



GEODE Position Paper on Third Energy Package - Generation¹

In its Communication "Prospects for the internal gas and electricity market" issued on January 10, 2007, the European Commission expresses concern over how to ensure investments in electricity production inside the EU in order to ensure sufficient supply and provide sufficient competition.

The creation of the Office of the Energy Observatory is described as "an important measure to facilitate efficient new investments". In addition the Commission will establish "a working group to monitor the investments needed in electricity generation and examine the investment framework to have sufficient capacities being created in Member States".

Elsewhere in the "Energy Package" of January 10, the EC expresses concern over the concentration in the production market in many Member States and in the EU as a whole.

GEODE, the organisation which represents local energy distribution companies in 10 Member States, agrees with the Commission that a concentrated ownership structure of generation assets is a key factor in the poor market conditions in the electricity field in many Member States. Better integration of the European internal market is vital, both through the building of new interconnectors and through improved regional planning and operation of the transmission networks e.g. through Independent Regional System Operators. This will not, however, in many cases be sufficient to achieve a fully competitive market.

It is also necessary to ensure there is sufficient investment in generation to meet the need for more power and to improve competition. The best effect on competition is obtained if new investment in generation is made by new entrants to the market.

GEODE wants to underline the important role that local distribution companies can play in this context. In order for them to play this role, we need a legal framework that facilitates the entry of these players in the generation market. Market rules and market transparency is also essential.

Accordingly, **GEODE** wants to highlight the following:

- 1) Combined Heat and Power production is an excellent method of efficient utilisation of the energy content of fossil as well as renewable fuels to provide power for the market as well as heat for the local community. Such ventures require access to local heating markets, which makes them particularly suitable for local distributors. This technology is widely used in Nordic countries such as Finland, Denmark and Sweden, and has excellent potential for use elsewhere in Europe. Thanks to its efficiency, it can also be competitive on a relatively

¹ This document is part of GEODE position papers prepared on the EC third energy package: GEODE pp on internal electricity and gas energy market, GEODE pp on unbundling, GEODE pp on generation and GEODE PP on smart metering that are available from the GEODE General Delegation offices.

moderate scale, thus enabling new and competitive entrants into the generation markets.

- 2) Joint Ventures between a number of local energy companies offer a possibility for new entrants to share the economical and technical risks involved in investing in a major power plant.
- 3) Local companies are often well positioned to explore potential in renewable power production. E.g. the use of biomass in power generation is feasible only in CHP applications.

In order to attract new entrants to the generation market, it is important that the rules are fair, transparent and predictable. A problem in many Member States is that the liquidity on the various power exchanges on the wholesale market is too low to give reliable price signals. To improve liquidity and thereby improve reliability, as much generation as possible should pass through the wholesale market. In Sweden, for instance, almost 100% now goes through the Nordpool Spot Market as a consequence of a voluntary agreement among producers from an initiative by Swedenergy. Effective wholesale markets would also prevent dominant generation companies from setting "split" prices. In Member States without a well-functioning wholesale market, big generation companies abuse their market power by granting better tariffs for affiliated suppliers and strategic customers thereby causing distortions for the development of true competition. Due to the fact that true competition on the generation market only can be established by strengthening the wholesale markets, the European Commission should address the issue in new legislative proposals. These proposals should include measures to improve the transparency between generation and sales.

In addition to that, a new legal framework has to be established to make investment in generation infrastructure a more attractive proposition. For example, the entrance of new generators can be supported by facilitating licensing requirements and by shortening licensing procedures. These measures would provide incentives for investment in new plants and other facilities.

In markets where liquidity is still low, regulated measures in generation should be established until a European single market is in place, to oblige generators to put all their production in the wholesale market. For a transitional period, and as an exemption for those countries where competition is weak and where the countries are isolated, as is the case in Spain, measures such as fixed tariffs could be implemented.

Barcelona, 15th June 2007