



Rafael Miranda

President of EURELECTRIC

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

**XIIth Florence Forum
1-2 September 2005**



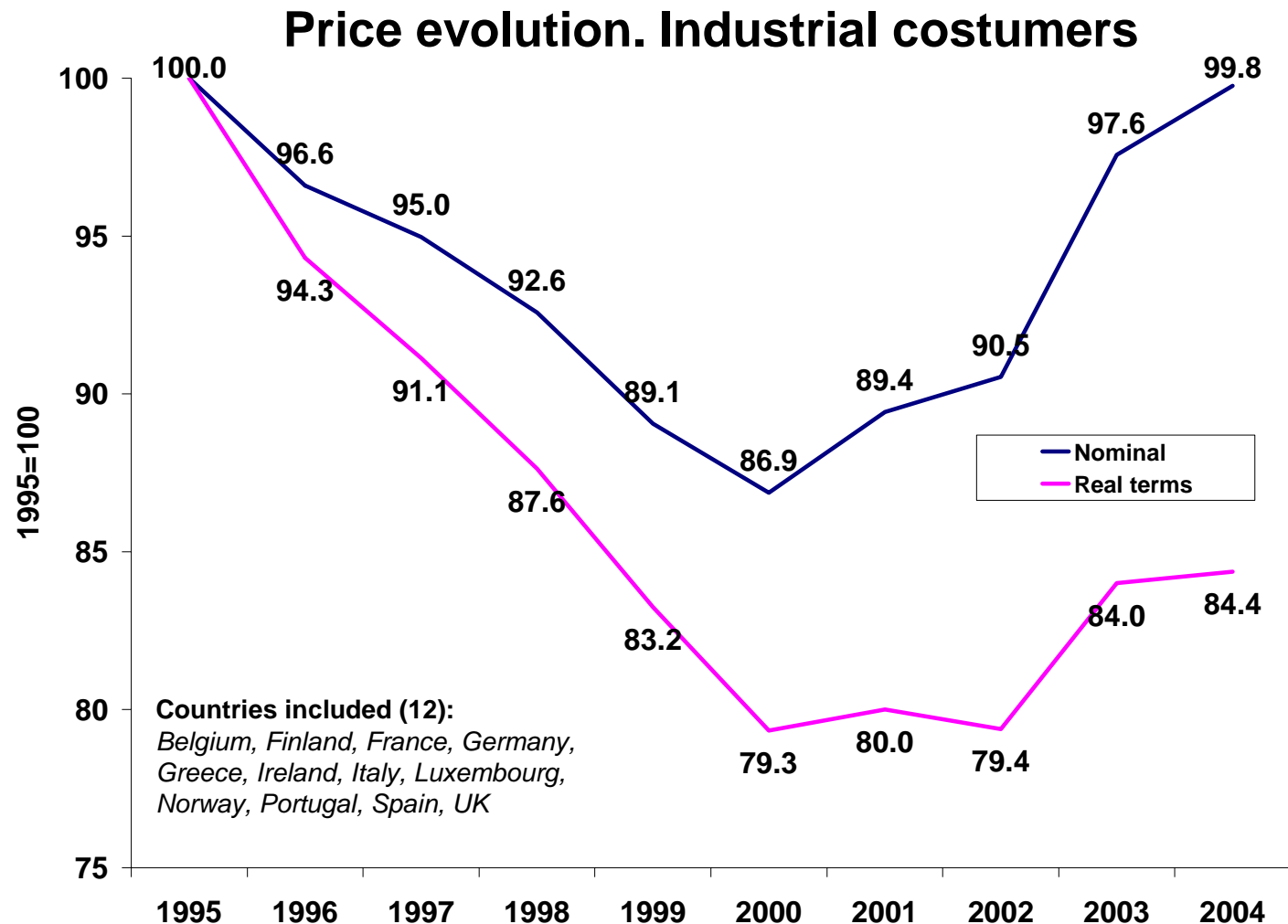
Evaluation of the European electricity market – EURELECTRIC view and recommendations

