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**Evaluation of the European electricity market –
EURELECTRIC view and recommendations**

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Evaluation of the European electricity market – EURELECTRIC view and recommendations

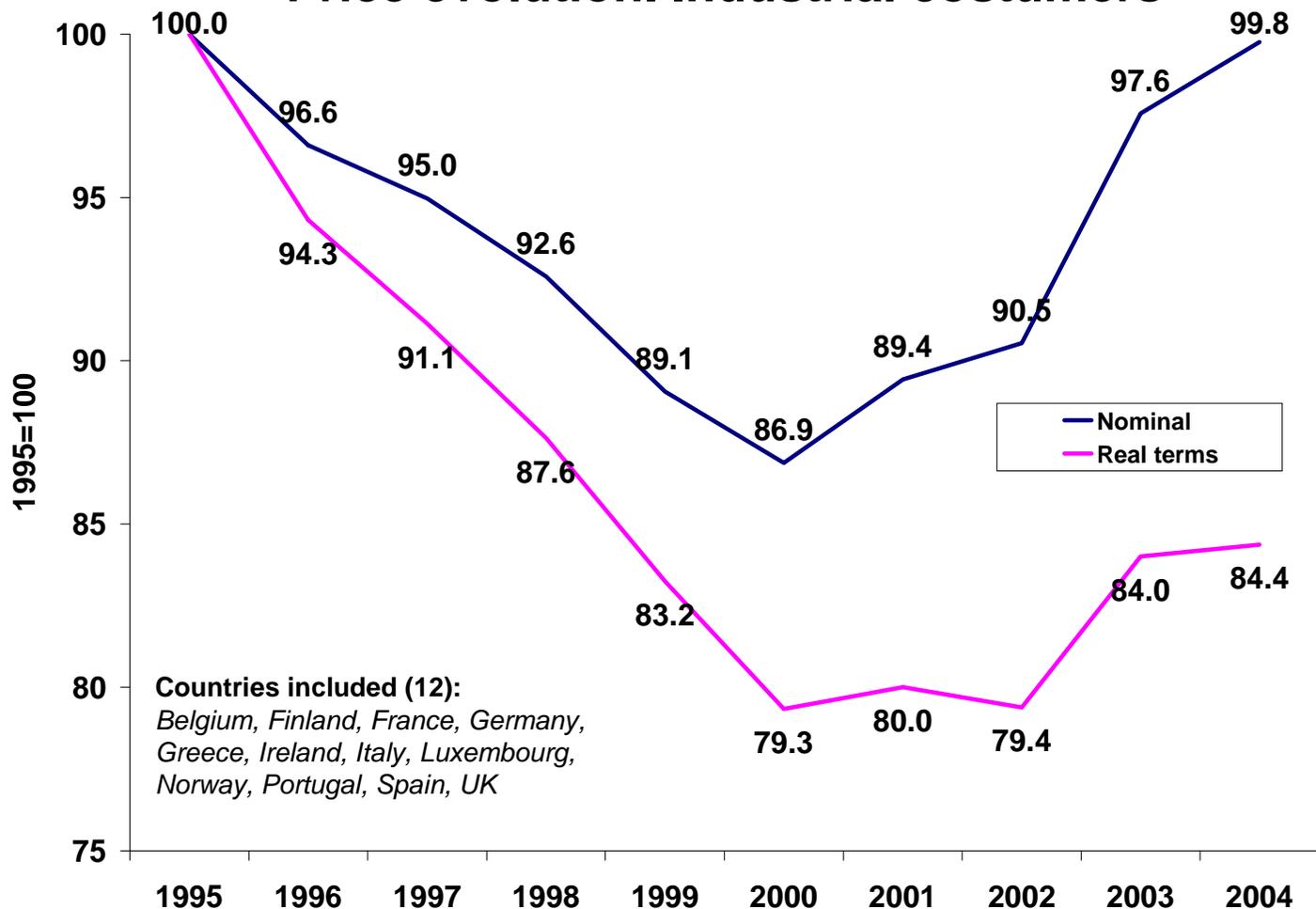
- **State of the play of markets development**
- **Way forward / recommendations**

