



ANNUAL REPORT 2008

E-CONTROL



Working for you – wherever
you need energy.

> Competition

E-Control is helping consumers to benefit from competition by working for increased market transparency, improvements to regulation and increased support for consumers.

> Network regulation

Incentive regulation brings planning certainty, rewards efficient system operators and gives customers a share of cost savings.

> Security of supply

Maintaining security of supply calls for close cooperation between market participants and regulators.

> Sustainability

A massive improvement in energy efficiency is essential. Proposals from E-Control point the way forward. Efficiency considerations should also play a part in support payments for renewables.

> Market integration

Well-managed market integration can increase supply security and improve access to upstream markets.

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It's good that Austria's
energy markets have
been liberalised.



And it's better still that
there's a referee.

E-Control has been regulating the Austrian electricity and gas markets. Our job is to maintain properly functioning competition, whilst also working for security of supply and sustainability.

E-Control and the Austrian energy market.

The first European countries moved to liberalise their electricity and gas markets in the early 1990s. Austria followed suit in 2001. For competition to emerge, market participants need clear rules of the game. As the regulator, E-Control is responsible for drawing up and enforcing these rules.

Full liberalisation of the electricity market in 2001 and of the gas market in 2002, bringing competition, not only changed the legislative framework for electricity and gas companies' activities, but transformed the market oversight arrangements, too. The regulator has the job of strengthening competition and ensuring that this does not compromise security of supply.

Gas and electricity regulation matter – because everyone needs to stick to the rules.

The regulatory framework

To act even-handedly in the interests of all market participants, regulators must be politically and financially independent. This was the thinking behind the establishment of Energie-Control GmbH (E-Control) in 2001. E-Control is wholly owned by the Austrian federal government, and its responsibilities and duties are set out in the Energie-Regulierungs-behördengesetz (Energy Regulatory Authorities Act).

Regulation has two main elements. Ex ante regulation involves determining in advance the rules under which competition will take place. This includes network tariff determination and the formulation of the market rules in consultation with market participants.

In the event of a breach of these rules or of the overall rules governing competition, the regulatory authorities may intervene by means of ex post regulation, and identify and put an end to any infringements. In such cases E-Control cooperates closely with the Federal Competition Authority and Federal Cartel Prosecutor. Market oversight is a key aspect of this function, and market monitoring enables the regulator to track and analyse market trends.



Making sure that liberalised markets function.

The highest regulatory authority is the Minister of Economics and Labour. The Minister is responsible for establishing E-Control's powers and overseeing its activities. The constituent bodies of E-Control are the Energie-Control Commission (E-Control Commission) and Energie-Control GmbH (E-Control). The arbiter in most disputes concerning the reciprocal rights of market participants is the E-control Commission, for which E-Control acts as a secretariat. The E-Control Commission hears appeals against decisions made by E-Control. The Commission's members are appointed for five years, and are not bound by ministerial directions in the exercise of their duties.



E-Control's main functions include competition oversight, preparing and publishing energy price comparisons, and – in the gas sector – monitoring the unbundling of wholesale and retail activities. It is also required to draw up proposals for the regulatory framework of a properly functioning market – the Market Rules, general terms and conditions, Other Market Rules, and Technical and Organisational Rules (TOR) for the electricity market. The regulator carries out wide-ranging statistical studies and carries out activities aimed at maintaining security of supply, such as supply monitoring and emergency response planning. In addition E-Control can be called upon to arbitrate in disputes between market participants. Finally, E-Control is the secretariat of the E-Control Commission.

The provincial governors and governments also have regulatory powers (e.g. unbundling of the electricity distribution and transmission system operation functions), as does the Minister of Economics and Labour. The electricity and gas advisory boards, whose membership consists of representatives of the federal and provincial governments, and the social partners, have consultative roles.

E-Control can do a lot – but not everything.

Neither the E-Control Commission nor E-Control can enforce their decisions themselves. In principle, all decisions by the regulatory authorities are contestable. Appeals to the E-Control Commission against E-Control rulings automatically have 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.

Appropriate penalties for non-compliance

Non-compliance with energy legislation is normally an administrative offence. However the enforceability of these provisions is currently weak. Normally, any administrative penalties must be imposed by the district administrations, which are not equipped to deal with – often highly complex – energy legislation. Moreover, in many cases the fines are 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 no deterrent effect.

Overseeing Energie-Control.

The business supervision of E-Control is performed by its supervisory board, whose members are nominated by the ministers of Economics and Labour and Finance, and it is also subject to scrutiny by the Federal Audit Office. E-Control also has a duty to provide the Minister of Economics and Labour, and Parliament with information, and provides detailed reports on its activities. Market participants have a right of appeal against notices issued by E-Control and the E-Control Commission. Complaints against Commission decisions can be lodged with the Supreme Court.

**Comprehensive oversight
of E-Control**

All of E-Control's activities are subject to comprehensive oversight.

A firm footing for competition and the regulator.

E-Control is responsible for covering the costs of its activities. In 2008 its budget amounted to around EUR 11 million (m). The budget is funded by the system charges and must be approved by the supervisory board.





Providing information
on the cheapest deals.



So you don't need to have
been born with a silver
spoon.

E-Control supports customers by providing price information, advice on problems with electricity and gas suppliers, and expert answers to queries on the gas and electricity markets.

E-Control's consumer services.

Since gas and electricity liberalisation, Austrian consumers have enjoyed the benefits of free energy markets, including the option of cutting their costs by switching suppliers, which is becoming increasingly popular. E-Control provides end consumers with a comprehensive support to ensure that the switching process is simply and trouble free.

Rising energy prices, increases in the overall cost of living and debate about energy saving measures have all contributed to a wider awareness of energy issues. In response to this trend and growing public interest, E-Control has improved and expanded its range of consumer services. Although E-Control is well known as an independent service provider, recent developments have shown that many gas and electricity customers still do not have the information they require. The number of calls to our consumer hotline has jumped, ever more consumers are visiting our website, and use of the tariff calculator is at record levels. In order to tailor our services to end users' needs, we have also studied consumers' motives for switching in depth.

Cost savings at the push of a button – thanks to the E-Control tariff calculator.

Growing interest shown
by 10 % increase in tariff
calculations

The E-Control tariff calculator is currently the only source of simple and objective price comparisons for a range of gas and electricity suppliers. This makes it important to keep developing the calculator and adjusting it to changing circumstances. After a thorough analysis, last year a number of changes were made to increase its user friendliness. The number of companies whose prices are displayed on the tariff calculator has also been considerably expanded, meaning that still more consumers now have access to quick and easy price comparisons. Some 1.1 m comparisons were generated in 2008.

However energy companies are still not obliged to input price data to the tariff calculator themselves, or to send updated price lists to E-Control when their prices change. Reliable price comparisons are both particularly important and especially difficult to provide when information on price increases that have recently been announced or introduced is given at short notice.



In order to increase price transparency, E-Control introduced a price monitor on its website in March 2008. The price monitor is based on tariff calculator analyses, and is updated monthly. The prices of the main suppliers are compared, and the potential savings from switching to the cheapest provider are stated. The price monitor also features quarterly Europe-wide comparisons.

Improvements for users

Tarfalkulator

Hier können Sie den günstigsten Energieversorger für Sie und welche Produkte angeboten werden? Dann sind Sie beim Tarfalkulator der E-Control, der unabhängigen Regulierungsbehörde für Strom und Gas, genau richtig. Der Tarfalkulator berechnet das für Sie optimale Strom- und Gasangebot. Dabei ist es egal, ob Sie ein Haushalte-, Gewerbe- oder Landwirtschaftskunde sind. Sie müssen dem Tarfalkulator dafür nur Informationen über den Punktzahl und Ihren Verbrauch liefern. Wenn Sie eine Berechnung anfordern wollen, können Sie diese auch im WatchDog speichern, um automatisch über Tarifänderungen benachrichtigt zu werden.

Wählen Sie bitte zwischen:

☒ Strom ☐ Gas ☐ Strom + Gas

Bitte geben Sie Ihre Punktzahl ein:

Die wollen eine Berechnung durchführen für:

☒ Haushalt ☐ Gewerbe ☐ Landwirtschaft

Wählen Sie bitte zwischen:

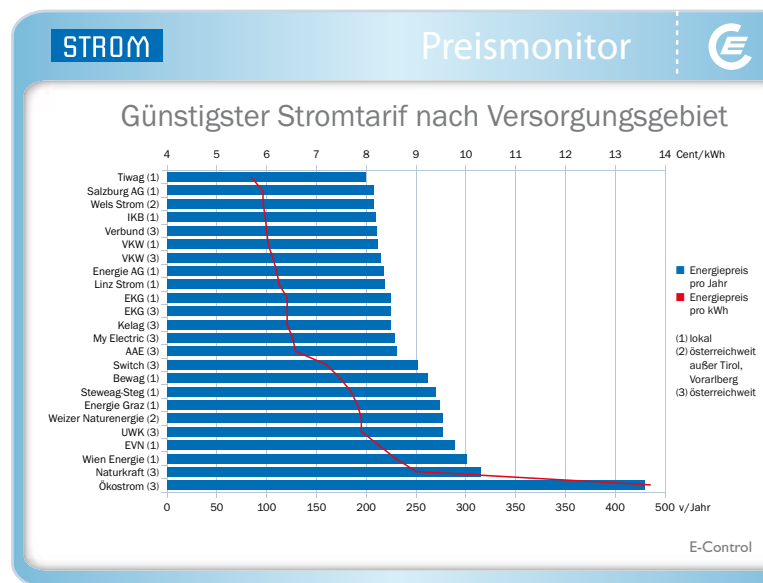
☒ Einfache Kalkulation ☐ Punktkalkulation

Hinweise:
Da der Tarfalkulator eine Berechnung auf Basis der gegenwärtigen Preise erstellt, kann das Ergebnis von dem Preis abweichen, der auf Ihrer Stromrechnung ausgewiesen ist. Preisänderungen durch den Lieferanten werden erst ab dem Zeitpunkt des Inkrafttretens im Tarfalkulator berücksichtigt.

[Tarfalkulator](#) [Impressum](#)

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[Last-Lieferanten/Netzgebiete](#) [Anmelden](#)



If in doubt ring the E-Control energy hotline.

End consumers can also contact our energy experts directly for answers to questions on bills, switching and other issues. Some 11,400 calls were handled in 2008 – a 36 % year-on-year increase. Monitoring of these inquiries has also been improved in order to identify top topics more rapidly, allowing us to handle calls more efficiently and enable E-Control to take appropriate action. Use of the website, tariff calculator and hotline is constantly tracked, and this yields a wealth of information that underpins our activities and helps us optimise our media relations work and customer information services.

