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Evaluation of the internal market for electricity and gas:
view from CEDEC & distribution companies

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CEDEC Missions

• *Represent* the interests of municipal energy companies with the european institutions

• *Exchange* experiences on the implementation of the liberalisation process

• *Cooperate* in view of (inter)national support
CEDEC as an organisation

- Member of *Florence Forum* (electricity) and *Madrid Forum* (gas) as representative of distribution companies → consulted by the European Commission & ERGEG

- *Open exchange* of experiences between companies

- Seminars and studies to *support* members’ interests

- *Members*: associations & individual companies
- *Seat* in the center of Brussels – since 1992
- www.cedec.com
PAPER OVERVIEW

1. Progress achieved
2. Unbalanced market structure
3. Evolutions for local energy companies
4. Investment in networks \(\rightarrow\) security of supply
5. Public Service Obligations: fair treatment of customers
6. Customer data / Switch management
7. Sustainable development in demand and supply
8. Objectives

Conclusions
1. Progress achieved

- Final date for complete market opening fixed and approaching
- More balanced market opening, with attention for public service obligations – social / environmental / protection of smaller customers
- Specific characteristics of small and medium sized energy distribution companies recognized – limited unbundling obligations under 100,000 customers
- National regulators installed and consultation procedures (regional / EU-level) up and running
2. Unbalanced market structure: competition needed on production level

- Only a market – with benefits for all consumers in terms of price & service quality - if there is real competition

- between suppliers: already considerable number of old & new players on national markets – but often national dominant historical player

- between producers: still limited number of players – virtual monopoly behaviour on regional / national markets (for gas: limited number of producers unavoidable + outside EU)
2. Unbalanced market structure …

- Only a market – with non-discriminatory access to grids – if grid companies and their personnel and IT-systems behave neutrally

- Different market characteristics for gas but: problems raised are of a structural nature
  → Solutions broadly applicable for both electricity and gas

- Remedy bottlenecks on the road map:
  more communication between regulator and legislator with general economic and social interest as objective
3. Evolutions for local energy companies

- **Evolution of activities:**
  Unbundling between regulated monopolies (Distribution & Transport system operators) and competition (generation and supply) → relative growth of fixed costs

- **Evolution of regulation:**
  From local control to European framework + national regulator choices → higher complexity → higher cost + risk of less impact

- **Evolution of management:**
  - From connections to “customers”
  - Need for new skills (IT, trading) : build (time …) or hire (high cost)
  - Required “flexibility” in human resources management
4. Investment in networks → security of supply

Distribution networks = 90% of supply lines / transmission networks = 10%

- **Incentives needed to guarantee investment in networks (renewal and development):**
  - Ensure availability of financial resources: appropriate profit margins + economically reasonable depreciation periods

- **Regulators should act in long term perspective:**
  - Benchmarking not only on quantitative aspects (costs + investments) but also qualitative elements (quality of network & services)
  - Avoid short term network access price reductions to prove the market works

→ Secure quality of public grid service and guarantee long term security of supply, also in peripheral areas
5. Public Service Obligations: fair treatment of customers

- PSO: recognition of social and environmental goals in (local) energy policy, but transparent financing required
- Avoid cross subsidies in favor of large consumers: correct allocation of PSO costs to distribution customers (small companies and residential consumers)
- Code of good conduct for suppliers
- Harmonisation of supply contract conditions and billing presentation (mainly for residential customers)
- Solutions for “dropped customers”? Prepayment meters → High investments and operational costs
- PSOs imposed on DSO: supplier of last resort / social tariffs
6. Customer data / Switch management

- Essential role for distribution grid operators controlling customer data

- Change Of Supplier process supported by effective and efficient data exchange mechanisms between DSO and all market parties
  
  → Need for:
  - involvement and clear rules of the game agreed between all parties
  - use of a same language (EDIEL) & standardized procedures
  - efficient information technology

- Development and operation of EDI platform is expensive (IT-investments / internal or external expertise / operational costs)

- Switch management often still to be developed …after market opening
7. Sustainable development in demand and supply

- **Demand side – sustainable electricity consumption:**
  
  Role for distribution grid operators --- Long term and neutral relationship with the customer connected to their grid:
  
  - continue promotion of rational use of energy
  - contribute to development of energy services

- **Supply side – sustainable electricity production:**
  
  Additional investments required in distribution and transmission networks to cope with a major share of renewables and with structural changes in energy consumption
8. Objectives

• Better equilibrium between competition and general interest is required:
  - citizen’s interests versus profit maximization
    → “optimization” of profit – possible in market environment?
    → accent on quality (grid; product; services)
  - with respect for social & environmental goals
  - in long term perspective (investments)

• Regional and European oligopolies in production and sales must be avoided

• Monopoly grid activities preferably in public hands
Conclusions

Clear choices to be made by local energy companies:

- Resist to merger mania? Positive AND negative scale effects
- Willingness to cooperate? nationally / Europe-wide (EU policies on energy, services, concessions)
- Willingness to keep a grip on economic, social and environmental aspects of local energy policy?

Clear choices to be made by regulators and legislators:

- React only on costs/prices, or act simultaneously on quality?
- Short term price effects, or long term security of supply?
- Create national / European champions, or prevent European oligopoly?