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The situation of Internal Markets in Gas and Electricity

*Check Against Delivery
Seul le texte prononcé fait foi
Es gilt das gesprochene Wort*

Presentation of « Preliminary Findings of the Energy Sector Inquiry »

Brussels, 16 February 2006

Ladies and Gentlemen,

1. Introductory remarks:

I am pleased to welcome delegates back for the afternoon session of this important meeting concerning the sector inquiry. You have already heard some clear indications from Ms Kroes and her services based on what they have uncovered so far in their inquiry.

I would like to introduce the second part of today's proceedings, [namely the Panel discussion with CEO's] by reminding delegates of the work that is being carried out by DG Energy and Transport on this dossier.

2. The construction of a truly internal market, a way to ensure a secure, competitive and sustainable energy for Europe.

Heads of State and of Government at their summits in October 2005 and December 2005 recognised the importance of a more integrated approach to energy and called for new proposals from the Commission to respond.

You will agree with me that Europe will need to face important challenges. Secure and affordable supplies can no longer be taken for granted. Global energy demand is increasing. Oil and gas reserves are declining. An approach based solely on 25 individual energy policies is not sufficient to deliver the common objectives of the EU (secure, sustainable and competitive energy).

A more focused European energy policy will be the object of the Green Paper to be adopted by the Commission in March this year. This Green Paper will provoke, and is already provoking, a debate. Completing the internal European electricity and gas markets is regarded in this document as a key instrument in view of achieving a secure and stable energy policy.

We need to guarantee that the freedom of EU citizens to choose energy suppliers is real and not just a "paper" choice in 2007. Experience has shown that a real internal market delivers lower prices and improved security of supply. The launching of the debate in the light of the Green Paper will no doubt constitute an opportunity to endorse the need to vigorously progress in creating a truly internal gas and electricity markets. At the same time potential investors in new projects require a stable regulatory framework and the assurance that they have equal access to all customers in the European Union as we have promised.

What does all this mean in concrete terms? What is now the situation in market opening and completion of EC gas and electricity directives? What else do we all need to do, if further action is really needed?

As you recall, the Commission issued a report in November 2005 on the internal market Directives for gas and electricity, which was intended to set the scene for full market opening in July 2007. It concluded that despite some success – e.g. the fact that electricity prices are lower in real terms than in 1995 for most consumers – there remain a number of obstacles. They are similar to those which we discussed this morning such as the lack of integration of national markets, unbundling problems and the question of concentration.

As a consequence of this report, we undertook to make a country-by-country review of the transposition and implementation of the electricity and gas directives during this year. The objective of this work is to reveal further whether these obstacles are due to an insufficient transposition and implementation of the directives, or whether we need new legislative measures in order to tackle them.

In this context, my services have undertaken last year the task of examining the compliance by Member States with the legislative requirements set out in the electricity and gas directives.

I regret to say that despite our repetitive requirements, there are still three Member States that have to transpose the appropriate legislation. Furthermore, an important number of Member States, having formally implemented the directives, appear not to have fully transposed all the requirements therein set out. Although, at this stage, a legal scrutiny is still being carried by the services of the Commission, I can already advance that I will propose to the Commission, by the end of March, the launching of a package of infringement procedures against those Member States not having ensured full compliance with the provisions of these gas and electricity directives.

The task of ensuring compliance with the letter and the spirit of existing legislation should not exclusively fall on Commission's shoulders. We must also expect a lot from those responsible for ensuring that consumers have a *de facto* single European grid, for a real European electricity and gas market to develop. In this respect, the 2005 report already discussed the existing legislative initiatives and notably the work that we expect national regulators to conduct through the European Regulators Group (EREG). In this context, and despite the respective road-maps that have been produced by regulators, more rapid steps forward need to be made towards really effective regional markets as a stepping stone towards a wider market. We must claim regulators, and national grid operators as well as the industry in general to work in this direction. Compliance by all concerned actors with the cross border electricity Regulation should also be ensured.

On its turn, I intend to propose the Commission the adoption during 2006 of an improved version of the congestion management guidelines. In the gas sector, I also expect the commitment of regulators, which will be essential particularly once the new gas Regulation enters into force in July. I expect new guidelines will greatly increase the effectiveness of European transmission system management for electricity and gas.

All and all, it still remains the question as to whether ensuring transposition and implementation of the second electricity and gas directives by the Member States as well as the co-operation of relevant actors will suffice to guarantee effective non-discriminatory access, adequate available network capacity for competition to work, liquidity on gas and electricity markets and effective Regulation. To this regards, and as promised in the Commission's report of 2005, let me advance you that I expect to propose to the Commission, by the end of 2006, my conclusions about whether further Commission action is needed; not only according to the letter but also in order to ensure the objectives are fulfilled.

Because let's be frank. The reality has put all of us in front of a new situation. It is clear that recent events in European energy markets, and the experience of rather cold conditions this winter, have raised somewhat deeper questions about how the European Union should plan for its future energy needs. Many are beginning to question the current approach under which energy networks are planned, operated and regulated at national level, and it is only after the event that we make some effort to achieve an integrated market.

A segmented approach weakens Europe's position vis-a-vis external suppliers and acts as a severe disincentive to investment since companies are still restricted as to which consumers they can serve.

It is then clear that in order to achieve such a common response vis-à-vis our external suppliers, Europe's strongest card will be the achievement of truly internal energy market. We cannot go on with the current fragmented approach to energy policy, disjointed organisation of energy networks and markets and an uncoordinated response to the new conditions.

The work of my services will therefore concentrate, concerning the internal market, on a number of areas, notably:

- the adequacy of the unbundling measures taken by Member States;
- the compatibility of certain public service obligations with EU rules ;
- the need to ensure significant developments in view of increasing the interconnection levels between Member States; and also,
- the relationship between the construction of a truly internal market with other objectives such as the need to tackle climate change concerns in a manner that guarantees the competitiveness of European industry.

3. As a conclusion

The Commission remains open to the various arguments on such issues and the forthcoming Green Paper on Energy Policy will allow for a continued debate on this subject, as well as the important questions related to environmental policy and security of supply, over the coming months.

All over the developed world, governments are struggling to reconcile the various demands placed on the energy sector. You will know that these questions are now being broached at the very highest level of government. One thing that is becoming clear is that any energy policy must be comprehensive and should not neglect important areas.

As we have seen, the USA is finally beginning to come to terms with the consequences of its "oil addiction".

However, Europe should also address the commitments it has made and the single market is one of the biggest commitments made by Member States in this respect. Our task at the Commission is to help member States deliver this commitment to European citizens.

In summary, I therefore underline my determination, together with what you have already heard from Ms Kroes to create a true European internal market for energy and deliver real competition in these sectors. As you have heard, the final report of the Commission will follow at the end of this year.

This work will allow the Commission to decide if further legislative measures are necessary in relation to achieving our common goal of developing a competitive electricity and gas market, in addition to the vigorous enforcement of European competition law, which Mrs Kroes has announced this morning.

I am also convinced however that we should not wait until such a date to take concrete actions. I have already advanced you some of these actions. I demand the same level of responsibility to Member States, regulators and other industry operators. I am looking forward to your input on these important questions!