**The right to object to
price increases**

**PRICE INCREASES ARE A FACT OF LIFE –
BUT YOU DON'T HAVE TO TAKE THEM LYING DOWN.**

From mid-2008 onwards most inquiries concerned gas and electricity price increases. Consumers were mainly interested in finding out how to prevent or at least take some of the sting out of price rises. Many consumers exercised the right to object to price increases and retain their previous, lower rates for three months before switching to another supplier, introduced by the amended EIWOG (Electricity Industry and Organisation Act) and GWG (Natural Gas Act) which came into force on January 1, 2007. E-Control has been an important source of information for people who are unsure about how to set about objecting to a price rise. The information from the tariff calculator on the cheapest suppliers also played an important part, since customers who dispute price rises must switch to another supplier.

ONLY A TRANSPARENT BILL IS A GOOD BILL.

A large number of calls to the E-Control hotline were concerned with billing. The new Electricity Industry and Organisation and Natural Gas acts establish minimum requirements for bills, and require them to be customer friendly and transparent. The mandatory information includes the old and new meter readings, and the method used to arrive at them. This makes invoices easier to understand and verify. Energy prices must be stated in cents/kWh. Especially where intrayear price changes occur, customers can now more easily identify the prices charged for a certain period.





In order to monitor compliance with these standards, E-Control has examined bills from numerous energy companies. About 60 % of all the bills inspected gave rise to proceedings as they did not meet the statutory requirements. In many cases it was possible to drop the proceedings because the companies concerned promised to achieve compliance.

We have also decided to draw up a sample bill to help enable energy companies make their billing formats as consumer friendly and transparent as possible. Publication is planned for the first half of 2009.

SWITCHING CAN BE SO EASY – WE TELL YOU HOW IT GOES.

E-Control also receives large numbers of inquiries about supplier transfers. The subjects range from general questions about the switching process to complaints about transfers that have not been handled to the callers' satisfaction.

The bills sent to us by consumers give us a chance to check whether energy providers are adhering to the statutory requirements in practice. We look both at the system charges and at the energy prices charged to customers.

The energy hotline for
consumers: 0810 10 25 54

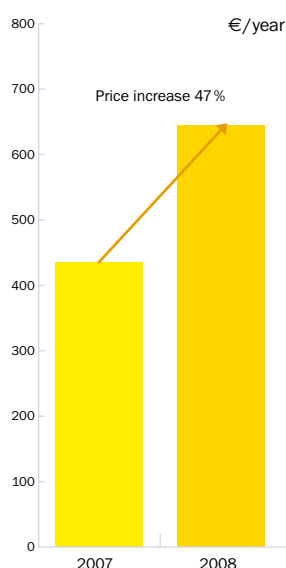
Where do disputes with suppliers and system operators get you? To the E-Control arbitration panel.

The E-Control arbitration panel can be invoked in the event of more complex problems with suppliers or system operators. All that is needed for the arbitration service to swing into action is an informal written application (by letter, fax or e-mail), briefly outlining the events in question and enclosing the relevant documentation. In 2008 the arbitration service received around 2,350 enquiries. After closer inspection of the inquiries, arbitration service staff decide whether the matter can be clarified by telephone or e-mail, or whether formal arbitration proceedings are required.

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Help for vulnerable consumers.

Price increases for average gas consumers
(annual demand 15,000 kWh), 2007–2008.



Source: E-Control

In November 2008 E-Control joined forces with charity Caritas to launch a package of measures to help the disadvantaged. It is precisely this group who often pay more for energy than other consumers, due to additional charges for payment vouchers, dunning and collection, and cut-offs. E-Control has invited representatives of the gas and electricity companies to a round table discussion in a search for solutions to the problem of the growing number of consumers who can no longer afford energy.

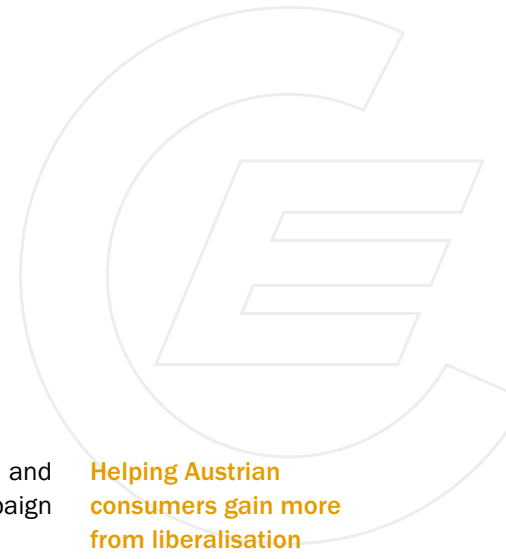
Uniform connection and cut-off fees across Austria would be a step in the right direction. There is also a need for arrangements to prevent most cut-offs. At present there are no regulations on the use of prepayment meters and instalment plans. Customers who do not have a bank account or an internet connection are often unable to take advantage of special offers. Overall, low income groups face disproportionately high energy costs. Solutions to this problem are urgently required.

E-Control and Caritas have launched a pilot programme to provide selected Caritas clients with energy advice. If necessary, old, inefficient household appliances can be exchanged for new ones. Following a detailed post mortem of the pilot phase a decision will be taken on whether to expand the project. E-Control has also compiled an information kit for social advisory offices which will enable staff to counsel vulnerable consumers on energy and energy saving issues.

BECAUSE THE CUSTOMER IS KING – EUROPEAN MOVES FOR MORE CONSUMER RIGHTS

The Third Energy Liberalisation Package includes strong action to strengthen consumers' rights. These measures mainly relate to quicker supplier transfers and real or near real time information on actual energy consumption. National action plans to tackle increasing energy poverty are also envisaged.

It is still impossible to predict what kind of compromise EU member states will reach. However there is little doubt that European standards will again make a major contribution to strengthening consumer rights.



Plenty of room for improvement.

E-Control sees considerable room for improvement in switching rates, billing formats and the availability of consumption and price information. A national information campaign would help put gas and electricity customers in the picture on energy issues.

Helping Austrian consumers gain more from liberalisation

> SWITCHING RATES

Automation could streamline the switching process. This depends on a central metering point database. It should also be possible to conclude agreements by telephone or online, as is the case in so many other areas of everyday life.

> BILLING

Separate invoicing of energy and system services would help simplify energy bills. The average consumer is unaware of the different players on the energy market, including the distinction between the system operator and the energy supplier. Almost identical names and look-alike branding give consumers the impression that they are dealing with one and the same firm. It is essential for the part of an energy bill that relates to the non-monopoly business operations to be clearly and transparently identified.

> COMPULSORY PRICE INFORMATION

In the interests of reliable price comparisons, gas and electricity companies should be obliged to input price information to the tariff calculator. They should also be required to send their new price lists to E-Control at least two weeks before a price change comes into effect. Only in this way will consumers be able to make informed decisions.

> CONSUMPTION INFORMATION

In some grid zones meters are only read every few years. If the system operator's demand estimate is too low this can ultimately lead to serious payment difficulties, and prevent consumers from reacting in good time to high demand. Information on actual consumption is crucial to energy efficient behaviour. Such information should be provided on a quarterly basis, at the least.

> Competition



Fair competition
from the start



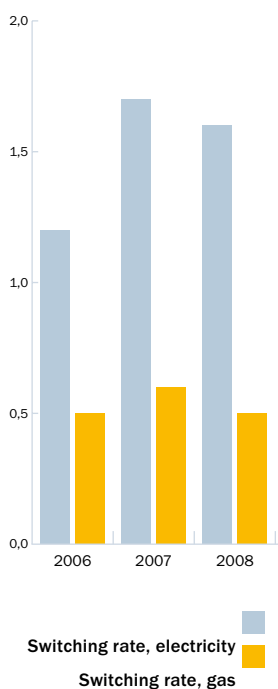
And let the best man win!

E-Control advocates fair competition, so as to maximise the number of suppliers, reward new ideas and give consumers a choice.

E-Control and competition

The Austrian gas and electricity markets stand out for high levels of public ownership, close links between suppliers and low levels of advertising. Consumers pay little attention to gas and electricity, and switching rates are low. In short, competition has been slow to take off in the Austrian gas and electricity markets.

**Switching rates,
gas and electricity (%)**



Source: E-Control

However, the massive increases in energy prices in the autumn of 2008 have thrown the benefits of competition into stark relief. While they were forced to swallow price increases under the old monopoly system, consumers can now put pressure on energy suppliers by switching. And switching in response to price increases is paying off more than ever, especially for gas customers. During the autumn of 2008 gas switchers could save up to EUR 215 per year – the largest amount since 2002.

Competition is still in its early stages. Low churn rates, the small number of suppliers, limited advertising activities, price increases and slow moving markets all point to a lack of competitive intensity, all of this reinforcing the market power of local incumbents.

On the demand side, E-Control's main task is to create greater transparency and to convince end consumers that by switching they can achieve cost savings without sacrificing service quality – because switching does not involve a change in the system operator, which is responsible for security of supply. In the long term competition will only be sustainable if consumers use their market power. E-Control's information policy, data provided by the tariff calculator and the price monitor, and problem solving by the arbitration panel are all useful tools for achieving this objective.

On the supply side, barriers to market entry for new suppliers, which push up costs and make competing unprofitable, need to be removed. Entry barriers include inadequate information exchanges between system operators and suppliers, and inadequate access to transmission and storage capacity on the gas market. The market rules are designed to provide a framework for market entry and create the necessary conditions for fair competition, and that is precisely why they should be continuously improved.



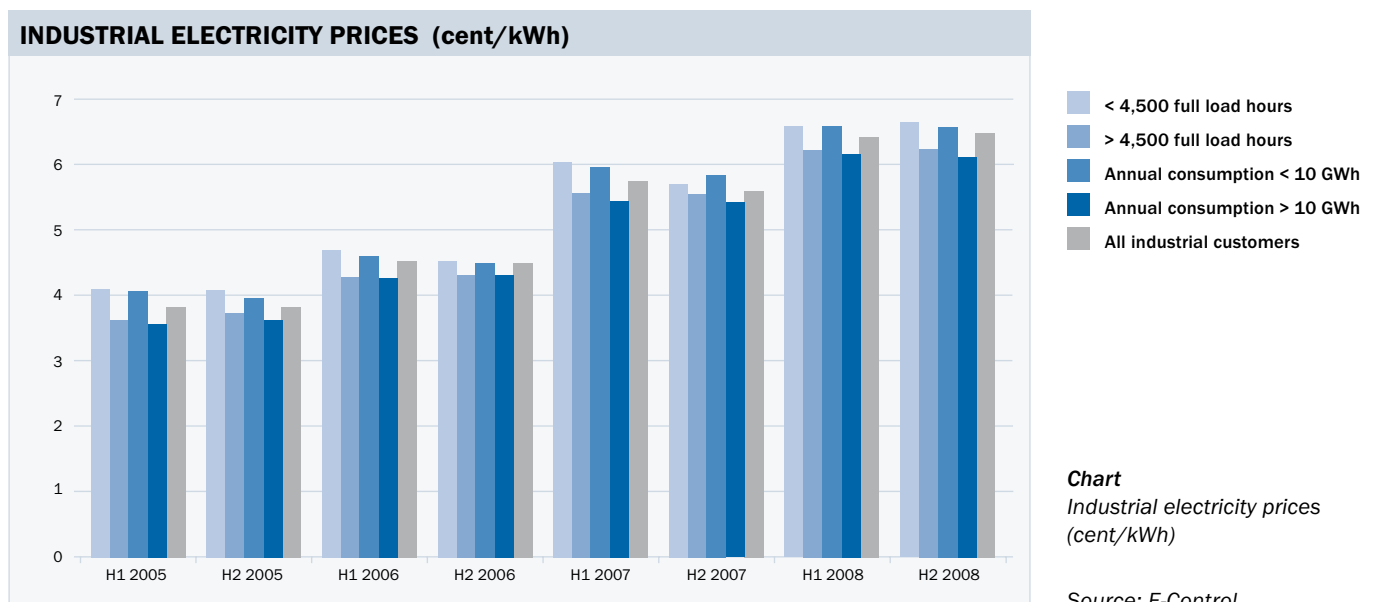
A clearer view for consumers – through more market and price transparency.

