

Ad hoc Group 1 on « The functioning of the electricity and gas markets »

Mandate

Context

The Commission has decided to set up a High Level Group (HLG) on Competitiveness, Energy and the Environment from high level persons with competence and responsibility in the areas of industry, energy, and the environment. The HLG will address issues where competitiveness, energy and environmental policies interrelate. The High Level Group will seek input from experts and stakeholders through ad hoc arrangements, by setting up a limited number of ad hoc groups that will examine specific questions under the terms and conditions of the present mandate.

Objective

The ad hoc group will give input to the sherpa sub-group of the HLG. It shall provide relevant information about the functioning of the energy markets in order to assess its short term and long term impact on the competitiveness of industry, in particular the energy intensive sectors, and on the environment. Notably on the basis of a series of initiatives (the review of the existing legislative framework presently being undertaken by DG TREN, the forthcoming Report on the state of play of the Internal Energy Market to be presented by the Commission before the end of 2006 together with, where appropriate, new legislative proposals, as well as the sectoral inquiry launched by DG COMP), it shall analyse the key issues concerning the functioning of the electricity and gas markets while avoiding duplication of work. The ad hoc group will draw on existing studies and research, and on facts and observations contained in reports produced by academics or available in other institutions and the Commission DGs. Links with other ad hoc groups, notably ad hoc groups 2 and 3 will be ensured.

Work plan

The scope of work shall include the following issues related to the functioning of the energy markets:

1. **Competitive energy market:** The ad hoc group shall address anti-competitive effects coming from high electricity and gas market concentration, and eventual positive elements such as benefits from economies of scale for the power generators and countervailing buying power for the European gas importers. In the electricity market, the ad hoc group shall investigate in particular the correlation among electricity prices and the cost of the primary energy inputs used in power generation. The ad hoc group will investigate the adequacy and implementation of existing regulatory rules including those related to the internal market at both Community, regional and national level and the balance between these levels, as well as the existence of a real level playing field between Member States. It will draw attention to good practices on certain regional markets. The ad hoc group should address the relation between the functioning of the internal market with the security of energy supply. Infrastructure

needs such as inter-connectors for electricity and storage and pipelines for gas need to be considered.

2. **Prices:** The ad hoc group shall address the price setting mechanisms and transparency requirements on the energy markets at the wholesale and distribution level. It should also address price differentials among Member States in electricity and gas markets, at wholesale and distribution level, as well as a price comparison with other OECD countries. The assessment of the competition conditions should also be considered in the context of a wider and a longer term perspective, integrating sustainable energy policy, security of supply, and single market policy. The ad hoc group shall consider whether market conditions allow for the continuation of investments across the whole supply chain and whether infrastructure connecting national markets allows for competitive pressure from cross-border supply to develop.
3. **Predictability:** The ad hoc group shall investigate alternative solutions to ensure predictability of energy prices, in particular for energy-intensive industries, e.g. by giving an enhanced opportunity for firms to sign longer-term contracts with their suppliers, without foreclosing unduly the market. It will investigate strategies for energy intensive industries to hedge against volatility and unpredictability of markets

The impact of the EU emissions trading scheme on the electricity price will be mainly addressed in ad hoc group 2. However, the ad hoc group 1 might bring some specific insight.

Methodology and deliverables

The meetings will be convened by the Commission. The ad hoc group shall organise its discussions on the basis of presentations by experts and/or members with specific competence on the issues to be addressed by the ad hoc group. The composition of the ad hoc group for each work area remains flexible. Ad hoc group members are invited by the Commission. The meetings shall be chaired by representatives of DG Competition as well as DG Energy and Transport of the European Commission. The ad hoc group shall produce a report, written contributions and/or slides summarising issues and alternative solutions for consideration by the Sherpa sub-group. The minutes of the meetings of the ad hoc group will be drafted by the secretariat provided by the Commission. Members of the Sherpa sub-group may also attend the ad hoc group meetings.

Timetable and duration

The ad hoc group members shall start working as early as possible. They will be invited by the Commission to attend a meeting of one or two days during the second half of March. If necessary, another meeting will be organised in April. The ad hoc group shall be closed by the second HLG meeting having addressed the issues outlined in the work plan.