/2010 of the European Parliament and of the Council of 20 October 2010 concerning measures to safeguard security of gas supply and repealing Council Directive 2004/67/EC, OJ 2010, L 295, 1; also transfer of responsibilities under the "ITC guidelines" (Commission Regulation [EU] No 838/2010 of 23 September 2010 on laying down guidelines relating to the inter-transmission system operator compensation mechanism and a common regulatory approach to transmission charging, OJ 2010, L 250, 838).

The network codes to be drawn up by the ENTSOs will be based on non-binding framework guidelines to be issued by ACER. The European energy regulators (working through ERGEG) have already carried out extensive preparatory work at the request of the Commission. The first draft framework guideline, on capacity allocation mechanisms in the gas sector, has already been submitted to the Commission. The final text of this guideline will serve as a basis for tasking ENTSOG with preparing related network codes. Other framework guidelines are currently being drafted. For example, in December 2010 a draft framework guideline on grid connection in the electricity sector was sent to the Commission.

The heavy programme of work carried out by the European energy regulators in the run-up to the official launch of ACER is essential to speed up the process, as the agency will not be fully operational until March 2011. In contrast to the situation in the member states, where in many cases transposition has touched off heated political debates that are delaying implementation of the third package, at EU level an intense, constructive effort is already being made to work towards solutions. E-Control is playing an active role in this process because it sees the new legal framework as a major opportunity to make progress towards the integration of the Austrian market.

It will be possible to make the network codes legally binding via the comitology procedure. It is essential to make these rules binding for all market participants in Europe, because compliance with voluntary “guidelines of good practice” has proven to be patchy. Moreover, the regulators and the Commission have no means of enforcing such guidelines.

Market integration is central to the third package. When market integration functions properly, the cheapest and most efficient power stations meet demand, both benefiting the environment and keeping prices down – good reason to make the most of the opportunities that the third package offers.

A close-up photograph of a person's hand, with the index, middle, and ring fingers extended. A black ring is visible on the ring finger. The hand is positioned over a document with a yellow highlighter. The background is a light, neutral color.

Life is easier for energy consumers today ...

... but sometimes you have  
to push for good service



Price increases, impenetrable bills or potential savings can trigger consumer action. E-Control's consumer services provide a variety of support mechanisms designed to help consumers enjoy their rights.

# At a glance – E-Control's consumer services



## **CONSUMER INFORMATION – THE KEY TO COMPETITION**

- > Our consumer services are designed to keep the various customer groups well informed and assist with queries about liberalised energy markets.
- > The consumer information hotline advises on billing enquiries.
- > Improved Tariff Calculator speeds up switching to cheapest supplier.
- > E-Control arbitration service mediates disputes.

## **STRONG DEMAND FOR ONLINE INFORMATION**

- > Half a million users visited the E-Control homepage in 2010.
- > Higher clickthrough rates and longer visits show the effectiveness of well packaged information and services.
- > New energy saving tool helps consumers boost energy savings.

## **REACHING OUT TO CONSUMERS**

- > E-Control uses social networking media.
- > Consumer report contains in-depth energy efficiency information.
- > Schools energy education project contains teaching materials on a wide range of energy topics.





# Consumer services that hit the mark

Consumers can contact E-Control's energy experts directly for answers to questions on bills and other issues. Use of the website, Tariff Calculator and hotline is constantly tracked, and this yields a wealth of information that underpins our regulatory activities and helps us optimise our media relations work and customer information services. In the event of moot points regarding bills, the E-Control arbitration panel can be invoked to mediate between consumers and suppliers or system operators.

## **THE NEW TARIFF CALCULATOR – IMPROVING CONSUMER SERVICE**

Some nine years after the debut of Austria's first gas and electricity tariff calculator, E-Control introduced a revamped version of its most popular online application in June 2010. The relaunch has enhanced user friendliness, and the calculator now offers consumers a host of convenient new functions.

### ***Fully featured tariff calculator***

Users of the new Tariff Calculator do not need to click through to additional pages – all of the required information (choice of electricity or gas, postcode and consumption) can be input on a single page. The initial results are supplied within seconds. To also reflect the fact that many consumers are not aware of their consumption when they make the comparison, the Tariff Calculator has also been equipped with the option to provide an estimated consumption figure. Users are simply required to enter the number of people living in their household (for electricity) or the size of their home (for gas).

The new design also highlights the potential savings on offer at a glance, and immediately shows the price differences compared to the consumer's current supplier and product.

Advanced users can fine tune the results to precisely reflect their personal situations. The option of including or excluding any discounts in the list of results has become easier to handle and understand. In addition, users can compare up to three offers from different suppliers, meaning that consumers have all the information they need at their fingertips.



#### *Additional features*

Users can access all of the forms and information required for switching suppliers with a single mouse click. The new Tariff Calculator also features a warning function that alerts users to any price increases that have been reported to E-Control. The Watch-Dog function (German only) provides consumers with regular updates on potential savings.

The Tariff Calculator only compares prices for household consumers. This is because many energy companies have failed to provide E-Control with price lists for products aimed at business and agricultural consumers. The prices of these products are in some cases negotiated on an individual basis.

#### ***The platform for a host of services, and host to 500,000 visitors – the E-Control site***

The 2009 target group based redesign of our website has been an outstanding success. Half a million people visited the site in 2010 – 13% of them from abroad – to find out about gas and electricity market issues from a targeted, comprehensive and impartial source. This strong interest was in part due to the new features that were built into the site in the course of the year.

Visitors also spent considerably more time on the E-Control website, and visited more areas of it in the process. The average number of pages displayed per visit increased by about a third, and the average amount of time spent on the site jumped by 50%. The number of heavy users rose particularly fast. The number of visitors who looked at over 20 pages during their time on the site trebled, as did the number of visits exceeding 30 minutes.

This is a strong indication that the site content, and especially the Consumers section, is of interest to users, and that they are happy to be guided to other parts of the site rather than merely “cherry picking” information.



### **Raising awareness and cutting consumption – the E-Control energy saving check**

Energy efficiency is a major topic on the E-Control website – as reflected by the introduction of a new online tool. The energy efficiency check (German only) uses information provided by the user to calculate the amount of energy consumed by a household to meet its power, heating and transport needs. This new function gives consumers an overview of their total energy consumption.

It takes about five minutes for users to gain an idea of the energy consumption and costs of an average household similar to their own. They also see how their energy demand breaks down into power, heating and driving use.

The various tabs give users a selection of energy-saving tips. On the basis of the default values for energy consumption and the suggestions offered by the calculator, consumers can find out quickly and easily how much energy they could potentially save. The summary tab shows the energy savings on offer at a glance, and this overview can be printed out or saved as a pdf file.

For more tailored results, users should devote at least 15 minutes to inputting precise figures for current energy consumption and costs, and testing and comparing the impact of the energy saving proposals for each consumption category. Exploiting the full potential of the energy check, and looking in greater detail at the household's energy demand and the many options for conserving energy usually takes around 30 minutes.

### ***The business perspective – SME platform***

The new section of the site aimed at small and medium-sized enterprises (SMEs) contains full details of energy prices and offers. E-Control plans to expand its services for SMEs in the coming year.

### ***High-energy social networks***

In 2010 E-Control entered the world of social networking by launching pages on Facebook and Xing, the world's leading platforms. This new medium is now helping us build a reputation as a reliable partner for energy consumers and other stakeholders.

### ***Coming up with the right answers – the E-Control consumer report***

In 2010 E-Control for the first time compiled a compact guide for energy consumers that provides information on the Austrian gas and electricity markets. The consumer report contains comprehensive need-to-know information on existing regulatory achievements and the latest developments. It can be ordered free of charge from the E-Control Energy Hotline or online at [www.e-control.at](http://www.e-control.at).

### ***Top class – schools energy efficiency project***

The schools' energy efficiency kit, completed in 2009, provides a wealth of information packaged for use at Austrian schools. These teaching materials can be downloaded free of charge from [www.e-control.at/schule](http://www.e-control.at/schule) (German only). The project was presented to a broad range of potentially interested users, i.e. particularly teachers, in 2010.

E-Control has promoted the project at science teaching workshops, and at the 2010 Interpädagogica education fair. The initiative won plaudits from e-learning and multimedia education experts at the second Internet Center for Education (ICE) media awards, finishing in the top three in the game based learning category. The prizes presented by Vienna-based ICE pay tribute to outstanding Austrian projects that develop cutting edge methods for teaching children and teenagers.

In the first year of the scheme over 3,000 teachers and pupils used the materials.

### **SAFEGUARDING CONSUMER RIGHTS – THE CITIZENS' ENERGY FORUM**

The Citizens' Energy Forum was introduced by the European Commission as part of the drive towards harmonising Europe's energy markets. The Forum's focus is on consumer rights, and its first meeting took place in London in 2008.

The Citizens' Energy Forum brings together high-level political decision makers, and representatives of the European Commission, consumer protection organisations, the energy sector and regulators in discussions about potential improvements for energy consumers.

Through ERGEG, E-Control is closely involved in the Citizens' Energy Forum and as a result plays a significant part in driving forward the process of energy market deregulation in Europe.

#### ***E-Control gives a lead at third Citizens' Energy Forum meeting***

Discussions at the 2010 meeting of the Forum centred on the functioning of retail markets and methods for promoting greater consumer involvement.

#### **> Complaint handling and arbitration**

ERGEG presented its views on best practice approaches to complaint handling by companies and independent arbitration panels. These approaches were developed from a number of case studies, including one from Austria. The Forum, chaired by the Commission, stressed the need for countries to share examples of good practice.

E-Control's experts will also be involved in an interdisciplinary working group set up by the Commission to look into alternative dispute resolution.



> Energy bills

Accurate, transparent and consumer-friendly billing is essential to providing customers with correct, regular information on their actual energy consumption and the resulting costs. This is the key to end users' managing and cutting their consumption.

At the request of the European Commission, ERGEG carried out a status review of implementation of the good practice guidance for billing recommended by a working group set up by the Commission to look into consumer-friendly billing. E-Control's experts investigated whether EU member states are working to improve energy billing, and what approaches are taken to this.

The findings were presented in a session on energy bills at the third Citizens' Energy Forum.

> Smart metering systems

Smart meters help consumers to know more about and better manage their energy consumption. The consign estimated consumption and manual meter reading to the history books.

The third energy package requires the EU member states to carry out cost-benefit analyses of the roll-out of smart meters.

ERGEG has drawn up a set of guidelines on the regulatory aspects of intelligent meters, outlining the minimum functionality required to achieve common standards and interoperability. E-Control staff played a leading role in the task force which was charged with drawing up the report.

The Citizens' Energy Forum once again called on the member states to prepare detailed forecasts of the impact of introducing intelligent metering systems, including cost-benefit analyses. The results of these in each member state will be presented to the 2011 Forum.

> Functioning retail markets

Fully functioning, competitive energy markets require an independent adjudicator to monitor compliance with market rules. The Forum once again expressed its support for this role fulfilled by the regulators.

ERGEG has developed a series of indicators designed to support market monitoring, with Austrian specialists again making a significant contribution. Industry representatives and consumer organisations were consulted. The next steps in this process will lead to closer cooperation between market participants.

The Forum also assigned additional functions to ERGEG. These are concerned with analysing the roles and responsibilities of regulators in customer empowerment, the implementation of complaint handling, consumer access to impartial price comparisons, and removing obstacles to the introduction of smart meters.



### **THE SHAPE OF THINGS TO COME – FUNCTIONING COMPETITION FOR ALL CONSUMERS**

Market opening and promoting competition in individual member states and across the internal market, so as to ensure that all consumers – both household and industrial – feel the benefits of attractive offers from suppliers, reasonable prices and good service, are top priorities for EU legislators and consumer representatives. Before liberalisation monopoly energy utilities had no incentive to cut prices or compete for customers. Functioning competition and well informed consumers are crucial to affordable prices and consistently high service standards.

### **EFFECTIVE RIGHTS – FOR ALL**

Household energy markets were liberalised in most EU member states in July 2007. Effective consumer rights are key to ensuring that all consumers benefit. This involves providing end users with comprehensive information, improving market conditions for consumers, and putting effective procedures in place to deal with any problems that arise.

Consumer empowerment is a core element of the third energy package adopted by the EU in 2009.

#### *Countless benefits for consumers*

- > Speeding up supplier switching: customers must be able to switch suppliers within three weeks, allowing them to benefit more quickly from attractive offers.
- > In addition, final invoices must be sent within six weeks.
- > National plans must be drawn up for vulnerable consumers, to ensure that they receive energy supplies. The goal is to introduce practicable and appropriate arrangements which will largely eliminate disconnections in Austria.
- > Stricter information duties are a vital aspect of the third package. Consumers are to receive regular information on their consumption and costs that enables them to take timely action to save energy and boost efficiency.

We are closely involved in efforts at EU level to strengthen consumer rights. In its role as an ERGEG/CEER member, E-Control is primarily concerned with working for adequate consumer protection, comprehensive consumer information, and the analysis and design of the retail market.



## **WHAT COUNTS MOST – THE MARKET MODEL OF THE FUTURE**

System operators play a central role in the Austrian market model as data and information hubs. Because of this the energy legislation and E-Control attach particular importance to effective unbundling of distribution system operators' activities.

An international debate is in progress on whether the current division of roles between system operators, suppliers and consumers will have to be changed in the light of the upcoming roll-out of intelligent meters and the impending transformation of the electricity sector (increase in decentralised and in part uncontrolled generation). Scandinavia is leaning towards a supplier centred model in which the retailers assume responsibility for a wide range of consumer related tasks.

In Austria, too, it will be important to analyse the potential impact of these changes and adapt the market model accordingly.






Everyone goes  
up a gear ...





A group of cyclists is riding on a paved road that curves through a dense forest. The sun is high in the sky, creating a bright, hazy atmosphere with sunlight filtering through the green leaves of the trees. The cyclists are in various colored jerseys and are leaning forward in a racing posture. Their shadows are cast on the road surface. The overall scene is peaceful yet dynamic, capturing a moment of intense physical activity in a natural setting.

... when there's  
something at stake

International competition is picking up. And regulators are throwing their weight behind this positive trend. Market integration is essential if Austrian consumers are to reap the benefits.



# At a glance – competition



## **PRICES ARE UNSTABLE.**

- > Gas and electricity prices remained highly volatile due to the economic crisis.
- > There were also strong movements in the differences between suppliers' prices.
- > Industrial consumers came off better than households.
- > Despite the crisis, energy supply continued to make a high contribution to GDP.

## **REGULATORY MEASURES ARE SUPPORTING COMPETITION.**

- > Austrian consumers have done well from liberalisation.
- > Further improvements are needed if Austria is to become a top competition performer.
- > Investment in infrastructure is benefiting from liberalisation.
- > Today's strong investment confidence is benefiting network development.
- > Network development contracts are giving system users and consumers increased planning certainty.

## **SECURITY OF SUPPLY IS CONTINUING TO IMPROVE.**

- > The new financial framework gives system operators incentives to conclude network development contracts with control area managers.
- > The Nabucco pipeline would mark major advance towards diversifying gas supply sources and transport routes.
- > The entry/exit market model will benefit consumers by concentrating all gas trading in a market area (transit and domestic) at a single virtual trading point (VTP).

