



Evaluation of the European electricity market

Florence Forum

September 2005



Rome...september 2004



- The current trading regime does not favour competition, allowing many European electricity producers to increase their commercial margins significantly; this constitutes a **significant and undue transfer of wealth.**
- The trading regime creates erratic price signals, with the result that electricity is purchased in a tremendously unstable environment; this gravely destructs industrial asset value.



This has a negative impact on the decision-making process for new investment by industry and threatens the long-term viability of existing plants in Europe.

The current electricity market design is therefore a serious threat for achieving the Lisbon strategy to make the EU the world's most dynamic and competitive economy.

EUROFER

European Confederation of Iron and Steel Industries



Positions supported by Solvay and Ford Europe

Florence Forum, 16-17 September 2004

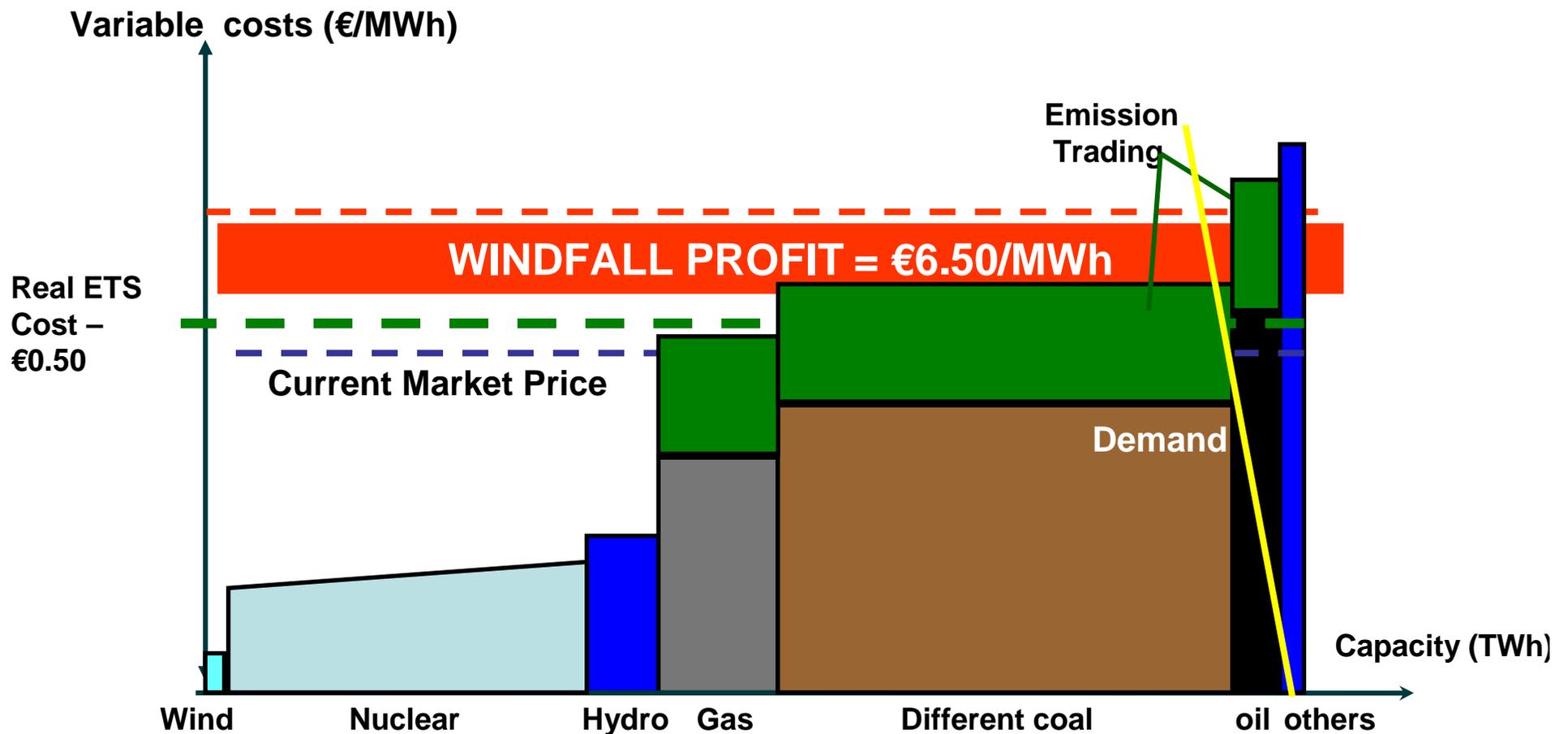
The Alliance of Power Intensive Industries

*A total turnover of about **€295 billion***

*Provide employment to **1.4 million people** in Europe*

Opportunity cost calculation in power price

With 0.7 tonne per MWh for fossil fuel-based electricity and a price of **€10/tonne of CO₂**, the impact of the EU-ETS on marginal cost resulting from the opportunity cost effect of **valuing free of charge allowances** is around **€7/MWh**



Conclusion and reflections.....