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

Source: EURELECTRIC Position Paper on Commission Consultation

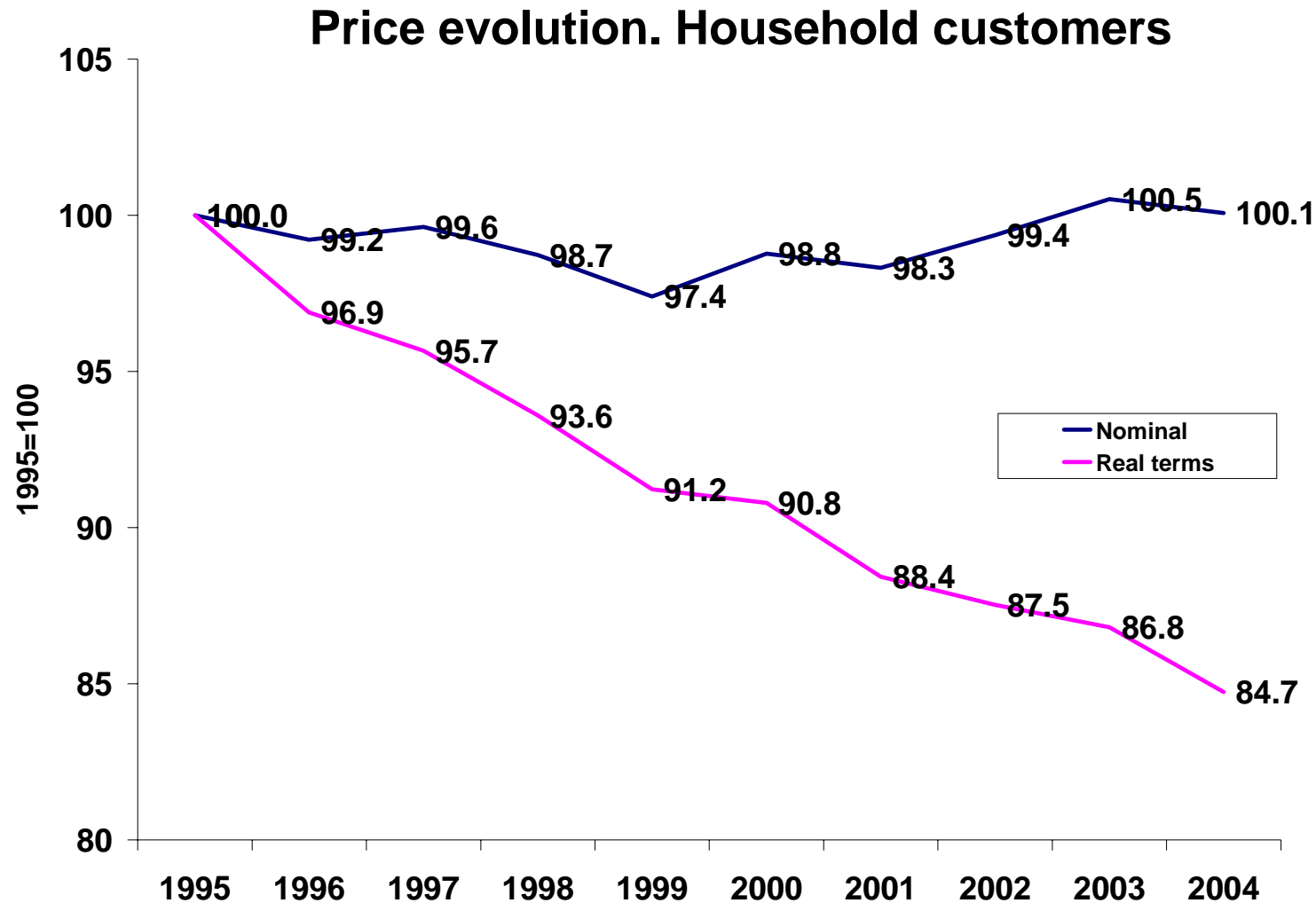
- EURELECTRIC recommendations on unbundling
- EURELECTRIC Road Map towards the development of a pan-European wholesale market
- Report on price evolution (KEMA Consulting) – to be published shortly

