



OPENING UP TO CHOICE



The single electricity market



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INTRODUCTION

The single market for electricity will, progressively, produce a competitive and vibrant electricity market across the European Union. It will contribute to the three European energy policy objectives of increased competitiveness through better service for energy consumers, improved environmental protection, and greater security of energy supplies, while ensuring the continued achievement of basic public service requirements.

The date of 19 February 1999 is a milestone for the single market for electricity in the European Union (EU).

Electricity production in the EU has for decades been based on monopoly production and 15 separate, national markets. Over time, and due largely to technological change, it became increasingly clear that it was possible to permit competition to develop in this industry, like any other, whilst still maintaining essential and basic public policy and service objectives. Some countries, for example the United Kingdom and much

of Scandinavian, made this change some years ago. For most EU countries, however, and for the EU as a whole, 19 February 1999 marks the date that competition becomes the norm, not the exception, for electricity trade and production across the EU.

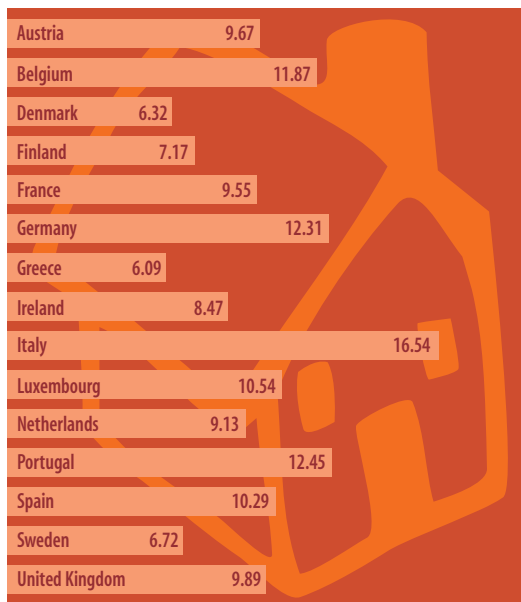
Community Directive 96/92/EC⁽¹⁾ adopted unanimously by all EU countries on 19 December 1996 has brought about this change. The directive will, over a period of time, allow all large and medium sized purchasers of electricity

⁽¹⁾ OJ L 27, 30.1.1997, p.31

Why has a single market for electricity been created?

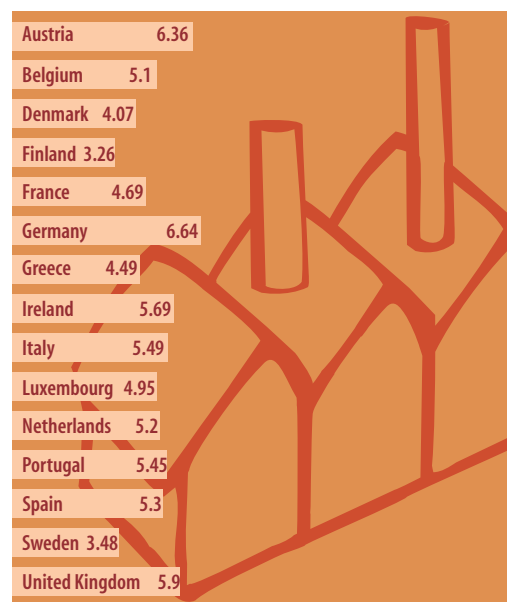
- To increase efficiency by introducing competitive forces into the electricity market.
- Electricity price levels, at present, vary enormously between Member States. This causes unacceptable, and unnecessary, distortions in competitive conditions across the single market (see Figures 1 and 2). In addition increased efficiency leads to lower prices. This is essential; electricity in the European Union is more expensive than in many countries with which European industry trades, such as the United States and Australia.
- Essential public services such as ensuring electricity supply to all customers, protecting the old and disadvantaged, and protecting the environment, can be achieved in the competitive single market. Indeed, competition can improve these services if appropriate measures are taken.
- An interconnected market requires less reserve capacity, and reserve capacity is expensive.
- The introduction of competition means that electricity producers will have to make better use of resources in the electricity production process to avoid waste of resources; wasting resources is both expensive and polluting.
- The introduction of competition gives customers the right to choose their supplier of electricity. They can choose for example the nearest one, the cheapest one, the cleanest one, or the one that offers the best service.
- The introduction of competition means that electricity companies will have to improve their service to maintain their customers or to gain new ones.
- The lower prices for electricity result in lower production prices for European industry, which in turn will be translated into lower prices for products.