- ✓ **Serious effects for all power consumers**
- ✓ **Power intensive industries especially**
- ✓ **An unjustified transfer of wealth to the power sector**
- ✓ **NO environmental benefitson the contrary.....**
- ✓ **Harming seriously European competitiveness**
- ✓ **Monitoring is promised by the European Commission**
- ✓ **When and at what level will monitoring turn to Action? **The problem is urgent and Real..also in the test period****



Florence...september 2005



The situation is worse than it was a year ago...

Electricity prices have gone up and the full opportunity cost of CO₂ is passed through, while electrical producers have received a lot of free allowances (around 90 – 95 %). This leads to windfall profits for the electricity producers to the detriment of the consumers.

Consumers are paying the full opportunity cost within the marginal cost of the least efficient plant.



A problem of EU competitive position and unemployment to come...

Prices have risen above the pre-liberalization levels and they are still increasing

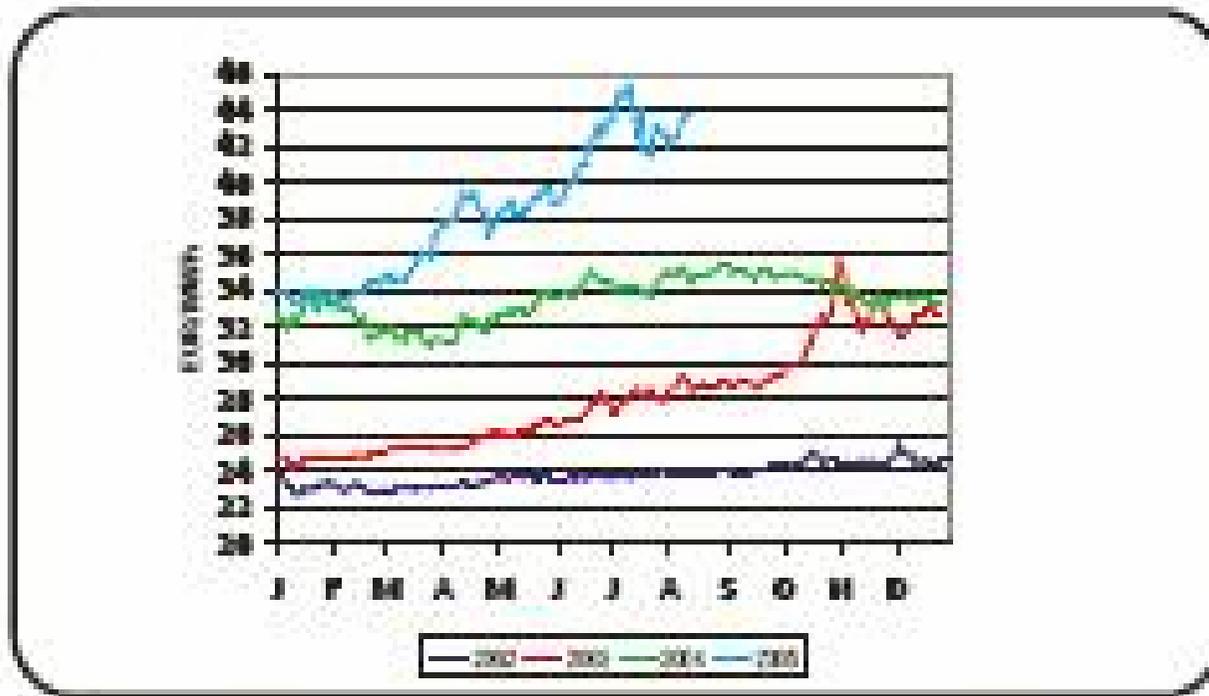
The international competitive position of the European industry has deteriorated and major closures have already been announced

This deterioration is completely unjustified, as most of Members States have a relatively favourable primary energy mix and cost structure (hydro, coal & nuclear)