Source: EURELECTRIC Position Paper on Commission Consultation

- EURELECTRIC recommendations on unbundling
- EURELECTRIC Road Map towards the development of a pan-European wholesale market
- Report on price evolution (KEMA Consulting) – to be published shortly

Electricity markets have been able to deliver price reduction

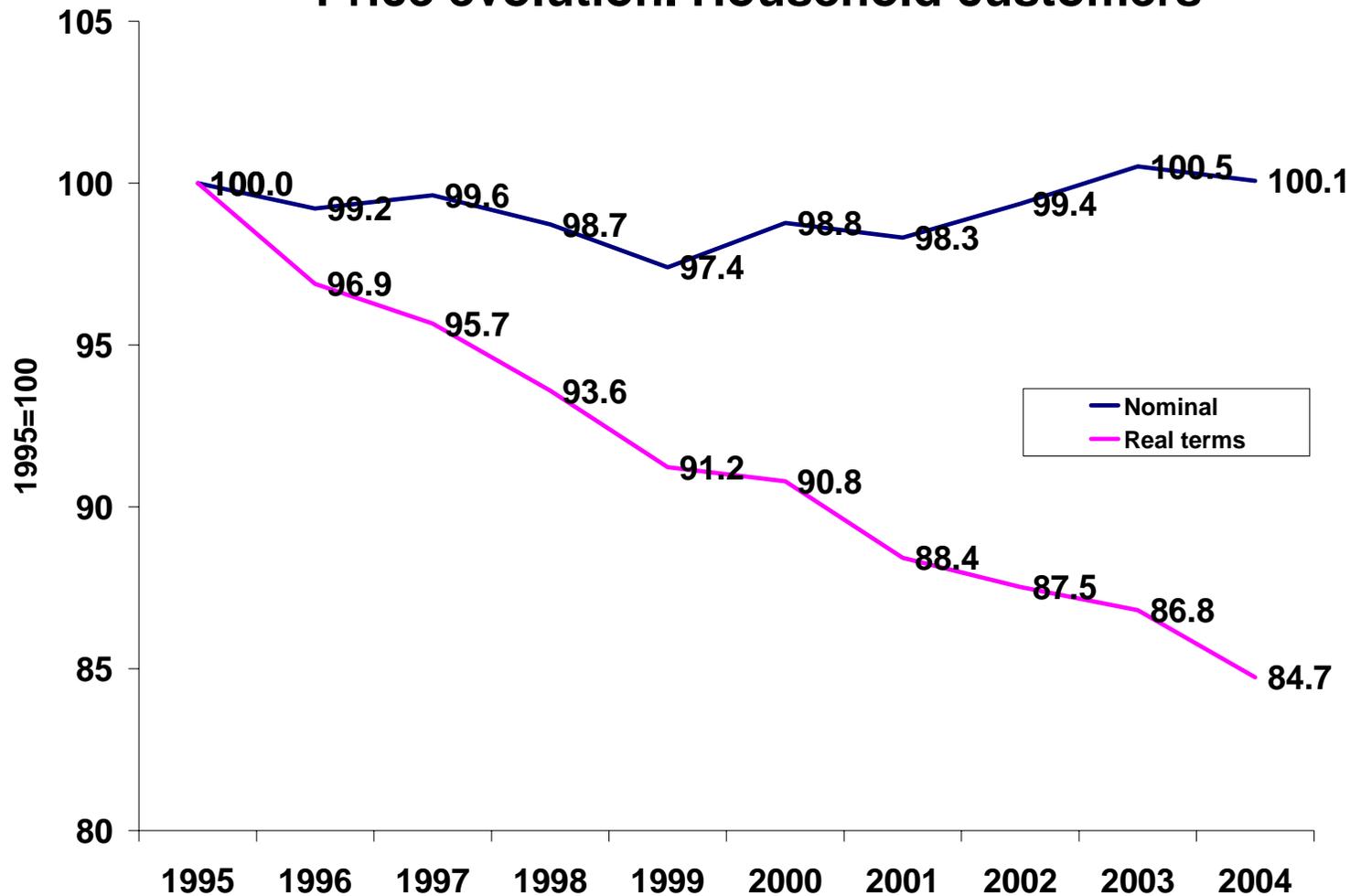
Price evolution. Industrial costumers



*Price evolution for industrial users using a weighted average (1995-2004)
 Industrial users: 24 GWh, without VAT (Draft KEMA report)*