## **COOPERATION IS BREAKING DOWN BORDERS.**

- > A new European architecture for cooperation between regulators has been put in place.
- > ERGEG has been advising the Commission on issues related to the internal energy market since 2003.
- > Since 2000 the CEER has been intensifying collaboration between regulatory authorities; its membership now comprises the regulators of all 27 EU member states, as well as Norway and Iceland.
- > In 2010 E-Control again played an active part in European efforts to develop a framework for energy market integration and the creation of a single electricity market.







# Gearing up for increased competition

Major changes are underway in the gas and electricity markets. These have been triggered by the decline in demand during the economic crisis, and an oversupply of gas due to increased unconventional gas availabilities, as well as technological innovations such as smart metering. Market players should seize these opportunities for more competition. And further improvements in the regulatory framework should underpin increased competition, so as to ensure that it is not just a passing phase.

## MARKET TRENDS

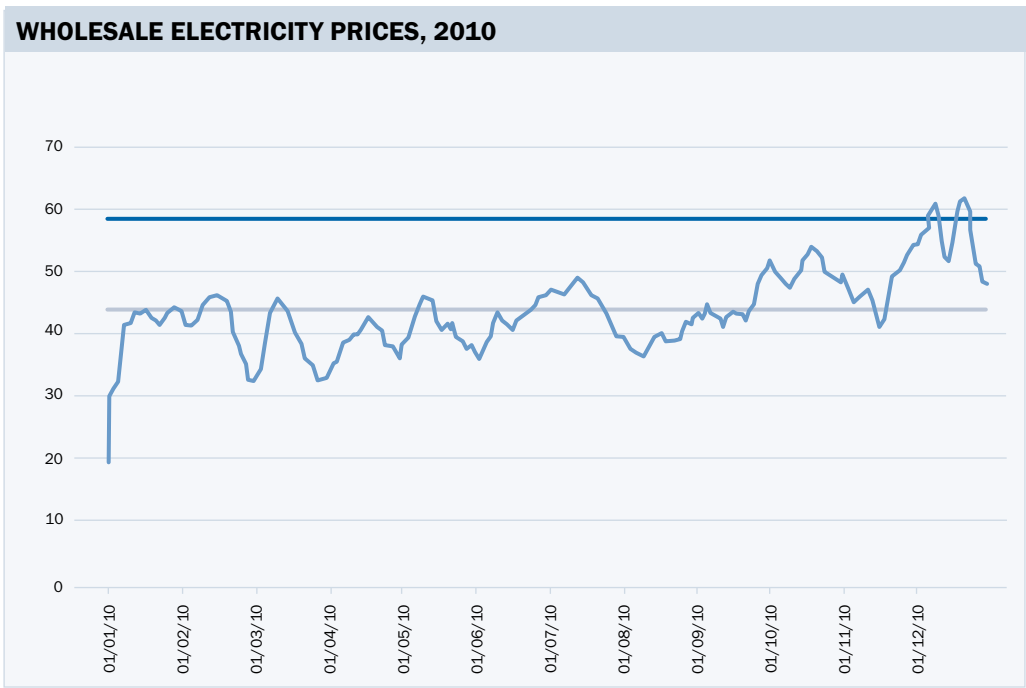
### *Rollercoaster ride for wholesale prices – but some signs of stability, too*

#### *Electricity*

In 2010 spot market movements reflected a number of contradictory influences. Events as varied as a general strike in France and changes in Germany's *Erneuerbare-Energien-Gesetz* (Renewable Energy Act) feed-in mechanism led to sharp fluctuations in prices on the day-ahead market. The key factors driving spot prices were temperatures on the demand side and forecast wind power injection on the supply side.

The main feature of trading on the long-term markets in 2010 was steady prices, with baseload futures contracts for delivery in 2011 and 2012 going sideways. Baseload contracts for 2011 delivery hovered around the €50 mark, influenced by gently declining coal prices and relatively stable CO<sub>2</sub> emission allowances. Peakload futures were more volatile, with marked fluctuations in wholesale gas prices affecting traders' expectations regarding future power station use to cover peak demand. Peakload futures rebounded towards the end of the year in line with firmer gas markets.

*Figure 1* depicts electricity spot and futures price movements in Austria and Germany.<sup>11</sup> There was an average contango spread of €14.73/MWh in 2010. In other words, it was cheaper for a company to meet its annual electricity needs on the spot markets.



- Baseload spot price (seven-day average)
- Baseload spot price (annual average)
- Baseload futures for 2010 delivery (average for the 2008-2009 trading period)

**Figure 1**  
Wholesale electricity prices, 2010

Sources: EEX, EPEX and own calculations for price movements on the electricity spot market

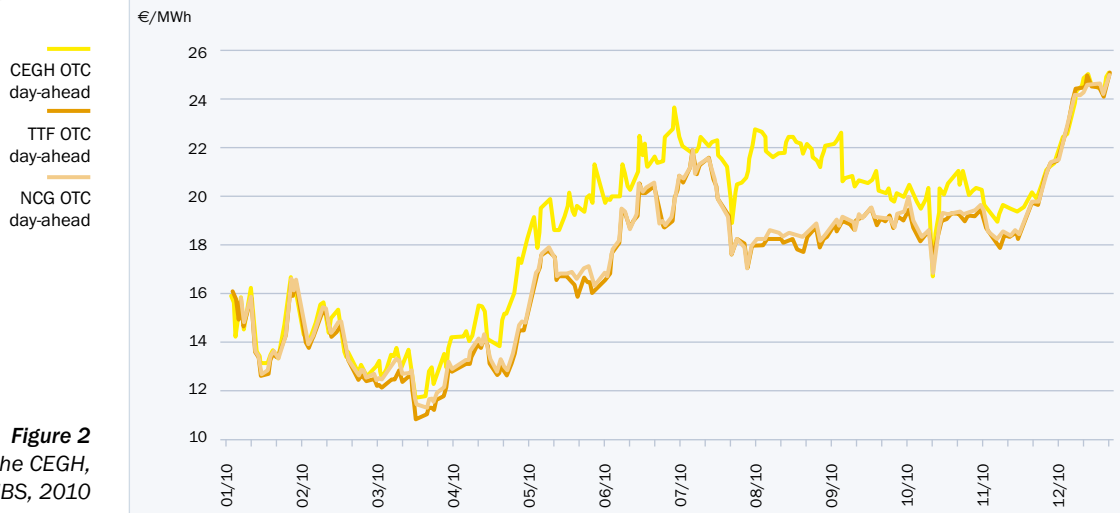
**Gas**

Wholesale price trends reflected heavy oversupply, and the decoupling of prices at some trading points as a result of disruptions on the transport network. At the same time it is becoming apparent that price movements at the north European NBP, Zeebrugge, TTF und NCG hubs are increasingly linked.

Gas spot prices trended downwards until March 2010, but then bounced back strongly until mid-July. Mid-July saw an outage of the Swiss Transitgas interconnector between Germany and Italy due to technical problems. The Transitgas line is extremely important to Italy's gas supplies, accounting for around 20% of the country's imports. As a result of the transport disruption, prices at the NCG slipped (due to lack of demand from Italian traders), but rose at CEGH (on the back of increased demand from the Italians). Consequently, the spread between the two hubs widened significantly year on year. Spot prices on the NGC market began to recover at the start of November 2010, leading to a convergence with CEGH, and by December the spread had disappeared.



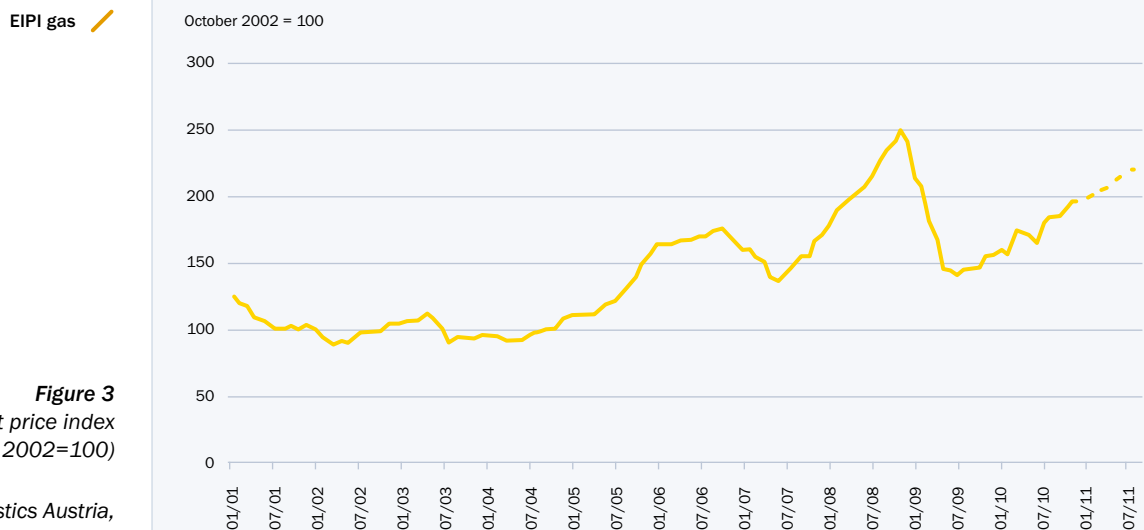
### OTC SPOT PRICES AT THE CEGH, NCG AND TTF HUBS, 2010



**Figure 2**  
OTC spot prices at the CEGH, NCG and TTF HUBS, 2010

Source: ICIS Heren

### GAS IMPORT PRICE INDEX



**Figure 3**  
Gas import price index (October 2002=100)

Sources: Statistics Austria, broken line: E-Control calculations



Import prices, which are largely tied to oil prices, slid until May 2010 but firmed from then on. The spread between spot and long-term contract prices narrowed towards the end of the year.

#### *Futures trading launched at the Austrian gas exchange*

Spot gas trading on the new Austrian gas exchange was launched on 11 December 2009, followed almost exactly a year later by trading in futures (10 December 2010). The gas exchange runs on the Vienna Stock Exchange's electronic trading platform, and is a joint venture between stock exchange operator Wiener Börse AG, CEGH AG and Leipzig EEX clearing subsidiary European Commodity Clearing AG (ECC). ECC is in charge of clearing, acting as a central counterparty.

Trading in CEGH monthly futures at the CEGH Gas Exchange began on 10 December 2010. The membership conditions are identical to those for the spot market, and include: membership of the Vienna Stock Exchange; an operating licence conferring eligibility to trade on a futures market (e.g. a business trading or banking licence); a contract with a clearing member charged with clearing and settlement on behalf of the trader; evidence that collateral has been furnished in accordance with the ECC clearing rules; a confirmation that ECC recognises the trader as such for each type of product traded; and a hub contract with CEGH AG for physical settlement.

The quantities traded on the exchange are small – equal to less than 1% of OTC volumes. The quantities traded are also below those on other European exchanges, some of which also have balancing energy contracts.

## Transparency – vital for markets

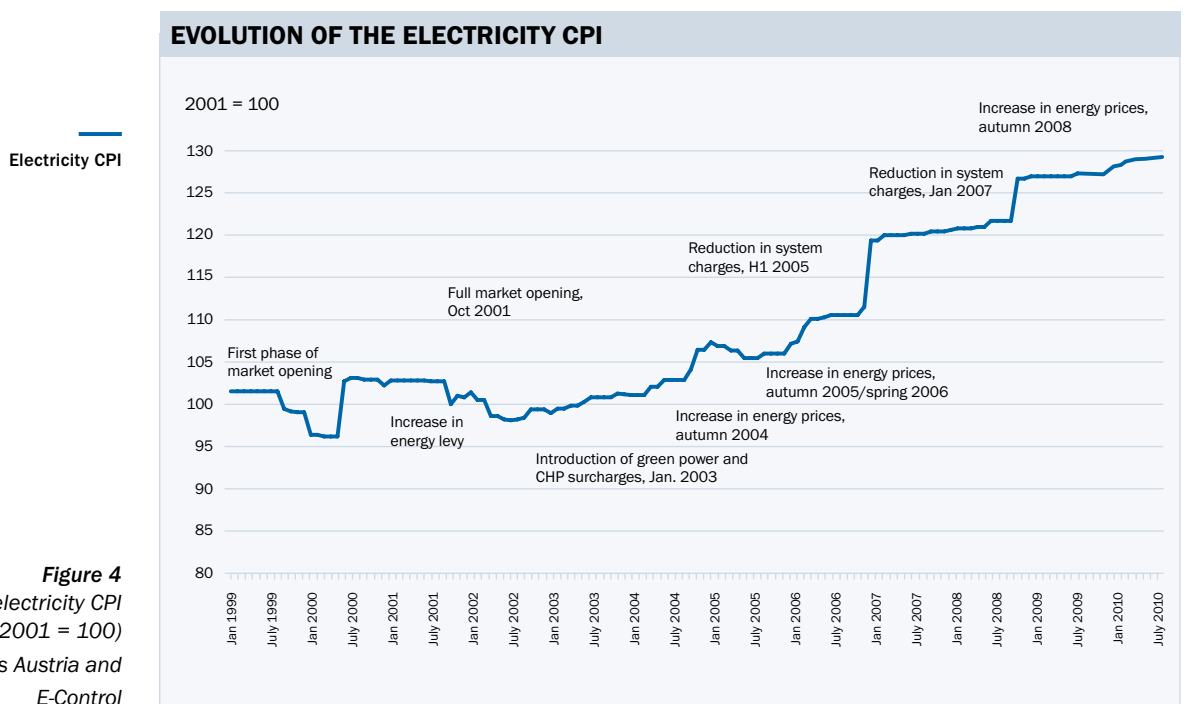
In the interests of increased price transparency, towards the end of 2009 CEGH began publishing three reference prices. The Baumgarten day ahead reference price (BDARP) is the benchmark for the OTC market. This is the arithmetic mean of the daily OTC price assessments published by the ICIS Heren und Argus Media market information services, and the London Energy Brokers' Association quotation. The CEGH Gas Exchange of Wiener Börse posts current and historical spot prices at the Baumgarten and Oberkappel trading points – the Baumgarten Natural Gas Index (BGX) und Oberkappel Natural Gas Index (OGX) – on its website ([www.ceghex.com](http://www.ceghex.com)). These prices are volume weighted, and are updated every 15 minutes. Settlement prices have also been published since the start of futures trading on the exchange.

#### ***Retail markets – everyone's equal in the eyes of the meter***

Energy price regulation ended with the liberalisation of the electricity market in 2001 and the gas market in 2002. The system charges are set by the regulatory authority, and taxes and levies by the federal and provincial governments, and local authorities. With the exception of the metering charges, which are capped, all the system charges are fixed. System operators are free to set lower metering charges, provided that they treat all consumers equally; in other words, they must charge all their customers the same price for a given type of meter.

**Household electricity prices up slightly, despite reduction in system charges**

Figure 4 shows the evolution of overall electricity prices for household consumers. The index covers not only energy prices but also the system charges, taxes and levies paid by end users. Although the system charges were reduced in January, there was another slight increase in the electricity CPI in 2010. A number of suppliers responded to the cut in system charges by raising their energy prices.