The tariff calculator gives small consumers quick and easy access to price comparisons for a number of suppliers. This is far easier than with many other products, such as mobile phones.

Since 2003 we have been surveying the energy prices paid by Austrian industrial consumers directly, on a biannual basis (January and July) so as to give companies a better idea of their relative costs. The aggregated results are posted on the E-Control homepage. This strengthens the hand of industrial consumers in contract negotiations with suppliers.

Since we also post gas import prices on our website, final consumers can assess their suppliers' purchasing prices.

Information on prices
strengthens end
consumers' position





Because the important thing is not just taking part – we work for fair competition.

We propose the Market Rules and discuss them in depth with the market participants. Even small suppliers that are newcomers to the marketplace have a chance to contribute their ideas. The Market Rules are the sum of the general terms and conditions of the various participants (balancing group representatives and coordinators, system operators and control area managers), the Other Market Rules and – for electricity – the TOR.

SWITCHING PROCESS

Efficient switching processes are the key to functioning competition. In 2008 we launched a package of measures aimed at improving the process of switching suppliers and ensuring that as switching rates rise. Since November 2008 all electricity consumers have had the option of receiving billing data electronically. Besides saving paper, this should also simplify the switching procedure. Although this change should make it easier for electricity suppliers to assist customers looking to switch, as well as streamlining their internal processes, some electricity companies are not making full use of it.

Efficient switching calls
for a central metering point
database

Automation is the key to swift, efficient management of the switching process. A central database for metering point queries – if possible doubling up as a platform for administration of the transfer process – is essential. The option of concluding agreements by telephone or online, as is possible in many other areas of life, is also a must.

LOWER COSTS, GREATER EFFICIENCY

THANKS TO MARKET BASED CONTROL ENERGY PROCUREMENT.

In 2008 E-Control, representatives of the electricity industry and consultants KEMA reached agreement on the creation of a secondary control power market, which is scheduled to start trading in early 2010. Opening the secondary control market will push down prices and improve transparency for all market participants, as well as opening up new opportunities, especially for generators, which will be responsible for providing the secondary control power.

Gas competition initiative – equal rights for all.

In 2005/2006 the Federal Competition Authority (FCA) carried out an Austrian gas industry probe with assistance from E-Control. The main finding was that purchasers are not given fair and non-discriminatory treatment on the gas wholesale market, and that this creates obstacles to the development of functioning markets. Some improvements were subsequently agreed on and found to be working in practice, e.g. with regard to third-party access to transmission pipelines, and development of the short-term market in Baumgarten operated by Central European Gas Hub.

Prompted by the energy price rises in the period up to September 2008, the Competition Commission proposed a drive to overcome barriers to competition in the shape of a gas “competition stimulation package” along the same lines as the electricity programme. We responded by mounting a “gas competition initiative” in cooperation with the FCA.

The central issue addressed by the gas competition initiative is overcoming the foreclosure of the Austrian retail market from the international transits through Austria. The aim is to make it easier for international wholesalers, which have access to large quantities of gas via Baumgarten, to enter the Austrian gas market. The proposed measures are aimed at giving gas consumers a wider choice of suppliers by creating a more liquid wholesale market.

**Wholesale markets –
a major barrier to gas
competition**

Further progress towards developing secondary transmission and storage capacity markets, and a liquid market – including a gas exchange – is crucial to intensifying competition. Due to inadequate unbundling compliance by incumbents in some cases, a level playing field for suppliers is still some way off. The incumbents can still find ways of giving preferential treatment to fellow Group companies. E-Control therefore regards the measures contained in the electricity competition stimulation package, such as the code of conduct for integrated companies, factsheets for consumers, and more transparent information materials and bills, as equally essential for the gas market.

Non-discriminatory access to transmission and storage services.

Storage and transmission system access – the key to retail market entry

Access to gas transmission and transit pipelines, and storage facilities is critical to suppliers' ability to serve retail markets, because it permits flexible procurement on wholesale markets. Gas storage facilities make a vital contribution to gas supply reliability – a key competitive factor.

While access to domestic transmission systems is assured by the “backpack” principle (transport capacity is assigned to final consumers, and the same amount of capacity must be provided in the event of a transfer to another supplier), access to transit systems is negotiated by the gas transit system operator and the shipper. In 2008 we at least managed to ensure that this is on the basis of identical terms and conditions. Our responsibility for approving the transit pipeline tariffs and monitoring compliance with the transparency rules (publication of information) have enabled us to achieve an improvement in the access conditions.



photo: OMV



Since most of the capacity on the transit pipelines is allocated under long-term contracts new suppliers can only acquire capacity on a secondary market (via a so-called “bulletin board”). Because of this, non-discriminatory and transparent capacity trading is extremely important. The 2006 amendments to the Natural Gas Act introduced provisions requiring the trading of unused transportation capacity which came into effect on January 1, 2007.¹ Under these, all transportation customers must offer unused committed capacity to third parties via a central trading platform operated by OMV Gas GmbH on its website. E-Control has initiated proceedings against some shippers due to non-compliance with these provisions.

In Austria, storage contracts are freely negotiated between storage operators and users, but are required to meet certain basic conditions. All prospective customers must receive equal treatment. For instance, the prices charged for given services may not be different, and relevant information must be made available to all potential users simultaneously. E-Control can investigate discriminatory treatment by initiating abuse proceedings, and can require the storage operator concerned to desist from such behaviour. The storage operators' obligation to submit storage contracts to E-Control means that we can act as a watchdog against discriminatory behaviour. This is important, because the integrated companies have both storage and wholesale subsidiaries (and the latter are storage customers).

**Working for equal access
to storage capacity**

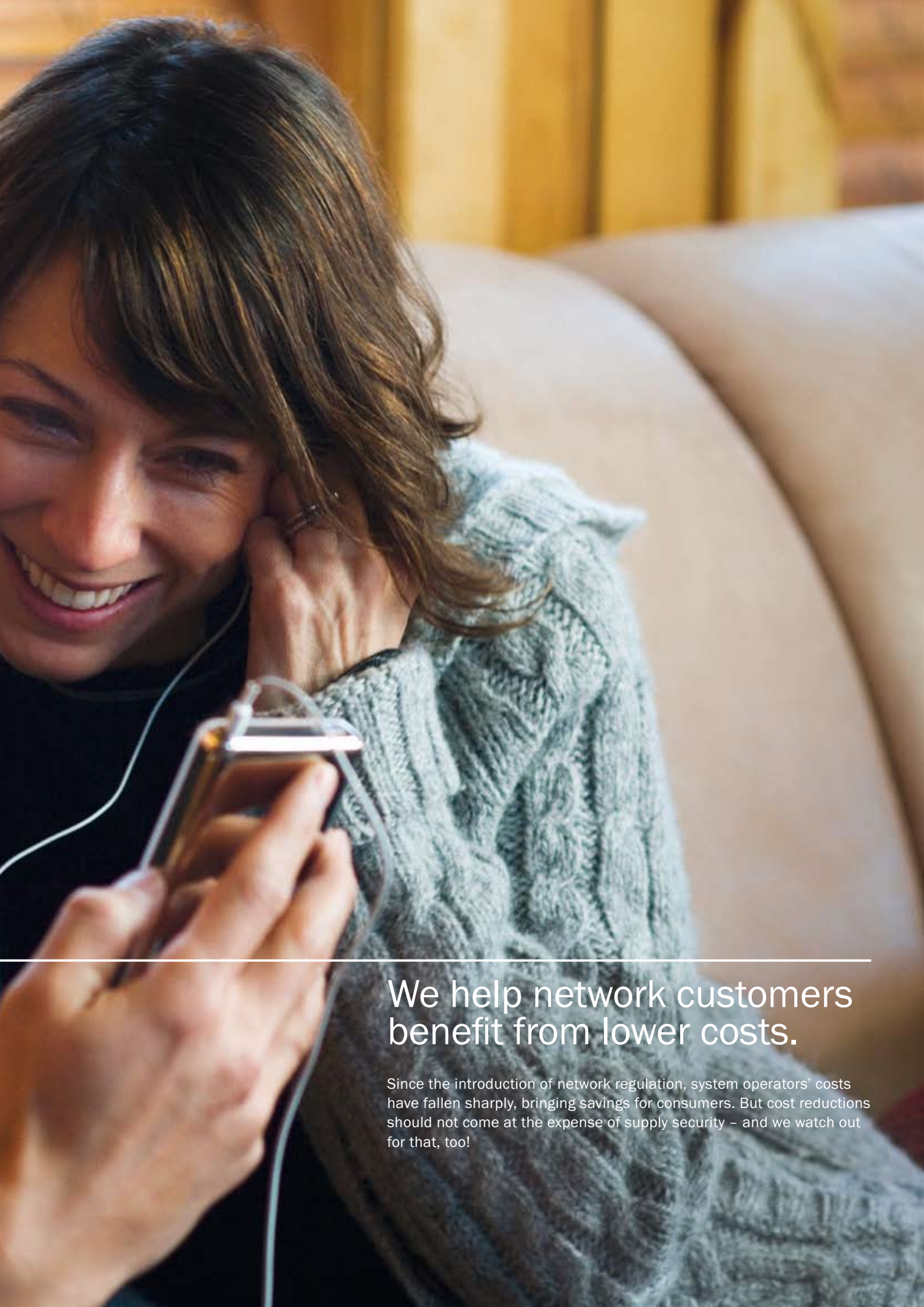
Stronger market oversight pays off – in hard cash.

In 2008 E-Control revamped its armoury of market oversight methods in order to identify competition problems more quickly and efficiently. The public information campaign on gas import price trends and the resultant gross margins mounted in the autumn led to the reversal of some price increases and headed off others before they came into force.

