

9 September 2003

**A MEDIUM-TERM STRATEGY FOR DEVELOPMENT OF THE EUROPEAN
ELECTRICITY MARKET****UNICE OPINION****1. Proposals for creation of an integrated European electricity market:**

Realisation of a liberalised electricity market presupposes the existence of and compliance with a clear legal European framework that can guarantee competitive conditions between electricity suppliers.

Furthermore, integration of fifteen isolated more or less liberalised markets into one European internal market is no longer a single issue, but should take into account two main political issues: the Kyoto protocol and the problem of security of supply.

It is important to encourage projects for new electricity generating plants.

At the same time, opening of the electricity supply can produce the effect of convergence towards more efficient prices.

In order to complete the internal energy market and to reap its full benefits, further measures are now necessary. Suggestions to that end concern the provisions for:

- a standard system of rules between Member States to create real conditions for entry into national markets;
- a common market regulatory framework in order to provide for a level playing field and avoid trade distortions between operators and end-users;
- the reciprocity principle in the conditions for opening of individual national markets.

2. Recommendations for harmonisation of national electricity markets:

An obstacle to real integration of the European electricity market derives from the differences between generation conditions in individual national markets. Harmonisation of national electricity markets concerns not only the formal legal framework but also:

- convergence of the generation conditions towards European standards in order to guarantee the reciprocity principle;
- Community policies on the sources of supply in order to guarantee access to low-cost raw materials (fuel input);
- the convergence of environmental constraints for electricity generation.

Without homogeneous conditions for electricity generation, there can be significant cost differentials between Member States.

3. The need for industrial policy initiatives aiming at increasing interconnection capacity between Member States

The European transmission system is not yet sufficiently developed for the purpose of a real internal market with effective trade opportunities. Certain interconnections will remain congested for the foreseeable future. It is therefore important that the available capacity is allocated in a manner most likely to achieve a competitive internal market.

Referring to the problem of limited physical interconnection capacity between Member States, the solutions for increasing cross-border trade in electricity are:

- to upgrade the capacity available on existing lines;
- construction of new interconnection capacity, in which respect it is important that private operators should be given opportunities to contribute with commercial transmission lines.

One more measure is genuine legal unbundling in all Member States. In Member States where the grid is still part of the electricity supply company, the supplier can easily prevent “competitive electricity” from being transported to other markets by interconnectors.

4. Real opportunities for end users to choose suppliers in a competitive environment:

A real opportunity to create a competitive environment presupposes the existence of conditions to facilitate the entry of new market players. Access to the network is a key issue, in particular taking into account that it is likely to remain a natural monopoly. It is thus vital that market players can gain fair access to the transmission and distribution grids including all the necessary related ancillary facilities (“third-party access” or TPA). This is more likely to be achieved if the operation of the transmission and distribution systems (in practice, often operated by vertically integrated companies) are separated from other commercial interests, in particular generation/production and supply.

Therefore, in order to achieve full market opening, to obtain benefits for customers, we need measures to take into account:

- implementation of systems and rules for third-party access to networks;
- a real degree of unbundling in the different activities which play a fundamental role, in order to allow the access to the network;
- a deadline for Member States to allow all customers, both industrial and domestic, to purchase electricity from the supplier of their choice throughout the Community;
- in the case of public service obligations assigned to suppliers, the choice of a neutral compensation mechanism for financing the supply in order to avoid distortions between Member States.

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