Electricity markets have been able to deliver price reduction

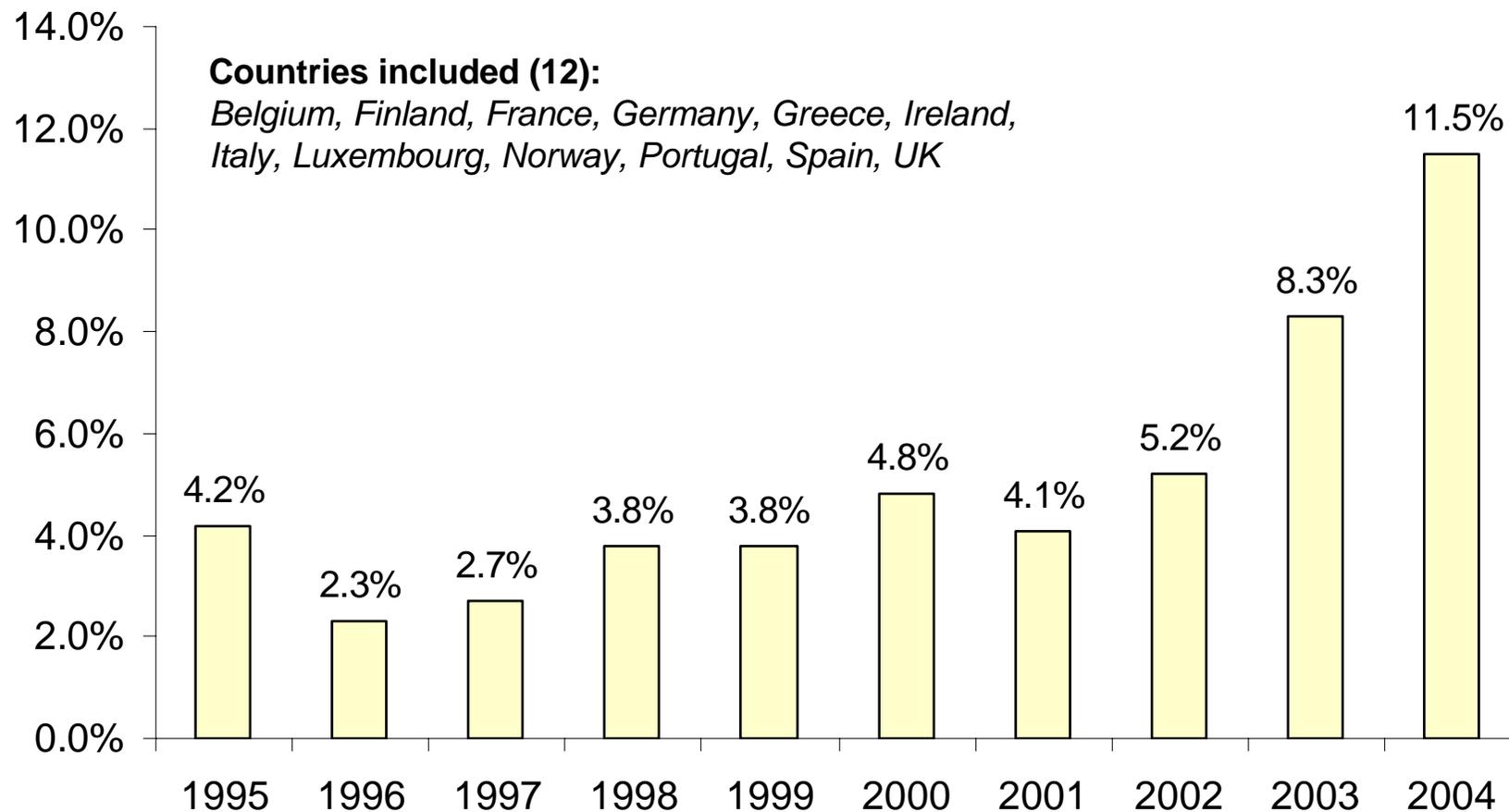
Price evolution. Household customers



Price evolution for households using the EUROSTAT EU-15 indicator in nominal and real terms (1995-2004) (Draft KEMA Report)