¹ see § 31e Abs 7 Natural Gas Act



Using existing infra-
structure efficiently.



We help network customers benefit from lower costs.

Since the introduction of network regulation, system operators' costs have fallen sharply, bringing savings for consumers. But cost reductions should not come at the expense of supply security – and we watch out for that, too!

E-Control and network regulation.

Incentive regulation is the “magic formula” for maximum efficiency in the use of domestic electricity and gas networks. Austria introduced this methodology for electricity network regulation in 2006, and gas network regulation followed in 2008. The idea behind this approach is to give system operators strong incentives to cut costs and increase efficiency. At the same time consumers profit from lower costs through falling system charges. E-Control also sets the rules for system access.

One of our main tasks is regulating the energy networks, which are a natural monopoly. A natural monopoly arises where a supplier would maintain its monopoly position even if one or more other suppliers entered its market. This may be because one firm can provide a product at lower cost than two or more firms, and hence one supplier, the monopolist, can supply consumers more cheaply. The reason is often high fixed costs (e. g. due to heavy investments in electricity or gas infrastructure) and low variable costs. Regulation is necessary to prevent natural monopolists from abusing their dominant positions. It should stimulate the positive sides of competition by promoting static and dynamic efficiency.

One-stop shop and “backpack” principle ease system access on the gas market

There are different regulation systems for gas transits, and domestic transmission and distribution. Access to the domestic transmission and distribution networks is a “one stop shop”. In other words, end consumers need only one network access agreement, with the local system operator. Transportation via upstream networks is governed by contracts between the various system operators, and by the “backpack” principle. This means that the transportation capacity required to supply the quantity of gas specified by the end-user’s agreement belongs to the customer and cannot be lost in the event of a supplier transfer. The system charges are determined by the E-Control Commission. OMV Gas GmbH coordinates the provision of access to the transit systems. Since the amendment of the Natural Gas Act² in 2006, the methods for calculating the tariffs have been subject to ex ante approval by the E-Control Commission, but in contrast to the charges for domestic transportation they are not laid down by the Commission.

² Forming part of the Energy Security of Supply Act 2006, BGBl. (Federal Law Gazette) I No. 106/2006



Incentive regulation – a system that pays dividends.

Building on the results of cost audits, a stable long-term regulation system based on incentive regulation was introduced in the electricity supply industry in 2006 and the gas supply industry in 2008. To achieve long-term stability, an approach to regulating a natural monopoly must pursue a number of – sometimes conflicting – objectives. These are:

**Incentive regulation
guarantees long-term
planning certainty**

- > Promotion of efficient behaviour on the part of the regulated companies in the interest of optimal economic outcomes;
- > Consumer protection;
- > An assurance of commercial viability and planning certainty for regulated companies;
- > Security of supply;
- > Fair treatment of regulated companies;
- > Minimisation of direct regulation costs;
- > A transparent regulation system;
- > A robust regulation system, accepted by all the stakeholder groups concerned (consumers, employees, owners, etc.); and
- > Legal robustness.



For an enterprise to behave in a productively efficient manner, i. e. to strive to produce at minimum cost, it must be rewarded for these efforts, at least for a certain period, during which an inefficient situation in allocational terms must be tolerated.

However, excessive allocational inefficiency may conflict with the protection of consumers, jeopardising support for the system. On the other hand, ex post intervention in the regulatory regime to claw back profits that are felt to be unreasonable would conflict with the incentive to strive for productive efficiency. All forms of regulatory activity must ensure that regulated companies have adequate resources to remain financially viable. Pursuing this objective may conflict with productive efficiency by blunting the most effective sanction of a market economy, namely, the possibility of a company's being driven off the market. A regulatory regime needs to be transparent to gain the support of regulated companies and consumers. This depends on disclosure of the basis on which decisions are taken in a clear and comprehensible manner. Transparency is intimately related to planning certainty, as the regulatory framework must be known to the regulated undertakings in advance.

Rewarding efficient system operators

Fairness to regulated companies means avoiding giving preferential treatment to some in comparison to others. Where regulation is based on annual cost audits it imposes considerable expense on both regulated companies and the regulator. In the interests of minimising direct regulation costs, longer intervals between cost audits are therefore desirable. Between audits, tariffs should be subject to price formation rules based on parameters that are known in advance. However, it is important to ensure that these pricing rules do not diverge too far from the cost trends from which they are derived, and the gaps between audits should thus not be too large.

Incentive regulation in the electricity industry.

The incentive regulation system for the electricity industry was introduced by the SNT-VO 2006 (System Charges Order 2006) on January 1, 2006; the order is amended on an annual basis. The first regulation period runs until December 31, 2009, and therefore again required extensive activities in 2008.

The System Charges Order 2006 (Amendment) Order 2009 contains a number of measures that make an important contribution to non-discriminatory treatment of market participants,

and thus to fair cost burden sharing between electricity withdrawers and injectors. These include an obligation on the part of generators to bear the cost of system losses on a pro rata basis, and the abolition of the exemption for pumped storage generating stations from system charges.

To prepare the way for the transition to the second four-year regulation period on January 1, 2010 we held frequent meetings with the VEÖ (Association of Austrian Electricity Companies) during the year. A central issue was striking the right balance between relieving the cost burden on consumers and ensuring that electricity system operators continue to invest. Intensive discussions on the implementation of the second regulation period will continue throughout 2009.

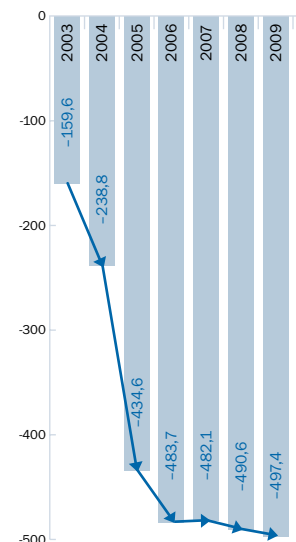
Incentive regulation in the gas industry.

The incentive regulation system for the determination of the gas system charges was launched on February 1, 2008, replacing the previous annual tariff review procedures. The system provides a fair basis for tariff determination and takes full account of the special requirements of the gas industry. It is aimed at a further reduction in the system charges, but also at rewarding system operators for productivity gains and ensuring that they invest in infrastructure. For an industry that must look so far ahead and has such a long investment cycle, planning, investment and legal security are indispensable, and this is reflected in the regulation system. At the same time it takes account of consumers' interest in efficient, affordable supplies.

The system charges are determined on an annual basis, in accordance with productivity offsets, determined in advance, which depend on individual system operators' efficiency. These offsets range between 1.95 and 4.85 percent per year, and apply to the first, five-year regulation period. The new tariff determination methodology is designed to bring the least efficient companies up to the level of the most efficient ones within ten years. The system will be reviewed after five years, and a second regulation period lasting until 2017 is planned.

In order to ensure that the necessary investments in gas pipelines are made, an investment and operating cost factor was arrived at in consultation with the system operators.

Cumulative reduction in electricity system charges in EUR m



Source: E-Control

> Security of supply



Working for security
of supply.



We want to make sure that Austria's energy suppliers look after their eight million strong family.

Maintaining electricity and gas supply security calls for good teamwork between all concerned. E-Control oversees and coordinates this cooperation – in emergencies, too.

E-Control and security of supply.

To keep Austria running, reliable electricity and gas supplies are needed around the clock. This depends on rectifying technical failures quickly, replacing supplies lost to outages by energy from other sources, and acting to open up future supplies.

E-Control has a wide range of responsibilities in connection with security of supply. We carry out annual reviews of the status of supply security. The Energielenkungsdaten-Verordnung (Energy Intervention Data Order) involves E-Control in emergency response mechanisms.

The long-term dimension of supply security feeds into the consideration given to investment incentives in the tariff determination process, and our role in approving or advising on new infrastructure projects designed to ensure that electricity and gas will keep flowing in the future.

The long-term plans drawn up by Austrian Gas Grid Management AG (AGGM) – the control area manager for the Eastern control area – must be approved by the E-Control Commission. Our planning function in the electricity industry is merely advisory.

Keeping Austria near the top of the European electricity supply quality table.

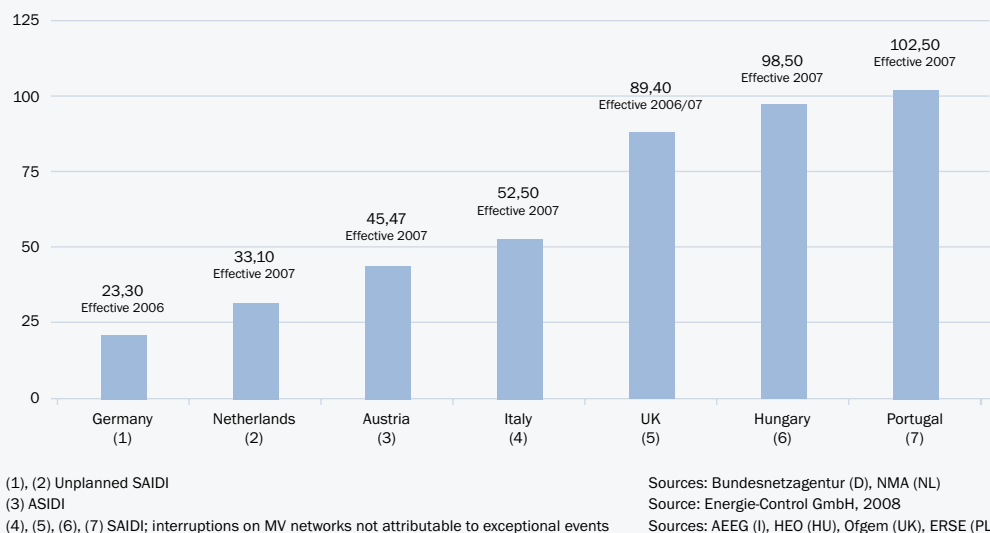
Austrian electricity supplies among the most reliable in Europe

The E-Control failure and outage statistics published in 2008 – the figures have been compiled since 2002, under the Electricity Statistics Order – again demonstrate the high quality and reliability of Austrian power supplies. Standards in Austria are among the highest in Europe. Despite some weather patterns, such as winter storms, that influenced supply reliability last year, the E-Control outage statistics show a significant improvement on 2006. It will certainly be necessary to keep the increasingly frequent weather events under observation, so as to reach precise conclusions on their impact on reliability.

As before, Austria scored well in the latest European ranking of annual electricity supply non-availability rates. Non-availability was down from 48.07 to 45.47 minutes in 2007. In previous years it ranged between 30.33 and 48.07 minutes.



ANNUAL NON-AVAILABILITY OF ELECTRICITY SUPPLY (IN MINUTES) IN SELECTED EUROPEAN COUNTRIES



Chart

Annual non-availability of electricity supplies on medium voltage networks in selected European countries (Austria: excluding outages caused by Hurricane Kyrill in January 2007).