Figure 1: Prices for electricity across the EU (domestic consumers of 3.300 kWh)



Source: Eurostat. Price level as at July 1997 in ECU x100/kWh. Prices exclude taxes

Figure 2: Prices for electricity across the EU (industrial consumers of 50 GWh)



Competition is the driving force for enhanced efficiency, better service and productivity gains to achieve lower electricity generation costs and reduced electricity prices for consumers.

to choose their suppliers freely from throughout the EU. It introduces full competition amongst generators immediately and is already leading to significant price reductions across the EU to the benefit of business and consumers.

The electricity Directive sets out basic rules, which the Member States have to incorporate in their legislation. In accordance with the subsidiarity principle, Member States are given a large margin of choice, as long as the different choices lead to equivalent economic results. The Directive does not impose a single rigid new market structure, but sets out the minimum conditions under which competition can develop in a fair and transparent way.

Opening up electricity production to competition is an important tool to improve the efficiency of the electricity production industry and thereby to benefit electricity consumers. In the past, a monopoly supplier could recover any costs regardless of whether it used its power sources efficiently. The introduction of competition is likely to bring about an important shift in this approach. Producers will cease to be sheltered by their exclusive rights to generate and supply electricity. Competitive forces will provide the driving force for producers to innovate, and operate in the most efficient and economic way in order to be able to keep their clients and recover their investments. Innovation is the key

underlying this change. Competition requires market players to innovate to remain competitive. Innovation leads not only to lower prices, but also to better use of energy resources. This is of fundamental importance given the climate change commitments which the EU entered into at Kyoto.

Liberalisation is a tool to stimulate efficiency and productivity gains by providing the incentive for innovation and adaptation to the needs of consumers. Cost savings due to increased efficiency gains will also be realised and lower prices for electricity users are expected that would not otherwise be possible. Service standards have also been improved in countries that have already undergone liberalisation. Last but not least, in the prospect of a single electricity market in the EU, competition will offer the possibility of using the least costly plant and reducing the reserve capacity necessary to deal with demand peaks in each country. The operation of a single market provides more outlets and better interconnections, thereby increasing security. Competition is the driving force for utilities to operate as economically as possible to maintain their competitive edge with all the anticipated benefits to consumers that this entails.

ELECTRICITY GENERATION AND THE SINGLE MARKET

Complete liberalisation of electricity production across the EU is effective from February 1999

Generation is one of the main components in the cost of electricity. This cost needs to be significantly reduced if EU prices are to fall to those of some of its main competitors. The Directive introduces full and complete competition across the EU for all new generating capacity. Thus, from February 1999, any producer will be able to build a new power plant and generate electricity anywhere in the Community, either on the basis of an authorisation system or a tendering procedure. The Directive permits Member States to choose between these two approaches when implementing the Directive. Under an authorisation procedure, any company may build and operate a new generation plant, provided that it complies with the planning and energy supply criteria for authorisation specified in the Member State in question. Alternatively, under a tendering procedure, whenever there is a necessity for new generation capacity on the basis of

regular long-term planning forecasts, an independent body will draw up an inventory for new means of production and the requisite capacity will be allocated by a tendering procedure. Thus, the monopolies existing until now in many Member States for electricity generation will be exposed to competition.

Whilst the Directive provides the choice for Member States between these two approaches for introducing competition into electricity generation, it is becoming clear that almost all Member States have opted or will opt for the authorisation procedure for the construction of new generation capacity. The reason for this trend developing in the EU is that this procedure represents the most transparent and effective mechanism to open up electricity generation to competition.

In the EU a clear trend towards licensing procedures for construction of new power stations is discernible, ensuring equal treatment for all potential investors.