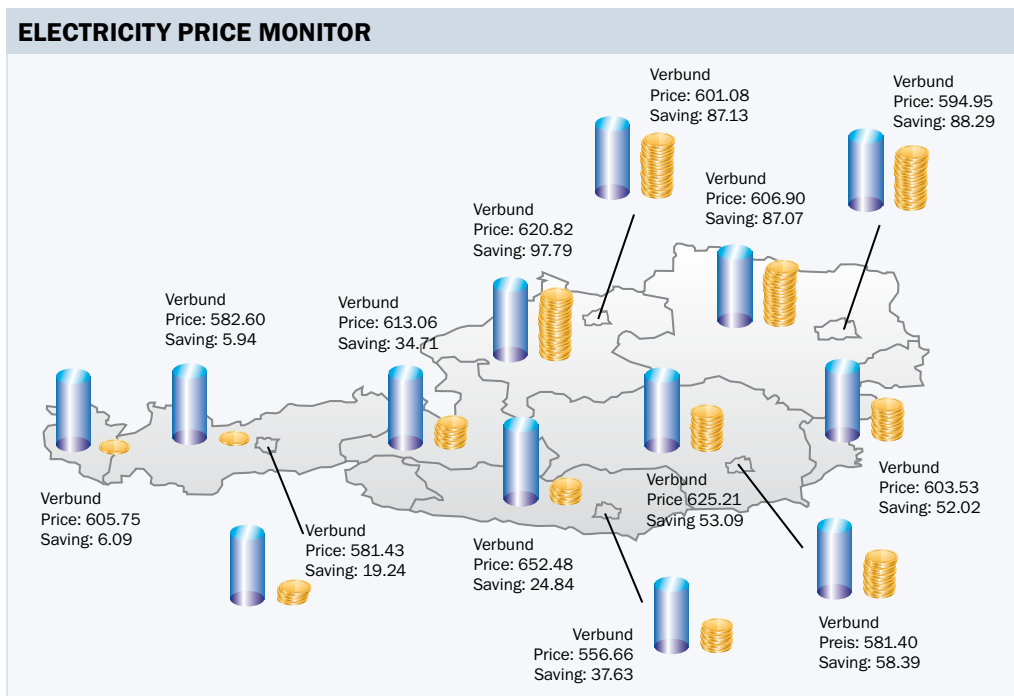
**Figure 4**  
 Evolution of the electricity CPI  
 (OCT 2001 = 100)  
 Sources: Statistics Austria and  
 E-Control

In comparison to the electricity CPI, the overall household prices charged by local players in the various grid areas have been highly volatile since September 2008. Prices have risen in some areas, but fallen in others.

Price movements at the beginning of the year are mainly attributable to changes in the system charges. However, some companies have not passed on the cuts to consumers, but increased their energy prices by the same amounts or even beyond. The variations in the overall prices reflect differences not just in the local players' energy prices but also in the system charges, and in levies charged only in given grid areas.



Some household prices spiked at the start of 2010, but suppliers' energy prices have remained fairly constant since then. The increases in energy prices generally ranged from 4–9%. However, Energie AG and Linz AG raised their rates by 18% and 19%, respectively, at the beginning of 2010, while Verbund's prices went up by 13% in May. Vorarlberger Kraftwerke hiked its energy price for consumers outside its grid zone by 15%.



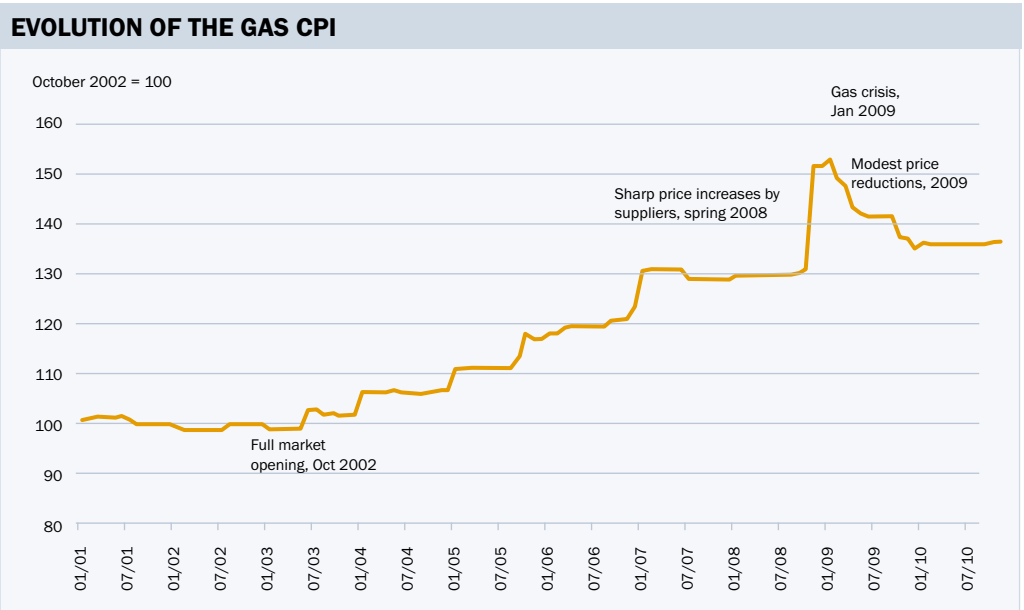
**Figure 5**  
Comparison of household electricity prices (energy, system charges, taxes and levies) by grid areas, excluding discounts; standard product offered by the local supplier, 3,500 kWh/year

Source: E-Control, status: 1 December 2010

**Household gas prices – mixed picture on price reductions**

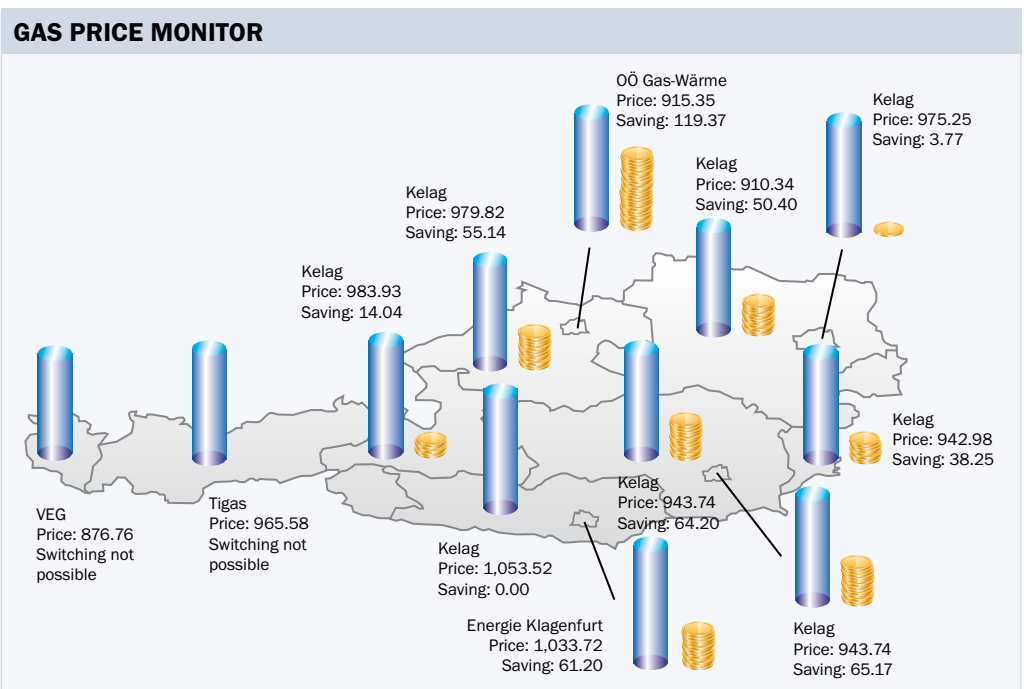
Industrial consumers profited from the substantial reductions in wholesale prices, but the cuts for household customers were more moderate. The gas CPI declined steadily from January 2009, reaching a low in May of that year, after the end of the heating season.

Salzburg AG reduced its gas prices by 5% in February, but Stadtwerke Steyr raised its rates by 7% in July, and Energie Klagenfurt and Kelag upped their prices in September and October, by 13% and 14%, respectively.



**Figure 6**  
Evolution of the gas CPI  
(October 2002=100)

Source: Statistics Austria



**Figure 7**  
Comparison of household gas prices (energy, system charges, taxes and levies) by grid areas; standard product offered by the local supplier, 15,000 kWh/year

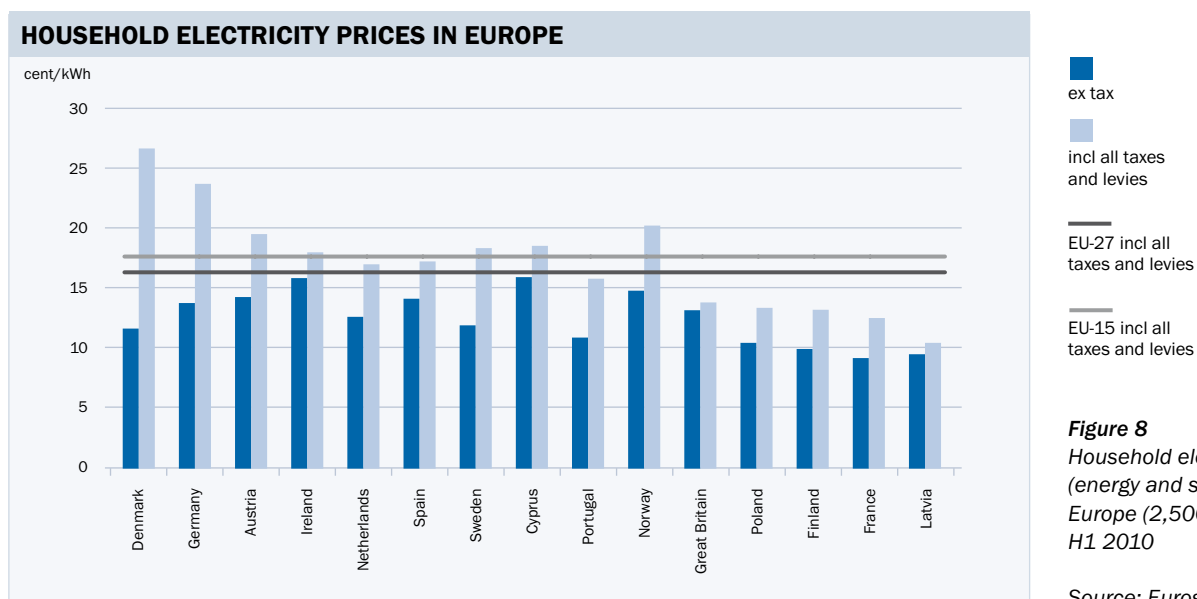
Source: E-Control, status: 1 December 2010

The Price Monitor shows energy prices (including system charges, taxes and levies) for the cheapest supplier within the larger grid areas, including the one-time rebates for customers who switch to that supplier, and the potential savings from switching as compared to the most widely used product of the local player. Depending on the grid area, the annual savings on offer for household consumers with an average consumption of 15,000 kWh range from zero to about €120.

**Price trends in comparison with the rest of Europe**

*Eurostat electricity price comparison*

In the first half of 2010 Austrian household electricity prices (including all taxes and levies) exceeded the EU-15 and EU-27 averages (Figure 8).



**Figure 8**  
 Household electricity prices (energy and system charges) in Europe (2,500–5,000 kWh), H1 2010

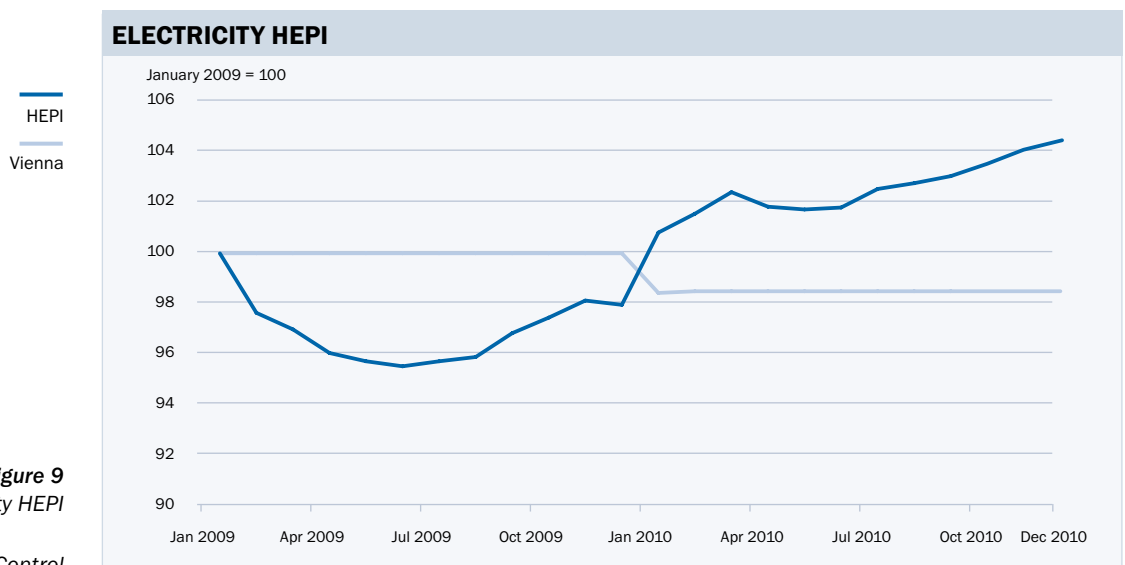
Source: Eurostat

Not all countries treat the allocation and itemisation of taxes and levies in the same way, so a comparison of energy and system charges produces a different result to one of overall prices. However, only overall costs including all taxes and levies are of relevance for choices of business locations. It should be noted that a new data collection methodology was introduced last year in an attempt to improve comparability.

*Household Energy Price Index for Europe (HEPI)*

E-Control and VaasaETT compute the Household Electricity Price Index for Europe (HEPI) on the basis of the electricity and gas prices of the incumbent supplier and its main competitor in each of the EU-15 capital cities. This is a weighted index of retail prices that captures overall price trends in Europe.

The HEPI is the only independent European electricity and gas price index that compares prices across the EU-15. The information is collected directly from suppliers and regulators in each country, using a precise, comparative definition and methodology. The index is calculated and published on the E-Control website every month. The prices in the EU-15 capital cities are also ranked in a table, and there is an analysis of recent trends.



**Figure 9**  
Electricity HEPI

Source: E-Control

The HEPI compiled by E-Control for 2010 revealed that prices in the EU-15 countries rose steadily, apart from a brief fall in early summer. In contrast, Austrian household electricity prices have gone sideways (Figure 9) and are not yet moving in line with the wider European trend. However, they are still above the EU-15 average.

