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Opinion

Title **Impact Assessment for the legislative package on the internal market for electricity and gas**

(draft version 20 June of 2007)

Lead DG **DG TREN**

1) Impact Assessment Board Opinion

(A) Context

In January 2007, the Commission adopted a package of energy measures. Part of the package were two (annual) reports on gas and electricity markets, which included an overview Member State by Member State of the situation on the gas and electricity markets, as well as a set of recommendations. These were then endorsed by the European Council in Spring 2007 and listed in an action plan for energy policy in Europe, where the Council called on the Commission for action.

(B) Positive aspects

The report provides a useful overview of the stakeholders' positions to specific issues analysed in the IA report. The analysis is made on a good representative sample of the Member States.

(C) Main recommendations for improvements:

The recommendations below are listed in order of descending importance. Some more technical comments have been transmitted to the author DG.

General recommendation: The report requires substantial improvement in several key aspects. The baseline scenario, setting out how the problems would develop if no further measures were taken, needs to be included in the IA report. Further analysis should then compare impacts of the proposed actions to this baseline. The IA report should clarify the political context and situate the present initiative with respect to other (existing or planned) policy measures, in particular to the existing objectives related to the climate change policy. The correspondence between policy measures related to unbundling, system operators and regulatory authorities needs to be further developed. When implementing these improvements, particular attention should be given to improving the clarity and readability of the IA report. Most of these recommendations were accepted by DG TREN in the meeting of the Board.

Given these recommendations, the Board invites DG TREN to re-submit a new draft IA for its scrutiny. At the same time the Board offers assistance in modelling the baseline scenario and wider energy/environmental impacts and in assessing employment impacts.

(1) The IA report should clarify the political context and which decisions or positions have already been taken in relation to the proposed new policy measures. The analysis should then focus on the impacts of the various policy options within this political framework.

(2) A baseline scenario needs to be added to the IA report. The baseline should be developed for an appropriate time horizon, so as to capture necessary time lags for full implementation of existing legislation and for the impacts of unbundling (ongoing or already carried out in some MS) on infrastructure investment, the energy sector, energy prices, the environment and on employment.

(3) The IA needs to articulate more clearly the interactions between the main policy blocks (unbundling, co-operation amongst regulators and co-ordination amongst system operators). It needs to be made clear whether these 3 main policy actions can be implemented independently, and, if not, what are the trade-offs and synergies between the blocks and what are the feasible combinations (e.g. degree of unbundling versus extent of regulatory oversight)

(4) Effects on electricity prices need to be further substantiated and impacts on employment and environment analysed. The IA argues that increased competition leads to efficiency gains and thus to a significant drop in electricity prices. However, the corresponding employment and environmental impacts are presented as largely neutral. The IA report should substantiate both claims. Impacts on jobs in the sector and in the economy, including transaction costs needs to be analysed. Impact on emissions of green house gases and of other pollutants due to the likely increase in electricity use, on the one hand, and potentially easier market access for renewable energy producers on the other, should be assessed. Applying a model exercise that would allow for a more detailed assessment of the impacts on energy consumption, energy markets and production structure and the environment would be desirable. (For this point, the Board has offered assistance to DG TREN).

(5) The link between unbundling and investment in infrastructure needs to be clarified. The comparison of the countries that unbundled their distribution and production/supply systems vis-à-vis other countries needs to be presented in a more coherent way. Should there be other factors influencing infrastructure investment, they need to be included to the analysis.

(6) Impacts on 3rd country suppliers that (could) own distribution networks require further analysis. The IA report should provide data on the scale of 3rd country ownership/control of the distribution networks and assess potential impacts on the supply of electricity/gas to the EU.

(7) The IA report provides a useful overview of the stakeholders' positions to specific measures. However, in light of vested interests of incumbents, it should be made clearer which groups of stakeholders have responded what.

(8) Impacts on R&D and innovation should be analysed in more detail. To this effect, the authors may wish to draw on existing material. (The IAB has offered its help to DG TREN).

(D) Procedure and presentation

An executive summary needs to be included. Moreover it should be clarified whether the Commission's minimum requirements for public consultation have been met.

2) IAB scrutiny process

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External expertise used	No
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