ELIGIBLE CUSTOMERS FREE TO CHOOSE



The key element of the Directive is choice. Large and medium-sized electricity consumers will be able to choose their electricity supplier. This will be done in a step by step approach beginning with very large consumers in 1999; by 2003 the market will be liberalised for all medium-sized consumers representing at least 33 % of each national market. In a competitive environment the prices for electricity should come down. European industry will be more competitive on the global market place because the production process will be cheaper.

In order to create a competitive market that works in practice, sufficient numbers of consumers have to be free to purchase electricity from the supplier of their choice. On the other hand, liberalisation has to take place progressively. The change to competition requires major restructuring, new trading systems and mechanisms to be put into place, and time for companies to adapt to the new competitive environment. The Directive balances these two objectives, requiring Member States to progressively open their markets.

The Directive therefore leaves Member States a significant level of freedom in deciding how quickly the market will be opened and how many customers ('eligible customers') will be permitted to purchase freely throughout the European Union. However, it does require them to liberalise at least:

Step 1

26 % of national electricity demand as from 19 February 1999. Furthermore consumers of more than 100 gigawatt hours per annum must be permitted to choose their supplier. A big shipyard would normally fall within this category.

Step 2

28 % of national electricity demand as from 19 February 2000. A glass factory or chemical industry could fall within this category.

Step 3

33 % of national electricity demand as from 19 February 2003. A big hotel or a hospital could fall within this category.

Whilst the Directive obliges Member States to liberalise only large industrial customers during the first stage, most Member States are moving faster and will either open up their markets completely, or at least move a step further than the Directive requires. In fact, from 19 February 1999, almost two thirds of all European consumers will be able to choose their electricity supplier freely.

This is illustrated in Figures 3 and 4. The first figure shows the opening of the markets on the 19th of February 1999, the day the Directive has to be implemented by the Member States, with the exception of Ireland, Greece and Belgium which have an additional period. The second gives the situation in 2007, although it appears highly likely that in reality liberalisation will have progressed even further by this date.

ACCESS TO ELECTRICITY WIRES

For competition to work in practice, eligible customers have to have access to the wires — the network — to transport the electricity that they have bought from producers. Access to the electricity wires by others than the owner of the wires — so called third party access (TPA) — is fundamental in making the liberalisation process work.

Figure 3: Opening of the markets after implementation of the Directive

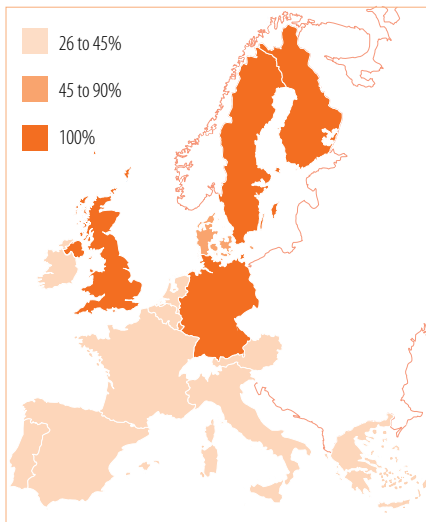
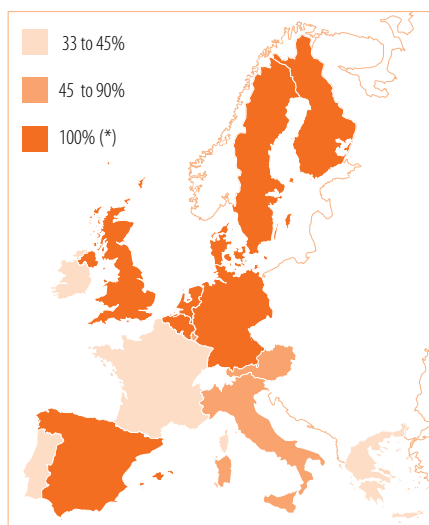


Figure 4: Situation in 2007



(*) Belgium 100% in 2010

T

o enable the transport of electricity from producers to eligible customers the Directive requires the owners and operators of the electricity networks, the transmission system operators and the distribution system operators, to provide access to their lines to others. The Directive provides three alternative methods of achieving this: regulated third party access, negotiated third party access or the single buyer model. In fact, all Member States have opted for regulated or negotiated third party access (TPA): no country will use the single buyer model significantly. Access to transport wires can only be refused when there is not enough capacity to transport the electricity or when transport would make it impossible to carry out public service obligations.