Price evolution is particularly noteworthy if compared against electricity taxes

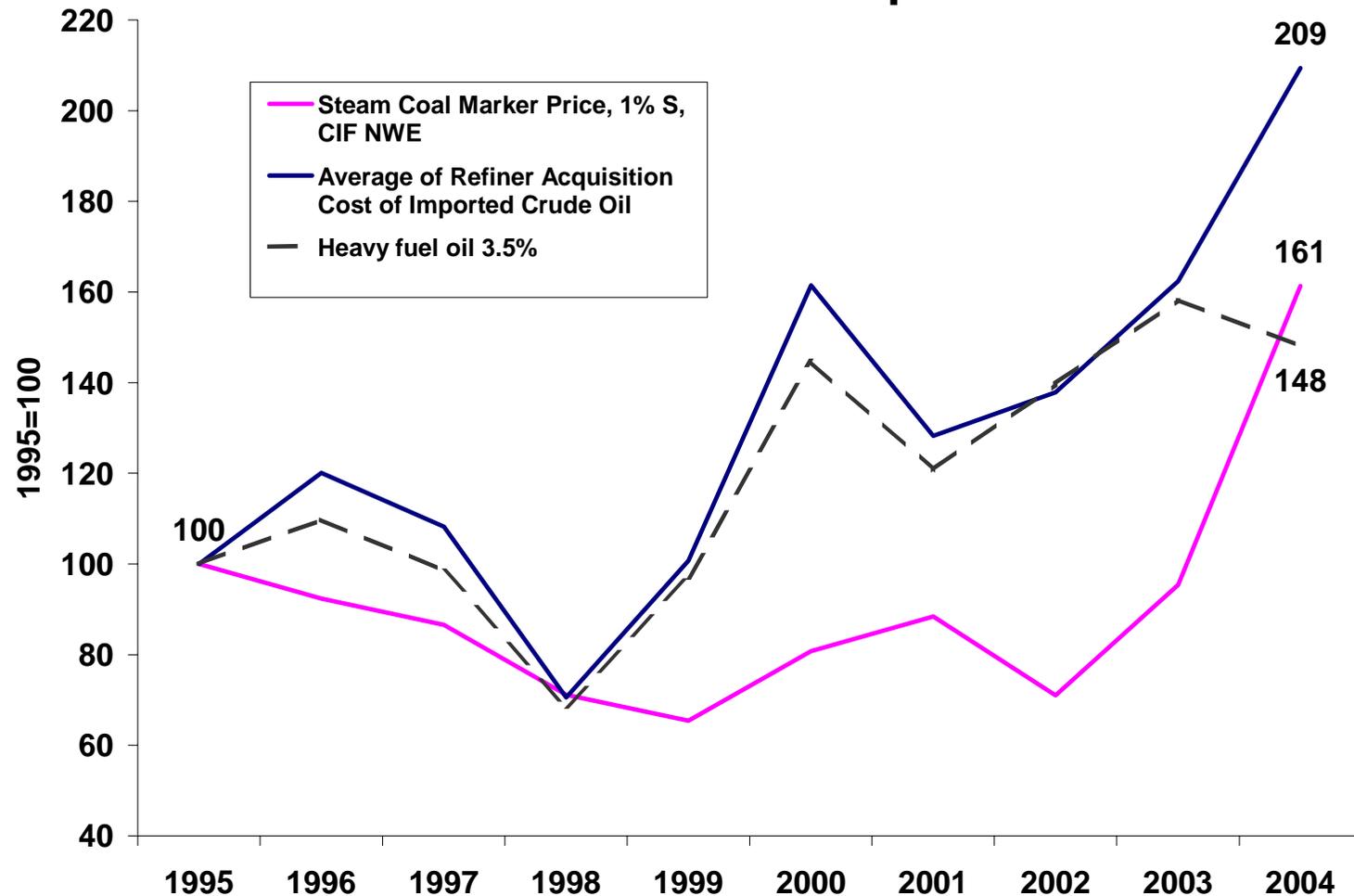
Evolution of taxes for industry



Share of taxes (excl. VAT) for industry (24 GWh, 1995-2004). (Draft KEMA Report)