Source: E-Control

What happens today decides whether we have enough energy tomorrow.

In the electricity sector EUR 4 bn of investment in 6,441 MW of conventional generating capacity are planned for the period up to 2016. Of these, two-thirds concern thermal and one-third hydro power generating stations; no major power station closures are anticipated. A further 1,300 MW of wind and biomass capacity is likely to be built. If all of these projects are implemented, Austria will have a total of 26,810 MW of generating capacity in place by 2016, compared to a peak demand of about 12,200 MW. We therefore do not expect any supply shortages over the next decade. However, if this situation is to persist, approval procedures will need to be streamlined and speeded up. The promoters of many of the projects that have been announced have not yet submitted applications for the necessary approvals. Particularly in the case of large projects like hydro power stations, implementation and timing are thus uncertain.

E-Control Commission approves cost of gas network development

More muscle for networks.

By law, the control area managers are responsible for load frequency (electricity) and pressure (gas) control in their control areas, and thus for maintaining network stability, as well as for drawing up long-term infrastructure development plans. These plans are aimed at ensuring that network capacity is sufficient to meet the demand for transport capacity to supply end consumers, cope with emergencies, and maintain a high level of system availability (adequate infrastructure to maintain security of supply). Under section 22a Electricity Industry and Organisation Act the responsibility for approving the control area managers' long-term plans lies with the Ministry of Economics and Labour. E-Control is required to provide expert opinions on the plans. So far, our assessments of all of the control area managers' long-term plans have been positive.

The E-Control Commission is responsible for approving the long-term plans for the gas sector. Following a multi-year planning phase during which various options were investigated, and the conclusion of multilateral contracts, a supraregional development programme, based on the long-term plan prepared by the control area manager for the Eastern control area, AGGM, is now in place. In all, some 400 km of new pipelines will be laid. The three system operators concerned will be investing some EUR 450 m in these infrastructure projects. The expansion schemes will eliminate the main bottlenecks in Lower Austria and Styria, and meet the long-term growth in demand for transmission capacity. The development projects on the southward route, scheduled for completion in September 2011 will mean that the recently approved Mellach gas-fired power station is assured of adequate supplies.

All the market participants have a legal duty to participate in the preparation of long-term plans. The execution of electricity and gas transmission network development projects, based on the long-term plans approved by the regulator, is the responsibility of the system operators.

Learning from the gas crisis.

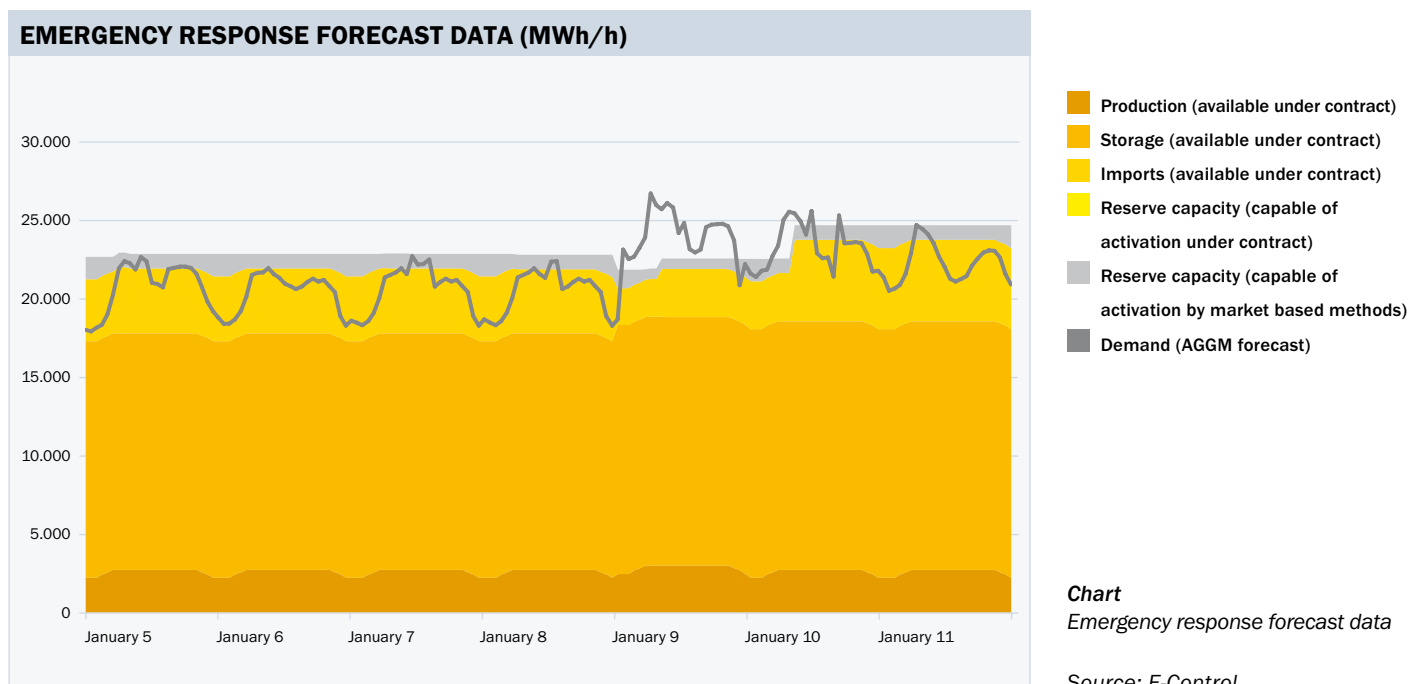
However effective infrastructure development programmes are, they cannot prevent short-term supply disruptions, and these shortfalls have to be overcome. At the beginning of 2006 there were brief gas supply interruptions due to a dispute between Gazprom and Ukrainian gas company Naftogas. Ukraine is the main transit country for Russian deliveries to Austrian gas wholesalers. Since this disruption – which was shortlived and had no influence



on end consumers' gas supplies in Austria – E-Control, the Ministry of Economics and Labour, and market participants have been working to improve the country's crisis prevention and emergency response arrangements. Following close cooperation with system operators and other market participants, the preparatory work related to our statutory emergency response duties was completed in 2008, and we presented the results to the other authorities involved.

As part of our crisis monitoring function, we have further extended our gas market analysis activities. E-Control collects current data and short-term forecasts from all market participants in order to assess whether supply security is at risk. Unforeseen developments at the beginning of 2008, including another round of price negotiations between Russia and Ukraine, and a technical problem with a transit pipeline, showed that it was possible to form a relatively accurate assessment of the potential effects on gas supplies, but that existing processes did not deliver data quickly enough to model these impacts. To overcome this problem, a scenario run was added to the existing weekly supply and demand balance forecast. This makes it possible to respond very rapidly to changes in market conditions.

E-Control's crisis management has shown its worth



These scenario runs were tested for the first time during a crisis exercise, and showed themselves to be reliable enough for an initial assessment of the situation. The first E-Control crisis practice was held as part of a larger exercise staged by OMV Gas in November 2008 – the first to be based on a simulation of a crisis as defined by the Energielenkungsgesetz (Energy Intervention Powers Act).

Preparing for the worst

A dispute again broke out between Gazprom and Naftogas towards the end of 2008, and escalated into a complete halt to Russian supplies via the Ukrainian transit route in January 2009. Thanks to the extensive preparations made and the crisis exercises, the situation did not escalate into gas cuts for Austrian consumers.

2008 also saw the completion of the emergency preparedness planning for the electricity sector, carried out in cooperation with system operators and other market participants – a process initiated in 2003. The outcomes were communicated to the other authorities responsible. An important aspect of these activities is the fact that – as the dispute between Gazprom and Naftogas showed – the gas and electricity supply situations are closely interrelated. Monitoring and evaluation of the electricity supply situation thus needs to focus strongly on gas-fired generating stations. Real-life experience during the gas crisis demonstrated the quality of the emergency response planning.

E-CONTROL'S INTERACTIONS WITH OTHER EMERGENCY RESPONSE ORGANISATIONS

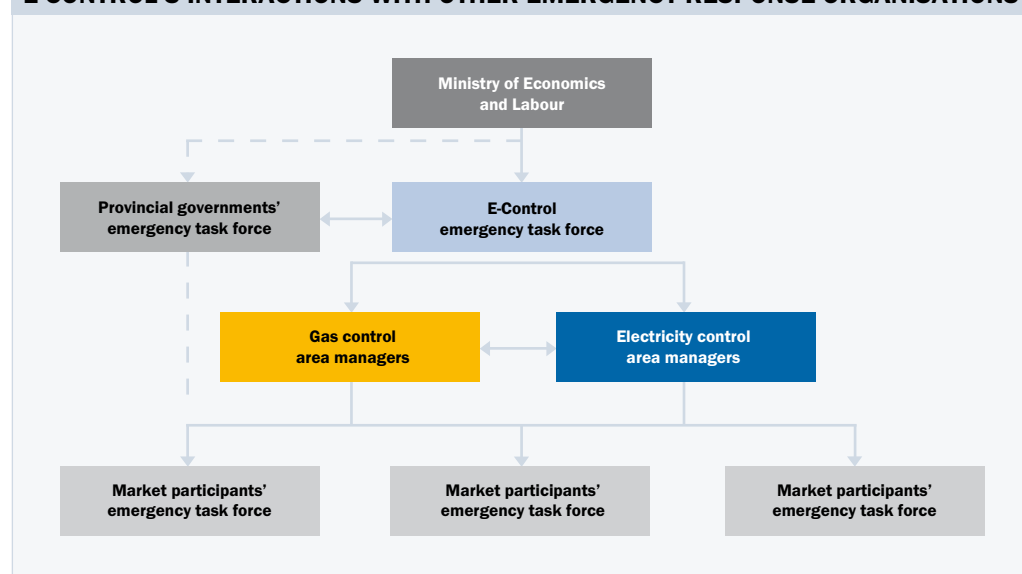
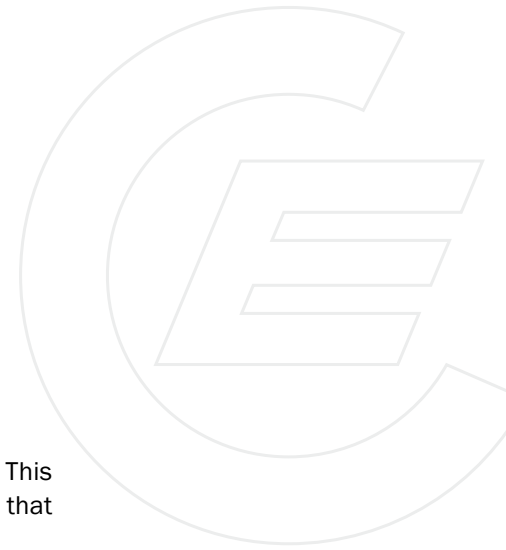


Chart
E-Control's role in the emergency response system

Source: E-Control



Security of supply for coming generations.