Transmission System Operator

The transmission system operator (TSO) is the entity responsible for running the high voltage transmission grid. The high voltage transmission grid is the grid to which big electricity producers deliver their production. Imports and exports of electricity also flow via the transmission grid. The distribution companies tap from this grid via substations and transformers that lower the voltage level to distribution levels.

Distribution System Operators

Distribution system operators are the entities responsible for running the medium and low voltage distribution lines. Distribution lines are the ones that provide the final consumers, households and businesses alike, with electricity.

In most countries there is one transmission system operator and several distribution system operators. A distribution system operator would typically be a distribution company, what a



domestic customer would call his or her 'electricity company'.

Under a *negotiated third party access* system each user of the network negotiates the terms of access with the system operator.

With *regulated third party access* the tariffs are fixed by the relevant authorities, and applied to all users of the network. These tariffs are published.

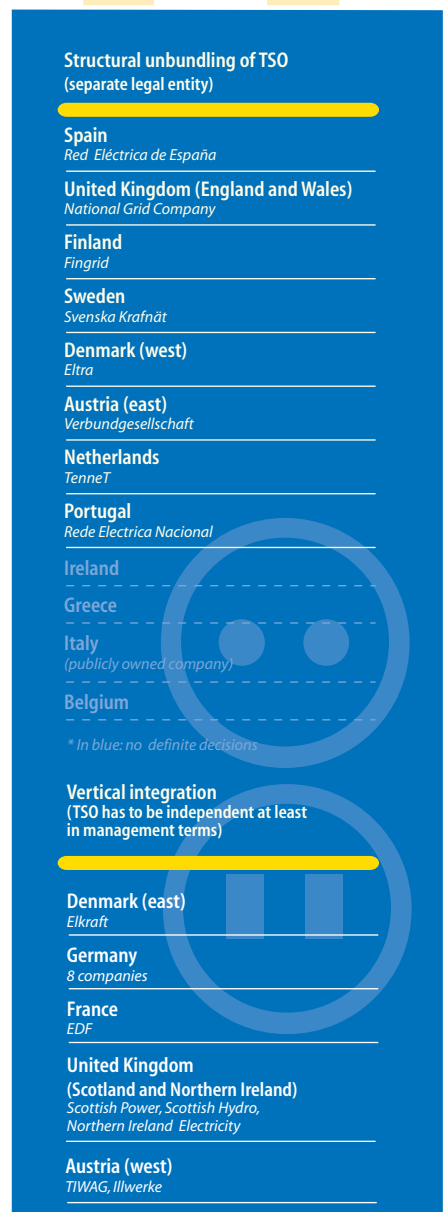
Electricity producers and eligible customers are not required to reveal how much they pay for the electricity that they transport.

It is generally considered that the system of regulated third party access on the basis of published prices is the method of permitting access to the network that will produce the most effective competitive market. Not only does the system of fixed prices for all ensure that discrimination against competitors cannot take place, it ensures that companies can plan future electricity purchases with advance knowledge of transparent tariffs. To have to renegotiate access prices and conditions at the end of each contract is also an extra burden on the companies. Regulated TPA is the option that most Member States have chosen as shown below:

Negotiated TPA	Regulated TPA
Greece, Germany Denmark (*)	Belgium, Finland, France, Luxembourg, Austria, Netherlands, Spain, Sweden, UK, Ireland, Italy, Portugal

(*) Denmark has indicated that it will change to regulated third party access

Figure 5: Unbundling in the Member States



UNBUNDLING

Unbundling of accounts will increase transparency in the operation of electricity undertakings. It will prevent cross-subsidies, and will enable regulators to ensure that the owners of essential infrastructure do not charge excessive prices for transmission services.

