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 (<5 years) 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