The road is long

Europe forced to embrace greater competition

James Griffin
FREELANCE WRITER

THOUGH THE DEADLINE was met with little fanfare its implications are expected to go much further that just a mandatory choice of supplier for all Industrial & Commercial (I&C) consumers.

Vertically integrated utilities such as Gaz de France and Italy's ENEL must now 'legally' unbundle the grid from their supply business. All EU countries must now have an energy regulator, something that Germany had doggedly refused to establish previously. And every EU country must now have transparent tariffs for using the transmission system. The question is: how successful will the market be in delivering the competition the EU desires?

As the EU law went into effect, the European Commission, was already urging member states to speed up the opening of their energy market, criticising them for not incorporating the EU law more quickly into their national regulations. "Member states agreed in 2003 on the legal framework for competitive and fair electricity and gas markets, including effective regulation, unbundling of networks and far reaching consumer protection." EU Energy and Transport Minister, Loyola de Palacio said in a statement. "It is now up to them to live up to their responsibilities and fulfil the firm engagement they took to open the markets by this month."

Currently, only five countries - Denmark, Hungry, Lithuania, The Netherlands and Slovenia - have informed the European Commission that they had either transposed the EU laws into national legislation or were in the process of doing so, which the Commission said was unacceptable. Some nations that opened their markets have failed to apply other aspects of the regulation, such as those relating to environmental or consumer protection.

With residential market opening slated for July 2007 the fear is that at the last minute the whole process could be derailed. It is not just the EU that is expressing concern. Last summer's blackouts from England to Scandinavia and Italy called many national politicians and industry commentators to question the issue of 'security of supply' in a competitive marketplace. It is a conundrum that has seen many opinions voiced, but de Palacio rejects the link between last year's blackouts and the market opening process.

The majority of commentators agree with de Palacio, but many are concerned that deregulation will undermine incentives to make essential investment in new generation and transmission. Graham Shuttleworth, a director at NERA, the economic consulting group, says: "Deregulation removes the long-term relationship with customers that underpinned investment in the past. Deregulated markets need a good market design to provide investment incentives and investors willing to take a risk. There is no guarantee that either is present in Europe at the moment."

With figures from the International Energy Agency (IEA) suggesting that 40 percent of Western Europe's coal plants will need to replaced by 2015 and the EU's increasing reliance on imported gas, the questions being asked are: will new projects be ready in time to meet demand and will the lights stay on? The EUs approach is that security of supply comes not from central planning, but from a well-regulated, open market, in a similar manner to the UK energy market following its privatisation.

Another challenge is the position of what many have labelled the 'entrenched monopolists'. In Belgium, Greece, France and Ireland, the electricity and gas sector remain dominated by a single supplier holding 80 percent or more of the market, according to the European Commission. France's foot-dragging has frequently raised the hackles of its EU partners, particularly as Electricite de France (EDF) grew into one of the biggest electricity companies in the world by moving into deregulated markets elsewhere in Europe while benefitting from a near-monopoly at home.

There are rumours of impending 'asset swaps' among national champions such as EDF, ENEL and Spain's Endesa. It would certainly allow some outside penetration, but many commentators believe that this will both limit the number new entrants and in turn competition. Shuttleworth says: "Large vertically integrated companies are less reliant on markets and hence better able to cope with flawed electricity market designs. If the electricity market design is flawed, vertical and horizontal integration allows the industry to work around the problems - but it may not be the best possible outcome for consumers."

Analysts say the fierce competition and price war seen in the UK market, the first to fully liberalise, is unlikely to be repeated in other countries as former monopolies keep a tight grip on customers. However, the market opening is already showing some signs of delivering competition. Electrabel Suez, a subsidiary of the French group Suez, has already reported that it has won customers from EDF. Electrabel Suez sees the energy market opening in France as a significant and is offering products designed to meet the needs of a variety of customers such as local authorities, small and medium-size businesses and multi-site customers. Its medium-term objective is to serve 10 percent of the French market open to competition.

Whether July 2007 will bring the full market competition the EU desires is a matter of much debate. Market analyst group Datamonitor predicts that only a handful of the EU will be compliant and by 2007 the overriding need to support national interests is likely to prevent most member states from opening up their markets to household retail competition. It adds: "Market concentration will be skewed to support national champions. The benefits of a liberalised energy market may be sacrificed to short-term political expediency." But then disagreements and heel dragging are part and parcel of the development of competitive energy markets and no-one expects it to change. For many, 2007 might be viewed as the end of the beginning and not the beginning of the end.