In Europe, the transmission network was largely owned by vertically integrated electricity companies that generate, transport and sell electricity. These companies own an 'essential service', the transmission network, which, under the new rules, it must offer on equal terms to its own company and to its competitors. However, there is in reality a clear risk that such companies will be tempted to discriminate in favour of their own group companies when granting access to the network. To prevent this discrimination, the Directive requires Member States to take three basic measures:

- (i) ensuring management unbundling of the transmission system operator;
- (ii) ensuring accounting separation of transmission and distribution activities from other parts of the company; and
- (iii) ensuring that appropriate mechanisms are set up to prevent confidential information being passed by the transmission system operator to other parts of the company.

The management unbundling and confidentiality provisions of the Directive are crucial in preventing the operator of the network from discriminating against potential users of the transmission system.

Management unbundling entails in practice ensuring that the day to day management of the network by the TSO is independent of the com-

mercial interests of the vertically integrated company. Thus:

- managers of the transmission system should not sit on the board of directors of the vertically integrated company — the transmission part should act independently from the rest of the company;
- the transmission system operator should have all the necessary means and assets to maintain, develop and manage the network, especially if the ownership of the network remains in the hands of the vertically integrated company;
- the transmission system operator must ensure that it does not disseminate any other company's commercially sensitive information to other parts of its own vertically integrated company; clear 'Chinese walls' must be put in place to prevent this flow of information.

An alternative to the accounting and management unbundling approach of the Directive is to legally separate the transmission system operator from the vertically integrated company. It becomes a separate operation, and operates entirely independently from other electricity companies. This approach is the most effective in ensuring that discrimination does not take place. Most Member States have decided to go down this approach. This is illustrated in Figure 5.



Management unbundling, and ensuring that confidential information does not pass from the transmission system operator to other parts of the group, is a condition sine qua non for ensuring fair access of all market players to the network. It is an essential precondition to allow competition in generation and supply to be effective.

HIGH STANDARDS OF PUBLIC SERVICES IN EUROPE'S ELECTRICITY SECTOR



Liberalisation should serve the general interests of the society. It must be achieved without endangering the provision of public services and without adversely affecting consumers. In the end, both imperatives (liberalisation and public policy) can and do co-exist. In the end they pursue the same goal, to serve and benefit the EU's citizens.

Electricity is essential for consumers and for all types of economic activity. In all European countries, special rules exist to ensure that essential public service rules are respected by the electricity industry. These rules usually ensure that all citizens are guaranteed electricity at fair prices, and that the environment is protected. They may also provide special protection for those most vulnerable, such as the elderly or the sick. The Directive contains measures to ensure that these vital issues are provided for in the context of a competitive market place.

Liberalisation and public policy are not two contradictory imperatives. On the contrary, public service will and must play an important role in a liberalised market. This approach is clearly reflected in the electricity Directive, which provides for a mechanism enabling Member States to pursue public policy considerations without, in normal circumstances, limiting the liberalisation process. In this light Member States can define public service obligations in the general economic interest within five categories, related to environmental considerations, security, regularity, quality of supply and pricing policy considerations. They can then take the measures necessary to achieve them. What is important is that the measures and mechanisms Member States put in place for the achievement of these objectives should not restrict trade and competition more than necessary. This is a principle that the Treaty lays down, reflecting the basic rule that competition rules play an important part in boosting European integration (and therefore should be applied), while services of general economic interest must be sufficiently assured in a competitive context.

Public services should be adapted to the new challenges of liberalised markets, and should not be used as a pretext for foreclosing electricity

Liberalisation is a tool for achieving economic integration, but public service policy objectives can and must co-exist with this goal. The Directive lays special emphasis on the provision of public services, to ensure that public service objectives can not only be fully achieved in the context of a liberalised market, but can be even better achieved.

markets from competition. Public services can adapt to a new environment. Monopolies are not necessary to preserve and meet public service objectives. There are less restrictive means than monopolies to achieve them. Supply of electricity to geographically isolated consumers at reasonable prices, obligations to provide unprofitable services, guaranteed electricity supply to the sick and disabled, limits on the ability of electricity companies to disconnect customers because of debt, and ensuring continuity of electricity supply, are and will remain obligations that can be met in the context of a liberalised market. Governments can, for example, impose on their distribution companies an obligation to supply all their customers. In this sense a major area of concern in the past years has disappeared. Member States have the choice to impose such obligations on all operators in their country. The only restraint that the Directive requires is that these obligations should be objective, transparent and imposed on a non-discriminatory basis on all operators equally.

