

Executive Summary

EFET response to the European Commission Green Paper on Energy Policy

September 2006

The European Federation of Energy Traders (EFET) agrees with the European Commission that completion of the internal market must remain the first priority for EU Energy Policy. Well functioning wholesale markets in electricity and gas, founded on harmonised and optimised access to monopoly infrastructure, are fundamental building blocks not only for facilitating competition and choice, but also for maintaining supply security, achieving environmental objectives and helping EU competitiveness in a global context.

Three areas in which we suggest EU energy policy and accompanying regulatory supervision should focus are:

- **Ensuring that individual Member State governments fully implement existing liberalization legislation and national regulators promote enforcement of it** - We harbor doubts as to whether the intentions of some individual governments, to promote what they regard as national security or national competitiveness, are compatible with the successful pursuit of true EU single markets in electricity and gas. We are alarmed at the current arrangements and future plans of some important Member States for capping or controlling electricity supply prices within their territory. Similarly, efforts to “corner” third country gas supplies or imports for national purposes tend to produce sub-optimal results for EU consumers as a whole. Such actions seriously impact liquidity and damage confidence in the electricity and gas markets respectively.
- **Obliging TSOs jointly to maximise the transmission capacity, which they actually make available on a firm basis for use by market participants** – Despite the introduction of specific EU regulations on cross border power and gas transmission access, the failure of TSOs and regulators to relieve transmission bottlenecks through operational measures, and thereby make available more existing transmission capacity to new wholesale tier competition, remains a formidable barrier to intra-EU trade in network-bound energy.
- **Examining the justification for a new EU reform package on energy regulation and grid operations** - The Commission and ERGEG should already start evaluating the case for a regulatory authority to deal with all cross-border access issues inside the EU and at its external boundaries (including related transmission congestion within connected transmission systems); fresh measures to strengthen unbundling of transmission from production, import and supply businesses may also prove necessary. Additionally, it seems that the Commission needs extra powers to outlaw the re-imposition of regulated cost-based, and/or capped energy prices, as a way to circumvent free market access.

Our full response to the Commission goes on to draw other important conclusions:

- As the fully liberalised energy market becomes better established, market signals should more reliably inform the right decisions about investments in terms of fuel choice, location and capacity. Undue national intervention delays or distorts the process of establishing these reliable wholesale price signals.
- Despite the efforts of national regulators there remain serious unresolved cross-border access issues. Authority at EU level needs to be strengthened to deal with the interfaces between transmission systems.
- The effective unbundling of monopoly transmission infrastructure, to ensure that there are independent system operators providing market participants fair and non-discriminatory access remains in many countries, more notably in the gas sector, an unfulfilled prerequisite of successful EU energy liberalisation.
- Improved information transparency remains essential across the energy markets, particularly the provision of information from infrastructure operators and the accountability and clarity of regulatory decision-making. The immediate goal with respect to transparency should be for all generators, operators and regulators to match the highest standards already achieved by their peers in other EU countries.
- To maintain secure energy supplies consistently across the EU, priority must be given to the development of robust gas and electricity markets, in which high levels of information transparency give confidence to all market participants, from producers through wholesale intermediaries to consumers. It is illusory to imagine that individual states within the EU could separately, as if in some kind of race, beat each other in the security game, by signing bilateral inter-governmental deals with third countries or by favouring so-called national champions.
- The successful establishment of the EU Emissions Trading Scheme shows that the market is a powerful and practical tool to deliver public policy objectives, but that the market needs confidence that the principles underpinning the scheme will be consistently applied. The most efficient way also to introduce sustainable levels of renewable energy production across Europe is by promoting and harmonizing market mechanisms.