

ENERGY IN THE EU

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Monthly ČEZ Bulletin

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DEAR READERS,

May was one of the quietest months with regard to European events. It appears that in the energy sector the setting of objectives such as in the share of renewable sources or reduction of emissions is an easier task than their actual implementation. Doubts are arising in some countries regarding the reality of these objectives, their impact on other European Union policies and their consequences for consumers. This also applies to ownership unbundling, scepticism prevails and the European Commission promises to present its more detailed analyses but not until after the holidays. The main theme of this month was also energy security and relations with Russia, and not only with regard to the location of a radar in the European Union. What will the further development be in all the mentioned areas will not be shown until the June session of the Council of the European Union for Energy and later the session of the Council of Europe on 21st and 22nd June. Then in July Portugal will take over the presidency from Germany – but let us deal with the present Apart from energy we celebrated Europe Day in May on 9th May. It was on this day 57 years ago that Robert

Schuman presented his proposal for the creation of an organised Europe as essential conditions for maintaining peaceful relations. This proposal, known as the „Schuman declaration“, is regarded as the beginning of the building of what today is called the European Union. This day, Europe Day, has become one of the European symbols which together with the flag, anthem, motto and single currency, makes up the identification symbols of the political entity known as the European Union. Europe Day represents an opportunity for the activities and celebrations which brings Europe close to its citizens and brings nations closer to the Union.

We wish you a pleasant state to the summer and many interesting topics on European energy policy in the company Bulletin of ČEZ, a. s. Energy in the EU.

Your SEA

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 - CZECH PRESIDENCY OF THE EUROPEAN UNION IS APPROACHING

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EMERGENCE OF THE EU'S NETWORK OF ENERGY SECURITY CORRESPONDENTS

On 10th May the first session was held in Brussels of the EU's Network of Energy Security Correspondents (NESCO), which consists of representatives of the European Commission, member countries and secretariat of the Council of the European Union.

Its task is to monitor and exchange information for the purpose of preventing the interruption of supplies and identifying energy security risks.

The emergence of this network is the fulfilment of the conclusions of



the Council of Europe of December 2006. It is therefore evident that this sector is regarded as crucial because the emergence of this network after five months of the decision made by the heads of the member countries can certainly be considered a success.

The first session was opened by the commissioner of the European Commission for External Relations, Mrs. Benita Ferrero-Waldner with the participation of the European Energy Commissioner, Mr. Andris Piebalgs. The emergence of this network is regarded as the first step to the emergence of a common European external energy policy.

The Czech Republic in the Network of Correspondents is represented by the Ambassador, Mr. Bartuška and Mr. Pouček for the Czech Ministry of Industry and Trade. More information is available at the following address [↗](#)



NUCLEAR SECURITY SUMMIT GROUP

The Council of Europe has decided to establish the Summit Group for Nuclear Security Issues consisting of representatives of national offices for nuclear security and the European Commission.

This group should become an advisory body of the European institutions and prepare reports on the situation in nuclear security for the Council and the European parliament. Its members should be representatives of all the European Union countries, not only countries exploiting nuclear energy, and should become the foundation for factual and objective discussion of nuclear security issues, handling of nuclear waste and informing the public about this area.

ERGEG ON THE OBLIGATION OF UNBUNDLING

In April 2007 ERGEG published Draft Main principles applying to functional and information unbundling the aim of which is to ensure effective implementation of the obligation of unbundling as set by existing EU legal regulations.

ERGEG considers this draft an appropriate way of ensuring the required respect for the obligation of unbundling without proceeding with the ownership division of vertically integrated groups which certain member countries are clearly opposing.

ERGEG has announced public consultation on its draft with the interested parties by the end of this June, which ČEZ, a. s. will also attend. You can find more information at the following address [↗](#)



LITHUANIAN AGENCY AS PART OF THE INTELLIGENT ENERGY PROGRAMME

European Energy Commissioner, Mr. Andris Piebalgs opened the first executive agency as part of the European Union's Intelligent Energy Programme.