Electricity markets have been able to deliver price reduction



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

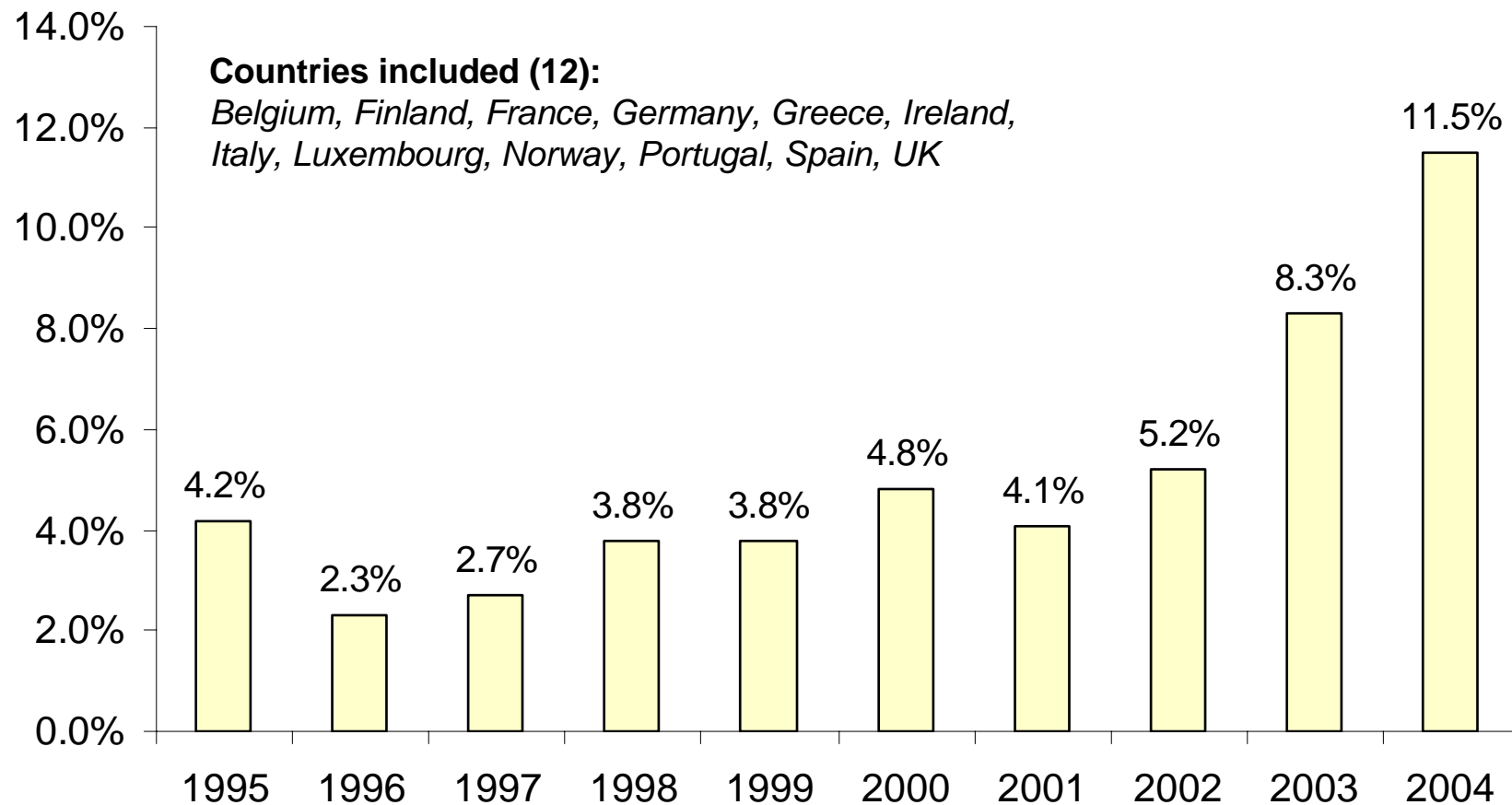
Electricity markets have been able to deliver price reduction



