



GEODE Position Paper on Third Energy Package - Internal Electricity and Gas Markets¹

GEODE, the European association of independent energy distributors, welcomes the European Commission Third Energy Package aiming to achieve a competitive European energy market.

GEODE would like to draw your attention to the key role that Local and Regional Distribution Companies can play in this competitive European energy market. These companies live close to the ground and have geographical links to the distribution area with a good knowledge of all local and regional energy needs in a given area. This fact is essential to allow local and regional companies to offer the best possible service quality to their customers. **GEODE** members provide an alternative for consumers in a market with very few but dominant players. **GEODE** companies are also a reference point for regulators, permitting them to benchmark different companies.

I.- LACK OF COMPETITION IN EU ELECTRICITY AND GAS MARKETS AND DIFFERENT LEVEL OF MARKET OPENING

GEODE supports, in general terms, the Commission analysis of existing problems in the electricity and gas markets:

- In many Member States, competition is very limited and remains intrinsically national, with high levels of concentration.
- In some Member States, customers have no real possibility of opting for a new supplier whilst other countries, such as the Nordic Countries, are good examples of successful working markets.
- There is a lack of competitive pressure, high levels of concentration in wholesale markets, and lack of market transparency. Incumbent energy companies maintain dominant positions in “their national markets”.
- **GEODE** agrees with the Commission that there is a long way to go to create a truly European Single Market (ESM).
- Regulated prices in many Member States prevent new market players from entering the market and prevent internal markets from properly functioning.
- In many Member States there is insufficient unbundling at transmission level. (See **GEODE position paper on unbundling**).

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.

GEODE would like to underline that the Nordic Countries and the UK have a positive market development in the electricity and gas sector. Other countries have not advanced in the same way. In general, measures which need to be taken are similar and should be applied to all EU members. In some countries other measures could be necessary for a transitional period, taking into account the starting point of each country.

II. EUROPEAN SINGLE MARKET

GEODE considers that a **European Single Market (ESM)** is the best way to facilitate better market conditions by making electricity and gas companies compete with each other at the EU level. Today a **ESM** does not exist and national markets remain closed with very limited exceptions – Nordic Countries, NL and UK -, facilitating (?) dominant positions on the regional level. Therefore, **GEODE** thinks **EU priorities** should concentrate on creating the right conditions for the **ESM** especially with regard to cross-border issues.

A European single market is first of all a market where, at the level of transmission, for both the electricity and gas systems, a transnational flow of energy on equal transparent terms is open to all players. Bottlenecks have to be removed by new interconnection capacity and free access should be guaranteed by Regional System Operators (RSO). To facilitate this development, **GEODE** believes that ownership unbundling at the transmission level could be a good start, but there is also a need for incentives to increase the interconnecting capacity in many parts of Europe.

GEODE considers that the problem of managing the different European transmission systems should be solved by a regional system operator. In addition to that, the correct mechanisms to manage the lack of capacities in the interconnectors have to be set up.

GEODE suggests an important element should the introduction of redispatching mechanisms to manage the lack of capacity in the interconnectors. The cost to be included in transmission tariffs. To reach this point, active co-ordination between TSO's should be required and this co-ordination could well be handled by a TSO.

At the distribution level, there are no bottlenecks, and distribution operators cannot hinder any suppliers from access to the market. The prices are also transparent and undiscriminating. Therefore, there are no advantages to ownership unbundling at the distribution level. (See **GEODE position paper on unbundling**)

At the generation level, it is important that new entrants and smaller players have fair conditions (of access). Otherwise the dominance of a few big companies will continue. (See **GEODE position paper on generation**).

In this context, **GEODE** also supports the following measures proposed by the Commission:

- ERGEG+, reinforcing regulators power on cross border issues.

- To give TSO's + GTE's the task of making recommendations on technical issues and operational rules. There is currently a lack of co-operation between TSO's and GTE's, and bottlenecks limit trade and a homogeneous market development. Co-operation between them is a key point and has to be reinforced.
- To set up Regional Cross-Border System Operators independently owned. A kind of supranational ISO with a mandate for planning issues.

Other measures, such as re-inforcing unbundling provisions, should be strictly kept to the transmission level. Stronger unbundling rules need not apply to the distribution level. In this sense, UK and Nordic Countries as well as the Netherlands electricity market, have proved that ownership unbundling at the distribution level is not needed to create competitive market conditions².

III.- REGULATED TARIFFS

We agree with the Commission that regulated tariffs may produce distortions in the market. At the same time, when a few companies have dominant positions in an isolated country (such as Spain and Italy), regulated tariffs prevent these companies from setting prices freely. Eliminating these tariffs here would not increase competition.

GEODE believes that regulated tariffs should only be implemented for a transitional period until true competition has developed and then only for isolated countries where competition is weak. However, such measures should not distract from the primary goal of EU energy policy: the development of competitive market structures.

IV.- FURTHER MEASURES

Other measures proposed by the Commission that **GEODE** supports:

- To introduce binding guidelines on transparency through new legislation. ERGEG guidelines will be the basis.
- To monitor compliance with European law of long term gas transmission and downstream contracts.
- To settle a new framework for access to gas storage requiring legal unbundling, binding guidelines according to the ERGEG paper and increased power of regulators over gas storage.
- To re-inforce consumers protection by developing an energy customers charter.

***GEODE's** major concerns on ownership unbundling, generation and smart metering, are contained in specific position papers that together with this paper constitute **GEODE** first approach on EC Third Energy Package as follows:*

² See GEODE position paper on unbundling.

- *GEODE Position Paper on Third Energy Package – Internal Electricity and Gas Markets.*
- *GEODE Position Paper on Third Energy Package – Ownership Unbundling.*
- *GEODE Position Paper on Third Energy Package – Generation.*
- *GEODE Position Paper on Third Energy Package – Smart Metering.*

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