This programme supports the establishment of new regional and local energy agencies for the purpose of assisting the public bodies and bodies of local units to improve energy efficiency and exploit renewable energy sources. To date about 300 such agencies have been established within the European Union and operate as independent non-profit organisations. The agencies also provide assistance to local and regional bodies in drawing up energy plans and strategies. You can find more information at the following address [↗](#)

FULFILMENT OF THE EU'S 6TH ENVIRONMENTAL ACTION PROGRAMME

On 3rd May the European Commission published its report concerning the fulfilment of the EU's 6th EU environmental action plan of 2002 for the next 10 years.

In this report it pointed out the considerable gaps as regards the implemented objectives and adopted measures. Nevertheless, the Commission in its report did not state any specific steps which it intends to take. The 6th environmental action plan mentions four priorities areas: climate change, nature and natural diversity, natural resources and waste, and the environment and health, while for each of these it determines general objectives with specific strategies. The report considers a fundamental shortcoming to be the insufficient implementation of existing legal regulations, insufficient coordination between environmental policy and other sector policies and insufficient utilisation of ecology tax. As well as this report the Commission also adopted its annual review of environmental policy for 2006 which is available at the following address [↗](#)

IPCC ON CLIMATE CHANGE IN BANGKOK

At the start of May the conference was held in Bangkok of the UN Intergovernmental Panel on Climate Change.

At the end of this conference three closing reports were presented from the series known as the Fourth Assessment Report of the IPCC on climatic changes further to the two previous reports which were published gradually in February and the start of April.

In February the first conference of the IPCC brought a finding that a ninety percent probability of global warming man-induced. Then the second report entitled "Effects of Climate Changes, Adaptation and Vulnerability" and was only adopted after a considerable compromise modification. It brought relatively dramatic conclusions such as if necessary steps will not be taken by 2020 a million Africans will face the lack of water, almost a third of animal and plant species will face the risk of extinction or the health of millions of people will be affected by climate

changes. Rajendra Pachauri, chairman of the International Panel for Climate Change, above all stressed the finding that the poorest world regions would be most affected. The participants of the Bangkok conference agreed that the community should adopt a common energy policy and prevent the increase in temperature on Earth by more than two degrees (against the forecasted six degrees). Tom van Ierland, a representative of the European Union at the conference in Bangkok, declared that it will not be possible to achieve this limit of two degrees Celsius without the cooperation of the developing countries. Therefore the EU called on the developing countries to adopt the measures limiting emissions of greenhouse gases. However already the biggest polluters of the planet, China and the United States, are against the expected conclusions of the Bangkok conference stating that the measures proposed by the IPCC would be too expensive and less effective. [↗](#)

EU-RUSSIAN SUMMIT

On 18th May the next of the summits was held between the European Union and Russia, now presided over by German chancellor, Mrs. Angela Merkel.



The main topics were issues of foreign policy, energy cooperation and security of supplies. Summits of this type between the European Union and Russia are held twice a year and are a strategic instrument of mutual communication and cooperation. The objective for the European Union is to strengthen energy security in Europe by achieving better cooperation on both sides. The two main reasons for more targeted and stronger cooperation is the dependence of the European Union on one side on

energy from Russia and Russia's dependence on investment from the European Union on the other. However it is difficult to forecast how mutual talks will continue because Russia does not intend to subject its energy market to external effects or to provide more guarantees with regard to energy security. Some member countries such as Lithuania, Estonia and Poland in not wanting to negotiate with Russia are also contributing to lack of achieving an agreement.

END OF "VISION" – FULFILMENT OF THE EU LEGISLATION REQUIREMENTS

One of the biggest European energy integration projects VISION 2008 ended successfully in May 2007.

As part of this project the ČEZ Group altered its operation and organisational structure from that of a regional model to procedural management.