One of the key goals of regulation is long-term electricity and gas supply security. This depends on a stable, incentive-based regulatory framework for new infrastructure that supports the diversification of transport routes and sources of supply.

THE TIME TO INVEST IN TRANSPORTATION INFRASTRUCTURE IS NOW.

Section 19a(2) 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 depends on the approval of the projects concerned by the E-Control Commission as part of the long-term planning process for which the control area manager is responsible. This procedure assures system operators of regulated tariffs adequate to finance their investments, and means that system operators and end consumers can rely on projects' being implemented.

Planning certainty

The expenditure is taken into account on the basis of the scheduled commissioning dates of the assets, ensuring that the system operators concerned have a legal assurance of adequate returns on their investment. Because of the exceptional importance of the projects set out in the long-term plan, the E-Control Commission has also decided to recognise reasonable additional operating costs that are clearly attributable to these schemes during the five-year regulation period. These financial arrangements give the system operators a sufficient incentive to conclude network development agreements with control area managers. The regulatory framework thus promotes both long-term security of supply and cost-effective network development. The first scheme for which such network development agreements have been made is the "V3 + West" option in the 2007 feasibility study, which was approved as part of the 2007 long-term plan. This project is necessary because of the go-ahead for construction of the Mellach power station.

Cost-efficient network development

In the case of transit pipelines the incentive to invest consists in compensation for a reasonable level of risk and a reasonable return on capital in international terms. Baumgarten-Oberkappel Gasleitungsgesellschaft mbH, which markets the capacity of the West Austria Gaspipeline, held an open season tender in June 2008. If demand is found to be sufficient to justify additional transmission capacity the tariff based on the approved calculation method will be applied – an indication that the tariff calculation method approved by the E-Control Commission encourages investment in additional capacity.

**Diversifying gas supply
sources – the key to
long-term energy security**

NABUCCO – A NEW TRANSPORT CORRIDOR FOR EUROPE.

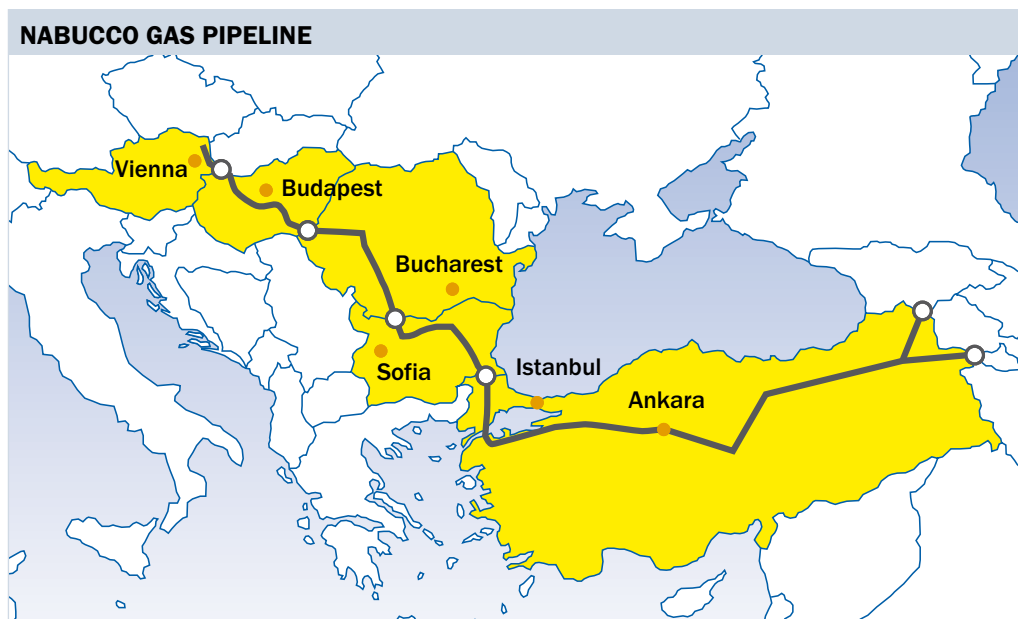
The E-Control Commission's decision to approve the application from Nabucco Gas Pipeline International GmbH for a partial exemption from regulation made it the first of the five regulatory authorities concerned to take a decision on the matter. The exemption notice for the planned Nabucco pipeline has created the necessary investment certainty. E-Control regards network development based on the Nabucco pipeline as the key to the diversification of the supply sources and transport routes on which the Austrian and European gas markets depend. Acquiring new supply sources is crucial to Europe's long-term gas supply security, as in future gas production and the remaining reserves will increasingly be concentrated in regions outside the EU. Tapping new gas supply sources in the Caspian, the Middle East and North Africa by developing transportation infrastructure based on the Nabucco pipeline could thus be crucial to Europe's long-term security of supply.

Access to a gas transit pipeline running through countries with a uniform legal framework, and the possibility of using Nabucco as an alternative transport route for deliveries made under existing supply contracts would increase security of supply in Europe, as well as creating a sound basis for financing the project and ensuring that it pays its way.

Nabucco Gas Pipeline International GmbH has been given a long-term guarantee of a stable regulatory framework for this new pipeline from eastern Turkey to Baumgarten in Austria, in order to ensure that it is able to raise the EUR 8 bn required to finance the project.

Commissioning of the first phase of the project, scheduled for 2013, will link the large natural gas reserves in the Caspian, the Middle East and North Africa with European markets. The new pipeline, with an annual capacity rising to 30 bn cu m on completion, will pass through the territory of the five Nabucco partner countries – Turkey, Bulgaria, Romania, Hungary and Austria – on its way to the Baumgarten gas hub in Austria. The entire capacity of the pipeline is to be marketed by Vienna-based Nabucco Gas Pipeline International GmbH. The company is a joint venture in which Turkish transmission company Botas, Bulgarian pipeline operator Bulgargaz, Romanian pipeline operator Transgaz S.A., Hungary's MOL and OMV Gas International GmbH are equal partners.

In order to harmonise its ruling with those of the other regulators along the route of the Nabucco pipeline, the E-Control Commission made its decision in close consultation with the regulatory authorities in Bulgaria, Hungary, Romania and Turkey.



Length: 3,300 km
Investment cost: EUR 7.9 m
Capacity: 31 bn cu m/y after the planned expansions

Source: Nabucco Gas Pipeline International GmbH

TAUERNGASLEITUNG (TGL) AND STORAGE PROJECT.

All other options for diversification of Austria's supply channels should also be investigated, and E-Control supports the projects concerned. We see construction of the Tauerngasleitung (TGL) and a link from it to the LNG terminal on the island of Krk, off the Croatian coast as important steps towards improved network integration, from which Austria can only benefit. E-Control also backs the construction of an additional storage facility, as such projects are important to security of supply, given the limited supply options open to Austria as a result of its geographical location.

Speaking with a single European voice on supply security forecasting.

The European energy regulators' Electricity Security of Supply Task Force, which is chaired by E-Control, has begun collaborating with the European Transmission System Operators (ETSO) on a comprehensive ten-year system adequacy forecast for the entire EU electricity sector, due for completion in mid-2010. The forecast should provide a useful basis for decisions by market participants and investors.



Use energy efficiently
and you're heading
in the right direction.



And the right direction is
sustainability.

E-Control's approach to sustainability focuses on energy efficiency
because energy saving has the biggest impact.

E-Control and sustainability

Efficient and sustainable energy supplies are crucial to the quality of life of future generations. Oil, gas and coal are finite resources, so we need to be careful how we use them. And that is why we are working for a regulatory framework that promotes efficient resource use.

Sustainable energy supplies depend on reduced energy use and increased use of new technologies. Merely pouring money into green electricity generation is pointless if the output gains cannot keep up with rampant energy demand growth. Cutting energy demand will be a much tougher task than handing out subsidies for renewables, since energy is the lifeblood of every sector of the economy. That is why an increased emphasis on energy efficiency programmes is essential.

Moving fast to improve energy efficiency – because every day counts.

**Without a massive boost
to efficiency none of our
energy goals are achievable**

The economic growth of the past few decades, and the related gains in income and welfare have had a massive impact on energy use. Austrian energy consumption has risen by 36 % since 1990, while CO₂ emissions have climbed by 15 % over the same period. Meanwhile increased use of renewable energy sources has made up for only 27 % of the effects of energy demand growth on emissions. These trends run counter to international policy goals such as those of Kyoto or the latest draft EU directive. Hitting these targets will demand a huge increase in energy efficiency at national level.

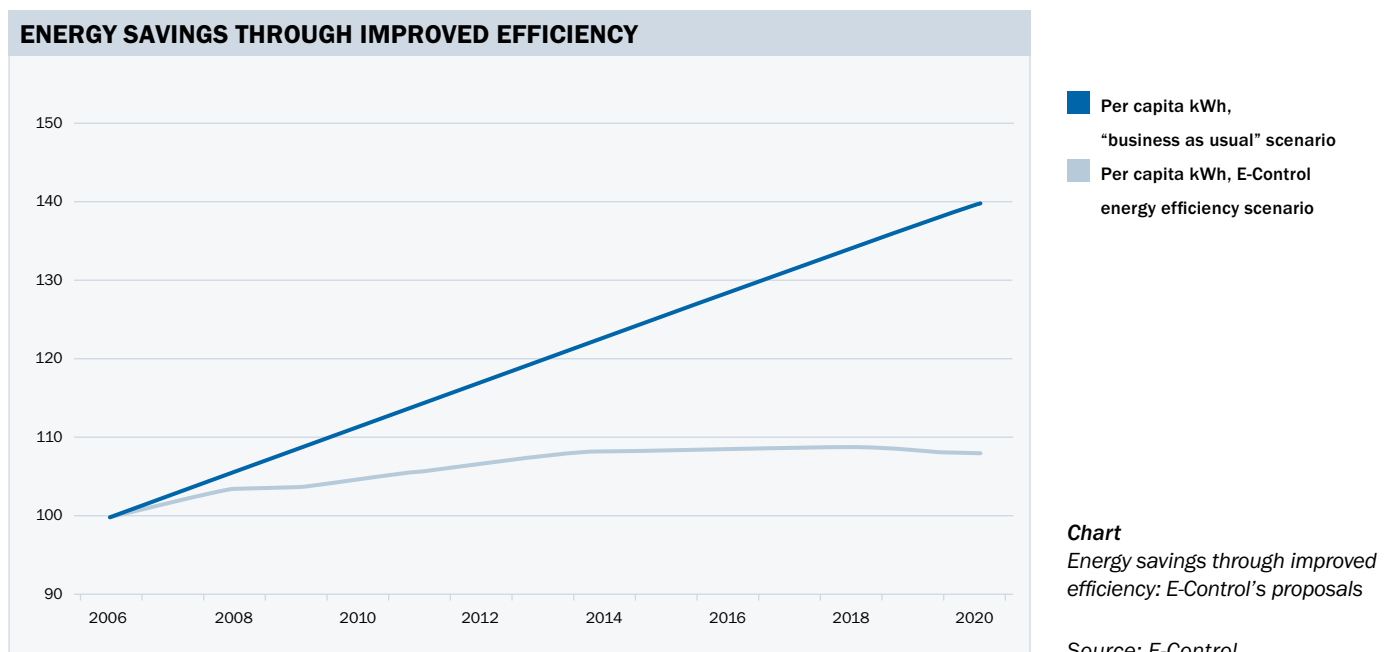
E-Control began working on pinpointing the most effective policies for increasing energy efficiency and mechanisms for monitoring progress in January 2008. After collecting and analysing energy consumption data, we launched an energy efficiency initiative. This brings together leading experts in the focus fields and sectors in working groups. Policy recommendations are made on the basis of the information gathered and assessed by these groups. As an impartial and independent discussion partner, E-Control helps lay the basis for informed decisions by government and industry on action to improve energy efficiency in Austria.



