Energy: rules for the internal market in electricity. 'Electricity Directive'

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This Report provides initial results for the second benchmarking report on the implementation of the internal electricity and gas market. The report shows that: 1) for electricity, only four Member States do not intend to fully open their market, and of those, Italy expects market opening to all non-households by 2004. The European electricity market is therefore around 70% open to competition at present and this will rise to 82% by 2005 even without the measures agreed at Barcelona. There has been some progress in the electricity sector since the first report in terms of the general functioning of the market particularly in Germany, Austria and the Netherlands. However, there remain areas that are causing particular difficulties as follows: - differential rates of market opening continue to reduce the scope of benefits to customers from competition, leading to higher prices than otherwise to small businesses and households, and also promote distortion of competition between energy companies by allowing the possibility of cross-subsidies at a time when companies are restructuring themselves into pan-European suppliers; - disparities in access tariffs between network operators which, due to the lack of transparency caused by insufficient unbundling and inefficient regulation, may form a barrier to competition; * the high level of market power among existing generating companies associated with a lack of liquidity in wholesale and balancing markets which impedes new entrants; - insufficient interconnection infrastructure between Member States and, where congestion exists, unsatisfactory methods for allocating scarce capacity. 2) for gas, other than Finland, Portugal and Greece, which are emerging or non connected markets and have certain derogations in place, all Member States except France and Luxembourg envisage full market opening. On average 80% of EU gas demand is now, in principle, open to competition and this is already scheduled to increase to around 90% by 2005. Regarding structural measures, the regulator has recently taken responsibility for access to the gas network in both Austria and Ireland. This means that all Member States except Germany have a system of access involving independent regulation for electricity, and all but Germany and France for gas. As far as gas is concerned, there has been less progress since last year than for electricity, the most significant barriers being as follows: - similar concerns to those for electricity about the unequal level of market opening; - inappropriate tariff structures and large and unexplained disparities in network access tariffs between countries and regions for transportation and distribution transactions which form a barrier to competition and provide revenue for cross-subsidies; - lack of transparency regarding the availability of infrastructure capacity, both internally and cross-border, as well as capacity reservation procedures which do not allow third parties the flexibility to change their gas sources or their customer base without incurring increased costs; - concentration of gas production and import in a few companiesand slow development of gas trading hubs which often means that new entrants find it very difficult to buy wholesale gas on reasonable terms; - balancing regimes which are unnecessarily stringent, being non-market based and not reflective of the costs incurred. 3) As regards public service issues : terms of the measures being taken to ensure public service in a competitive market. It shows that Member States are aware of the need to ensure security of supply, to deliver high levels of service to all customers and to defend the Community's environmental objectives. Key issues being addressed in Member States include: - the projected security of supply position for electricity in certain regions such as the Nordic countries and Ireland as well as the longer term issues relating to gas supplies from outside the EU; - continuing attention on the need to ensure low income customers should benefit from competition and continue to have access to electricity at an affordable price and that disconnection should be a last resort; - measures to increase the share of renewable energy and combined heat and power (CHP), and to encourage demand management. In conclusion, the report states that his analysis again supports the hypothesis that full market opening, when combined with appropriate structural measures relating to unbundling and regulation, is necessary to deliver consistent benefits across all consumer groups. In particular, it is clear that smaller consumers in markets without full and effective market opening are unable to benefit from competitive conditions and are likely to suffer in relative terms as a consequence.