

PRESS STATEMENT

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EFET welcomes DG TREN report on energy markets

EFET welcomes the publication this week of the preliminary report, on the functioning of the European electricity and gas markets, by DG Transport and Energy of the European Commission.

EFET appreciates the transparency of the consultation process and of the report itself as issued by the Commission. The inquiry could mark an important step towards the establishing of open and liquid European energy markets.

In particular, we agree with DG TREN¹ that:

- "Liberalization has shown some benefits..."
- "The European gas grid, although well developed, is not used to its full potential";
- "...in the absence of well developed cross-border competition, the structure of national markets requires special attention";

Particularly with regard to the malfunctioning of the wholesale tier of gas markets, EFET endorses the DG TREN analysis. We are confident that EFET can help the Commission and national regulators focus on the next major goals in the reform process.²

EFET will be raising questions on the **electricity** side about one conclusion, however, regarding **market integration**:

It is only partly true to say that "the lack of market integration is largely due to the fact that the interconnection capacity available to the market between many Member States is still broadly insufficient to allow proper integration of national markets and competitive pressure from imports" ("Report on progress in creating the internal gas and electricity market" para.B2, "*Market integration*").

¹ See DG TREN press release MEMO/05/427.

² "Ensure long-term contracts do not distort the market; implement firm use-it-or-lose-it on legacy arrangements; improve information provision by System Operators; design entry-exit access regimes to facilitate trade; make unbundling effective; oblige TSOs to co-operate across borders; establish consistent powers/duties for independent regulators. require full implementation of storage access guidelines; encourage or obligations on incumbents to help make the markets; establish market-based balancing." These issues are developed in the EFET report sent to DG TREN in July 2005 (see www.efet.org)

The challenge in the short and medium term is not to invite system operators to build new lines, but to oblige them to release more capacity for cross border nominations on existing interconnections, and to guarantee to the market the availability of that capacity hour by hour. Moreover, it is an over-simplification to conclude that: "All Member States must have interconnection capacity equivalent to at least 10% of their national consumption" (See DG TREN press release MEMO/05/427)³;

It is true that many difficulties in creating a true internal energy market for the whole European Union still remain. There is diversity in the concentration of energy markets, in the degree of vertical integration and in transparency of information available to new entrants across Europe.. EFET welcome effective action on the part of the European Commission, Member State ministries and national regulatory authorities to help overcome those discrepancies. In some Member States real markets, especially in gas, still need to be newly established or even are prevented, by virtue partly of national policies or lack of implementation of existing EU measures, from developing.

EFET will welcome the large energy consumers joining in our effort to promote flourishing market mechanisms. All those interested in the future competitiveness of Europe must work for rather than against objective, transparent terms of access to energy infrastructure and non-discriminatory treatment of both wholesale and retail non-incumbent competitors in energy supply. The principles of objectivity, transparency and non-discrimination must apply within each country and equally across interconnections at national borders. If our markets do not function, none of us in Europe can win on the global stage in the long run.

Therefore EFET urges the regulators, governments and infrastructure operators of each Member State to take note of the report and to take action. They each have a responsibility to make wholesale energy market mechanisms, as well as retail competition, sustainable secure and stable over the long run.

For further information:

³ Enforcement by regulators of the transmission operators' legal obligations under EU Regulation 2003/1228, to *maximize* the capacity being made available to suppliers at cross border interconnections, is a far more important and efficient means in the medium term of overcoming barriers to market integration. Physical reinforcement of lines will only be needed in exceptional cases. Operators are routinely underestimating the capacity that they could make available to market participants *using existing infrastructure*, and routinely overestimating how much capacity must be withheld in case of outages or unusual loop flows. Regulators are acquiescing in outdated and inflexible calculations of NTC (so-called "net transfer capacities".) With proper incentives, operators will be capable of guaranteeing much higher transfer capacities for use in trans-national wholesale markets than they do at present. They could often use their auction revenues operationally to back such guarantees, for example by coordinating the re-dispatch of generating plant or counter-trading, without needing to incur capital expenditure (*Peter Styles*, Chairman of EFET Electricity Committee).



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