

When the lights go out, governments can fall

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Theoretically a single market in gas and electricity already exists in Europe. But widely varying prices and lack of competition along with massive concentration in many markets demonstrates that this is simply not the case. There is no level playing field. The fact is that it is much easier for the French to invest in Spain than for the Spanish to invest in France. That is why the Commission has proposed a revision of the current EU energy Directives.

The most controversial part of the proposal relates to the Commission's suggestion that there should be a total separation of supply from transmission companies (full ownership unbundling). Only eight EU Member States including France and Germany are fervently opposed to this forced separation and suggest that a further strengthening of the Chinese walls that currently exist should be enough to dismiss the belief held in many quarters that companies from some Member States are deliberately being kept out of some markets to protect giant national incumbents.

So far the European Parliament believes that in the field of electricity such a fudge would be harmful to the creation of a truly European market. Many believe that full ownership unbundling in the gas market is more important because it is even easier to discriminate against competitors in this sector and it is easier for the limited number of suppliers to manipulate the market. Gas is also the key determinant for the price of electricity.

The Parliament is also intensely aware of the tremendous task ahead of the EU in reaching the 20% target for renewables by 2020. The renewables sector is adamant that full ownership unbundling will provide the best model for reaching this ambition.

The Energy Committee believes that consumers should be put right back into the centre of any attempt to correct the market, we believe that the needs and

concerns of major companies, many who are making killer profits have held sway for too long in the sector.

As long as companies are allowed to own both the supply and the transmission of energy there will inevitably be a conflict of interest. No matter how many Chinese walls are constructed there is no incentive for an incumbent company to encourage competition in its own market.

But pro unbundlers should be careful not to oversell the model. Nobody should claim that prices will fall under this separation; indeed we need to be honest with the public and say that energy prices will inevitably increase in future years under any model. This is why the Parliament has for the first time put the issue of energy poverty firmly onto the European agenda. Strengthening the powers of National Regulators to intervene in transmission monopolies is also key to the success of this model.

The one trillion Euros of investment needed in the European energy market is unlikely to be forthcoming unless there is a long-term stable regulatory framework. A compromise would simply lead to less security for investors, as the issue will be back on the table by the middle of the next decade if it is not settled now. Consumers again are likely to suffer as the lack of investment will bite and the lights could go out. Anti-unbundlers should beware that when the lights go out Governments can fall.

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