

Power in Europe

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Piebalgs doubts wisdom of third package

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A third package of energy laws to complete the European Union internal energy market would take years to implement and may not result in genuine improvements, EU energy commissioner Andris Piebalgs told an industry seminar in Brussels in September. "You don't always get what you want," said Piebalgs, referring to the lengthy negotiation process that invariably ends with a watered-down directive lacking the integrity of the original proposal.

There was a huge gap between EU member states' political will and the European Commission/national regulators' intentions, Piebalgs said: "I think the lack of interconnection indicates that the markets are not liberalized enough." Member state governments had underestimated how difficult it was to open energy markets to competition, but there was no going back to old protectionist days: "monopolies are no longer on the agenda."

Piebalgs welcomed a new Commission-sponsored research study presented at the seminar that identified 20 actions to boost the EU internal power market, with the need for a third energy law package (see below).

He recognized the need to improve balancing power services, one of the study's top priorities, and said that he planned to ask the EC's advisory group of national regulators, Ergeg, to make a proposal on this.

It was also clear that the EU had to find a way to bring liquidity to the gas market to help new entrant power station developers, another of the study's priorities. Getting access to long term gas contracts may require incumbents to release gas, but this was up to member states, said Piebalgs. And bringing to an end pre-liberalization long term contracts, another of the study's proposals, was easier said than done, lamented Piebalgs.

Piebalgs said he expected power exchanges to become increasingly important in the EU market. He supported the study's view that cooperation between power exchanges, transmission system operators and national regulatory authorities must improve, and advocated more contact between the TSOs' EU trade body Etso and the power exchanges' counterpart Europex.

Piebalgs also backed the study's view that TSOs must be more transparent in their operations. "If vertically

20 priority and secondary actions recommended by Sessa report

Priority actions

1. Ensuring better access to improved balancing services
2. Ensuring access to competitive long term gas supply contracts
3. Managing interconnectors more efficiently
4. Setting up a European Market Surveillance Committee Network
5. Encouraging TSOs to negotiate reinforced regional cooperation agreements
6. Seeking objective criteria for evaluating Europe's interest in grid interconnections
7. Encouraging bilateral and regional harmonization agreements between regulators
8. Developing pan-European regulatory knowledge and training in the European Union

Secondary actions

1. Ending/not renewing pre-liberalization incumbent contracts
2. Improving the link between power exchanges and grids
3. Setting incentive pricing for domestic congestion
4. Facilitating regional harmonization to open up a European bilateral market
5. Facilitating regional harmonization for reciprocated opening of power exchanges
6. Facilitating regional harmonization for reciprocated opening of balancing mechanisms
7. Facilitating regional harmonization for collecting and accessing TSOs' databases on markets, grids, and interconnections
8. Extending the independence of TSOs to include ownership of transmission assets
9. Encouraging regional harmonization of grid access fees
10. Encouraging regional harmonization of connection fees
11. Encouraging TSOs to develop joint regional reference scenario, forecasts and planning
12. Associating national regulators with the EC's evaluation activities

Source: Sessa report September 2005

integrated TSOs refuse to provide the same level of data to all parties as non-vertically integrated TSOs, then it could be seen as an abuse of market power," he said. Ownership unbundling of vertically integrated TSOs would be discussed in the EC's internal energy market progress report due end-2005.

Finally Piebalgs supported harmonizing bilateral industry contracts across the EU. "Bilateral contracts are an essential part of the market," he said. He asked delegates to come forward with ways to aid such contracts, suggesting an EC recommendation or an Ergeg proposal as possibilities.

What the report says

More regional cooperation and enforcement of existing rules rather than a third energy law package is what the EU power market needs over the next five years, concludes the independent academic study* funded by the European Commission.

"Given current political, institutional and business conditions in Europe, there are no guarantees that the dynamics of building the internal market will not dissipate, as in the US, or that the internal market will not fracture into 'national blocks' that may be permanent or persist for a long time," warn the study's authors, Jean-Michel Glachant (Paris University XI) and Francois Leveque (Ecole des mines de Paris).

Presenting the study on September 9, the authors identified two essential requirements to avoid market failure. The first is to enforce the second EU power

market opening directive and related regulations. The second is to promote reinforced regional cooperation between transmission system operators, regulators and power exchanges so that some domestic markets are voluntarily opened to create regional "mini" internal markets.

The authors see five critical barriers holding back the internal market:

- diversity in national market design,
- flawed EU internal market design, particularly for interconnection,
- high levels of horizontal concentration and persistent vertical integration in the EU power industry,
- TSOs thinking nationally, and
- regulatory authorities thinking nationally.

They suggest eight priority and 12 secondary specific actions to be taken during the tenure of the present college of EU commissioners – that is, to 2009 – to overcome these barriers.

*"Electricity Internal Market in the EU: What to do next?" by Jean-Michel Glachant (Paris University XI) and Francois Leveque (Ecole des mines de Paris), part of the Sustainable Energy Specific Support Assessment initiative (www.sessa.eu.com) funded by the EU's sixth framework programme for research