

Eurelectric warns of unfinished business

Eurelectric's new secretary general Hans ten Berge fears Europe may need a fourth energy package if the political will is not forthcoming to strengthen key elements of the European Commission's third package of proposals, published September 19 (*PiE 509/3*).

Speaking to Platts on October 2, ten Berge expressed disappointment at the lack of a clear process in the EC's proposed legislation.

"The package has the right elements, such as an agency for regulators, a cooperation network for transmission system operators and regional investment planning for transmission, but it is inadequate as regards the process and the target-setting we need to build the European market," he said. "How will these agencies function? Where is the leadership to come from? And what is to be the outcome of these processes? Answers to these key questions are hardly addressed in the package."

Talking shop

The need for strong, independent regional TSOs is high on Eurelectric's priority list. "I don't think the target of this package is to organize 27 national markets," ten Berge said. "As far as we understand it, the target is to build an EU market. That means at least some harmonization across borders. In order to achieve that, the Commission has set out a first step on the regulatory side. But on the TSO side, this step has not been taken. Some privately-owned TSOs may be ownership unbundled, but there will be no change where TSOs are state-owned."

The result, as some member states have more than one TSO, will be "thirty TSOs sitting around a big table trying to design a European network," ten Berge said. "Looking over their shoulder in most cases there will be a government with something to say, a national regulator with something to say, the network cooperation body with its view and then, if there is no agreement, a referral back to the Commission – who will undoubtedly consult again with the Member States to find a solution."

The role of energy market participants and consumers in this process, meanwhile, would appear to be "very limited," ten Berge said. "We will be consulted, but that is the extent of it. I'm really not sure that the outcome of all this talking will be the optimum investment of funds at the weakest points of the network."

Going beyond national interests

While ten Berge believes it is the Commission's job to take firm leadership of the process, he concedes that ultimately it is down to the member states. "Do we have the real political will to build a European electricity market? Is President Sarkozy in France looking to build a European market? Is Spain? There are several examples

where national interest is the driving factor. If that continues, and we have a European network dependent on national set-ups, we'll probably be ready for a fourth package in a couple of years."

On the proposed European network for transmission cooperation, ten Berge was decidedly lukewarm. "Look at the aim of boosting interconnection to 10% of European power trade. We've failed to progress much because of a lack of process. Do we really need another structure with no agenda or target, which compels us to reorganize the whole business but without any commitment to build the European market?"

Ten Berge restated Eurelectric's position as a proponent of competition. "We are strongly in favor of the European market – and we are pleading for a scenario where this is the overriding outcome. That means we will agree with the Commission's instruments, but we disagree with the lack of clear process and we disagree with a type of unbundling that strengthens the national interest."

Some Eurelectric members are in favor of ownership unbundling, others not, ten Berge said, but the association would back the Commission if its unbundling proposal would lead to a strong international grid. That was however not the case.

Harmonizing regulation

Ten Berge was more supportive of the Commission's attempts to bolster regulation. The EC has called for a significant extension of powers and full independence for national energy regulators, a tough call on Spain and France, where regulators have light-weight advisory roles.

"For now, I'm not sure regulators are completely free from national influence," he said, deploying diplomatic understatement. "If we want independent prices – and I don't mean just network access tariffs, but wholesale energy prices too – we do need independent regulation." Proposals for an ERGEG-plus regulatory agency to promote the European interest are a move in the right direction. "This shows some progress on the first of three key steps we said were needed three years ago – one harmonized approach by the various national regulators. The other two are seamless cooperation between TSOs and one virtual power exchange, operating from various locations, but all with the same gate closure time and product specifications," said ten Berge.

Transparency proposals will boost liquidity

The Commission's transparency proposals call for generators to retain five years-worth of hourly data per plant to verify dispatching decisions and bidding behavior at power exchanges, interconnection auctions, reserve markets and OTC markets. The proposals were "quite an

improvement on previous drafts [requiring daily reporting], and will boost liquidity in the markets,” ten Berge said. “Retaining five years of records is not a major issue for most utilities, which do this already. Being forced to submit data on a daily basis would have been a different matter.”

Renewables: market approach needed

Moving on to a package of green measures due in December this year from the Commission, the Eurelectric official warned of the rising cost of green subsidies. The EU’s target of 20% of energy from renewable sources by 2020 translated to a 35% target for electricity, ten Berge pointed out.

“Approaching this target will not happen without massive subsidies,” he said. “For now we are looking at 27 different support systems, so the worry is we will have trading in subsidies, not in power. That is bad for business customers, who will rightly complain that the subsidization is hitting their ability to compete.”

Eurelectric is calling for a harmonized, market-based approach to renewables’ support, favoring a system based on tradable certificates of origin between countries and ensuring compatibility with the electricity market and the EU Emissions Trading Scheme.

Ultimately ten Berge sees the EU ETS playing the central role in driving all new generation investment decisions, from photovoltaics through to clean coal with CCS. “We would rather have the carbon market as a driver than subsidies, but for that we need a stable, long-term carbon price,” he underlined.

Broad participation

Ten Berge rejected the suggestion that the new-build generation market was being cornered by Europe’s dominant incumbent utilities, who are some of Eurelectric’s most powerful members. “I see a broad spectrum of candidates in the market, from IPPs to Stadtwerke to heavy industry [such as pulp and paper manufacturers in Finland backing new nuclear build, and French industry doing the same for EDF’s EPR via the Exeltium consortium]. And I think the oil industry may come in at some point.”

The official agreed that distributed generation had its place in Europe’s future energy system. “But we should not forget what centralized electricity can deliver in terms of efficiency improvements, both on the supply and demand side. There is enormous potential for power solutions in transport, for electric trains and plug-in road vehicles and in buildings for heating and cooling.”