Today ten new subsidiaries are operating and the emerging synergy and use of the best experience has brought net savings in costs in 2004–2007 worth more than CZK 4.6 billion. One of the main objectives of this reform arises from the Czech Republic's membership in the European Union – this being a necessity to meet the requirements of unbundling.

In the case of the ČEZ Group this concerns the obligation of legal and functional separation of electricity distribution from other activities which was set by the European Commission's directive 2003/54/ES. Unbundling should ensure effective liberalisation of the energy market and equal and open access to networks including independent

decision-making. So the end customer can enjoy an effective market, electricity transport must be separated (or networks which operate independently and are regulated in an adequate manner) from production and distribution activities where competition should reign.

The ČEZ Group fulfilled this condition by establishing the company ČEZ Distribuce, a.s., and also the company ČEZ Prodej, s.r.o, which now separately and independently distribute and sell electricity. The correctness of the procedure by the ČEZ Group of separating distribution from its other activities was also checked by investigation of the European Commission (Directorate-General for Energy and Transport DG TREN and Directorate-General for Competition) in 2006 when no findings and objections were published against the ČEZ Group.



AMENDMENT TO THE EURATOM TREATY

In May a broad majority of deputies of the European parliament adopted the plan to amend the Treaty on the establishment of the European Atomic Energy Community of 1957.

The subject of the changes should be the share of the European parliament in decision-making over the utilisation of nuclear energy, the possibility of extended cooperation within the EURATOM Treaty only between certain member countries and changes in other areas. The European Commission also agrees with the intended amendment particularly because the

present wording of the European Union does not provide authority in key areas such as security of the operation of nuclear power plants, operation of a facility for nuclear waste storage or its handling. It was a part of this that the Lithuanian deputy, Mr. Eugenijus Maldeikis presented a report which summarises the situation of the EURATOM Treaty and proposes that an intergovernmental conference is convened for the purpose of discussing the amendment to this treaty, the removal of obsolete passages and revision of the remaining provisions with regard to a modern and sustainable energy policy. More information about the planned amendment and report of deputy Maldeikis is available at the following address [↗](#)

RWE AND FACE PRESSURE FROM THE EUROPEAN COMMISSION DUE TO ALLEGEDLY DRIVING OUT THEIR COMPETITORS FROM THE GAS MARKET

The European Commission announced on 11th May that it has begun proceedings against the German energy company RWE due to the alleged unpermitted driving out of competitors from the German gas market.

RWE was allegedly supposed to have committed this action by placing “artificial” obstacles to access of other gas companies (so-called “third parties” in the glossary of energy regulation) to their own networks. This was to have occurred in the region of North Rhineland – Westphalia which is regarded as the “heart” of RWE’s operations. The European Commission’s opinion is based on the results of an investigation carried out in 2006; according to which the company placed obstacles to its competitors in being able to use their own network such as in the form of high prices of access to the

network operated by the transporting operator of RWE, the company RWE Transportnetz Gas GmbH, maintaining alleged artificial fragmentation of the network and not providing sufficient transport capacity which would enable customers in practice to change their gas supplier. The start of proceedings still does not mean that the EC is definitely convinced of the company’s “transgression” – currently this concerns a signal that a deeper investigation into this matter has begun. Virtually in the same period the European Commission announced the start of proceedings for similar reasons against the Italian concern ENI.



COMMISSIONER PIEBALGS CALLS FOR THE CONCLUSION OF THE INTERNATIONAL AGREEMENT ON ENERGY EFFICIENCY

As part of the meeting of ministers responsible for energy in the member countries of the International Energy Agency (IEA), which was held on 14th–15th May in Paris, the member of the EC for Energy Andris Piebalgs called for the conclusion of the International Agreement on Energy Efficiency.

According to the commissioner, the initiators of this agreement should be the OECD countries and key developing countries; their aim should be agreement over the common approaches to energy saving. If each of these countries accepts the saving strategy as their own, this will reduce world production of emission, improve global energy security and contribute to world economic development, is how Piebalgs justified this initiative. The ministers also discussed the short and long-term

risks associated with energy security, including lessons from such events as hurricanes Katrina and Rita and their consequences for energy systems.