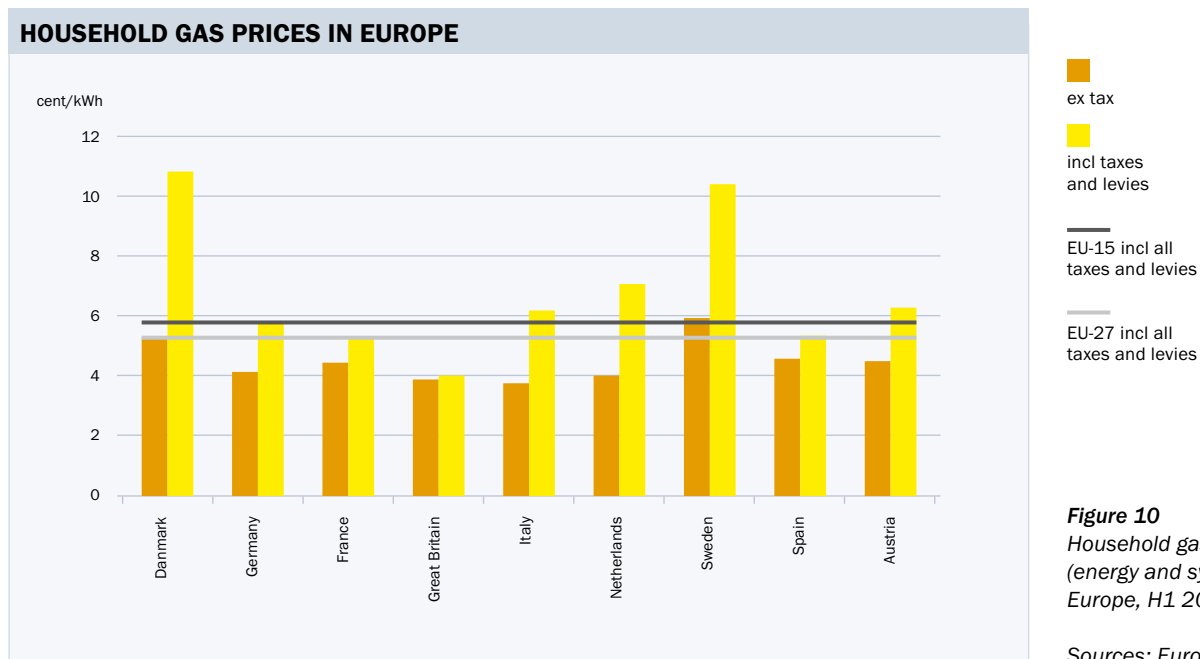
A European comparison of electricity prices for industrial consumers is not possible, since the 2010 data for this demand category in Austria is not available.



## Gas prices

### Eurostat comparison

Overall costs for Austrian household consumers including taxes and levies amounted to 6.22 cent/kWh – 0.47 cent/kWh above the EU-15 average and 0.99 cent/kWh higher than the mean EU-27 price.



**Figure 10**  
Household gas prices  
(energy and system charges) in  
Europe, H1 2010

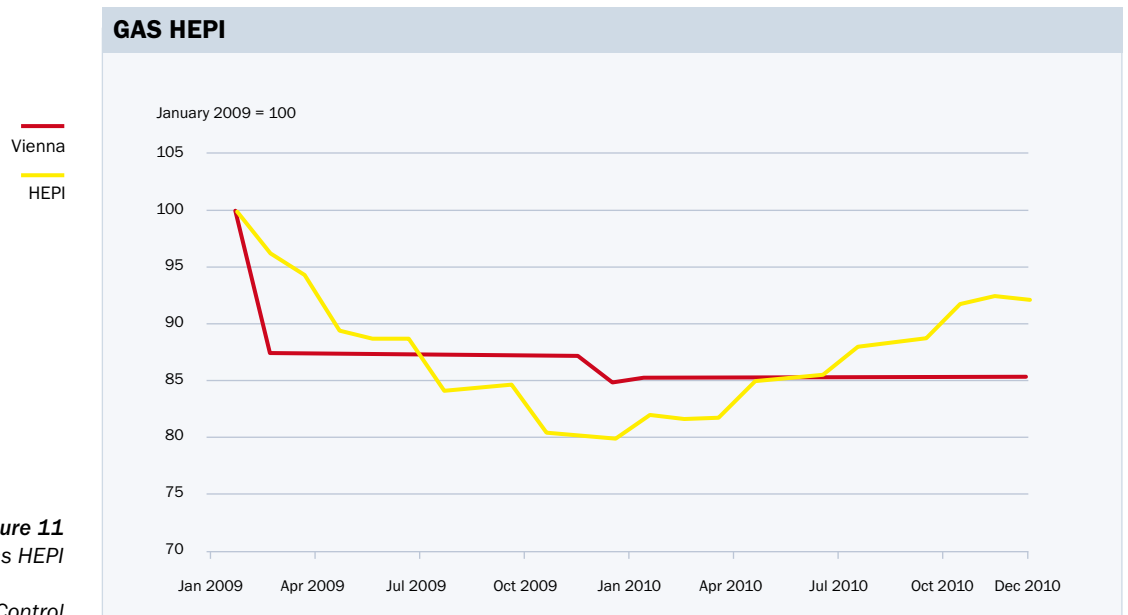
Sources: Eurostat, E-Control



*Household Energy Price Index for Europe (HEPI)*

Gas prices in Vienna have held at a high level for the past year. The HEPI for the EU-15 capital cities rose steadily during 2010, and by October gas prices were 15% higher year on year. Several cities, including Brussels, Madrid and Dublin, registered price increases at the beginning of the heating season.

A comparison of gas prices for industrial consumers across Europe is not possible, since the 2010 data for this demand category in Austria is not available.



**Figure 11**  
Gas HEPI

Source: E-Control



## ENERGY SECTOR TRENDS HIGH GDP CONTRIBUTION EVEN IN CRISIS-HIT 2009

Despite the economic crisis, the energy sector contributed to make a major contribution to GDP even in 2009. The economic downturn put the energy sector under severe pressure during the year (due to the massive decline in industrial demand; household consumption was virtually unchanged). However, in spite of declining margins and revenue, the sector emerged from the crisis relatively unscathed.

<b>ENERGY SECTOR CONTRIBUTION TO GDP</b>				
<b>Contribution of manufacturing to GDP (€m)</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>Δ 2008–2009</b>
Metallurgy and metalworking	8.88	9.35	6.73	-28.0%
Machine tools	7.02	7.40	5.68	-23.2%
Chemicals	4.15	4.64	4.55	-1.9%
Transport equipment	4.13	4.05	3.49	-13.8%
Paper	3.69	3.69	3.25	-11.9%
Wood processing	2.47	2.49	2.28	-8.4%
Other	19.94	20.62	20.18	-2.1%
<b>Total manufacturing</b>	<b>50.28</b>	<b>52.24</b>	<b>46.16</b>	<b>-11.6%</b>

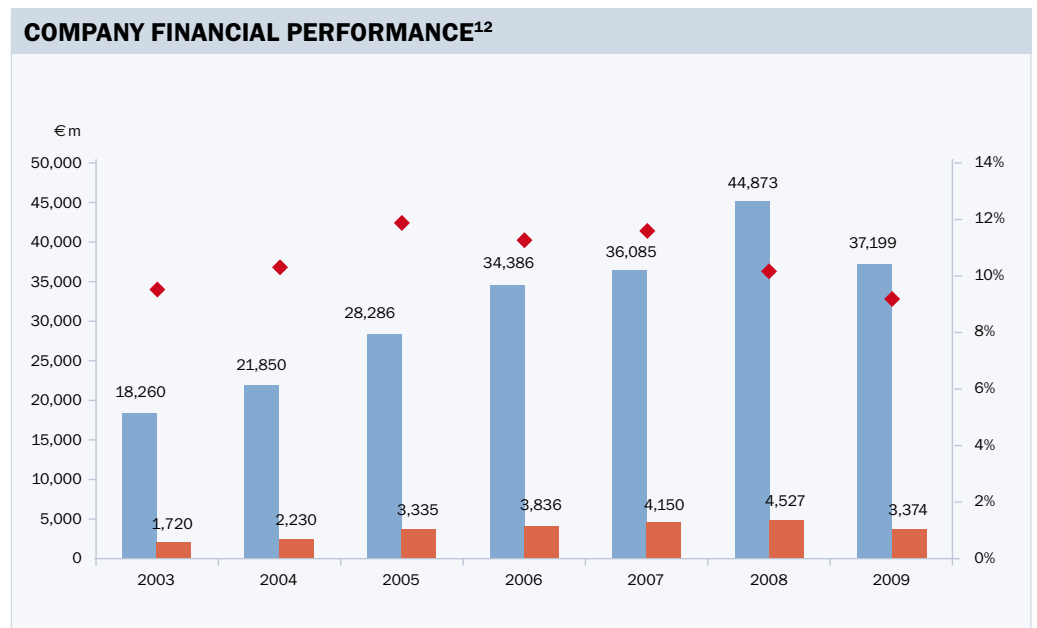
  

<b>Contribution of energy supply to GDP (€m)</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>Δ 2008–2009</b>
Energy supply	5.31	5.67	6.54	15.3%
Water supply	0.40	0.39	0.40	2.6%
<b>Energy and water supply</b>	<b>5.70</b>	<b>6.06</b>	<b>6.94</b>	<b>14.5%</b>

**Table 1**  
GDP contribution of the energy sector

Source: Statistics Austria

A comparison of key indicators for Austria's leading companies shows that the energy sector was less badly affected by the economic crisis than other areas of the economy (Table 1). Although 2009 was a difficult year for energy companies, they managed to escape the worst of the recession, despite a slide in margins and revenue. However, taking trends in EBIT margins (the EBIT to revenue) as an indicator of profitability, it is seen that they were to some extent affected by the recession. Up to 2005 most of the companies included in the analysis recorded rising margins. However, rising primary energy costs and operating expenses squeezed profit margins from 2006 on. The impact of these factors was amplified by the onset of the crisis in 2008. Revenue growth outpaced the rise in EBIT until 2008, and EBIT margins declined as a result. In 2009 the average EBIT margin of the energy companies studied was about 9% – the same level as in 2003.



**Figure 12**  
Company financial performance  
– trends in revenue, EBIT and  
EBIT margins

Source: E-Control

<sup>12</sup> Data were collected for the following companies: OMV, Verbund, EVN, Wien Energie, Energie AG, Salzburg AG, Energie Steiermark AG, KELAG, TIWAG, Linz AG, Rohöl-Aufsuchungs-AG, BEWAG, Energie Graz GmbH, Trans Austria Gasleitung GmbH, Baumgarten-Oberkappel Gasleitungs-GmbH, Econ Gas GmbH.



### **A GOOD ADDRESS FOR CONSUMERS – REGULATORY ACTION TO PROMOTE COMPETITION**

In the eight/nine years since full energy market liberalisation, much has been done for Austrian consumers. For all this progress, Austria is no longer a pioneer, and in the past two or three years other countries, including Germany, have moved more quickly and energetically to eradicate shortcomings in their markets. Not only are switching rates significantly higher in Germany, but unbundling has also been implemented far more effectively, and the regulator, the German Federal Network Agency, has various sanctions at its disposal. The fines imposed in 2010 by the Agency on several major companies, including E.On, for inadequate implementation of the switching rules show that Germany is willing to impose meaningful sanctions on non-compliant businesses – something which is not currently possible in Austria. The Austrian provincial governments have simply gone through the motions of monitoring unbundling in the Austrian electricity sector.

### **FLOURISHING INFRASTRUCTURE**

Section 19(2a) *Gaswirtschaftsgesetz* (Natural Gas Act) creates an incentive to invest in transportation infrastructure by providing for network development contracts. These result in reciprocal obligations on the part of system users and operators in the interests of increased planning certainty for transmission pipelines and other investments. Investment security also comes from the approval of the projects concerned by the E-Control Commission as part of the long-term plan which section 12b Natural Gas Act requires the control area manager to compile.

This procedure assures system operators of regulated tariffs adequate to finance their investments, and means that system users and consumers can rely on projects' being implemented.



## A perfect match: cost-effective network development and security of supply

The regulator recognises capital expenditure on the basis of the planned capitalisation of the assets, ensuring that the system operators concerned can go ahead with their investments, and have a legal assurance of adequate returns. Because of the exceptional importance of the projects set out in the system operators' long-term plans, the E-Control Commission has also decided to recognise reasonable additional operating costs that are clearly attributable to these projects during the five-year regulation period. This financial framework gives the system operators a sufficient incentive to conclude network development contracts with the control area manager of the Eastern control area. The regulatory framework thus promotes both long-term security of supply and cost-effective network development.

In the case of transit pipelines the incentive to invest lies in compensation for a reasonable level of risk by a reasonable return on capital in international terms.

### ***Long-term electricity plans – green light for all projects***

Under section 22a Electricity Act, the control area managers may submit their long-term plans for the development of electricity infrastructure to the Ministry of Economy, Family and Youth. The Ministry has requested E-Control to provide expert opinions on all such plans that have been submitted to date. We have subjected the planned projects to rigorous analysis and investigation, and reported favourably on all of them to the Ministry.

### ***A single regulatory framework – from Turkey to Baumgarten***

The E-Control Commission's 2008 decision to approve the application from Nabucco Gas Pipeline International GmbH for a partial exemption from third-party access made it the first of the five regulatory authorities concerned to rule on the matter, and created a positive precedent. The exemption for the planned Nabucco pipeline has created the necessary investment certainty. E-Control regards the Nabucco pipeline as key to diversifying the supply sources and transport routes on which the Austrian and European gas markets depend.

In order to harmonise the rulings of the other regulators along the route of the Nabucco pipeline with Austria, the E-Control Commission made its decision in close consultation with the regulatory authorities in Bulgaria, Hungary, Romania and Turkey. This is also the first example in Europe of five countries' working together to establish a uniform investment framework for a cross-border pipeline project.

## On the right lines – new entry-exit model

The market model that will be established by the Natural Gas Act to be passed in 2011 is intended to promote the development of a liquid market by creating the following conditions:

- > Within the territory of Austria, there is only to be one entry-exit zone (“gas lake”) in each market area. In Tyrol and Vorarlberg the rules are to be harmonised with those of the neighbouring market area in Germany, so as to remove any barriers to cross-border competition. The entry-exit system will be the standard model throughout Europe. It will ensure that consumers in national markets also gain access to international gas flows. It will also make it easier to create the liquid markets that are vital if European gas prices are finally to be decoupled from oil price movements.
- > Gas trading in a given market area is to be concentrated at a virtual trading point (VTP). The market organisation introduced by CEGH at Baumgarten and Oberkappel will be migrated to the VTP.
- > A market area manager will be responsible for coordinating operation of the entire grid in the market area.
- > A distribution area manager will be in charge of the interface between the transmission and distribution grids.
- > Overall grid operation in the market areas will be coordinated with regard to network control, capacity utilisation and network development planning.
- > Investment in pipelines will be coordinated in order to align expansion projects to each other.
- > All market participants are to be accorded non-discriminatory treatment. The much tighter unbundling rules are aimed at enabling TSOs to act in the interests of the European market rather than those of their own integrated groups.

The advantage of the new system is the fact that all gas trading in a market area (transit and domestic) will be concentrated at a single Austrian VTP, meaning that new entrants can supply consumers even if they do not have access to entry capacity.

***Working voluntarily to open markets –  
cooperation between regulators through CEER and ERGEG***

The voluntary cooperation of some energy regulators through the Council of European Energy Regulators (CEER) has progressively evolved into a highly professional framework for collaboration at European level. The European Regulators' Group for Electricity and Gas, set up by the European Commission in 2003, is a consultative body that advises the Commission on internal market issues. The creation of ACER as an independent EU agency will address the need for still closer cooperation between European energy regulators from 2011 onwards.

***From ten to 27 in ten years – CEER as a platform for closer cooperation***

CEER was established by the signature of a memorandum of understanding by ten European regulators in March 2000. Since then the cooperation between the regulators has steadily deepened, and the membership has grown. Today the regulators of all 27 EU member states, as well as Iceland and Norway, belong to CEER.

To cope with an ever wider range of areas of cooperation and improve its organisational efficiency, CEER set up a permanent secretariat in Brussels in 2002, and registered as a Belgian non-profit association in 2003.