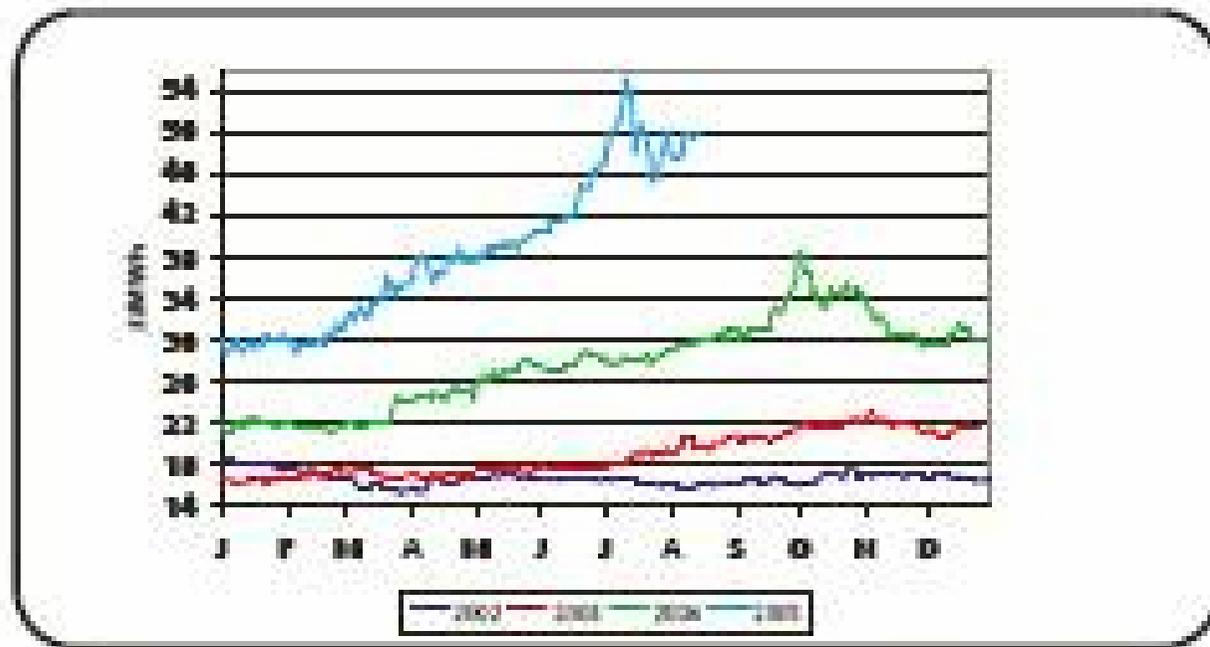


Intensive energy consumers are facing a huge crisis, due to the following important development which impact strongly the electricity bill:

- a steady increase of direct and indirect surcharges relating to energy, environmental and social policies are being passed through to the final consumer
- effective competition between generators and other independent suppliers has virtually disappeared
- the wholesale market price in many EU countries has increased over 70 % on average since 2002 (100 % from 2000 to 2006).



Electricity - Baseload Year Ahead



Electricity - Baseload Year Ahead



Accept nightmare as the only option ?

- liberalisation process oligopoly of 4 or 5 giant utility providers
- 25 „regional“ markets
- Politicians, Regulators, System Operators entangled in endless background battles
- Insufficient investment
- Exorbitant prices



Or focus on effective improvements ?

- Limit the growth in market share of the biggest players
 - e.g. if capacity > 20.000 MW in Europe, growth above 20 % market share, in any relevant market, prohibited
- Fully undundle the grids
 - prevent any influence from producers/suppliers on grid investments, operations, access, ect...
 - go for ownership unbundling



- Integrate markets : Eurogrid coordinator
 - Set procedures for intra and interregional transactions
 - Identify and manage bottlenecks in cross border flows
 - Impose infrastructure improvements on TSO's and finance them (specific fund from congestion management revenues and European consumption)
- Increase transparency, surveillance and governance
 - Obligatory and ample data publication
 - Empower the CEER and intensify cooperation with competition authorities
 - Market rules for wholesale markets (sanction possible breaching of rules)



In the meantime specific arrangements are due to avoid a disaster for energy intensive consumers:

- „G4“ tariff in Spain
- „Berlusconi“ decree in Sardinia
- „table-ronde“ in France
- long-term agreements in Sweden
- nuclear investment in Finland
- CDU proposals for the German nuclear
- speech of the Belgium energy minister



We trust that :

- DG Competition inquiry leads to clear measures with respect to the conditions for competition
- the move from Roma to Firenze will be the first step to the “Renaissance” of the Internal Energy Market...

and energy intensive industries will be enabled to survive in the EU