They also voiced their fears in connection with the current trend of low level of investment into the energy infrastructure and the risk of growth of “energy nationalism”, which may damage further essential investment and research. In this respect, Commissioner Piebalgs is constantly calling for a multilateral approach. We must add that it would be more than commendable if Europe itself would provide the world with a better example than is frequently the case at present when, on the contrary, in some key segments purely bilateral efforts prevail among member countries to secure the import of energy raw materials and the conflict of interests of other EU member countries.

See more [↗](#)



REPRESENTATIVES OF EFTA AND THE EUROPEAN ECONOMIC AND SOCIAL COMMITTEE DISCUSSED ENERGY

Representatives of two important European institutions, the European Economic and Social Committee (EESC) and the so-called Consultative Committee EFTA (European Free Trade Area) met in Gdansk, Poland on 15th–16th May for the meeting of the so-called Consultative Committee of the European Economic Area (EEA CC).

One of the two main topics was the view of the EU's new strategic

strategy (“Energy Policy for Europe”). The EEA CC welcomed this initiative of the European Commission and stressed the need to be engaged above all in two of its aspects: ensuring safe energy supplies in future while taking into account the consequences of climatic change and its effects on the economy, social sphere and company as such.

The committee supported strengthening research and development in the field of technologies reducing the consumption of carbonic substances during energy production and in the field of energy efficiency. Social partners and civic organisations should be invited to help develop this policy, particularly with regard to matters associated for example with the dissemination of information on desirable changes in energy consumption behaviour or introduction of price mechanisms in emission regulations.



EUROPEAN COMMISSION AGREES WITH THE SLOVENIAN MODEL OF SUPPORTING "GREEN ENERGY"

The EC has been examining whether the support mechanism by which Slovenia prioritises electricity production from renewable sources and from combined heat and electricity is compatible with the rules of state aid for more than 2 years now (since February 2005).

On 25th April the Commission announced that the Slovenian model has finally stood the test after undergoing certain changes. According to the Slovenian Energy

Act support is based on guaranteed fixed prices of "green" electricity; energy produced from lignite being burnt from home sources is also enjoying similar support. The Commission also closed its investigation in this case whereby the extent of support does not exceed the limits of fixed EU legislation. The mechanism of the Slovenian model was originally based on a "parafiscal" charge paid by end consumers; the Commission feared whether this method was placing imported "green" electricity at a disadvantage. Slovenia undertook to modify the model in the form of flat electricity sums and also introduced the possibility of returning the original charge provided that it is subject to imported energy produced undoubtedly from renewable sources. For more information see [↗](#)

ON 4TH MAY the European Commission approved Estonia's National Allocation Plan (CO₂ emission) for the period of 2008–12, of course it made the approval subject to a significant reduction of the volume of required emission allowances by 47.8 % against Estonia's requirement. The country would receive allowances for 12.7 million tons of CO₂.

ON 7TH–11TH MAY the 15th International Conference on Biomass was held in Berlin together with an exhibition of the products and services of organisations and services directed at the production and utilisation of biomass.

ON 14TH MAY the European Commission also approved the Italian National Allocation Plan provided that the required volume of emissions is reduced by 6.3 % i.e. to the total level of 195.8 million tons of CO₂.

