Energy Intelligence for Europe
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A level playing field for power in EU

Christian Kjaer, policy director
European Wind Energy Association

The Founding Treaties

EU Founded on Energy

European Coal and Steel Community - ECSE (1951)

Euratom Treaty (1957)

Treaty Establishing the European Community (1957)

Effect of Euratom:

33% of EU electricity granted special privileges

The Commission's benchmarking reports:
1st and 2nd report:

Main conclusions:

The way market opening is undertaken by Member States is leading to significant distortions of competition, a lack of a level playing field between companies from different countries and is failing to lead to the development of a competitive, integrated market

The Commission's benchmarking reports:
3rd report (March 2004):

Main conclusions:

"It is becoming clear that the main problem for electricity in the coming years will be the issue of market dominance at national level and the inadequate level of interconnection between Member States."

"Competition in the gas sector remains somewhat behind than that for electricity. A key barrier is the continuing dominance of the existing companies in their Member State or, in some cases, specific region"

The Commission's benchmarking reports:
4th report (January 2005):

Four main reasons for lack of competition:

- Lack of cross-border transmission links
- Existence of dominant, integrated power companies
- Biased grid operators
- Non-existence of liquid wholesale power markets

The Commission sees market concentration and dominant incumbents as "the most important obstacle to the development of vigorous competition"

Competition in the Internal Electricity Market?

“Much work still has to be done to deal with the dominant and even monopolistic positions of the incumbent operators and investments will be needed to guarantee the interoperability of grids and networks, interconnection and an adequate level of capabilities and infrastructure”

Loyola de Palacio, 13 October 2004

“The current level of competition is not encouraging. (…) In most national markets, customer switching rates are modest, substantial barriers remain for new entrants, market structures are highly concentrated and, last but not least a single European energy market has not been achieved.”

Mario Monti, 21 September 2004

Dominant Players – trend continues

- The 6 largest power companies own 60% of EU generation assets and 80% of the infrastructure
- In 12 of the EU-15 Member States, the top-3 utilities control more than 2/3 of the market
- The average share of the power generation market has increased from 73% to 76% (March 2004)
- Market concentration and domination seen by the Commission as the most serious barrier to competition
- 2000-2003: 7 largest European utilities invested 80 billion in mergers and acquisitions throughout Europe

Power and gas markets competition:
Different than any other market

"Market power can already be present where parties have market shares which would not be problematic in other sectors of the economy. (…) These markets [power and gas] indeed have a particular structure which facilitates both collusive behavior and exercise of market power"

Former Competition Commissioner Mario Monti, October 2004

Generation must be separated from transmission

- Transmission is a natural monopoly that must be separated from production
- Vast possibilities for cross-subsidies
- Network charges for third-party access not transparent
- Disproportionately high balancing charges
- Disproportionately high administration charges
- Third party entrants paying for upgrading grids owned by their competitors
- No full ownership unbundling requirements in the Directives
- 2003: Vertical integration was single largest motivating factor for top-40 energy mergers and aquisitions

Subsidies
RD&D budgets in IEA countries (IEA figures)

1974-2002:

- Nuclear fusion: $138 bn (47%)
- Fossil fuels: $ 37 bn (13%)
- Nuclear fission: $ 31 bn (11%)
- Renewable energy: $ 24 bn (8%)
- Of which wind energy: $ 3 bn (1%)

1987-2002:

- Nuclear fusion: $53 bn (40%)
- Fossil fuels: $16 bn (12%)
- Nuclear fission: $15 bn (11%)
- Renewable energy: $18 bn (14%)
- Of which wind energy: $ 3 bn (1%)

Subsidies in Europe

- Since 1980, 100 bn was spent on coal subsidies in Germany alone
- 1999: Average subsidy per German coal miner: 70,000
- 1999: Average subsidy per Spanish coal miner: 60,000
- 1991-2002: 65% of EU Member State R&D funds went to nuclear