CEER main decision body is the General Assembly, chaired by its President Lord Mogg, to which all of the members send one representative, and the Board of Directors. The Board, on which the President and five Vice-Presidents sit, prepares the work of the General Assembly. One of the five Vice-Presidents is E-Control Managing Director Walter Boltz.

The CEER's activities are carried out in a number of working groups, supported by task forces. The working groups are devoted to electricity and gas market issues, consumer protection, benchmarking and international cooperation, among other matters. The members and chairs of these bodies are employees of the national regulators. We make an active contribution to their work. The secretariat sees to the administrative and organisational sides of CEER's activities.



### ***The right framework –***

#### ***ERGEG serving as a link between regulators and the Commission***

ERGEG was set up by the European Commission in November 2003, under the second energy package, to provide a formal framework for cooperation between itself and European regulators. ERGEG advises the Commission on matters relating to the regulation of European energy markets and the creation of a functioning internal energy market. The cooperation of the Commission and the energy regulators through ERGEG is aimed at facilitating the consistent implementation of European electricity and gas legislation in all member states of the Union.

ERGEG is headed by the same Board as CEER, and the CEER secretariat supports its work.

The launch of the Regional Initiatives was one of ERGEG's key projects. The seven electricity and three gas sector initiatives are an intermediate stage on the road to a single European energy market.

ERGEG will be dissolved when ACER becomes fully operational, and the new agency will take on most of its tasks.

### ***Joining forces –***

#### ***fora for structured dialogue between European regulators and decision makers***

Awareness among the regulators in the EU member states of the importance of cooperation for the creation of a single energy market goes back further than the formation of CEER. The first concrete steps towards this cooperation were the Florence and Madrid Fora, which still provide a setting for a structured dialogue between energy regulators, the European Commission and other decision makers. The Florence Forum, first held in 1998, deals with the European electricity market, while the Madrid Forum has been looking at cross-border gas trade since 1999. The European Commission chairs both gatherings.

The success of these regular events prompted the creation of additional fora. For example, the Energy Community of southeast Europe holds biannual electricity discussions in Athens, and gas meetings in Maribor. The Bucharest Forum focuses on renewable energy sources, and the Citizens' Energy Forum in London on consumer issues.



### ***Doing our bit for Europe***

In 2010 E-Control staff again played an active part in efforts to develop a framework for energy market integration and the creation of a single internal market.

#### *Electricity*

Framework guidelines on electricity grid connection, capacity allocation and congestion management were drafted, public consultations held on them, and the documents in question adopted during 2010. This process represented a major step towards creating a level market playing field across the EU. Regulators also worked on fundamental data transparency: ERGEG has submitted a detailed proposal for legally binding guidelines to the European Commission.

ERGEG has also commented on ENTSO-E's first EU-wide Ten-Year Network Development Plan. The coordination of network development at regional and European level is crucial to maintaining security of supply and making real progress on market integration. Our involvement in these aspects of international cooperation will enable Austrian consumers to benefit from an undistorted energy market, and energy supplies at the lowest possible cost, and give Austrian power companies fair access to other European markets.



## Gas

### > Congestion management in transmission networks

In 2010 ERGEG continued the intensive efforts of the previous two years to revise Annex 2 of the Gas Regulation (EC) No 1775/2005, on capacity allocation and congestion management. ERGEG drew up a framework guideline on capacity allocation mechanisms and recommendations for congestion management procedures. The European Commission can make the regulators' recommendations on congestion management legally binding through comitology, pursuant to Article 9 Gas Regulation. The new rules are designed to increase the availability of firm capacity at interconnection points at borders and market boundaries.

### > Ten-Year Network Development Plan

In 2009 ERGEG drew up recommendations on the European Ten-Year Network Development Plan and consulted market participants about it. The third energy package requires TSOs to prepare ten-year network development plans every two years. There are similar requirements for regional ten-year plans. The regulators see these plans as a valuable instrument for stimulating competition in Europe and maintaining security of supply. ENTSOG published its first European Ten-Year Network Development Plan towards the end of 2009. In 2010, in its role as the forerunner of ACER, ERGEG reviewed the plan and submitted a reasoned opinion on it.

### > Gas storage capacity allocation mechanisms and congestion management procedures

Drawing on the status reviews prepared in 2008 and 2009, in consultation with storage system operators, storage customers and regulatory authorities, in 2010 the ERGEG Gas Storage Task Force (GST TF) made concrete proposals for improvements to storage capacity allocation mechanisms and congestion management procedures to be built into the existing Guidelines of Good Practice for Storage System Operators (GGPSSO). A public consultation enabled market participants to answer the consultation questions and express opinions on the proposed amendments to the GGP. At a stakeholder workshop participants discussed controversial issues such as auctions as the preferred allocation method, the establishment of a common secondary market platform and application of the "use it or lose it" principle to storage. The entry into force of the extended guidelines is scheduled for April 2011, in compliance with the applicable internal procedures and notice periods. E-Control and the Dutch regulator co-chair this ERGEG task force.

In addition, in 2010 ERGEG monitored compliance with its GGP on open season procedures and regulatory oversight of gas hubs. The aim of the latter exercise was to find out how gas trading at trading points and physical hubs is regulated, and whether stronger oversight regimes are required. ERGEG set out to ensure that the gas hubs can be identified as such, and meet certain basic requirements, so as to prevent barriers to market entry.

## Thinking globally and acting regionally – market integration starts at home

### **Electricity**

Regional moves towards developing cross-border trade in electricity are of great importance to Austria due to its location in the heart of Europe. Because of this E-Control has played an active role in the Electricity Regional Initiative, and has succeeded in significantly influencing some aspects of the integration of national markets.

The third energy package adopted in July 2009 provides for a statutory obligation on the part of regulators to cooperate closely at regional and supraregional levels. Moreover, ACER will be able to make recommendations for improvements to cooperation between regulatory authorities. The institutionalisation of the Regional Initiatives is likely to go further as a result of the new legal framework.

Austria is a member of the Central-East (CEE) and Central-South (CSE) regions. E-Control leads the activities of the CEE region, which also includes the Czech Republic, Germany, Hungary, Poland, Slovakia and Slovenia. The membership of the CSE region comprises Austria, France, Germany, Greece, Italy and Slovenia, as well as Switzerland, which has observer status as it does not belong to the EU.

Due to the high level of integration with the German market, Austria is also inherently linked with the Central-West region, consisting of Belgium, France, Germany, Luxembourg and the Netherlands. Since 2007 the Austrian Ministry of Economy, Family and Youth, control area managers and power exchange, and E-Control have had observer status at meetings of the Pentalateral Energy Forum – an initiative of the ministries concerned.

Following the establishment in summer 2008 of the Central Allocation Office (CAO) – an auction office which is a joint subsidiary of all the TSOs in the region – activities in the Central-East region have focused on developing coordinated cross-border congestion management in the form of flow based capacity allocation at all the interconnection points. A joint network model has been adopted which also includes electricity flows from neighbouring transmission grids. The new capacity allocation method should bring benefits for consumers across the entire CEE region by increasing efficiency, and reflect physical network conditions in the region more accurately, leading in turn to increased grid reliability.



The auction office has played a pivotal role in this process since 2009, as it is responsible for defining all of the business processes involved in the flow based system, and is thus the driving force behind the implementation of the new allocation method. However, the scheduled start-up date of March 2010 was missed, and a new one has not yet been set.

Due to the postponement of the introduction of the flow based approach, a transitional solution was needed for annual, monthly and daily capacity allocation in 2010, and this was incorporated into the auction rules. The CEE transmission system operators suggested a coordinated approach for the entire region, with TSOs calculating capacity based on transfer capacity values. The auction office has a coordinating function, while capacity allocations to market participants are carried out over the existing auction platforms.

***Faster market integration thanks to the new scheduling approach***

Another step along the road to market integration was the development of a new, harmonised scheduling approach for the entire CEE region. This can be introduced regardless of the launch date for the load flow based allocation method. The new concept standardises the procedures for exchanging schedules, as well as formats and nomination times across the region. After an extensive trial run involving traders, the new system went live in December 2010. This initiative is a first throughout the EU, and will bring major benefits for market players, including simplification of their day-to-day business processes.

Meanwhile, the European energy regulators have agreed to compile interconnection reports for each of the regions. The purpose of these reports is to provide a detailed evaluation of the economic efficiency of the congestion management methods currently in place. The CEE auction data for 2009 is being analysed in light of the special features of the region.

In May 2010 the control area managers in the CSE region signed a memorandum of understanding stating their intention to hold joint auctions, via Capacity Allocating Service Company (CASC), the auction office for the Central-West (CWE) region. From the first quarter of 2011 onwards, all long-term (i.e. monthly and annual) explicit auctions will be held through CASC on the basis of the current rules. The second phase of the project will see the introduction of harmonised rules for long-term auctions in the CSE and CWE regions in January 2012.



A joint study by TSOs and power exchanges in the CWE region (in which Austria has observer status) led to the implementation in November 2010 of a two-stage flow based market coupling process that connected the trilateral coupling system linking the Belgian, Dutch and French spot markets with those in Luxembourg and Germany. The second stage also coupled the markets in question with those of Scandinavia. This is also a major advance for Austria, since the wholesale market – previously confined to Austria and Germany – now also comprises Belgium, Denmark, Finland, France, Luxembourg, the Netherlands, Norway and Sweden, which together make up more than half of the EU electricity market.

### **Gas**

The South-South East (SSE) Gas Regional Initiative (GRI) was established in 2006 in order to drive progress towards the single European energy market via the interim step of regional markets. It was decided to create three gas regions – North-West, South and South-South East. In 2010 we co-chaired the SSE region in tandem with the Italian regulator AEEG, as we have since 2006. The membership of the SSE region consists of the following EU member states: Austria, Bulgaria, the Czech Republic, Greece, Hungary, Italy, Poland, Romania, Slovakia and Slovenia. The legal foundations of these activities are the duty to maintain security of supply under the Gas Security of Supply Directive (2004/67/EC), and the duty to create cross-border competition under Directive 2003/55/EC. Directive 2009/73/EC, which is due to enter into effect in March 2011, also provides for enhanced regional cooperation – particularly in Article 7(1).

### ***Well prepared for emergencies, thanks to regional cooperation and solidarity***

Following the gas crisis of January 2009, when a halt to Russian gas supplies via Ukraine hit the SSE region particularly hard, security of supply was made a priority for the 2010/2011 work programme. On 2 December 2010 – the day that the EU Security of Gas Supply Regulation (Regulation (EU) No 994/2010) came into force – a Stakeholder Group meeting was held in Vienna to discuss “The Security of Supply Regulation – the regional dimension”. The main topic was the responsibilities of the authorities concerned.

The meeting also discussed SSE member countries' approaches to emergency planning. In future, all EU member states will be required to draw up preventive action and emergency plans either at national or at regional level, on the basis of risk analyses.

The article of the regulation that deals with infrastructure standards is also important. It provides for infrastructure and supply standards. The latter are closely related to the definition of “protected customers”.

The introduction of reverse flow capacity is intimately connected with infrastructure standards. TSOs will normally be required to enable reverse flows at all cross-border interconnections within three years of the entry into force of the Security of Gas Supply Regulation. In the SSE region, reverse flows are already possible on the Austrian WAG transmission pipeline, and are planned for the TAG system. This will increase security of supply in Austria and neighbouring countries.

### More transparent, easier market access – thanks to the gas exchange

The conclusion of interconnection point agreements and the opening of operational balancing accounts at the Central European Gas Hub (CEGH) in Baumgarten opened the way for the establishment of the CEGH gas exchange in cooperation with the Vienna Stock Exchange. Precisely one year later, on 10 December 2010, a futures market followed the spot market.

In Italy, too, the launch of the P-Gas exchange laid the groundwork for easier and more transparent market access. The operator, GME, outlined the Italian exchange to the SSE Stakeholder Group in Rome, in June 2010. At the Stakeholder Group meeting in Vienna in December, the Italian regulator AEEG reported on the launch of the exchange in October and the first month of trading.

The first two meetings of the year, in Milan and Rome, focused mainly on market integration and the requirements of the traders' organisation, EFET. For example, in June EFET gave a presentation on the traders' expectations of a future Europe-wide market model.

One of the follow-ups to these discussions was an international workshop on the target model for the European gas market, held in Vienna at the start of December.

### ***Making more room for market integration***

The CEER and ACER work programmes for 2011 are largely devoted to developing framework guidelines, as well as monitoring compliance with the new European legislation. Close cooperation with the European Commission, ENTSOG and all other stakeholders will be crucial to progress.

The work programme for the GRI SSE region was laid down for 2010 and 2011. It focuses on market integration, security of supply, and transparency. In 2011 E-Control will continue to play an active role in building the European internal energy market through CEER, ERGEG (from March 2011 ACER) and the Gas Regional Initiative.

### ***Taking a wider view – better oversight of the wholesale and financial markets***

Although cross-border electricity and gas trading is on the increase, energy market oversight remains a national responsibility. Energy traders and brokers normally operate across a number of European countries, and the same applies to the energy exchanges. For example, Vienna stock exchange operator Wiener Börse AG and the EXAA clear and settle spot electricity trades in Austria and Germany, working out of Vienna. The EPEX does the same for trades in Austria, France, Germany and Switzerland, working from Paris. The position with the electricity futures market is largely the same. Here, Leipzig-based European Energy Exchange AG (EEX) plays a central role as the futures exchange for Austria, Germany and France. Gas trading is also highly international. For instance, in 2010 gas trading began at the Vienna Stock Exchange in cooperation with Central European Gas Hub (CEGH). Due to the lack of a legal basis for cross-border energy market oversight, and of legal definitions of insider trading and market abuse tailored to energy markets, effective regulation of energy wholesaling in Europe is impossible, and the national regulatory regimes are often uncoordinated and prone to gaps.



*Proposed market abuse rules for wholesale energy trading –  
national regulators to receive investigative powers and sanctions for the spot market*

On 8 December 2010 the European Commission accepted a proposal for a **regulation on energy market integrity and transparency (REMIT)**, designed to combat potential market abuse and insider trading on wholesale energy markets. The regulation is aimed at promoting market transparency by obliging energy traders to adhere to clear market rules. The new rules aim at ensuring that traders cannot use inside information to benefit from their transactions or manipulate the market by artificially causing prices to be higher than would be justified by the availability, production cost or capacity to store or transport energy. In particular, the rules prohibit the following:

- > use of inside information when selling or buying on wholesale energy markets; exclusive and price-sensitive information should be disclosed before trades can take place;
- > transactions that give false or misleading signals about the supply, demand or prices of wholesale energy market products;
- > distributing false news or rumours that give misleading signals on these products.

Market monitoring to uncover possible cases of abuse will be the responsibility of ACER, which will collaborate closely with the national regulators. The Agency will need timely access to complete information on the transactions taking place on wholesale energy markets, including the price, the quantity sold and the counterparties involved. The data will also be shared with national regulators, who will be responsible for detailed investigation of suspected abuse. In complex cross-border cases ACER will coordinate investigations. Sanctions will be enforced by the national regulatory authorities in the member states.

The proposed regulation is meant to complement the existing EU regulatory regime for EU financial markets, which already includes rules for trading in energy derivatives. It introduces rules for the collection of energy market trading data, and action to combat market abuse in energy spot trading. It is thus closely connected with the Commission's plans for new legislation on the regulation of financial markets. The REMIT is expected to be adopted by the Council and the Parliament in autumn 2011.



