

**European Competition and Consumer Day, May 2008  
Brdo, Slovenia**

**21.5.2008**

I am delighted that the Slovenian Presidency is dedicating a conference to European competition in the energy market and the implications for consumers.

I would like to thank you for inviting me in my role as rapporteur of the Electricity Directive in the European Parliament.

**So, is efficient competition in the energy markets possible?**

Let's first of all look at the context in which we are asking this question.

1. Increasing global demand
2. Energy prices likely to increase ETS and renewables irrespective of the market model
3. Energy essential for basic aspects of life
4. Energy poverty an increasing challenge

So at the very least it is essential that we strive towards this as a goal.

Energy is a strange beast because usually we think that the market is the most efficient way to organise any sector. I believe that it is through the market that we can best organise today's energy sector, but it is not like any other industry, there are many other aspects which we have to consider which the market cannot address, notably of course the issue of sustainability and security of supply. So there has to be intervention in the market in order to put protection in place for these issues.

Energy is a commodity within the single market like any other but it is transported by monopolies and in many cases is dominated by incumbents

The key therefore is to ensure that the monopolies are regulated within the member states, and that fair competition is allowed to flourish.

The fact is though that this is not the case in the current energy market. In fact, at the moment we have the worst of both worlds.

**When the same company owns the transmission system the grids or the pipelines as are supplying the energy there is a vested interest in keeping competitors out.**

What possible motivation can a company have to encourage others to compete against them? The temptation will always be there to give preference to your own suppliers.

How?

1. Through the **lack of transparency**. In many systems it could be possible for companies to claim that there is no capacity on the transmission system to take any more energy.

2. The company could be slow to connect competitors creating an uncertain investment climate for suppliers. The scheduling of maintenance could also lead to competitors being locked out of the market.

3. Decisions on where to invest could be stacked against competitors in particular in cross border areas. eg. in Germany the National Regulator has said clearly that despite congestion revenues doubling from 2005-2006 from 334 million Euros to 636 million Euros congestion deteriorated at all borders. For competition to flourish competitors from outside of the country must be allowed easy and fair access so we much improve cross border connections. At the moment the simple fact is that it is much easier for the French or Germans to invest in Spain than for the Spanish to invest in France or Germany.

These are some of the issues that the third liberalisation of the energy package is trying to address.

The **ultimate goal of the package should be to benefit consumers in a common European energy market**. In order for a fully functioning energy market to work, **consumers must be in a position to be active players on the market**. We need to ensure that regulation, competition and consumer protection go hand in hand.

Two winters ago gas prices were three times higher in the UK than they were in the Netherlands and yet the interconnector linking the two countries was not working at full capacity. Why? There are many complex reasons but one is because the current model which insists at least on legal separation of companies is simply not working as the Commission's sector inquiry has demonstrated.

That is why **I am a great supporter of full ownership unbundling both for the gas and electricity markets**. The parliament's energy committee has already voted to see full ownership unbundling in the electricity market and this week has asked for extremely tight conditions to be set down for the gas market.

We need this because my interest is in **protecting and promoting the consumer interest in the EU**. It has been estimated that lack of competition in the EU has cost 5bn Euros to the EU economy annually. That is something which will hurt both household and industry consumers, at a time when we are facing increasing competition from across the globe we cannot afford to allow this to continue. When large German energy users come and tell us privately that they would like to see a total separation of supply from transmission, but

are fearful of saying this publicly you can be pretty sure that something is going wrong in the market.

**The European Parliament's position on the energy package must be interpreted as a vote in favour of the consumer.**

But this will not be enough in itself to correct the market and to ensure competition. If we look at the electricity market in the EU we see that there is a massive concentration of electricity companies. There are 10 member states where one company dominates over 70% of the market. Now either we go down the market route or we don't. I think it is way too late to put the genie back in the bottle on this so the market solution should be pursued vigorously we should not be satisfied that competition can truly flourish in these conditions of concentration.

**National Regulatory Authorities** who are truly independent need to take a much more active role in intervening in the market and should work with competition authorities. We need to ask ourselves what do we want this market to look like 20 years from now? Would be satisfied if we had ownership unbundling but we still had this kind of domination? The link between competition and the consumer must be clearly underlined. The scope of the Directives needs to include more rules on consumer protection and competition requirements. The EU also needs to do more to challenge the price setting systems of European energy suppliers.

**Energy poverty** is also going to feature much more as a political issue in future and should be considered within the framework of the directive. In providing a broad definition of energy poverty and calling on Member States to provide a definition at the national level and to develop strategies on how to deal with the problem we are putting energy poverty firmly on the EU agenda. Due to the lack of definition in most member states there is little EU data on this issue.

**Universal service and public service obligations** are an essential means of protecting consumers. The Commissions current definition of universal service obligation should go further to include non discriminatory prices and incorporate elements such as choice and representation.

The Commission rightly provides **protection for vulnerable customers**. These should be targeted and should not be discriminated against in terms of pricing models and unfair selling practices, especially those living in remote areas and those on low incomes.

In order to **promote energy efficient behaviour**, innovative tariffs which increase for greater levels of consumption should be introduced. What kind of sense does it make for us to have markets which reward people for the more energy they use at the time of an energy crunch?

The **Annex is an intrinsic part of the Directive and provides a comprehensive list of consumer rights**. Greater transparency and access

to information is provided for here including the need to know actual energy consumption. In order to benefit from a liberalised market we must empower consumers. The roll out of smart meters within 10 years should allow consumers to take control of their consumption. It is important that customers are easily able to switch suppliers within a fixed timeframe and also benefit from transparent and efficient complaints procedures. The problem for many consumers is that they are not aware of their existing rights. These rights should be clearly stated on bills and web sites. Companies are reacting slowly to implement consumer protection law. **National Regulators need to be given the tools to enforce energy consumer rights and enforce competition and should be given the tools to impose sanctions on companies not complying. NRAs can also ensure a consistent approach across the EU through bench marking via the new Agency**

The EP is due to vote through five reports in June and July in Strasbourg. It is important that the European Parliament gives a strong position on both competition rules and consumer protection which is consistent in all reports.

Full ownership unbundling, stronger enforcement of competition law and empowering consumers making them aware of their rights is fundamental to ensuring a fully functioning market and providing efficient competition in the European energy market.