*Price evolution 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

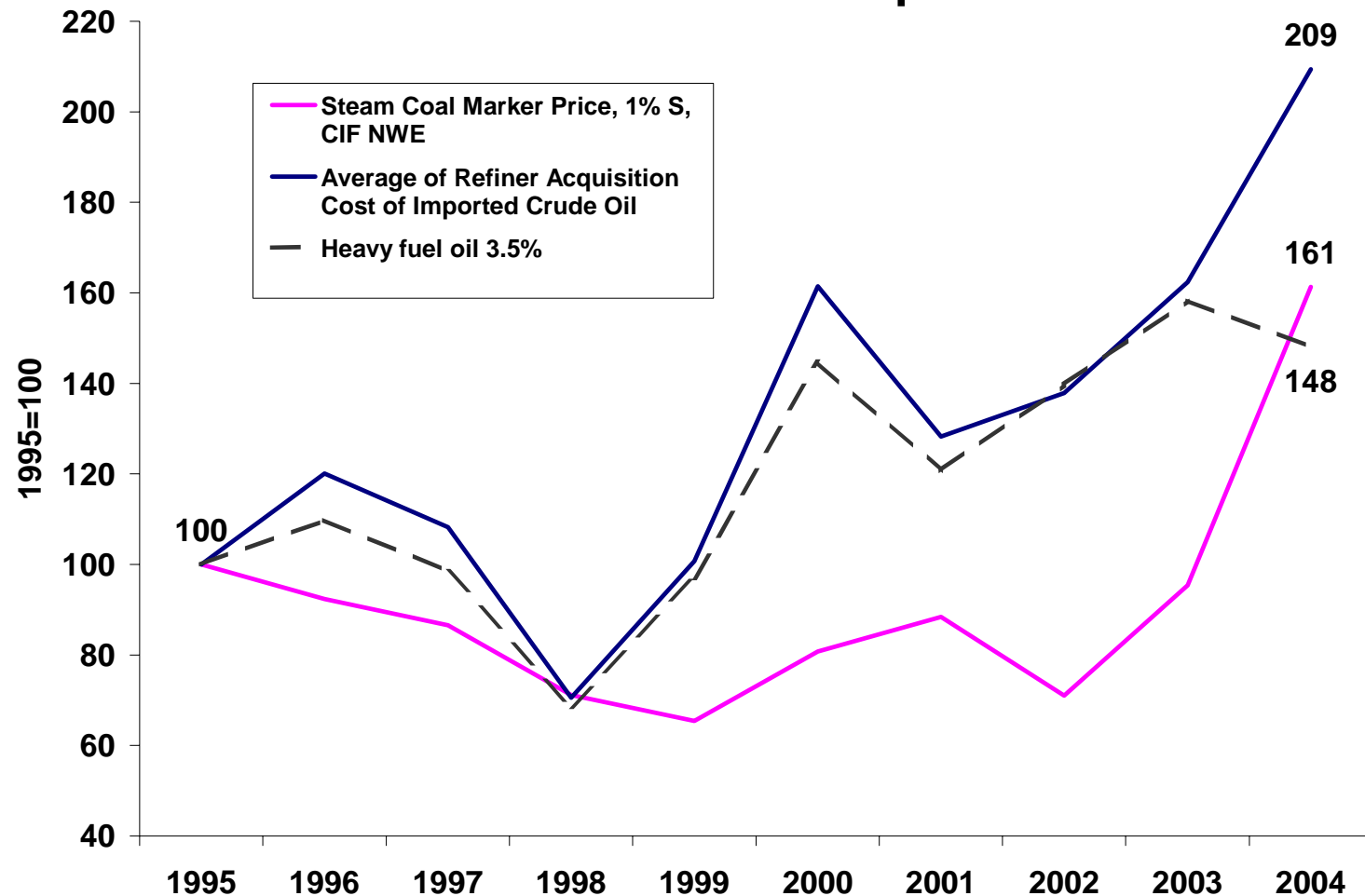
Evolution of taxes for industry



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

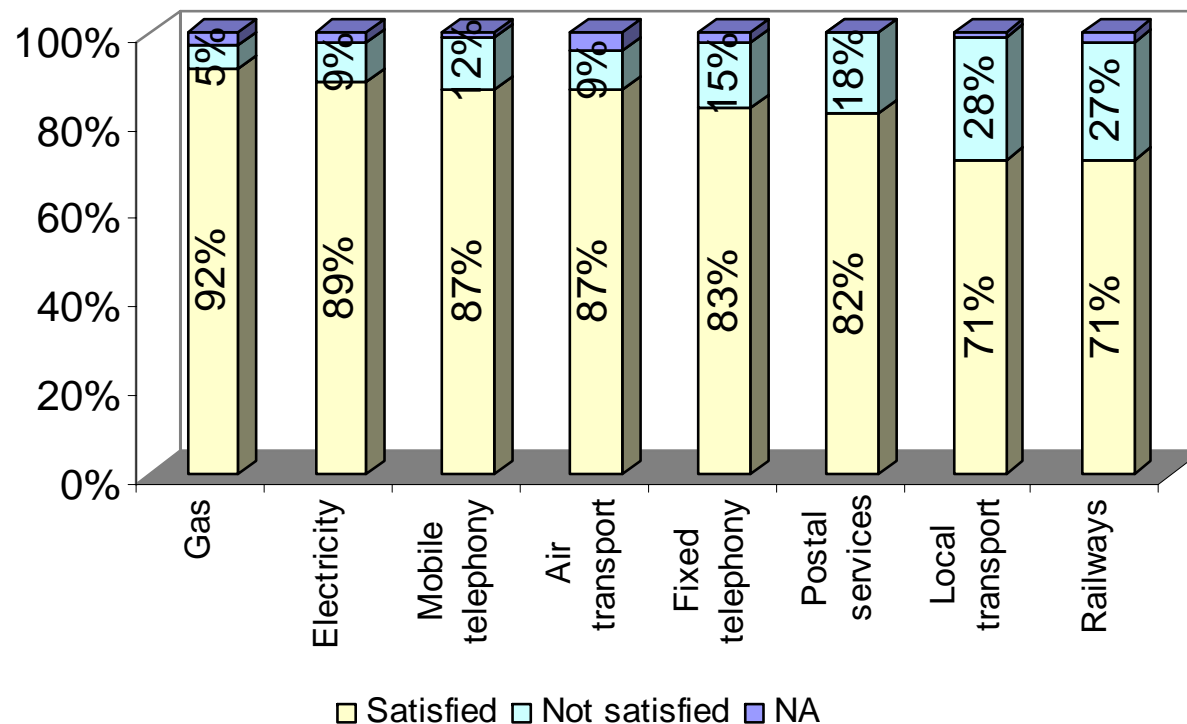
Labour productivity growth (%/a)

	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

Are you satisfied or dissatisfied with the quality of the service provided by the company providing the services below?