***Looking ahead – ERGEG pilot project laying the groundwork for a wholesale energy market monitoring system***

To gain its first hands-on experience of a European energy trading monitoring system, ERGEG lined up with EFET and FORMAET to launch a pilot cross-border market monitoring scheme under the operational leadership of E-Control. The project is designed to illustrate how the automatic cross-border transfer, storage and analysis of energy trade data could work in practice, and help the participants gain experience for a future European energy market surveillance system.

Involving traders, brokers and exchanges in the pilot project has made it possible to collect and analyse not only exchange trading but also OTC transaction data. The project is aimed at developing monitoring routines for future oversight of wholesale energy trading in Europe. Consequently, the historical trading data is anonymised to prevent any conclusions from being drawn about the identity of the parties.

Apart from the automated transmission of standardised information on energy trades, the pilot scheme includes the collection of fundamental data (production, network information and consumption), and sample analyses and statistical studies for market monitoring purposes.

Bringing all the main stakeholders (the European Commission, regulators, traders, brokers and exchanges) on board has ensured that the results of the project will be usable in practice, and will lay the foundations for future European legislation.

A presentation on the outcomes of the pilot project will be given at the start of 2011.

***When change is an opportunity – involving energy traders in financial regulation***

As a result of the global financial crisis, EU member states and the Commission have undertaken at G20 summits to review the EU's financial market regulation system so as to prevent a recurrence. Because of this the EU is taking a close look at its regulatory regime in the hope of creating a more stable financial system. The overhaul of financial regulation by the end of 2012 also involves Europe-wide trading in energy derivatives.



In a raft of legislation dated 24 November 2010 and published in the Official Journal on 15 December 2010, the EU has given itself a new financial market supervision architecture. A new **European Securities and Markets Authority (ESMA)** is being set up in Paris on 1 January 2011. This will work for improved coordination of the national financial regulators, as well as being equipped with supervisory powers of its own. The new EU authority will replace the Committee of European Securities Regulators (CESR). ESMA's remit will include supervision of the securities and commodity futures markets, and hence trading in energy derivatives.

On 15 September 2010 the European Commission published a proposal for a regulation designed to create more stability and transparency on the OTC derivatives market (working title: **European Market Infrastructure Regulation (EMIR)**). The draft regulation requires reporting of information on OTC derivative contracts to trade repositories run by ESMA; national supervisory authorities should have access to these trade repositories. At the same time all market participants are to receive more information. The Commission also proposes that standardised OTC derivative contracts should be cleared by central counterparties (CCPs), so as to reduce counterparty risk, i.e. the risk of the default of one of the parties. The proposed regulation applies to all forms of OTC derivative contracts. It applies both to banks that use OTC derivatives and to companies outside the financial sector that hold large positions in OTC derivatives, as well as CCPs and trade repositories. However, non-banks (such as energy companies) that use OTC derivatives to mitigate risks arising from their core business are exempted from the duty to clear trades via central counterparties, and they also benefit from other special arrangements. The regulation would come into force at the end of 2012.

The Commission's reform agenda also includes amendments to the **Market Abuse Directive (MAD)** and the **Markets in Financial Instruments Directive (MiFID)**. In both cases the Commission's goals include aligning the EU's financial market rules more closely to the realities of commodity futures trading, and the strengthening the powers of both ESMA and the national supervisory authorities. Energy derivatives trading would thus be affected by these plans. The Commission is expected to table proposals for the revision of both directives in spring 2011, and hopes to see the amended legislation come into force by the end of 2012.

## Focusing on essentials – supervising Austria's CEGH Gas Exchange

While responsibility for the OTC market lies with E-Control, and that for oversight of the gas spot market with the Ministry of Economy, Family and Youth, supervision of the gas futures market is the task of the FMA. Our regulatory responsibilities do not extend beyond our general gas market oversight duties.

The commencement of futures trading required an amendment to the general terms and conditions of Wiener Börse AG, which in turn was subject to approval by the FMA. As part of the assistance provided in accordance with section 21(2) *Finanzmarktaufsichtsbehördengesetz* (Financial Market Authority Act), during the year E-Control gave the FMA the benefit of its expertise and practical experience of the operating environment of the Austrian gas industry. Additional cooperation between E-Control and the FMA, on the basis of the assistance provided for by the E-Control Act, is planned after the third package enters into effect on 3 March 2011.



#### *CEGH code of conduct*

The code of conduct published by CEGH on 1 April 2010 was agreed with E-Control as part of its market oversight duties. The following important points were agreed:

- > Regular transmission of OTC data to E-Control;
- > Duty to comply with ENTSOG, ACER and EASEE-Gas standards, and entitlement of E-Control to require amendments to the general terms and conditions to achieve conformity with those standards;
- > Regular customer feedback sessions for CEGH members at which E-Control will be able to monitor and comment on new products and services;
- > Feedback sessions for potential hub market participants at the request of E-Control;
- > Appointment of a compliance officer to monitor and enforce firewalls within CEGH;
- > Organisational separation of the Market Operations Office (gas exchange) and Middle Office (OTC trading).

In December 2010 CEGH discussed existing and future hub services and products for the OTC market and gas exchange with traders at a customer feedback session held in accordance with the code of conduct. We welcomed this event as a customer-friendly initiative, as it showed that CEGH was taking account of traders' needs with regard to the design of its products and services.

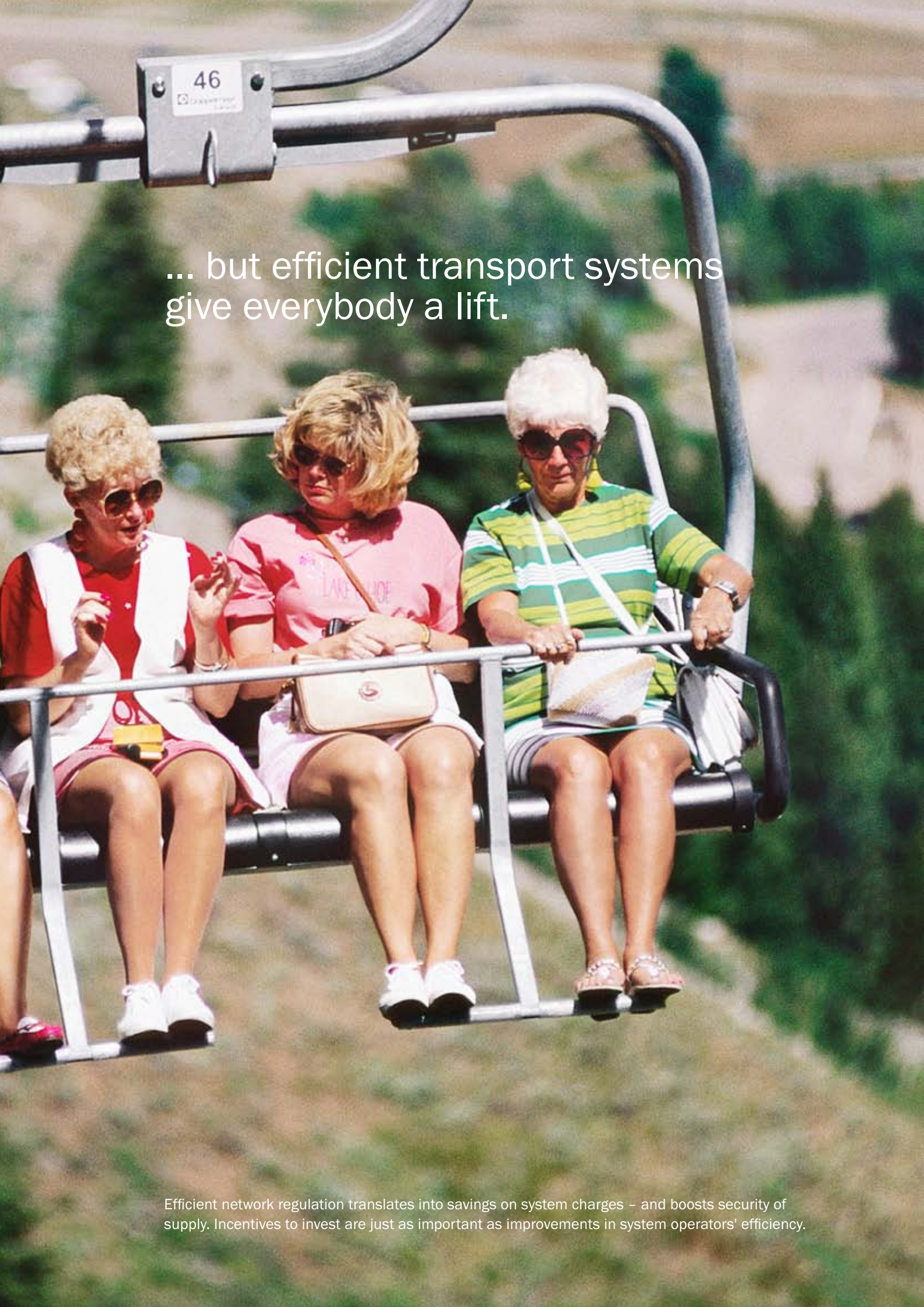




There's a mountain  
to climb ...





A photograph of three women sitting on a ski lift chair. The chair is suspended from a metal track. The woman on the left has blonde hair and is wearing a red top and a white vest. The woman in the middle has blonde hair and is wearing a pink t-shirt with 'LIVE LIFE' printed on it and a white skirt. The woman on the right has white hair and is wearing a green and white striped polo shirt and a white skirt. They are all wearing sunglasses and appear to be enjoying the ride. The background is a blurred landscape of trees and a building.

... but efficient transport systems  
give everybody a lift.

Efficient network regulation translates into savings on system charges – and boosts security of supply. Incentives to invest are just as important as improvements in system operators' efficiency.

# At a glance – network regulation



## **SYSTEM CHARGES REDUCED SINCE LIBERALISATION**

- > Electricity and gas liberalisation have brought annual savings of over € 640m for network users.
- > Conducive conditions have been created for network development investments.
- > A stable, long-term regulatory regime has been put in place for the electricity and gas distribution networks.

## **SYSTEM CHARGES REVIEWS PAYING OFF**

- > The electricity and gas system charges are reset on 1 January every year.
- > The investment and operating cost factors introduced at the start of the second regulation period ensure that companies can make necessary investments.
- > Increased investment needs will slow cost reductions for the next few years.

## **ELECTRICITY**

- > The redetermination at the start of 2010 brought an average year-on-year reduction of about 10% in the system charges.
- > Since the start of regulation in 2001 the annual cost of the system charges for consumers has been cut by more than € 600m.
- > Investment needs are set to climb over the next few years.
- > E-Control has taken watershed decisions to ensure that enough is invested in infrastructure.
- > To this end investment and operating cost factors are implemented at the start of the second regulation period.

## **GAS**

- > The gas system charges were adjusted on 1 January 2010.
- > The long-term plan provides for transmission network capacity expansion that will result in significant cost increases.
- > Spending on the Südschiene and Westschiene trunk lines will total over € 600m by the end of 2013.
- > Implementation of the third package and the related introduction of the entry-exit system for transmission networks will require changes to the gas tariff determination system in autumn 2011.





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ALPINE

# Network regulation that benefits everyone

Network regulation has brought sharp reductions in the system charges. But that is not E-Control's only objective. We are working for a stable system that creates a good investment climate for network operators.

## **LIBERALISATION HAS BEEN HARD WORK – BUT IT HAS SAVED NETWORK USERS € 640 MILLION**

Since the liberalisation of the electricity and natural gas markets, the regulatory authority has significantly reduced the system charges, saving network users over € 640m per year.

At the same time the regulator has been far-sighted enough to create the conditions for investment certainty, and thus for spending on security of supply. Setting a weighted average cost of capital (WACC) that both permits borrowing and gives owners the incentives to provide equity has opened the way for investment. In addition, an investment factor for distribution system operators that offers scope for higher returns for the owners was introduced in 2010.

## **EVERYONE GAINS FROM GOOD INFRASTRUCTURE REGULATION**

Regulating the energy networks – a natural monopoly – is one of E-Control's key tasks. A stable, long-term incentive regulation regime has been implemented for the electricity and gas distribution networks in the past few years. In the electricity sector incentive regulation is governed by the *Systemnutzungstarife-Verordnung* (System Charges Order 2006) introduced on 1 January 2006. Incentive regulation of the gas distribution networks came somewhat later, with the *Gas-Systemnutzungstarife-Verordnung* (Gas System Charges Order) 2008. The eight and ten-year durations of the regulatory systems in the electricity and gas sectors, respectively, are broken down into two periods of four and five years, respectively. Within these two regulatory periods the energy companies are required to increase their efficiency in accordance with targets that are set for them. Although the second regulatory period for the electricity networks only began in 2010, thought is already being given to the design of the future regulatory regime, due to begin in 2014, and preparations for it are being made. Unlike the electricity sector, the gas networks are still in the first regulation period, but here, too, intensive preparations are being made for the transition to the second period. The electricity transmission systems are still subject to a cost-plus regulatory regime with annual cost audits and tariff reviews. The gas TSOs are still regulated by approving their tariff-setting methodology.



## **REDUCTIONS IN THE SYSTEM CHARGES ARE FEEDING THROUGH TO CONSUMERS**

Under the incentive regulation regime, the electricity and gas system charges are redetermined annually, on 1 January, and announced in amendments to the respective orders.

### ***Electricity***

Adjustments to the system utilisation and system losses charges resulted in a considerable decrease in the system charges under the System Charges Order 2010. This sharp reduction was partly due to the application of the carry-over mechanism. In principle, this splits the benefits of the efficiency gains achieved by system operators up to the end of the second regulation period equally between them and their customers. However, 25% of the efficiency increases identified (relative to costs in 2008) were brought forward to the tariff redetermination of 1 January 2010. In all, the tariff reductions in 2010 led to a cut of about € 60m, for total reductions of over € 600m since the start of regulation in 2001.

Since investment needs are likely to increase over the next few years and there is an inherent risk that incentive regulation systems will discourage spending on infrastructure, E-Control has taken early and far-sighted corrective action. Investment and operating cost factors have been introduced for the second regulation period. These will be applied for the first time in the 2011 redetermination, in order to ensure that the electricity companies are able to make the investments needed to underpin long-term security of supply. While the system operators will be appropriately rewarded for investing, network users will benefit from the fact that account will only be taken of capital expenditure that is actually carried out. The heavier investment cost burden will undoubtedly make it very difficult to achieve reductions in the system charges on a par with those of recent years. The tariff redetermination also reflected the harsher business environment created by an average decline of around 3.5% in Austrian sales due to the impact of the 2009 economic and financial crisis, and this exercised marked downward pressure on the charges.

These developments have had a significant effect on the 2011 tariff year. While the system charges fell by an average of some 3.8% in 2010, the reduction in 2011 will only be about 0.8%.





### **Gas**

The 2008 Gas System Charges (Amendment) Order 2010 introduced adjustments to the system charges with effect from 1 January 2010. Conditions in 2010 were unfavourable for lower gas system charges. Cost inflation in the industry was unusually high at 3.14%, and fuel gas costs also rose sharply. The long-term plan provides for growth in the capacity of the transmission grid in the interests of supply security, and this will likewise drive significant cost increases.

Planned investment totalling over € 600m in the Südschiene and Westschiene lines by the end of 2013 will have a major effect on tariffs, as it will raise capital costs (depreciation and financing costs) by about € 14m. Apart from these unfavourable operating conditions, the regulatory authority was confronted with a 2.1% volume reduction, caused by the economic crisis and the comparatively warm weather. Despite this unfavourable situation it was possible to limit the year-on-year increase in the system charges to an average of around 5%.