There is no single definition of the concept of public service in the Union. In some Member States the concept of public service as such does not exist. However a common set of provisions exists in almost all Member States, designed to regulate the activities of electricity companies. These are defined either as public service obligations, or as rules included in network codes to ensure the reliability of the network, or general rules to ensure consumer protection. They can be listed in three broad categories.

The first category relates to the universal service and the overall protection of the consumer. In this line specific provisions exist in most Member States (Belgium, Germany, Denmark, Spain, Greece, the Netherlands, Austria, Portugal, Finland and the United Kingdom), laying down obligations to connect customers, and obliga-

tions to supply electricity on a regular basis to consumers. Some Member States (such as Austria) also lay down that consumers should be charged at reasonable prices, whereas in other countries (such as France and Greece) regulated tariffs apply to captive customers. Furthermore, special provisions are laid down in some countries (such as the United Kingdom) to protect the elderly and disabled.

The second category concerns the protection of the environment. Specific environmental constraints are laid down in some countries to ensure environmental friendly electricity production (Germany, Denmark, Greece and Austria for example), and support schemes for the use of renewable energy sources and combined heat and power systems are commonplace.

The third category relates to security of supply considerations. This entails technical specifications for all those connected to the grid, maintenance of reserve capacity, matching supply and demand, availability of capacity to meet demand, securing primary fuels for electricity generation, and the maintenance of a secure and reliable system.

The Directive gives Member States a wide margin of discretion in deciding which public service objectives to pursue and how to meet them. Nonetheless, the objectives pursued and approaches chosen by the Member States are becoming increasingly similar. Experience to date indicates that, as competition takes hold, Member States require (and the companies meet) increasingly high standards in this area. Furthermore, not only must companies meet the minimum standards legally required by Member States, it is often in their commercial interest to exceed them. This continued increase in the quality of public service is one of the basic underlying objectives of the Directive.

Public services should be adapted to the new challenges of liberalised markets, and should not be used as a pretext for foreclosing electricity markets from competition.

SOCIALLY RESPONSIBLE LIBERALISATION

The internal market has fostered growth and employment opportunities to the benefit of the citizens of the Union. The restructuring of the electricity sector in Europe and its adaptation to the new environment should not therefore be seen as a threat. In fact it is an opportunity. The active entry of new generators, for example, in new markets, will create job opportunities. Furthermore, the competitive position of the energy consuming industry will be enhanced as a result of liberalisation, which will also provide for new employment opportunities in the medium term. It is clear, however, that the introduction of competition will bring about change, and whilst this change is vital and unavoidable if Europe wishes to maintain and develop employment levels in energy intensive industries, it will result in restructuring. Experience to date indi-

cates that after competition is introduced, the national ex-monopoly companies tend to reduce their workforces in the medium to long term, but many new employment opportunities appear as new jobs are created by new market entrants.

The Union has a complementary role in helping Member States to take measures to reduce the difficulties that result from this process. It can use the experience of countries that have already undertaken liberalisation to help other Member States to set up programmes to increase the awareness of employees about job opportunities, to assist their retraining, to enhance the mobility of employees, and to inform and consult employees about electricity restructuring.



EFFECTIVE REGULATION



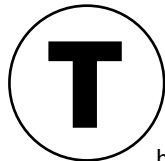
The new rules for the implementation of the Directive are now in place in almost all Member States. It is vital that these rules are equally and fairly applied by the establishment of efficient regulatory mechanisms.

The transmission and distribution system operators own a largely perfect monopoly. Electricity consumers have no real choice but to use the network connecting them to the grid for the delivery of their electricity. As a consequence, it is vital that these operators are subject to careful regulation; otherwise, where vertically integrated, they may actively discriminate in favour of their own group companies, limiting effective competition. Equally they may endeavour to charge excessive prices for transmission services, producing monopoly profits.

This regulatory role will be carried out in partnership between national regulators and competition authorities, and the European Commission, using the EU competition rules. The Directive itself requires the Member States to set up a dispute settlement authority, independent of electricity companies. However, most Member States have chosen to establish an independent regulator, immediately and on a day-to-day basis independent of, but ultimately responsible to, the Government. In any event, it is evident that a clear and increasing understanding exists across the EU of the need for effective regulation in this area, whilst subjecting companies to the minimum possible red tape.



