

Energy Market Reform: Short on Detail and Political Commitment

According to Christian Essers, Managing Director of Genscape International, the EU Commission's proposals should not be viewed as a final solution for existing market problems – more an invitation to market participants to move forward rather than wait for more legislation.

Much has been said about the Communication from the Commission of the European Communities (EC), drawing a line under 10 years of energy market development and outlining a way forward, addressing the key issues of unbundling, regulatory coordination, stimulating investments, avoiding unfair competition, ensuring reasonable energy prices for consumers and sustainable energy use.

Some reactions were fairly predictable. Environmental campaigners missed lack of ambition, while the large energy countries prepared for a battle around the intended break-up of national energy champions via unbundling.

It would in fact be easy to discard the whole package as old wine in new bottles, or to point out the lack of concrete measures as well as the offering of watered-down alternatives for key items, e.g. the unbundling. Blaming the 4 November outage on regulatory failures does not come across as a sign of strength either.

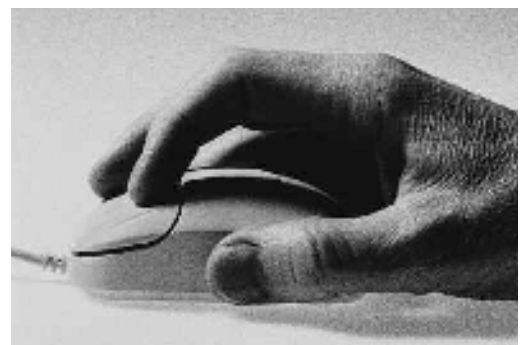
So, is there anything noteworthy about this regulatory initiative?

Seen in a broader regulatory perspective rather than on its own, one could consider it a stepping stone towards an efficient market without explicit political approval ex-ante. A reinforcing of long-standing important goals in the areas of competition,

environment, customer protection and security of supply.

One of the big issues of the current energy discussion, though not limited to energy, is the apparent lack of an explicit EC mandate for further reforms. At the start of the internal energy market process some 10 years ago, there were doubts on the details of the future market, but a broad consensus that more market working would create significant benefits – usually politically abbreviated to “lower prices.” In order to achieve further progress today, the EC has to extrapolate its original mandate with an own plan, which conflicts with national politics in several large member states.

The regulators in several countries do not have the desired political independence and may need to adhere to national preferences and policies. The EC can provide the necessary indirect support through providing support in terms of facts and



figures (e.g. the sector inquiry) or launching potentially more confrontational proposals.

The regional initiatives for gas and power have accelerated the slow processes by allowing for “alliances of speed.” These initiatives have benefited from the EC activities, both the sector inquiry and the reform announcements. Working with the market participants, regulators can point to the concerns and plans on a European level and use these to accelerate the discussion and decision processes.

In the meantime, despite some clear concerns voiced, e.g. regarding the unbundling, the Council has agreed to the summary goals proposed by the EC and requested concrete measures to be proposed and supported by arguments. That is when the real decisions/discussions will take place.

No concrete measures of the plan have been proposed let alone approved yet, so far, everything stayed on a high level where

one has difficulty to disagree with. Who doubts the need for more interconnection capacity and the need for better cooperation between regulators or between TSOs? It is the how much and how to get there, that divides the various groups involved.

And the conclusion?

With its extensive sector inquiry and the ongoing discussion of various aspects of the findings during both phases, the EC has created a starting point.

The EC communication should not be read or seen as the answer to existing market problems. It is a summary of a thought process and a signal to the market participants as well as regulators to proceed. Ultimately, it is an invitation to move forward actively, rather than to wait for more legislation and regulation. ■

