



Powering the
energy debate



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REVIEW

More than 150 key figures from government and industry gathered at Ofgem's Millbank offices on 28 September 2006, at an event which showcased Ofgem's leading position in the drive to deliver a competitive pan-European energy market. Following an early morning press conference, European Competition Commissioner Neelie Kroes was invited by Chairman Sir John Mogg to deliver the keynote speech for the event, opening her remarks by stating **"If we don't succeed in energy policy, we will fail as a Commission. We have to deliver on energy."**



Mrs Kroes forecast major progress towards a renewed European energy policy to arise from the Strategic Energy Review. The review - published in January next year – is likely to include improvements in transparency, and further unbundling of network and supply activities. **"Europe needs a single market. If there are parties who are not willing to play the game with single market rules and competition - I will force them,"** said the Commissioner.

Sir John was later joined on stage by the European Commission's Competition Director-General, Philip Lowe, Deputy Director-General for Energy, Dominique Restori, head of the DTI's Energy and Strategy Unit, Graham White and Alistair Buchanan, for a spirited panel debate.

Ofgem will continue its groundbreaking work in Europe, with Mrs Kroes and her team, building further momentum for change through Sir John's Presidency of CEER and chairmanship of ERGEG.





Notes from the Panel Debate

Here we give comments and questions from the floor and the responses to them from the speakers.

High energy prices have led to the collapse of manufacturing firms who are competing with firms from China and India – who have not signed up to Kyoto.

Graham White led off by confirming we need a more effective Emissions Trading Scheme with more buy in from around the EU. Alistair Buchanan pointed out that reliability was as important as price, and that Ofgem's priority was to ensure, through its price controls, that the 'pipes and wires' businesses invested properly. Philip Lowe acknowledged that businesses will always tend to go where costs were lowest but an important question was: are those costs fair? Member states, he said, must get better at working together on a global stage to encourage competitiveness.

If a non-EU company bid for an EU energy company, can the merits of the proposed takeover be debated?



Mr Lowe started by emphasising that competition law was neutral. The key question, he said, was how such a merger would affect the way the market functioned in Europe. For example, would it create a concentration of market power that cut out new entrants? Mr Ristori concurred and pointed to the EU's dialogue with Algeria and Russia saying issues around fair access and transit require frank dialogue. Alistair Buchanan went on to say that any foreign

company wanting to take over a UK regulated company was governed by certain rules such as blocks on the transfer of cash from the acquired firm back to the parent and the need to maintain an investment-grade credit rating.

Size Matters. Would the Commission prefer an national company where networks, production and supply were unbundled, or an integrated cross-border company?

Mr Lowe said that size mattered only if it prevented competition. Consolidation within national markets, he said, can lead to entry barriers, while cross-border consolidation has generally led to more competition. Legal unbundling, Mr Lowe said, did not guarantee an end to entry barriers - ownership unbundling did. He said unbundling was a regulatory debate. He went on to point out that the Commission used structural unbundling in the DONG transaction, but this was only appropriate where a merger threatened to create problems. The Commission can split companies up under antitrust legislation but that power had not been used.



Climate change intervention needs very high carbon prices eg €30/tCO₂



Mr White claimed that greater certainty was needed in the shape of the market – for example beyond the third phase of ETS. Auctioning, he said, need to be considered. But some member states, he said, needed to be pushed to take part in the ETS. Steering China and India into using clean coal, Mr White said, was vital. Alistair Buchanan went on to say that there is a need for predictability in the price of carbon.

UK companies are going bust citing energy prices as the reason, and prices are not competitive in the EU – when will there be action?

UK is currently second only to Spain in price increases to industry, said Alistair Buchanan. But for 10 years UK industry had prices below average. Ofgem has carried out investigations into wholesale gas prices which found no abuse – this should give consumers confidence.

UK and Europe need full unbundling to get competition.

Mr Ristori kicked off with a claim that vertically integrated energy companies were not investing sufficiently in development. Italian and Czech authorities had taken action against companies who were under-investing to the detriment of their respective national market development. The question remained was this the best intervention or would it be better to go for further structural unbundling.

How does the panel respond to the assertion that the cost of dealing with environmental issues and a liberalised market jeopardises the protection for vulnerable customers?

Vulnerable customers, Alistair Buchanan said, have a special status, which will be maintained in Ofgem's forthcoming detailed review of the supply licence. Mr Ristori said that there needed to be sufficient information on the price and origin of electricity to take account of the population's sensibility to climate change.

How long will liberalisation in Europe take?

Sir John claimed it will take years for liberalisation to be established but he added the political will was there. The dawn raids, he said, demonstrated that will. Alistair Buchanan pointed out it took the UK 10 years to get to where it wanted to go. Mr Ristori felt that some aspects of regulation will need to be improved in the coming months to enable the integration of the European market. He said there was a huge amount of investment needed in transmission and renewables but the role of the government was not to provide that investment but to remove barriers that prevented it.





Notes from the Press Conference

A lively and well attended press conference, with Commissioner Kroes, Alistair Buchanan, Reijo Kempinen (Head of the UK Representation of the European Commission) and Mr Lowe, preceded the main event.

Mrs Kroes told journalists that Europe’s energy challenges cannot be solved on a national level alone. The solution, she said, was a single market. The fact that security of supply was now a major issue showed how time can change the market situation. Delivering, she said, will require considerable effort – and it will be a test of the credibility of the EU leadership to provide a blueprint.

She pointed out that a liberalised approach to markets was not a free ticket and warned that member states cannot just do it when it suited them while citing ‘security of supply’ at other times. Security, she said, was better and safer in the hands of 25 member states. Markets in electricity, Mrs Kroes warned, were too concentrated and there was too little information. She said the Commission had been tackling these issues through, for instance, dawn raids, to remind member states of their obligation under EC law.



Will the Commissioner use her powers to enforce unbundling?

The facts and figures, Mrs Kroes said, demonstrated that unbundling makes it clear for the investor that it is not a blocked market.

How would the Commissioner measure success in delivering value from the unbundling process?

A key measure that the market was working, according to Mrs Kroes, would be when it was possible to deal with unexpected problems in the energy market, with the cooperation of 27 member states. It would depend also on foreign relations, with the EU working as a united force with the likes of Russia and Algeria.



Does the creation of oligopolies cause concerns and will the competition probe address this?

Neither nation nor size was important Mrs Kroes asserted, only the optimal performance of competition was crucial. The Commission favoured an EU energy policy and was against monopolies she said.

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