Price evolution should also be put in perspective with oil and coal price increases

Evolution of fuel prices



Evolution of oil and coal prices (1995-2004) (Draft KEMA report)

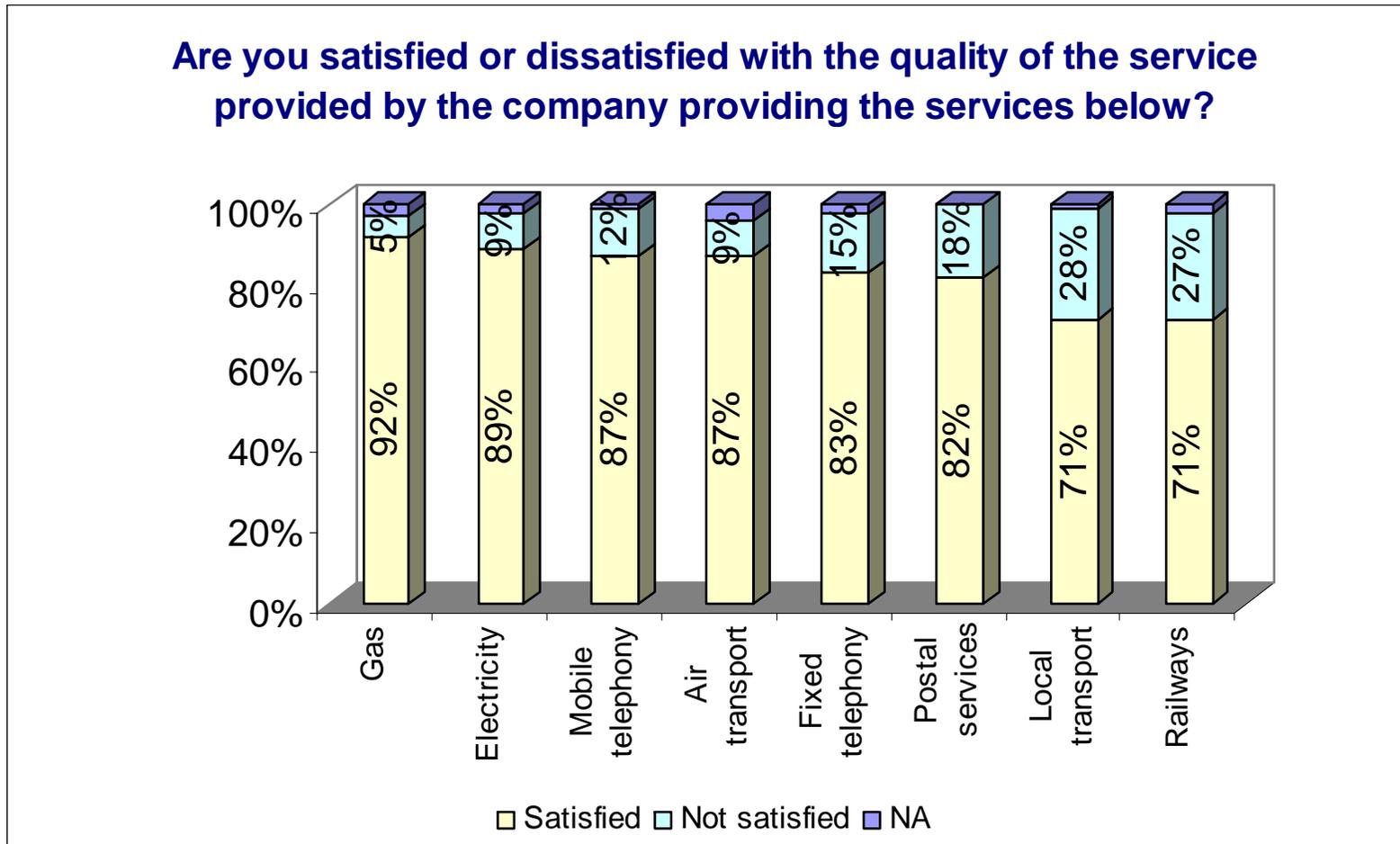
Growth in labour productivity in the electricity sector has been huge