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



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**



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



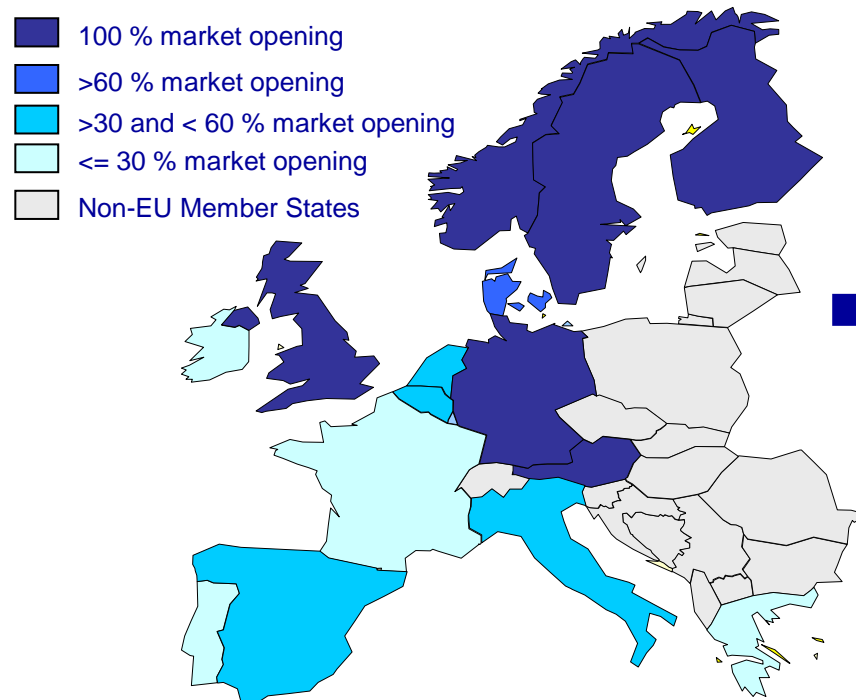
Further market development – Overview of EURELECTRIC recommendations

- 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**

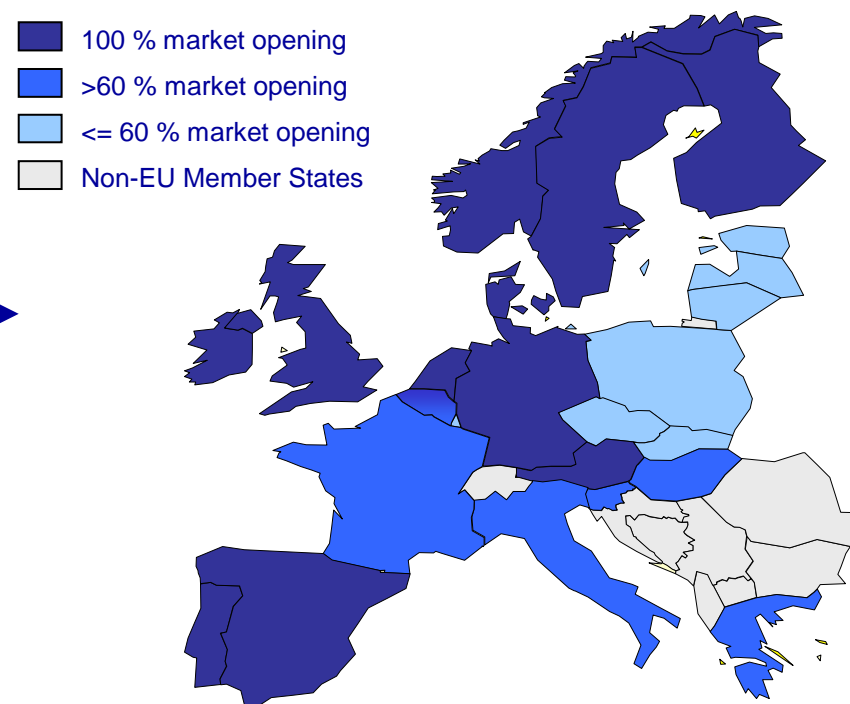


Liberalisation of European markets to continue

Declared market opening in December 2001



Declared market opening in Spring 2005



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**



EURELECTRIC

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)