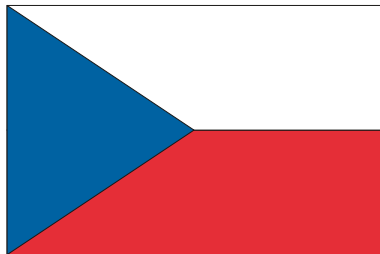
THE 1ST JUNE is the date by which bids can be submitted as part of the tender called by the European Commission's Directorate-General for Energy and Transport for drawing up the project "Priority Corridors for Energy Transport" (methodology of the selection and quick implementation of projects of "European interest". Details of the tender can be found [here ↗](#)

THE 18TH JUNE is the day when the (extended) deadline ends for public consultation of the issues concerning biofuels. Opinions regarding this area can be expressed through the [website ↗](#)

THE 31ST JULY is the date by which interested parties can express their opinions to the Green Book on the use of market mechanisms for the purpose of environmental and similar policies. Access to the document and address for consultation is at the following [website ↗](#)

CZECH PRESIDENCY OF THE EUROPEAN UNION IS APPROACHING

In the first half of 2009 the Czech Republic will take up the presidency in the Council of the European Union. The presidency is performed for a period of six months (from January to June and from July to December) by each of the EU member countries according to a predetermined sequence.



The sequence in which the members alternate in the role of the presidency has not been determined up to the year 2020 and account was also taken with the alternation of the countries of their size and geographical position.

The Czech Republic will replace France to head the European Union and in turn its presidency will be replaced by Sweden; however it will not be the first of the new member countries who will preside over the EU – Slovenia will take over this role in the first half of 2008.

The Czech Republic has the possibility through its presidency to show

the other EU member countries in practice its merits and display itself as a capable and credible EU member. A no less important role for the presiding country is also the possibility during its term to implement its national interests. The Czech Republic will be obliged at the start of its term to present to the Council of the European Union and the European parliament its priorities, i.e. a programme of main objectives which it intends to achieve during its presidency. These objectives normally arise from the current situation and challenges which the EU faces during that period and also those that are deemed by the presiding country to be of top priority at the time. By selecting the priorities, the presiding country will determine which matters will be discussed at the sessions of the Council of the EU. It is already clear today that the Czech Republic will preside

over the Council of the EU during a highly sensitive period when fundamental issues will be discussed of the development of the EU (e.g. Strategic Energy Review, Common Agricultural Policy, continuation of the Lisbon process or further extension of the EU member base). In 2009 the elections will also take place to the European parliament and the election of the new European Commission. In view of the current challenges in the sphere of energy in EU, one of the key topics of the Czech presidency in the EU should be energy particularly for these reasons. Energy will almost certainly be a priority of earlier presidencies, and so the continuity will be secured of the adopted measures. In 2009 fundamental EU decisions will be formed in the common energy policy and the Czech Republic will be able to highly actively defend its national interests, i.e. its own energy policy.

Sufficient experience will already be amassed from the effects of EU measures directed at support of a single electricity and gas market. It will also be possible to consider whether the liberalisation of the market and functional demonopolising of the branch has had a positive effect on the fulfilment of the objectives of the EU energy policy and formulate corrections of this policy based on experience. A current topic will also be the real lack of electricity in Europe while the Czech Republic has the chance, thanks to its existing reasonable energy policy to avoid the negative consequences of this situation and may act as an example for the other EU countries. In 2009 the EU will also have longer term experience with the practical results of its existing policy in reducing the environmental burden associated with the production and consumption of energy, particularly with the policy following up the EU

activities in connection with the efforts of achieving the objectives of the Kyoto protocol.

The Czech Republic will be able to become a presenter during discussion of “sensitive” energy topics such as security during production and utilisation of energy including sensitive nuclear energy issues and thereby increase the prestige of the Czech Republic. It is the department of the Government Of-

fice in the Czech Republic which is coordinating preparations for the presidency under the government’s deputy minister for European affairs, Mr. Alexandr Vondra. This department has two sections, the first of which, headed by Mrs. Jana Hendrichová is in charge of preparing the Czech Republic’s presidency over the EU (Section for the Presidency of the Czech Republic in the Council of the EU), and the

second, headed by Mr. Jiří Šedivý is engaged in the analytical and coordinating aspect of preparing the Czech position at proceedings in the EU (Section for European Affairs).

In conclusion, it can be stated that what will be the key issue for the Czech Republic will be to prepare well in order to successfully perform the presidency and to begin preparing and setting the priorities now.

