Transmission Unbundling

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Legal basis and purpose of unbundling

**Why?** If a single company operates a transmission network and generates or sells energy at the same time, it may have an incentive to obstruct competitors' access to infrastructure. This prevents fair competition in the market and can lead to higher prices for consumers.

**Therefore:** The primary objective of the unbundling rules is to ensure independence of electricity and gas transmission services from generation, production and supply in order to increase competition in energy markets.
Legal basis and purpose of unbundling

The Third Energy Package (2009)

- Directive 2009/73/EC concerning common rules for the internal market in natural gas
- Directive 2009/72/EC concerning common rules for the internal market in electricity

“Any system for unbundling should be effective in removing any conflict of interests between producers, suppliers and transmission system operators, in order to create incentives for the necessary investments and guarantee the access of new market entrants under a transparent and efficient regulatory regime and should not create an overly onerous regulatory regime for national regulatory authorities.” (para 12 Directive 2009/73/EC)
Unbundling = the separation of energy supply and generation from the operation of transmission networks

-> a person controlling an electricity or gas transmission system must ensure that it is independent from any part of its business that produces gas or generates electricity. This applies across the gas and electricity businesses so that a person controlling an electricity transmission system must ensure that it is independent from gas production.
State of unbundling in the Contracting Parties

- Albania
- Bosnia and Herzegovina
- Kosovo
- Macedonia
- Moldova
- Montenegro
- Serbia
- Ukraine
Unbundling options - Overview

- **Ownership Unbundling**: no supply or production company is allowed to hold a majority share or interfere in the work of a transmission system operator.

- **Independent System Operator**: energy supply companies may still formally own gas or electricity transmission networks but must leave the entire operation, maintenance, and investment in the grid to an independent company.

- **Independent Transmission Operator**: energy supply companies may still own and operate gas or electricity networks but must do so through a subsidiary. All important decisions must be taken independent of the parent company.
1. Ownership Unbundling

TSO owns, manages and operates network independently from generation/production/supply

- No majority shareholding
- No control
- No voting rights
- No right to appoint board members
- Not same board members

-> grants and manages TPA, collects transmission charges, congestion charges, inter-TSO compensation, responsible for investment planning
Rules apply equally to private and public entities:

2 separate public bodies = 2 distinct persons

- Public body able to control both activities if they are not under the common influence of another public body
- Public bodies need to be truly separate

Also across the gas and electricity markets -> prohibiting joint influence over an electricity supplier and a gas TSO or a gas supplier and an electricity TSO
The vertically-integrated company still owns the transmission network, but the technical and commercial operation of the network is carried out by an independent system operator.

- ISO must demonstrate that it has at its disposal the required financial, technical, physical and human resources to carry out its tasks.
- ISO must be independent from supply or production interests (unbundled).
- ISO is in charge of investment planning - network owner obliged to finance investments decided by ISO and approved by the NRA (limited right of ownership!).
- Network owner needs legally and functionally unbundled.
- Significant regulatory involvement (stricter regulation and permanent monitoring).
ISO – pros and cons

Not proven to be a very successful option

• TSO needs to have full control on all systems and asset operation -> interdependent

• Separation of network owner and operator -> no proper incentives for network development and efficient and flexible management

• Network owner needs legally and functionally unbundled

• Significant regulatory involvement
3. Independent Transmission Operator

The ownership of the transmission network remains with the vertically-integrated company but requires the company to comply with a number of rules aimed at ensuring the independence of its supply and generation businesses.

- ITO has all necessary assets and has all necessary resources
- Independence of the ITO regarding corporate services
- own corporate identity to avoid confusion
- Independence of staff and management of ITO for core activities
- Supervisory Board
- Strong say in investment planning
- Management independent as to day-to-day business

Heavy regulation and permanent monitoring by NRA
European experience - Challenges

- **Choice between 3 options**
- **Certification process**
- **Tension between unbundling rules and need to attract (financial) investors for transmission assets**
- **Transposition**
- **Enhances cooperation in the field of transmission and markets**
- **Economies of scale lost**
Thank you for your attention!

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