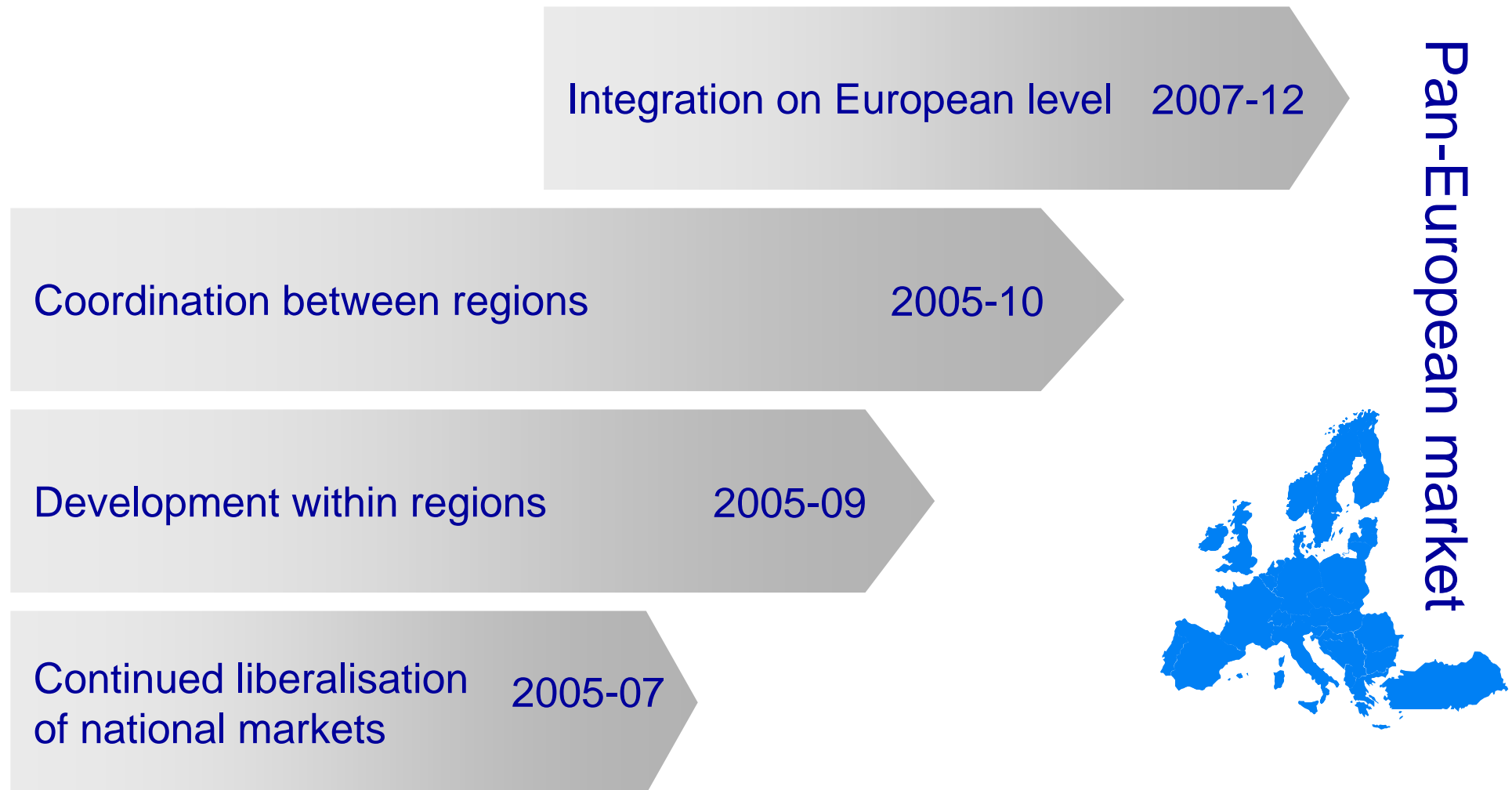
3) Integrate electricity markets through expansion of liquid wholesale markets

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 tarification
- 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