

DAILY NEWS to Members: 09/11/2006 by Eva Hoos

**NEW EURELECTRIC REPORT CALLS FOR RAPID ACTION TO END ELECTRICITY
PRICE REGULATION**

EURELECTRIC is calling on Member States and the European Commission to immediately ensure sound implementation of the Electricity Directive by removing the end-user price regulation which disrupts the competitive price-formation mechanism, disconnects end-users from the market, blocks market integration and hinders competition from developing. A report issued by EURELECTRIC today* argues that price regulation cannot co-exist with competitive markets and that setting retail prices for entire household segments or large categories of end-users does not conform to the Directive and cannot be justified under public service obligations.

The report underlines that competitive retail electricity markets are essential to the functioning of liquid wholesale markets and to the overall development of the internal electricity market. However, despite progress in opening up wholesale markets, retail markets remain largely regulated and a number of countries have set retail prices below market price. Price regulation is used not only for “captive” customers, but also in some countries for large segments of end-users who are already eligible to choose their supplier.

EURELECTRIC stresses that maintaining end-user price regulation disturbs market-functioning and creates a risk of the liberalisation process collapsing. The negative impacts of price regulation on price formation are manifold. It reduces liquidity, weakens price signals and undermines the commercial viability of independent suppliers, forcing their exit from the market or blocking their entry altogether. The result is distorted competition and the elimination of incentives for customers to switch to a new supplier. This reinforces the isolation of national markets and hinders their integration. Meanwhile the effect of a weak price signal is to encourage over-consumption and prevent suppliers from making correct investment decisions, simultaneously also reducing their drive for innovation.

Accordingly, the paper argues that consumers already purchasing their electricity in the competitive market should not be allowed to switch back to regulated prices. We argue further that the total removal of price regulation by Member States is essential in order to complete the liberalisation process and allow it to bring its true benefits to all consumers.

The paper points out that Art. 3 of the Electricity Directive provides that public service obligations should not impede the opening of the market and concludes that setting retail prices for large categories of customers, or the entire household segment does not conform to the Directive and cannot be justified under the heading of a public service obligation. The regulated price of the “supplier of last resort” – an entity nominated to ensure continuity of supply in cases where a customer’s supplier is unable to do so - should be market-based and provide an incentive for the customer to choose a supplier on the competitive market.

**The Role of Retail Competition in Developing the European Electricity Market, at www.eurelectric.org; v. DN 4/5/06; 23/3/04 et al
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