In 2011 the cost audits and tariff reviews will again be strongly influenced by heavy investment in the transmission grid and lower supply volumes in 2009 (the basis for the 2011 charges). To date some € 280m has been channelled into the Südschiene project, and € 27.5m of the related capital costs has been taken into account in tariff redeterminations. The pipeline will clearly be a major cost factor as the above amount represents about 30% of the costs of the transmission systems or 6% of total network costs in the Eastern control area.

The nature of the tariff calculation formula is such that the quantity of gas supplied also has a significant impact on the charges. The three-year average for the years for which the most recent statistics are available is applied. The quantities in 2007 and 2009 were the lowest since 2001. The 8% decline in comparison with the previous year's tariff review basis was due both to weather and to economic conditions. Besides the mild winters in 2007 and 2009, the economic crisis hit gas sales.

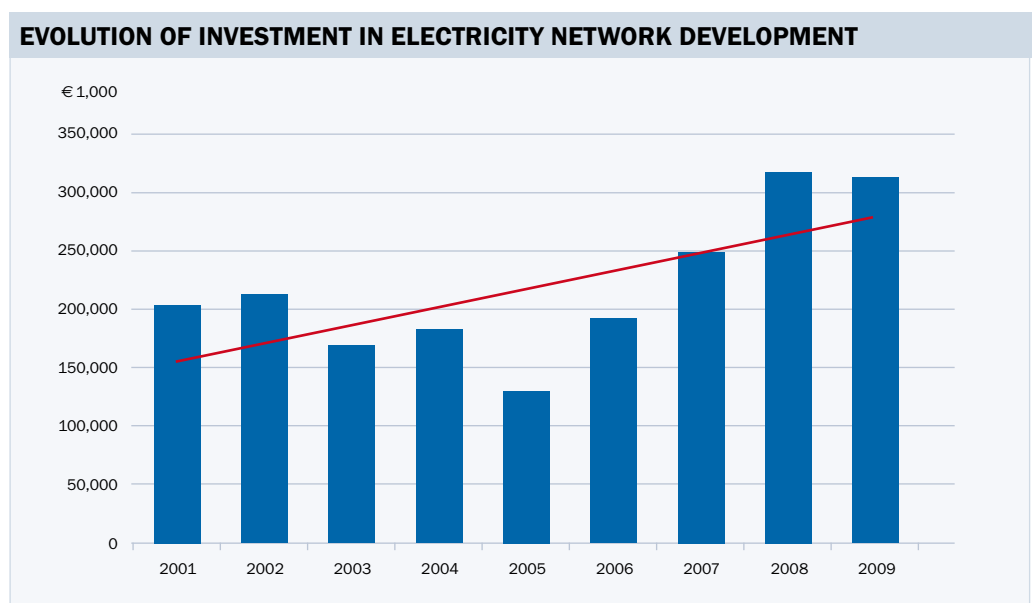
Due to the incentive regulation parameters, the shifts in investment activity and sales volumes together will mean an average increase of about 7% in the system charges. In spite of this, the charges for a typical household consumer with an annual demand of 15,000 kWh have been cut by over 4% since gas liberalisation in October 2002.

Implementation of the third package and the related introduction of the entry-exit model for transmission networks will require changes to the gas tariff determination system.

**ON THE UP –  
INVESTMENT SINCE THE START OF REGULATION**

***Electricity network investment***

The chart below shows that the system operators have significantly increased their net investment (capital expenditure not covered by customer prepayments of installation costs), particularly since 2005 (+144%).



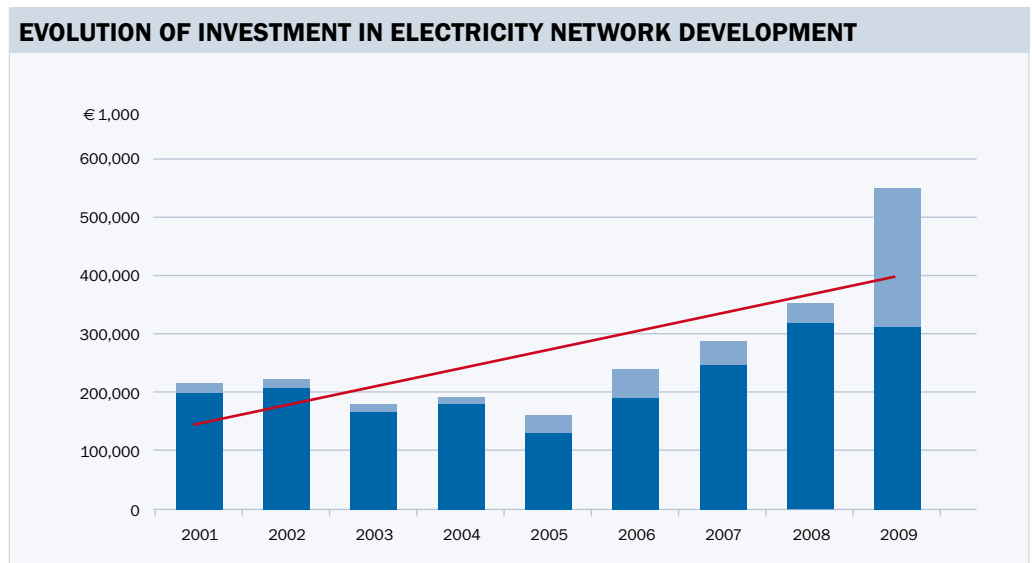
Trend

**Figure 13**  
*Evolution of investment in electricity network development*

Source: E-Control (aggregate company data, 2009 survey)

It is striking that this growth in capital expenditure took place against the backdrop of repeated severe criticism by many system operators of the manner in which their additional investment and other supply tasks are reflected by the volume-cost factor introduced on 1 January 2006, which aims to capture volume trends but has often been depicted as an obstacle to investment.

Since the start of the second regulation period in 2010, the incentive regulation system has recognised additional investment directly, irrespective of volume, creating a more investment-friendly climate. This framework should now enable the necessary investments in network infrastructure, including smart grid technology.



**Figure 14**  
Evolution of investment in electricity network development including investment by TSOs

Source: E-Control (aggregate company data, 2009 survey)



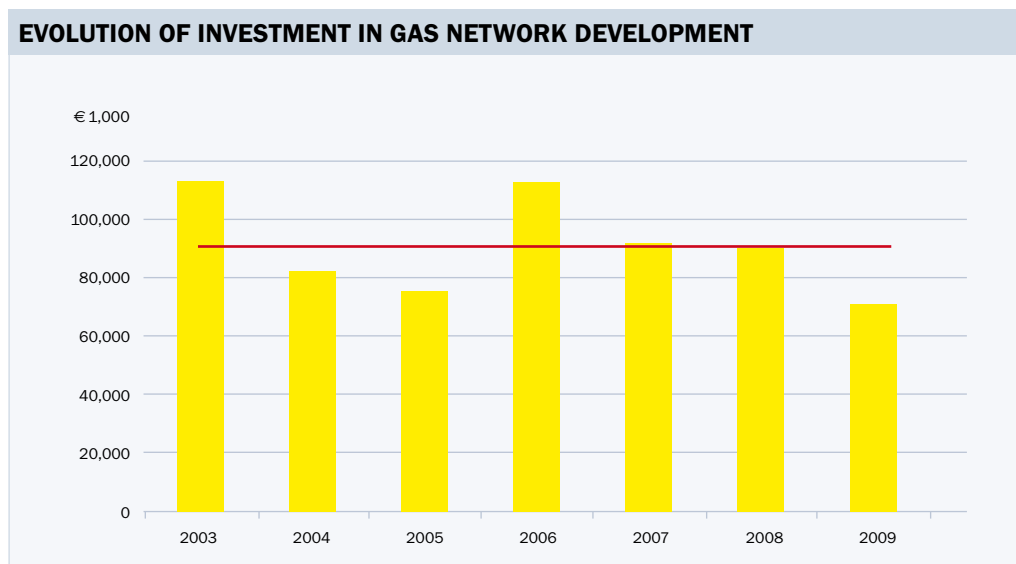


Including transmission system operators' expenditure reveals a particularly sharp increase in 2009. This mainly reflects the completion of the 380 kV line in Styria.

Upcoming transmission grid development projects are two sections of the Salzburg line which will complete the 380 kV loop, as well as capacity expansions in the Tyrol control area (220 kV Inntal line and 220 kV link with Italy via the Reschen pass) and the Vorarlberg control area.

#### Gas network investment

The main focus of the gas infrastructure projects is on linking the central and eastern European grids and expanding the capacity of the domestic grid, so as to improve Austrian security of supply. The gas system operators' investment spending has been virtually constant since 2003 (*Figure 15*), but numerous projects, including the Südschiene line, are at the planning or implementation stage.



Trend

**Figure 15**  
Evolution of investment in gas network development

Source: E-Control (aggregate company data, 2009 survey)

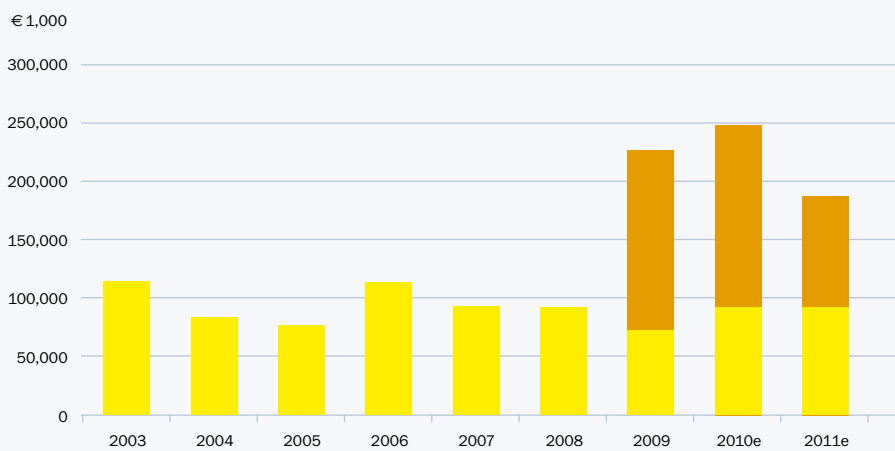


One driver of the pick-up in activity is the investment and operating cost factors – similar to those used in electricity regulation – introduced by the amended Gas System Charges Order, which change the manner in which investments are recognised. The factors take account of investments in network development by recognising depreciation and capital costs. Network development investment comprises expansion of the network, as well as major investments in security of supply such as spending on the rehabilitation of PVC and cast iron gas mains. Apart from higher capital costs – provided that these are evidenced by the gas companies – the tariff calculation formula also takes account of reasonable borrowing costs expected to be incurred during the construction phases of selected grid level 1 projects (e.g. Südschiene). The incentive system minimises the risk borne by the system operators, making it easier for them to obtain project finance.

The amendments to the Gas System Charges Order have enabled the regulator to give the gas companies incentives to continue rehabilitating and expanding the grid, thereby maintaining the industry's high standards and security of supply.

Extrapolating average investment over the 2003–2009 period to 2010 and 2011 and adding expenditure on the Südschiene project reveals a sharp rise in capital expenditure and hence in costs.


### EVOLUTION OF INVESTMENT IN GAS NETWORK DEVELOPMENT



■ Südschiene project

**Figure 16**  
*Evolution of investment in gas network development*

Source: E-Control (aggregate company data, 2009 survey)

A woman with her hair in a ponytail, wearing a brown and beige patterned dress, is shown in profile from the waist up. She is smiling slightly and holding a white tray with her right hand. On the tray is a small painting of a landscape with a white field and blue sky. The background is dark and out of focus.

It's worth pulling out all  
the stops ...



... for securing supply.

Increased investment since the start of regulation, more closely integrated grids and a healthy investment climate - all signs that competitive markets do not pose a threat to security of supply.

# At a glance – security of supply



## **ELECTRICITY INFRASTRUCTURE AND SECURITY OF SUPPLY**

- > Regulation has created a healthy investment climate and resulted in significant infrastructure upgrading.
- > Network investment since 2001 has been higher than in the previous quarter of a century.
- > A number of strategic electricity grid projects have been planned, approved and implemented since liberalisation;
- > an example is the 380 kV Styrian line commissioned in June 2009.

## **STABLE ENVIRONMENT FOR GAS INFRASTRUCTURE DEVELOPMENT**

- > The long-term plans drawn up by control area manager AGGM are the framework for development of the gas grid in the Eastern control area.
- > Some 400 km of new pipelines are being laid.
- > Investment in network development totals around € 450m.
- > Expansion will eliminate congestion in Lower Austria and Styria, helping to meet the long-term growth in demand for transmission capacity.

## **FURTHER IMPROVEMENTS IN SECURITY OF SUPPLY**

- > In response to the gas crisis in January 2009, the SSE GRI has made security of supply one of the main priorities of its two-year work programme.
- > The planned 120 km interconnector between Slovakia and Hungary will enhance supply security in neighbouring countries:
- > Consideration will be given to linking this new line with Nabucco or South Stream transit system.
- > The new EU Gas Security of Supply Regulation came into force on 2 December 2010. This requires only minor amendments to Austria's model *Energielenkungsgesetz* (Energy Intervention Powers Act).





# Security of supply – for today and tomorrow

Security of supply is one side of the „magic triangle“ of energy policy. Reliable, non-discriminatory regulation that creates a stable investment climate, greater market integration and a reduction of one-sided dependencies are all crucial to supply security.

E-Control's responsibilities in this area include annual reviews of the supply security situation, duties under the *Energielenkungsdaten-Verordnung* (Energy Intervention Data Order), approving new infrastructure projects – also in connection with the long-term plans for gas – and setting tariffs that provide investment incentives.

The regulatory regime currently in place has created a stable, investment friendly framework, resulting in heavy spending on infrastructure development. A glance at the investment figures leaves no doubt about this. More money has been pumped into the gas grid since 2001 than in the previous 25 years, and more has been done to expand the 380 kV high voltage power grid in the past five years than the previous two decades put together.

## **LOOKING TO THE FUTURE – INFRASTRUCTURE DEVELOPMENT AND SECURITY OF SUPPLY**

A number of strategic electricity grid projects have been approved by the authorities responsible and implemented since market liberalisation. These include the 380 kV Styrian line commissioned in June 2009, and the first section of the Salzburg 380 kV line, both of which are needed to complete the 380 kV loop which plays an important part in security of supply. Links with Hungary and the Czech Republic have been improved by new 380 kV transmission systems. Besides enhancing security of supply in Austria, these interconnectors will also facilitate inexpensive and efficient electricity exchanges with neighbouring countries and promote market integration. In all, more than 300 km of new ultra high voltage power lines have been installed since liberalisation. The regulator has played an important part in this by creating incentives for power line construction and recognising the related investments. The infrastructure concerned cuts congestion management costs, which amounted to over € 10m before completion of the Styrian line.



## Stable, investor-friendly regulatory framework promoting infrastructure development

The E-Control Commission approves gas infrastructure development projects on the basis of the long-term plans drawn up by AGGM, the control area manager for the Eastern control area. The approval in October 2010 of the long-term plan for the 2011–2015 period has paved the way for network upgrading in the control area. In all, some 400 km of new pipelines will be laid. The three system operators concerned – EVN Netz GmbH, OMV Gas GmbH and Gasnetz Steiermark GmbH – will be investing some € 450m in these infrastructure projects, which will eliminate congestion in Lower Austria and Styria, and meet long-term growth in transportation capacity demand. Completion of the new southbound transmission line, scheduled for September 2011, will mean that the Mellach gas-fired power station, which was recently given the go-ahead for construction, is assured of adequate supplies.