EEA: Total power subsidies in EU-15

- Fossil fuel and nuclear $23.9 bn
- Renewables $5.3 bn

Environmental cost of EU electricity production Commission's ExternE project

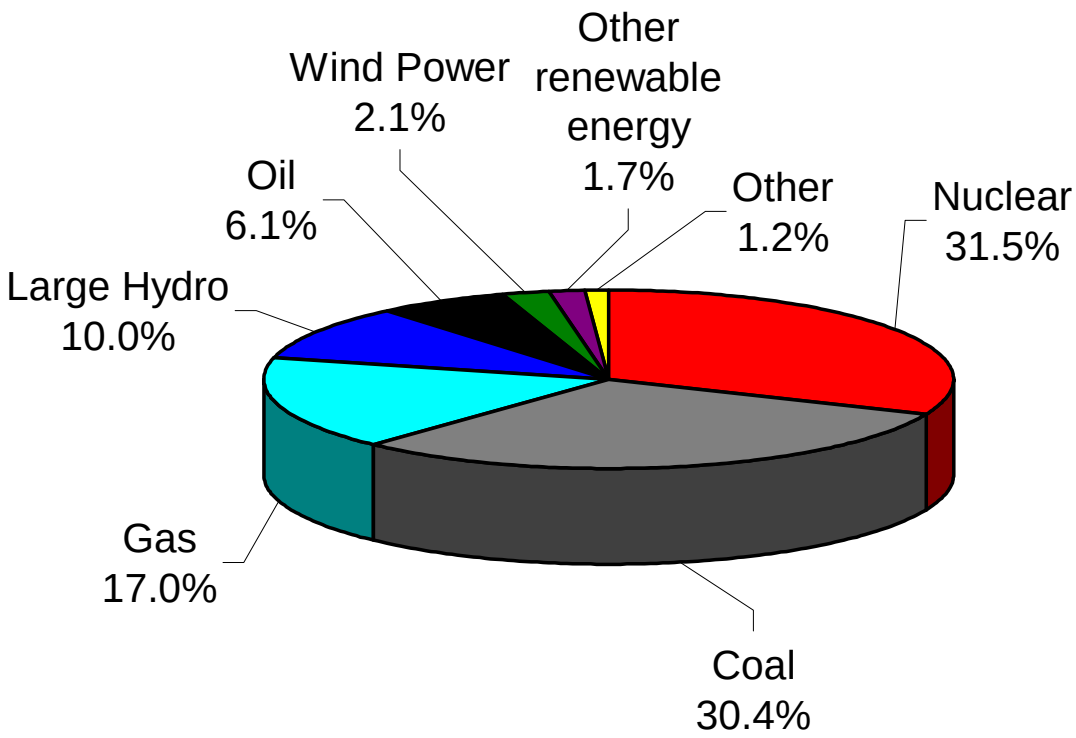
Main conclusion:

"The cost of producing electricity from coal or oil would double and the cost of electricity production from gas would increase by 30% if external costs such as damage to the environment and to health were taken into account. It is estimated that these costs amount to 1-2% of EU's GDP"

Real competition in EU electricity – A MYTH

- **4 Commission benchmarking reports: Endless distortions**
- **National and regional monopolies / oligopolies**
- **No real consumer choice**
- **Lack of interconnectors – a precondition for real competition**
- **No unbundling of production and transmission of power**
- **75% of electricity subsidies goes to conventional power (EEA)**
- **Euratom shields nuclear (33% of total EU electricity production) from internal market rules**
- **Complete absence of any meaningful internalisation of environmental costs**
- **Power companies acting on both demand and supply side in the wholesale market**

EU-25 Power Production Mix 2002



European Commission:
Green Paper on Security of Energy Supply, 2001

“Effectively, the only way of influencing [European energy] supply is to make serious efforts with renewable sources.”

Rising EU Energy Imports...
Rising EU technology exports

EU Energy Import Share:

- 2001: 50%
- 2025: 70%

Source: Euriopean Commission;
Green Paper on Security of Energy Supply, 2001

EU Wind Industry's Global Market Share in 2004:

83%

European Challenges

- Economic growth
- Employment
- Technology development
- Exports
- Environment
- Sustainable development
- Kyoto: -8% CO2
- Power demand up 1.6% p.a.
- 2002: EU Energy import: 50%
- 2025: EU Energy import: 70%
- Few indigenous resources

EWEA

THE EUROPEAN WIND ENERGY ASSOCIATION