

**European energy policy
for local and public energy companies**

A contribution against oligopolies

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CEDEC

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CEDEC Missions

- ***Represent*** the interests of local and public energy companies with the European institutions
- ***Exchange*** experiences on the implementation of the process of energy market opening
- ***Cooperate*** in view of (inter)national support

Introductory remarks on the Energy Package

- CEDEC welcomes the integration of energy and climate in the energy package of 10th January 2007
- CEDEC recognizes the important contribution of the package to sustainable security of energy supply
- CEDEC shares the intention of the Commission to strive for positive results associated with the internal energy market
- CEDEC insists on up-to-date and correct evaluation of
 - current market situations and
 - intermediate positive contributions of local companies

1. Sector Inquiry – Key areas, Findings & Remedies

- **Key areas for inquiry :**
 - 1) *market concentration / market power*
 - 2) vertical foreclosure (“most prominently inadequate unbundling”)
 - ...
- **Priority areas for action :**
 - 1) achieving effective unbundling of network and “supply”
 - 2) removing regulatory gaps
 - 3) *addressing market concentration and barriers to entry*
 - 4) increasing transparency in market operations
- **Findings :**
 - when concerning networks : almost exclusively on TSO-related topics
 - when concerning unbundling : exclusively on TSO-related topics :
 - 2.2. “Vertical foreclosure (most prominently inadequate unbundling)” : nothing on DSOs
 - 2.7. “Balancing markets” : nothing on DSOs
- **Remedies :**

Suggestion that new unbundling measures should apply not only to TSOs but also to DSOs

2. Prospects for the internal gas and electricity market

- **Experience to date** - Facts from 2005-2006 :
 - Deficiency of “insufficient legal and functional” unbundling” to date ?
 - No equal access to networks ?
 - Poor preparation of DSOs on market opening “for 1 July 2007” ?
 - Criticism on distribution companies is premature and too generalized
- **Key outstanding issues** :
 - 2.1. Ensuring non-discriminatory access to networks through unbundling :
“ two main avenues for further TSO unbundling measures : fully (ownership) unbundled TSOs or ISO ”
 - 2.6.1. DSO Unbundling :
“Legal unbundling is required from July 2007”
“... strengthen regulators to enforce functional unbundling”
 - 2.6.1. Exemption on unbundling rules for DSOs < 100.000 customers :
 - + “rather unlikely that ...fair access” : premature assumption
 - + arguments for exemption have not changed : cost/benefit analysis

3. Energy policy for Europe

“4. Taking work forward”

Concerning the internal electricity and gas market :

- “Commit to further unbundling ... through ownership unbundling or through a full ISO.”
“Effective separation ... not possible with the current legal framework”
→ Conclusions are premature, especially for DSOs
- Need for regulatory level playing field for strong national regulators, and (only) ERGEG+ for (only) cross border issues
- NO short term (<5years) measures at all are proposed to tackle crucial problem of existing and still growing market concentration :
No real market - with relevant customer choice - without competition between suppliers and between producers/importers !

4. Contribution of local energy companies to sustainability and security of supply

- **Demand side** - sustainable electricity consumption :

Role for DSOs through the long term and neutral relationship with the consumer connected to their grid :

- continue promotion of rational use of energy (experience !)
- contribute to development of energy services

- **Supply side** - sustainable electricity & heat generation :

- contribute to CO₂-reduction targets through investments in local projects for heat/power-cogeneration and renewable energies
- additional investments in distribution networks to cope with major share of renewables and with structural changes in energy consumption

5. Further elements to consider

- **Investment in networks (90% distribution)** to guarantee security of supply :
 - (Reasonable) Financial incentives for private and public investors + Availability of financial resources for investments = maintenance, renewal and development of networks
 - Long term perspective : regulators should consider not only costs but also quality of the networks and services
 - Cohesion perspective : guarantee quality service also in (less profitable) peripheral areas
- **Fair treatment of customers :**
 - Presence required of public supply companies, with long term perspective
 - Code of good conduct for suppliers
 - Readability of supply contract conditions and bills
 - PSO : recognition of social goals in (local) energy policy – transparent financing
 - Solution(s) for dropped customers ?

6. Strategic perspectives for local and public energy companies

- **Creating advantages of scale ?**

- Distribution system :

- limited advantages of scale
 - advantages of scope : other local and regional network activities (water, cable TV, ...) → multi-utility

- Supply :

- brand development / related products and services / new geographical markets / new skills → accrued financial risks → pronounced advantages of scale !
 - from operational cooperation (through specialized joint ventures) to mergers

- **Equilibrium between cost efficiency and general (local) interest :**

- optimization of profit
 - with respect for social & environmental goals
 - in long term perspective for investments

- **Avoid regional and European oligopolies** in production and supply

Conclusions

- Competition, as a means, to guarantee customer choice ?
 - need for a large diversity of market participants
(public & private / large & medium-sized & small)
 - no ownership unbundling for DSOs
 - no unbundling rules for small and medium-sized DSOs (< 100.000)
- Continue and intensify the current effective contribution of local and public energy companies to the EU goals of sustainability, security of supply and competition
- Fair sharing of market benefits : between large and small customers, private and public shareholders, and short and long term
- CEDEC wants to contribute positively to the in-depth examination of the proposed measures and to the clarification of definitions and concepts