In order to coordinate existing efforts to identify potential efficiencies at national level and wider liaison, E-Control was mandated with drawing up a green paper on energy efficiency by a cabinet decision of January 23, 2008. The process of preparing this policy document was accompanied by a public consultation. Major issues addressed by the green paper were discussed with interested organisations, associations, the social partners, companies and others, and the responses incorporated in the text. The final version of the green paper, unveiled on October 13, 2008, includes proposals for policies and implementation mechanisms aimed at increasing energy efficiency over the period up to 2020.

E-Control tasked by the federal government with drawing up a green paper on energy efficiency

The report contains 22 core energy efficiency measures and policy instruments tailored to given sectors. It is estimated that implementation of the proposals would reduce energy consumption by 23 % or 252 PJ up to 2020, as compared to the baseline trend.

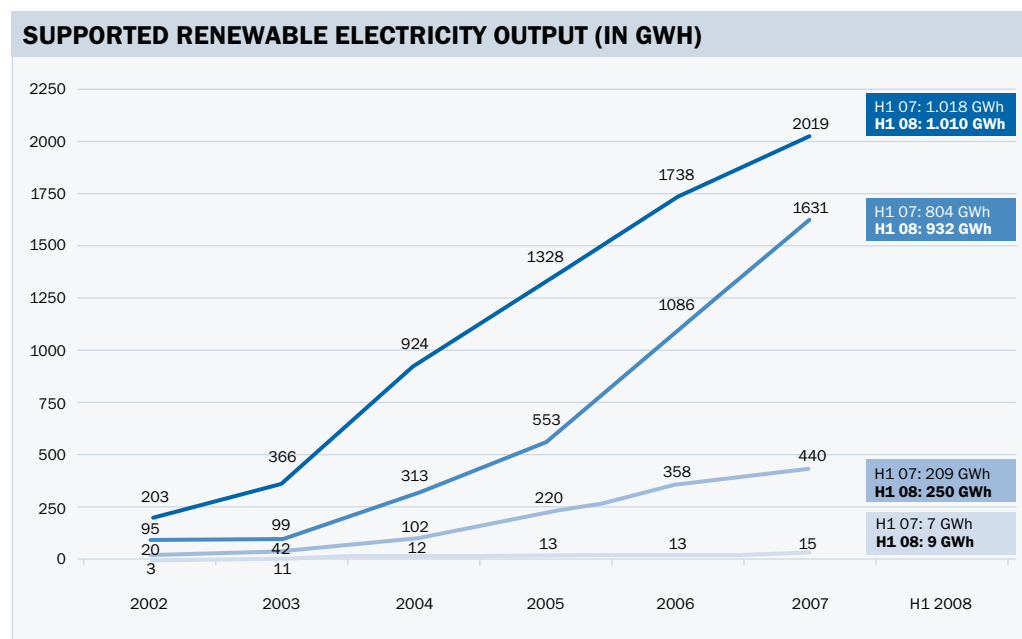


Independent watchdog to oversee implementation

The policies need to be carefully focused to avoid “legislation overload”. It therefore makes sense to mandate a disinterested, nonpartisan agency with drawing up energy efficiency measures in a systematic and coordinated fashion. If adopted, the proposals would give rise to a number of tasks that could be carried out by a central body. These include: the development of standard requirements for energy bills (energy consumption information, benchmarks and indicators), energy advice services (quality criteria, scope, etc.) and complex benchmarking systems; the establishment of targets, and incentive and sanction mechanisms; standardised appliance labelling; the development of standardising energy accounting and management systems; and the operation of a central point of contact for energy consumption data, monitoring and auditing.

Chart
Supported renewable electricity output by technologies, excluding hydro power, 2002–H1 2008

Source: E-Control





Smart metering – the key to informed choices.

The past few years have seen major advances in metering technology, driven by new developments in IT. These have opened the way for a move from conventional Ferraris disc meters to digital, remotely readable “smart meters”. These devices provide end users with precise information on their consumption behaviour, and thus enable them to change it. E-Control welcomes this progress, and has therefore decided to include intelligent, digital, remotely readable electricity meters in the System Charges (Amendment) Order 2009.

Following intensive discussions with the industry, in autumn 2008 we drew up a minimum performance specification to serve as a blueprint for the nationwide introduction of standardised smart meters. This would not only benefit system operators but would also bring significant improvements for electricity suppliers and service providers (more precise recording of consumers’ energy use, customised services featuring dynamic pricing based on current market prices, and peak load and energy management services), as well as consumers (energy savings).

Our recommendation – efficient subsidies for renewable energy.

The Ökostromgesetz-Novelle 2008 (Green Electricity [Amendment] Act 2008) paved the way for continued financial support for renewable electricity and redetermination of the injection tariffs, and extended the guaranteed support period to up to 20 years from plant commissioning. We believe that these statutory support mechanisms should be used sparingly. The aim cannot be to invest in more new renewable generating stations that will need both special top-up payments to compensate operators for higher feedstock prices and further increases in subsidies in a few years time.

The new legislation gets its priorities right. Hydro power stations need only modest, one-time subsidies in the form of investment grants. Wind power also requires lower subsidies than the costly feedstock dependent facilities, provided that the sites are chosen sensibly. New biomass plants could pose similar problems to those encountered with today’s biogas plants, which run on foodstuffs and animal feed. Unlimited subsidies lead to plants that depend on heavy subsidies throughout their operating life, and would be shut down if the money stopped.

Hydro and wind have the most potential

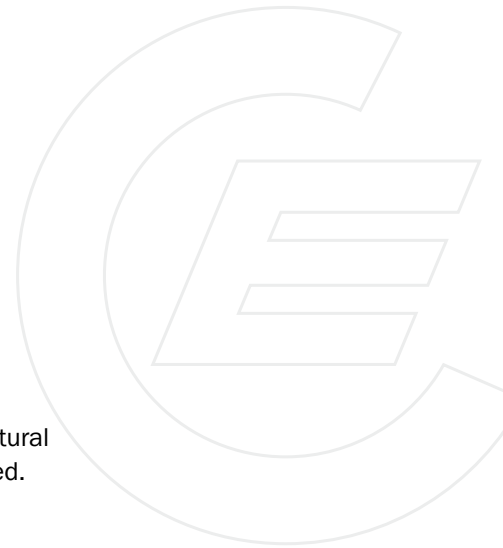
**EUR 2 bn more
for green power**

The support payments to renewable generating stations built since 2002 will add up to EUR 3 bn (cumulative amount over the guaranteed injection tariff period). The Green Electricity (Amendment) Act 2008 will add another EUR 2 bn to this total. These subsidies will be needed to finance the new renewable generating capacity due to be commissioned between 2009 – 2014 for periods of up to 20 years. It should be remembered that these are large sums for domestic and industrial electricity consumers to come up with, and the money should therefore be put to the best possible use.

Subsidies under the Green Electricity Act currently add an annual EUR 35 to the average household's electricity bills. The extra cost burden due to the higher prices of household products caused by the increased cost of the power used to make them is roughly the same again. The Green Electricity (Amendment) Act will put up the direct cost of renewable electricity by another EUR 10 per year.

While the fact that this money goes to expanding renewable electricity generation is laudable as such, without a clear set of priorities it will not be well spent. New power generation and energy conversion technologies need to be carefully evaluated in terms of their commercial





maturity and development potential. Where they employ inputs such as wood or agricultural products the test should be whether this is the best use of the raw materials concerned.

OTHER ACTION TO IMPROVE THE GREEN POWER SUPPORT SYSTEM.

Since October 2008 an amendment to the market rules has made it possible to allocate renewable electricity to market participants on weekends and public holidays. This has resulted in considerable reductions in balancing energy costs by permitting much more accurate adjustment to swings in the output of the unpredictable forms of renewable generation such as wind power, benefiting market participants, green power plant operators and consumers alike.

In 2008 we expanded the electricity certificate database to cover most electricity generation, and it is now being successfully used both for certificates and for power labelling, bringing advantages for all concerned.

AS FLEXIBLE AS LIFE ITSELF – THE NEW GREEN POWER ALLOCATION SYSTEM.

Daily renewable electricity allocation, enabling adjustments to variations in balancing power needs and deviations from forecasts to be made on weekends and national holidays, has saved millions in balancing energy costs since its introduction in October 2008.

The necessary amendments to the market rules were made after extensive discussions with market participants. Like renewable generating station operators and consumers, market participants will benefit from this change, due to lower balancing costs and reduced risk.

CUTTING SMALL RENEWABLE PLANT OPERATORS' COSTS BENEFITS THE ENVIRONMENT, TOO.

All generating stations with a capacity of over 1 MW were previously required to pay system services charges. Now, raising the threshold from 1 MW to 5 MW has significantly reduced renewable generators' costs. At this level 98 % of all green power plants are exempt from the system services and system loss charges. Only a few large wind parks, biomass plants and hydro power stations – mostly owned by large electricity suppliers – are still obliged to pay.

Lower costs for small, decentralised renewable generating stations

Contrary to the allegations of the green power lobby, which claims that E-Control advocates higher charges for renewable generators, the disappearance of the system services charges saves a small hydro station with a capacity of 3 MW over EUR 10,000 a year.

Abfahrt/Departure

14:10

Bruessel

Athen

Florenz

Madrid

London

Sofia

13:40

Kiew

Bukarest

Paris

Berlin

Working for
international integration.



Energy supplies know no frontiers.

Every energy market has its own strengths and weaknesses due to its geographical location and resource situation – and each can profit from market integration.

E-Control and market integration.

Increased market integration is one of our main strategic goals. The advantages include improved security of supply, better access to upstream markets, and greater convergence of retail prices — an important factor in removing locational disadvantages for businesses.