Labour productivity growth (%/a)

	EU - 15			US		
	79-90	90-95	95-01	79-90	90-95	95-01
Total economy	2.2	2.3	1.7	1.4	1.1	2.3
Electricity, gas & water supply	2.7	3.6	5.7	1.1	1.8	0.1

Source: DG Enterprise publication:
 “EU productivity and competitiveness: an industry perspective.
 Can Europe resume the catching up process?”

Consumer satisfaction of residential customers is high



Source: Horizontal evaluation of the performance of network industries providing services of general economic interest, 2004 report (SEC(2004) 866), Figure 36, based on Eurobarometre flash "La qualite des services", 2003

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Consumer satisfaction – large industrial consumers

- **Concerns over price developments**
 - Wholesale prices
 - Carbon prices } *must lead to full cost recovery,
including capital cost*
 - Prices of primary fuels
 - Phasing out of cross-subsidised prices
 - Increase of taxes and levies
- **Concerns over functioning of the electricity market and competitiveness of their industry**

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State of play – EURELECTRIC views

- **Real progress on market developments, though still in transition**
- **Maintain momentum and keep faith in further liberalisation**
- **Attempts to maintain price control and/or re-regulate competitive activities will endanger liberalisation process!**

→ EURELECTRIC recommendations

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Further market development – Overview of EURELECTRIC recommendations

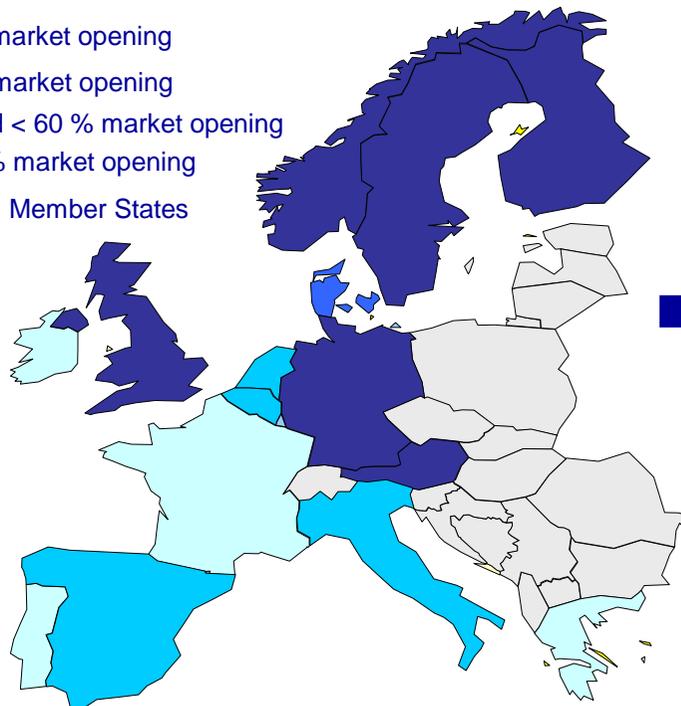
- 1. Ensure full and effective implementation of the liberalisation package**
- 2. Develop a committed attitude to the unbundling provision**
- 3. Integrate electricity markets through expansion of liquid wholesale markets**
- 4. Build trust in market fundamentals and reliance on prices**



