

European Gas Regulatory Forum
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An Energy Policy for Europe

CEDEC

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CEDEC Missions

- ***Represent*** the interests of local energy companies with the European institutions
- ***Exchange*** experiences on the implementation of the process of energy market opening
- ***Cooperate*** in view of (inter)national support

Introductory remarks on the Energy Package

- CEDEC welcomes the integration of energy and climate in the energy package of 10th January 2007
- CEDEC recognizes the important contribution of the package to sustainable security of energy supply
- CEDEC shares the intention of the Commission to strive for positive results associated with the internal energy market
- CEDEC insists on up-to-date and correct evaluation of current market situations and of intermediate positive contributions

1. Sector Inquiry - Overview

- **Key areas for inquiry :**
 - 1) *market concentration / market power*
 - 2) vertical foreclosure (“most prominently inadequate unbundling”)
 - 3) lack of market integration (including lack of regulatory oversight for cross border issues)
 - 4) lack of transparency
 - 5) price formation
 - 6) downstream markets
 - 7) balancing markets
 - 8) LNG
- **Priority areas for action :**
 - 1) achieving effective unbundling of network and “supply”
 - 2) removing regulatory gaps
 - 3) *addressing market concentration and barriers to entry*
 - 4) increasing transparency in market operations

1. Sector Inquiry – Findings & Remedies

- **Findings :**

- when concerning networks : almost exclusively on TSO-related topics
- when concerning unbundling : exclusively on TSO-related topics :

2.2. “Vertical foreclosure (most prominently inadequate unbundling)” : nothing on DSOs

2.7. “Balancing markets” : nothing on DSOs

- **Remedies :**

Suggestion that new unbundling measures should apply not only to TSOs but also to DSOs

2. Prospects for the internal G&E market

- **Experience to date :**
 - Facts from 2005-2006 lead in several cases to premature evaluation in view of final date of market opening on 1/7/2007
 - Deficiency of “insufficient unbundling” to date (p. 5) leads to the conclusion that legal and functional unbundling cannot ensure equal access to networks : criticism and conclusion are too generalized
 - Preparation of DSOs on market opening (“appear to be poorly prepared for ...July 2007”) :
criticism is premature (in view of 1/7/2007) and too generalized

2. Prospects for the internal G&E market

- **Key outstanding issues :**

- 2.1. Ensuring non-discriminatory access to networks through unbundling :

- “ considering two main avenues for further TSO unbundling measures : fully (ownership) unbundled TSOs or ISO ”

- 2.6.1. DSO Unbundling :

- “Legal unbundling is required from July 2007”

- “... strengthen regulators to enforce functional unbundling”

- 2.6.1. Exemption on unbundling rules for DSOs < 100.000 customers :

- + “rather unlikely that ...fair access” : premature assumption

- + arguments for exemption have not changed : cost/benefit analysis

3. Energy policy for Europe

“4. Taking work forward” - Concerning the internal electricity and gas market :

- “Commit to further unbundling ... through ownership unbundling or through a full ISO.”
conclusion that effective separation of networks from competitive activities (generation/import and supply) is not possible with the current legal framework, is premature - especially for DSOs !
- Need for regulatory level playing field for strong national regulators, and ERGEG+ for cross border issues
- NO short term measures at all are proposed to tackle crucial problem of existing and still growing market concentration :
No real market - with relevant customer choice - without competition between suppliers and – elementary - between producers/importers !
(electricity production : dominant incumbents currently control market price formation on regional/national markets).
Interconnexion = crucial, but takes at least 5-10 years ...

4. Contribution of DSOs to sustainability and security of supply

- **Demand side** - sustainable electricity consumption :

Role for DSOs through the long term and neutral relationship with the consumer connected to their grid :

- continue promotion of rational use of energy (experience !)
- contribute to development of energy services

- **Supply side** - sustainable electricity & heat generation :

- contribute to CO₂-reduction targets through investments in renewable energies and cogeneration
- additional investments in distribution networks to cope with major share of renewables and with structural changes in energy consumption

5. Further elements to consider

- **Investment in networks to guarantee security of supply :**
 - Financial incentives for private and public investors
 - Availability of financial resources for investments : economically reasonable depreciation periods
 - Long term perspective : regulators should consider not only costs but also quality of the networks and services, also in peripheral areas
 - Avoid short term network access price reductions to prove the market works
- **Fair treatment of customers :**
 - Code of good conduct for suppliers
 - Best practices for supplier switches
 - Readability of supply contract conditions and bills
 - PSO : recognition of social goals in (local) energy policy - transparent financing required
 - Solution(s) for dropped customers ?

Conclusions

- Competition, as a means, needs large diversity of market participants (public & private / large & SME) in order to guarantee customer choice
 - no ownership unbundling for DSOs
 - no unbundling rules for small and medium-sized DSOs (< 100.000)
- Continue and intensify the current effective contribution of local DSOs to the EU goals of competition, sustainability and security of supply
- Fair sharing of market benefits : between large and small customers, private and public shareholders, and the community
- CEDEC wants to contribute positively to the in-depth examination of the proposed measures and to the clarification of definitions and concepts