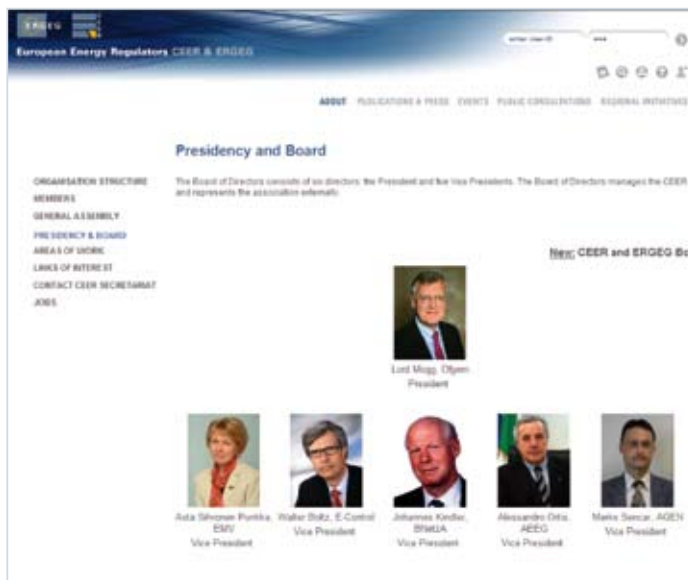
In the gas industry, market integration is an important means of improving access to supplies and storage capacity, thereby strengthening competition. The effects of the problems with Russian gas deliveries at the beginning of 2009 were an illustration of what close integration can do for security of supply. Countries like Austria, with relatively highly developed markets and sufficient interconnections with neighbouring countries were able to shield consumers from the crisis. Countries with largely monopolistic supply structures, such as Bulgaria, Hungary or Slovakia, were hard hit.

Our statutory duties include participating in international cooperation aimed at further progress towards a single European energy market. E-Control assists the European Commission in its efforts to create the conditions for increased market integration. This responsibility is principally fulfilled by playing an active part in the work of the Council of European Energy Regulators (CEER) and the European Regulators' Group for Electricity and Gas (ERGEG), which advise the European Commission. The main task of the CEER is to prepare work for ERGEG – a consultative body set up by the Commission.

**E-Control –
Austria's voice in Europe**

E-Control also cooperates with other regulators at regional level, through the electricity and gas Regional Initiatives. The outcomes of CEER and ERGEG work programmes are mostly position papers or guidelines of good practice (GGP). These are usually not directly legally binding, but compliance with the GGPs can be monitored, and it is relatively easy to convert elements of them into binding regulations.

Our active involvement in these organisations, and their working groups and task forces ensures that decisions at European level take account of differences between market conditions in Austria and those in other countries.



Building Europe together – working through the CEER and ERGEG.

EUROPEAN REGULATORS ARE JOINING FORCES.

Working through the CEER, we helped pave the way for the Third Energy Liberalisation Package. This calls for the establishment of an Agency for the Cooperation of Energy Regulators, armed with decision-making powers. Our contribution to developing the new regulatory framework also involves cooperating with the European associations of system operators, through the CEER. These activities are partly based on the annual analyses of the state of the European electricity and gas markets prepared by ERGEG under E-Control's guidance.

**THE ELECTRICITY MARKET.**

We help to shape the future of the European electricity market through E-Control's membership of CEER and ERGEG working groups and task forces. The issues addressed span virtually every area of regulation, including grid connection and access, security of supply, supply quality, congestion management, system losses, balancing markets, and the development of common regional and European regulatory approaches tailored to coming provisions of the Third Package.

In 2007 the European Commission issued a joint mandate to the ERGEG and the Committee of European Securities Regulators (CESR) to deliver technical advice on market oversight and market transparency. E-Control played a leading role in the work on the proposals, which the CESR and ERGEG jointly submitted to the Commission in 2008. Additional detail will be added, and legal and operational implementation will follow in 2009 and thereafter. The proposals are aimed at preventing abuse by closing regulatory loopholes in various market segments.

THE GAS MARKET.

In 2008 E-Control played a key part in ERGEG's work on more efficient operation of existing transmission pipelines, improved access to storage facilities, recommendations for the design of the balancing energy regime, harmonisation of the treatment of Article 22 exemptions and access to LNG infrastructure. These are areas in which ERGEG draws up guidelines of good practice. The information required is generally obtained by surveying the companies concerned and regulators.



Working for market integration at regional level.

EREGG has launched regional initiatives in order to drive progress towards the single European energy market via the interim step of regional markets, and to tackle practical impediments to market integration.

IN THE HEART OF EUROPE – THE EREGG ELECTRICITY REGIONAL INITIATIVE (ERI).

E-Control acts as the coordinator of the Central-East European (CEE) regional electricity market (REM), which comprises Austria, the Czech Republic, Germany, Hungary, Poland, Slovakia and Slovenia. Austria also belongs to the Central-South REM, along with France, Germany, Greece, Italy and Slovenia.

The structure of the Austrian market and grid links the country with Central West (CW) region. The energy ministries of the member countries of this REM (Belgium, France, Germany, Luxembourg and the Netherlands) have initiated the Pentalateral Energy Forum process, which mounts joint regional market integration activities related to congestion management and security of supply forecasting. Since 2007, the Austrian Ministry of Economics and Labour, control area managers and electricity exchange, and E-Control have had observer status at meetings of the Forum.

The REMs to which Austria belongs have similar priorities, namely, congestion management, market transparency and cooperation between wholesale markets. The CEE region also focuses on overcoming barriers to market entry and the harmonisation of regulatory powers.

Cross-border markets as a step towards the single market

Following a wide-ranging public consultation on the detailed requirements for compliance with the EREGG transparency guidelines staged by the CEE REM in 2007, a final report was published in February 2008. Implementation is to be monitored on an ongoing basis.

In 2008 major progress was made towards regional coordination of cross-border congestion management in accordance with Regulation (EC) 1228/2003, which requires load flow-based allocation of capacity at all cross-border interconnection points. During the summer, the operational unit that will perform this task – an auction office based in Freising, near Munich – was set up as a joint subsidiary of the control area managers concerned. The latter first had to obtain competition law clearance to take this step. An external study was commissioned to evaluate the feasibility and advantages of load flow-based allocation procedures. As the study found that this method has clear advantages, the CEE regulators have offered the control area managers their support for further steps towards implementing it (e.g. purchasing software). Plans for the project (see www.ergeg.org) call for the introduction of the system in the autumn of 2009 after extensive trials.

The establishment of a similar auction office in the CSE region is under discussion. During 2008, as a first step towards simplifying cross-border congestion management for market participants, efforts were made to harmonise the rules of the bilateral auctions. As in the CEE REM, a transparency report was drawn up, and a public consultation held, with a view to publication at the beginning of 2009.

Progress on project implementation and coordination between regions so as to achieve consistent results will be the key goals of ERI activities in 2009.

GAS REGIONAL INITIATIVE SSE REGION.

E-Control co-chairs the GRI South South-East (SEE) regional energy market in conjunction with the Italian regulator AEEG. The membership of the SEE REM consists of: Austria, Bulgaria, the Czech Republic, Greece, Hungary, Italy, Poland, Romania, Slovakia and Slovenia.

COOPERATION IN THE SSE REM.

Joint projects integrating markets

Cooperation agreements were the main hallmark of 2008 for the SSE GRI region. In June the national regulatory authorities of nine of the SSE countries (all but Hungary) signed a memorandum of understanding (MoU) committing themselves to closer cooperation. The MoU is intended to facilitate collaboration on information, coordination and harmonisation in the region. This new regulatory network has already been used several times to exchange information and coordinate decisions on Article 22 exemptions. Stepping up cooperation between the SSE regulators has already made a useful contribution to the GRI, and is set to continue to do so. 2008 also saw closer involvement of the Bulgarian and Romanian regulators in the REM's activities.

The SSE REM marked up another achievement in October 2008, when the region's transmission system operators (TSOs) signed an MoU aimed at deepening and institutionalising their cooperation. The TSOs agreed to work together more closely on transparency, capacity allocation at cross-border interconnection points, harmonisation of standards and operational measures. This advance is likely to have a major influence on the activities of the SSE region.

The idea of establishing a Strategic Advisory Panel, consisting of representatives of all the market players (governments, producers, TSOs, storage operators, retailers, wholesalers, hub operators and consumers) to give guidance to the SSE REM was firmed up in the course



of 2008. This step was prompted by the need to involve all the stakeholders more fully in the REM's work, so as to mobilise their support. An important task of the new body will be setting priorities for regional cooperation. The first Strategic Advisory Panel meeting, held in January 2009, discussed the SEE region's work programme.

During the year under review, E-Control and AEEG, which co-chair SEE meetings, succeeded in involving Gazprom Export in the regional initiative's work. Gazprom Export is an industry heavyweight in SSE, as about 90 % of the region's gas is imported from Russia. Gazprom is the main producer and one of the leading shippers in this part of Europe.

The 2009 CEER/ERGEG work programme will centre on moving towards the future European regulatory framework. Close cooperation with Gas Transmission Europe (GTE) will be crucial to progress on this front. One of the main thrusts of the SSE work programme for 2009 will be increased cooperation between TSOs. In 2009 E-Control will continue to play an active role in building the European internal energy market through the CEER, ERGEG and the Gas Regional Initiative.

Developing a regulatory framework for Europe

GRI South South-East

Electricity Regional Initiative (ERI)
Gas Regional Initiative (GRI)
North-West
South, South-East
Biosphere
Public consultations
South
Regional Initiatives Conferences
Progress Reports

PARTICIPATING COUNTRIES

- Austria
- Bulgaria
- Czech Republic
- Greece
- Hungary
- Italy
- Poland
- Romania
- Slovakia
- Slovenia

The South South-East (SSE) ERI is co-chaired by E-Control (Austria) and AEEG (Italy) and apart from these countries Bulgaria, the Czech Republic, Greece, Hungary, Poland, Slovakia, Slovenia and Romania also participate in this gas region. This region contributes significantly to the security of energy supply in the EU, since nearly half of the European transit capacities are transported through the countries of the South-South-East Region, ensuring the proper implementation of the European gas regulation, the timely and effective of the regional market and its problems, as well as transparency and interoperability issues are the main priorities of the SSE ERI.

PRIORITIES IN THE REGION	
Monitoring and regulation implementation	Develop ERI/ERI short-term and long-term procedures (Compliance with Regulation YTT/2007) Single and guidelines of regional, national powers and actions
Survey and analysis of the regional market and its problems	Development of rules and other trading activities in the region Development of the main physical and commercial gas flows Current and expected infrastructure development and its reg. framework Physical case studies (gas transmission) through the region
Transparency	Access to storage Hub services
Interoperability	Gas quality issues Infrastructure interconnection agreements Open-market trading

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Editorial

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