

"Reshaping European Electricity and Gas Industries: Regulation, Markets and Business Strategies"

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In the first section

In the first section on regulation, one compares the regulatory frameworks in regards to their objectives and objects in terms of competition and public service and general interest goals. We identify the goals and the focus of the liberalization and regulation processes in each State-member. We compare the regulatory pressure and intensity, by studying the institutional arrangements between the main regulation actors. We focus on the regulatory authorities, mainly the sectoral regulators in terms of mission, resources and powers. Finally, we seek to identify the main regulation games that have been or are being played in each regulatory framework.

Between two opposite ideal-types (market regulation versus public service monopoly), the *mixed model* appears definitely the most popular one in European countries, although the differences between countries can be sometimes substantial. However, what characterizes these countries is the explicit combination or tension between liberal measures like the creation of an efficient market and the willingness to implement large scale redistributive and PSO objectives. Very often, both liberalization and regulation design seek to create the condition for an efficient market taking into account the public interests. These interest can rank from ensuring the security of supply to implementing environmental measures.

In the second section

The market section views Europeanisation and liberalisation through the lenses of market rules and institutions, market structures and price formation.

The reforms mean that the cards have been and continue to be redistributed. Competitive forces in the sense of M. Porter (1987) can develop by the help of changes in regulations and industrial structures as a result of the reforms. In each country rivalry of direct competitors - historic incumbents, independent generators, foreign operators, traders and new suppliers - on the wholesale and the retail markets depends upon the attractiveness and the accessibility of the different markets. Threat of entries which depends upon these market characters and the protection of the incumbents takes the form of the so-called electricity and gas convergence among different ones, in particular the multi-energy competition. Reforms have removed the barriers that once existed between the electricity and the gas markets.

Development of competitive forces also depends upon new types of relations between national markets. What do possibilities exist for unification on a European scale between the electricity and gas markets following the analysis of the national markets and the new regulatory set-up between countries? But as shown in the categorisation of electricity markets, in the recent years there have been two opposed moves in the concentration of national markets: a group of countries where de-integration of the industrial organisation has been mandated and another group where the industry retains or evolves towards a high level of vertical and horizontal integration round the former incumbents and under the auspices of the government. Moreover these incumbents seized opportunities open by the privatisation to extent in the other markets by acquisitions. The strong move towards the oligopolisation of the European gas and electricity markets is paradoxically the pendant of the market integration. Indeed the main argument for maintaining intact the incumbents or encouraging horizontal integration even after deregulation has been that the playing field will be soon paneuropean and the incumbents will be competitively exposed in a larger European market.

In the third section

This section presents evolving patterns of strategic configuration for major European energy companies. Following the general theme of this book, the section is particularly concerned with the extent to which the EU deregulation actually leads to Europeanisation of the energy industry, beyond the boundaries of the individual nation state, and to what extent energy industry business strategies move beyond the traditional monoenergy and national configurations towards broader multienergy and European integration.

The discussion develops these questions in a broader analysis of strategic configuration of large European energy firms. A first part presents some of the strategic options open to energy industry and subsequently reviews some of the theoretical perspectives on drivers of strategic reconfiguration. A second part presents patterns of strategic reconfiguration of the 50 largest European energy firms based on statistical analysis. A third part explores some of these patterns more in detail through a qualitative analysis of selected company cases.

Conclusion

After a decade or more of deregulation in pioneering markets and half a decade for the rest of the EU area, European industry and policy makers are discovering the possibilities but also the challenges of the new market order. This challenge has both economic and political aspects.

Firstly, a central challenge comes out of the market system itself. European energy industry has been exploiting its new freedom of international market-configuration to scale up in concentration - in some cases - to a level where the competitiveness of the market itself could be affected. The question is if European competition policy can follow suit.

Secondly, deregulation of electricity industry in Europe has tended to start with a grace period of energy surplus inherited from the previously expansive coordinated economies and further amplified by better resource utilisation from extended international trade. The regulatory challenge has therefore primarily been to arrange market-rules and industrial structures such as to allocate existing generation fleets for the electricity supply to the consumers in an efficient way. However, as energy demand increases, due to economic growth, the challenge of providing new capacity surfaces.

Finally, the energy sectors face extensive environmental challenges as ambitious climate and renewables policies are targeting these industries. Major issues here are the management of collective responsibilities across national boundaries, but also the management of the interface between the environmental policy field and the core energy markets.