Liberalisation of European markets to continue

Declared market opening in December 2001

- 100 % market opening
- >60 % market opening
- >30 and < 60 % market opening
- <= 30 % market opening
- Non-EU Member States



Declared market opening in Spring 2005

- 100 % market opening
- >60 % market opening
- <= 60 % market opening
- Non-EU Member States



Sources: *First EC Benchmarking Report (for 2001) and Platts EU Energy (for 2005)*

Further market development – EURELECTRIC recommendations (I)

1) Ensure full and effective implementation of the liberalisation package

- The liberalisation package ensures an **appropriate balance between regulatory supervision, customer protection and companies' freedom to do business**
- The liberalisation package provides a **sufficient regulatory framework to allow cross-border trade**
- Electricity markets need to be **underpinned with a proper competitive gas market**
- **Directive still not fully effective in all EU Member States and Cross-border Regulation to be completed with adequate guidelines**

Further market development – EURELECTRIC recommendations (II)

2) Develop a committed attitude to the unbundling provision

- **Effective unbundling is key to well functioning
electricity markets**
 - Absence of cross-subsidisation
 - Independence of network operator in the day-to-day
business
- **EURELECTRIC fully committed to efficiently
implementing unbundling provision and creating a
culture of unbundling**

Recommendations on Unbundling

- **Put in place guarantees of equal treatment for all network users**
 - Information flows: no preferential treatment of companies within the same holding structure
 - Relations with network customers: equal treatment of all customers irrespective of their supplier
- **Adopt a compliance programme and closely monitor its application**
- **Guarantee network operators with effective decision-making rights and sufficient resources:** with necessary governance and supervisory rights for the parent company
- **Have distinct network personnel from generation/supply**
- **Ensure independent behaviour of the network personnel**

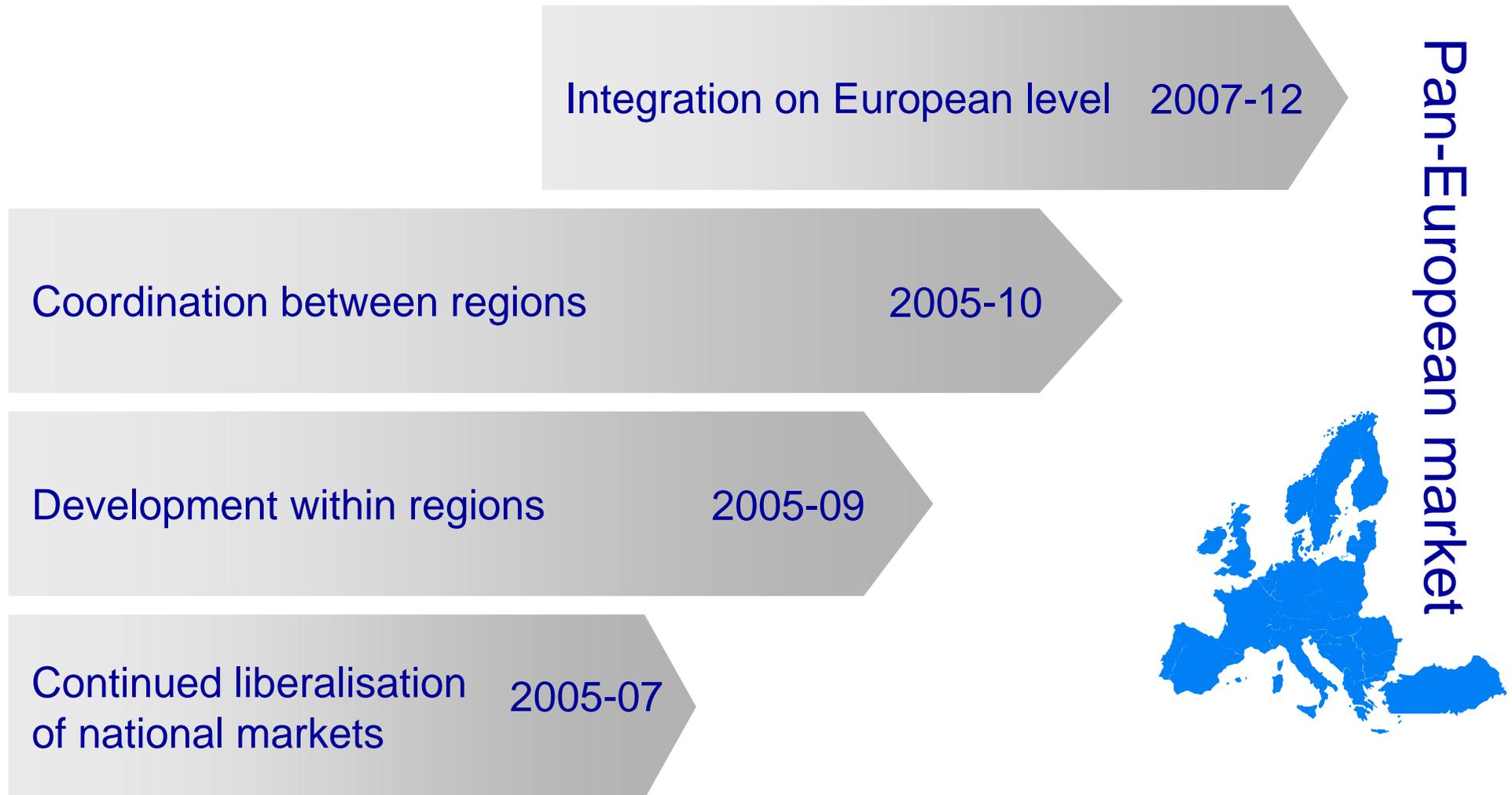
Further market development – EURELECTRIC recommendations (III)