The regulatory authority recognises investment spending on the basis of the planned dates of capitalisation of the assets, ensuring that the system operators concerned can proceed with projects, and have a legal assurance of an adequate return on the capital employed. Because of the exceptional importance of the projects included in the long-term plan, the E-Control Commission has also decided to recognise additional operating costs that can be directly allocated to them during the five-year regulation period concerned. These financial arrangements give the system operators a sufficient incentive to conclude network development contracts with the control area manager. The regulatory framework thus promotes both long-term security of supply and cost-effective network development.

### ***Storage capacity expansion and links to transportation infrastructure***

In the long term, demand growth will require massive expansion of the storage capacity in the control area. Owing to the location of the storage facilities, additional transmission capacity will also be necessary.

A direct link between the Haidach storage facility and the Austrian gas grid is still not planned.



The 7Fields facility, a joint project involving RAG and German storage company E.ON Gas Storage, is currently under construction. This will likewise not be tied into the Eastern control area. Full storage capacity, after various expansion stages, will be some 2 bcm of working gas. E-Control has asked AGGM to draw up a plan for linking 7Fields with the Eastern control area, and this proposal has been approved and incorporated in the long-term plan. The construction work is scheduled for completion in September 2013.

***Ruling out unpleasant surprises by improving supply security now***

Due to the gas crisis at the start of 2009, one of the main priorities of the GRI SSE region's two-year work programme is security of supply, and minimising the negative impact of further supply interruptions.

Slovak TSO Eustream and its Hungarian partner FGSZ have unveiled plans for a 120 km interconnector between the two countries at a cost of about €100m. Since this pipeline will be designed for reverse flow from the outset, it will significantly enhance the security of supply of Slovakia, Hungary and neighbouring countries in the event of supply outages. Some 10% of the capacity of the pipeline, which will run from Velké Zlievce in Slovakia to Vecsés in Hungary, will be allocated on a short-term basis (periods of less than one year). The initial, non-binding phase of the open season procedure has already been completed, but the binding stage has not yet begun. The promoters of the project envisage linking the pipeline to planned South Stream and Nabucco, designed to carry gas from the Caspian region.

Austrian TSO TAG GmbH has also announced expansion plans. After securing a commitment from the European Economic Recovery Fund to co-finance 50% of the project costs, TAG offered reverse flow capacity in an open season procedure. The company received bids for 193,000 cubic metres (cu m) per hour, and allocated 50,000 cu m/hour on a binding basis.

Both these infrastructure projects will strengthen the links between networks in central and eastern Europe, and increase Austria's security of supply as a result.

### **NEW EU REQUIREMENTS FOR SECURITY OF GAS SUPPLY**

The new EU Gas Security of Supply Regulation came into force on 2 December 2010. Large parts of the regulation are based on the Austrian system, and as a result only a few provisions of the *Energielenkungsgesetz* (Energy Intervention Powers Act) will have to be amended.<sup>13</sup> The new legislation will certainly enhance Austria's security of supply, which is already at a high level. Austrian TSOs are already investing in their networks to prepare the ground for reverse flow links with Italy and Slovakia. Increased bi-directional flows between Austria and Germany will also be possible in future.

A key aspect of the new Regulation is that the countries bordering Austria are now also obliged to draw up contingency and emergency plans. As a result we will have to work closely with our counterparts in neighbouring countries to coordinate such plans. This should help ensure that Europe as a whole, and central Europe in particular is better equipped to deal with potential emergencies.

<sup>13</sup> Although this is a regulation it will still have to be transposed, since member states will need to enact legislation regarding the definition of protected customers and the designation of a national authority with responsibility for supply security, among other things.



Scarce resources should  
not go to waste ...





... but brought to  
smart use.

Promoting renewable technologies and technical progress is crucial if we are to move towards energy sustainability. E-Control supports optimum use of resources.

# At a glance – sustainability



## **THE GREEN ELECTRICITY (AMENDMENT) ACT**

- > An amendment contained in the Ökostromgesetz (Green Electricity Act) 2009 requires the reimbursement of renewable energy costs.
- > 2,275 applications for refunds were received in 2008.
- > Total reimbursements of around EUR 35m are forecast for 2008.

## **SMART METERING.**

- > 2010 saw many activities, preparatory measures and discussions related to smart metering.
- > The EU Directive obliges member states to introduce intelligent metering systems for all consumers.
- > Smart meters should be installed for 80% of consumers by 2020.
- > An E-Control consumer event on smart metering was well attended.
- > Work on specifying the minimum functional standards required to promote competition began in 2009.
- > An economic assessment of the introduction of smart meters must be completed by 3 September 2012.





# A resourceful approach to sustainability

Renewable energy support systems need to be both effective and efficient, and the costs for consumers affordable. The Green Electricity (Amendment) Act 2009 foresees for the reimbursement to consumers of part of the renewable electricity costs charged on to them under certain circumstances. Smart meters provide end users with a precise record of their consumption behaviour, and thus enable them to change it, use energy more efficiently and save money.

## **A WELCOME RETURN – REIMBURSEMENT OF RENEWABLE ELECTRICITY COSTS**

The amended *Ökostromgesetz* (Green Electricity Act) 2009 provides for the reimbursement to consumers of part of the renewable electricity expenses charged on to them, if certain conditions apply. Refunds for the period from 1 January 2008 to 31 December 2010 can be applied for.

A refund is made if there is an entitlement to reimbursement of the energy levy<sup>14</sup> and the renewable electricity expenses exceed 0.5% of the applicant's net production value. Any other *de minimis* support payments approved for 2008–2010 must be deducted. The refunds are limited to € 500,000 per company for the 2008–2010 period (*de minimis* rules).

Applications must be submitted by the end of the following year. Consequently, applications for refunds for 2008 had to reach E-Control by the end of 2009.

Some 2,275 applications for the reimbursement of renewable electricity expenses had been received by then. The figures shown below are preliminary, and the information on the amount of the refunds will change over the next few months as the number of processed applications increases.

Out of the 2,275 applications for reimbursement of expenses incurred in 2008, some 2,106 were made electronically.

By December 2010 E-Control had issued 1,135 notices (of which 957 were approvals and 178 rejections), resulting in the reimbursement of € 29.61m in evidenced renewable electricity expenses to the applicants via the green power settlement agent OeMAG (Table 2). Total reimbursements of around € 35m are forecast for 2008.

The table below breaks down the applications by the sectors and subsectors concerned, which follow the standardised ÖNACE classification. It was not possible to categorise 611 of the 2,106 online applications, and these are reported as “non-classifiable” in the analysis below.



<b>PRELIMINARY ANALYSIS BY SECTORS</b>				
<b>ÖNACE classification</b>	<b>Sector</b>	<b>Total online applications</b>	<b>Total complete applications</b>	<b>Total reimbursements for complete (unprocessed) applications (EUR)</b>
-	Non-classifiable	611	0	-
A	Agriculture and forestry, fishing	22	18	62,349.57
B	Mining and quarrying	36	33	1,440,632.65
C	Manufacturing	475	380	20,767,348.43
D	Electricity, gas, steam and air conditioning supply	34	32	537,246.08
E	Water supply; sewerage, waste management and remediation activities	98	95	1,036,918.38
F	Construction	40	30	174,759.78
G	Wholesale and retail trade; repair of motor vehicles and motorcycles	119	82	959,523.25
H	Transportation and storage	99	83	3,514,404.29
I	Accommodation and food service activities	262	173	288,931.94
J	Information and communication	8	5	398,975.83
K	Financial and insurance activities	5	4	183,704.92
L	Real estate activities	16	12	89,489.47
M	Professional, scientific and technical activities	12	7	137,576.43
N	Administration and support service activities	49	32	816,815.06
O	Public administration and defence; compulsory social security	98	87	497,914.96
P	Education	9	9	19,258.02
Q	Human health and social work activities	13	10	464,401.10
R	Arts, entertainment and recreation	60	52	177,790.31
S	Other service activities	40	31	237,721.79
<b>Total</b>		<b>2,106</b>	<b>1,175</b>	<b>31,805,762.79</b>

**Table 2**

Online applications for refunds of renewable electricity expenses incurred in 2008: preliminary analysis by sectors (incomplete data, status as of 9 December 2010)

Source: E-Control



The 2,106 online applications came from companies in 19 different sectors. The manufacturing sector accounted for the majority of the applications (475). This group of economic activities breaks down into a very wide range of subsectors (Table 3). A total of 104 applications were attributed to the “Manufacture of food products” subsector.

<b>DETAILED ANALYSIS OF APPLICATIONS FROM COMPANIES IN THE MANUFACTURING SECTOR</b>					
<b>ÖNACE classification</b>	<b>Sector</b>	<b>Total online applications</b>	<b>Total reimbursements (unprocessed) (EUR)</b>	<b>Total complete applications</b>	<b>Total reimbursements for complete (unprocessed) applications (EUR)</b>
C16	Manufacture of wood and of products of wood and cork, except furniture; manufacture of articles of straw and plaiting materials	61	2,536,430.12	52	2,536,430.12
C10	Manufacture of food products	104	1,530,386.75	87	1,530,386.75
C11	Manufacture of beverages	9	87,810.43	6	87,810.43
C13	Manufacture of textiles	21	792,620.03	18	792,620.03
C14	Manufacture of wearing apparel	1	0	0	0
C17	Manufacture of paper and paper products	13	2,234,584.95	11	2,234,584.95
C18	Printing and reproduction of recorded media	7	0	2	0
C20	Manufacture of chemicals and chemical products	23	2,787,534.63	19	2,768,593.69
C21	Manufacture of basic pharmaceutical products and pharmaceutical preparations	2	510,156.83	2	510,156.83
C22	Manufacture of rubber and plastic products	43	963,645.20	38	962,791.05
C23	Manufacture of other non-metallic mineral products	31	2,386,493.35	27	2,386,493.35
C24	Manufacture of basic metals	25	1,544,555.83	21	1,544,555.83
C25	Manufacture of fabricated metal products, except machinery and equipment	56	2,696,405.00	42	2,696,405.00
C26	Manufacture of computer, electronic and optical products	8	591,272.81	6	591,272.81
C27	Manufacture of electrical equipment	8	369,391.81	3	369,391.81
C28	Manufacture of machinery and equipment n.e.c.	7	16,686.65	2	16,686.65
C29	Manufacture of motor vehicles, trailers and semi-trailers	13	887,528.84	7	887,528.84
C30	Manufacture of other transport equipment	2	0	0	0
C31	Manufacture of furniture	3	9,564.77	2	9,564.77
C32	Other manufacturing	38	842,075.52	35	842,075.52
<b>Total C</b>		<b>475</b>	<b>20,787,143.50</b>	<b>380</b>	<b>20,767,348.40</b>

**Table 3**

Applications for refunds of renewable electricity expenses incurred in 2008: detailed analysis of applications from companies in the manufacturing sector (incomplete data, status as of 9 December 2010)

Source: E-Control



In the case of 17 applications processed to date, the refunds were limited by the fact that they exceeded the de minimis threshold (status as of 9 December 2010).

### **SMART METERING**

“Smart” or “intelligent” metering was a prominent aspect of E-Control's activities in 2010. Mainly in view of the upcoming implementation of the new Electricity Directive (2009/72/EC), E-Control initiated a series of activities, preparatory measures and discussions. Annex I obliges member states to “ensure the implementation of intelligent metering systems”. The Directive also states that, following a positive economic assessment of the proposed roll-out, “at least 80% of consumers shall be equipped with intelligent metering systems by 2020”.

#### ***E-Control event on the customer benefits and technical options for smart metering***

As in the previous year, E-Control staged an information event on smart metering in June 2010. The high attendance reflected the interest prompted by the many new developments in this area.

A speech by E-Control's managing director, who examined recent developments in smart metering from a regulatory perspective, was followed by a series of presentations on customer benefits, energy efficiency and the technical options for introducing smart meters. Presentation slides and videos are available for download on the E-Control website.

### **Smart Metering – next steps towards roll-out**

Talks with the electricity sector, represented by Oesterreichs Energie, on the details of the roll-out of smart meters started in 2009 and continued in 2010. Attention focused on the framework for implementation, including finance, standardisation and functionality.

E-Control also held further discussions with the FEEI (Association of the Austrian Electrical and Electronics Industries), acting on behalf of the manufacturers, on the technical feasibility of introducing smart meters. The Austrian Federal Chamber of Labour, Austrian Federal Economic Chamber and Federation of Austrian Industry were also involved.

E-Control also consulted the Ministry of Economy, Family and Youth, the Austrian Federal Office of Metrology and Surveying, and the Austrian Data Protection Commission on the key issues of calibration and data security.

### **OUT OF SIGHT, BUT NOT OUT OF MIND – REMOTELY READABLE SMART ELECTRICITY METERS**

Defining minimum standards for functionality is key to transparent, pro-competitive implementation of smart electricity metering systems in Austria.

E-Control began compiling a catalogue of minimum standards, including a list of the functions which should be supported, in 2009. This specification was examined by a number of newly established working groups including electricity industry representatives.

The document was then subject of a broader public consultation process in summer 2010. The final version will take into consideration the views aired during the consultation procedure. Further details and the consultation paper are itself posted on the E-Control website.

### **SAVING LABOUR THROUGH SMART METERING**

Directive 2009/72/EC, which was transposed by the Electricity Act 2010, states that the roll-out of smart meters is subject to an economic assessment which must be carried out by 3 September 2012. The Act makes the Ministry of Economy, Family and Youth responsible for introducing intelligent metering systems, by way of subsidiary legislation. The specifications for meters will be determined by order by the regulator.

To this end, E-Control commissioned PricewaterhouseCoopers to carry out a cost-benefit analysis of the nationwide rollout of smart metering systems. The study analysed a number of scenarios to determine the economic impact of roll-out for the gas and electricity sectors. PwC's findings were unveiled at the special event on smart metering staged by E-Control in June 2010. The full report, entitled *Studie zur Analyse der Kosten-Nutzen einer österreichweiten Einführung von Smart Metering* (German only) is available for download from our website.



The study reaches the conclusion that end users stand to profit most from the introduction of intelligent metering. The new meters provide consumers with up-to-the-minute information on their energy use, allowing them to monitor, manage and adjust their consumption patterns. This would permit savings of at least 3.5% in electricity consumption and at least 7% in gas consumption, which translates into a reduction of 4.6–6.2 million tonnes of CO<sub>2</sub> emissions, the study says.

However, realising these benefits depends on: agreed and coordinated roll-out; uniform and open standards for metering technologies and data formats; a brief transition phase from conventional to smart metering systems; and customer-friendly, easy-to-use presentation of the energy consumption information.

#### ***Power labelling***

E-Control is the watchdog for the power labelling system under which suppliers must disclose the origin of the power they provide. We published a comprehensive power labelling report in October 2010. This is available for download from [www.e-control.at](http://www.e-control.at) (German only).

#### ***Renewable electricity***

Under the Green Electricity Act, E-Control is obliged to publish annual reports on recent trends in renewable electricity. The latest report was issued in September 2010 and can also be downloaded from our website.



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## Editorial

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