3) Integrate electricity markets through expansion of liquid wholesale markets

Expansion of wholesale markets

- Will enhance price convergence
- Will increase the number of market players
- Will alleviate concerns of market concentration
- Will stimulate liquidity on the trading markets
- Will stimulate the need for common rules on transparency
- Will reinforce trust in price formation and markets' abilities to deliver

Further Market Development – Road Map to a Pan-European Market





Further Market Development – Road Map to a Pan-European Market

**Implementation of EURELECTRIC road map
requires:**

- As a basis, full implementation of the liberalisation package**
- Development of regional markets as an intermediary step**
- Commitment of all stakeholders through close co-operation**

Further market development – EURELECTRIC recommendations (IV)

4) Build trust in market fundamentals and reliance on prices

- Expansion of liquid wholesale markets will reinforce trust in price formation
- Development of demand side participation (through active participation of large industrial consumers) **will be key**
- Improvement of competitiveness of European industry should be sought through the **development of consistent, market oriented and least cost oriented policies**
- Role of long term contracts, more closer to LT fuel costing than volatile ST prices



Commission 2005 evaluation report EURELECTRIC alternative indicators

Economic indicators:

- productivity increase

Customer choice:

- contract renegotiations
- number of competing offers
- number of competing suppliers
- number of new suppliers since market opening
- customer satisfaction
- administrative and financial barriers to customer switching
- public service obligation and customer protection measures

Generation, wholesale markets, expansion of relevant markets:

- convergence of price zones
- evolution of liquidity of spot and futures markets
- development of data exchange and market information
- participation of energy consumers in the power exchanges
- repartition of investment shares in new generation (presence of new players in new investments)

- capability to attract investments (generation adequacy)
- cooperation between TSO's
- evolution of percentage of generation with non market based pricing (eg RES, CHP based on feed-in tariffs)
- progress in regional market creation

Cross-border trade:

- percentage of interconnectors with market based congestion management
- foreseen development of interconnectors
- evolution of available capacity on interconnectors
- utilisation of interconnectors (available capacity, congestion management methods secondary market for capacity, ...)
- auction capacity price/3 years period

Creation of a level playing field:

- underlying competitive gas market
- evolution of differences in taxation, levies
- evolution of differences in G/L tariffication
- implementation of IEM directive by member states
- "gold plating" of IEM directive by member states



**Thank you
for your attention!**



Representing the European Electricity Industry