A FAIR MARKET OPENING



The Member States are opening their markets at differing speeds. Some have chosen to limit the opening to the minimum of 26%, others have chosen an opening of 100%.

In order to ensure that this different level of market opening does not lead to unfair, un-balanced market-access and competition, the Directive contains a specific clause(*) which permits Member States going further than the require-

ments of the Directive to limit access to their market for generators in Member States pursuing lower levels of liberalisation.

This clause enables Member States to liberalise more quickly than the basic requirements of the Directive, without exposing their electricity industry to 'unfair' competition from generators in countries that retain significantly protected markets.

Inclusion of this clause in legislation

Belgium	yes
Germany	yes
Denmark	no
Spain	yes
Greece	no
France	?
Italy	no
Ireland	?
Luxembourg	yes
Austria	yes
Netherlands	yes
Portugal	yes
Finland	no
Sweden	no
UK	yes

? = not yet known

How this clause works

Country A liberalises 26 % of its market covering all consumers purchasing at least 30 GWh per annum. Consumers purchasing less than this figure continue to be obliged to purchase from the national electricity supplier.

Country B liberalises all its customers. Under the relevant provision of the Directive, country B can prevent generators from

country A selling to customers in B which it has liberalised over and above its basic 26% obligation contained in the Directive.

In this manner, generators from A are not in a position to have free access to all customers in B, whilst most of the market in their own country remains closed.

TRANSITIONAL REGIMES

The introduction of competition in electricity will lead to lower electricity prices. These lower prices could lead to serious financial difficulties for producers and suppliers who are at present faced with costs based on the situation before competition was introduced. Under the new legislation they will have to grant access to their wires or compete with new entrants to the market that are not faced with these extra, so-called 'stranded costs'. They are called stranded costs, because there is no way that an electricity company will be able to recuperate them under a competitive market regime.

These costs can take several forms, for instance:

- obligations imposed on electricity companies in the past, for instance for social or environmental reasons, leading to extra investments that can not be recuperated;
- fuel and power purchase agreements with a duration beyond 1999, which have been concluded on the basis of the expected price level before liberalisation and would be too expensive under competitive circumstances.

Stranded costs are not costs that are the result of bad financial management of the company; they have to be clearly caused by the transition to competition. Normally these above-market costs are a result of government policy, to favour certain fuels above others for instance. To deal with this issue the Directive provides for Member States to notify transitional regimes to the Commission. Such regimes aim to compensate companies for these extra costs, for instance by limiting the market opening to new entrants, to favour dispatch of electricity from certain fuels, or to give financial compensation. Pursuant to the subsidiarity principle it is for each Member State to decide whether, and how much, it wishes to provide for a transitional regime. It is equally for each country to decide how to meet the resultant costs. However, any such decision is subject to Commission control, either pursuant to the Directive, or the State aid rules.

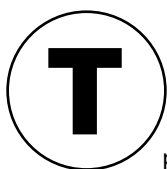
The Commission has received twelve notifications. Individual decisions will have to be adopted for each country.





RENEWABLES: GREEN ELECTRICITY

Electricity from renewable energy sources, like solar, hydro, wind and biomass, is a clean fuel. In the production process the emission of CO₂ is either zero or in the case of biomass, neutral. The clear environmental advantages of renewable-sourced electricity, coupled with the increased security and diversity of supply, have turned the promotion of green electricity into a high Community priority. This promotion should not distort trade and competition on the newly created single electricity market any more than necessary



he promotion of electricity from renewable energy sources is a high priority of the European Community.

The share of renewable energy sources in the fuel mix must and will be increased, because they do not add to the greenhouse effect and are secure, indigenous sources of supply. Increased use of green electricity is one of the cornerstones in a package of measures that the Union must take to fulfil the international obligations it has accepted relating to the countering of climate change, notably in the Kyoto protocol. The aim of the Community is to raise the percentage of renewable energy in the total energy supply from the current 6 % to 12 % by 2010.

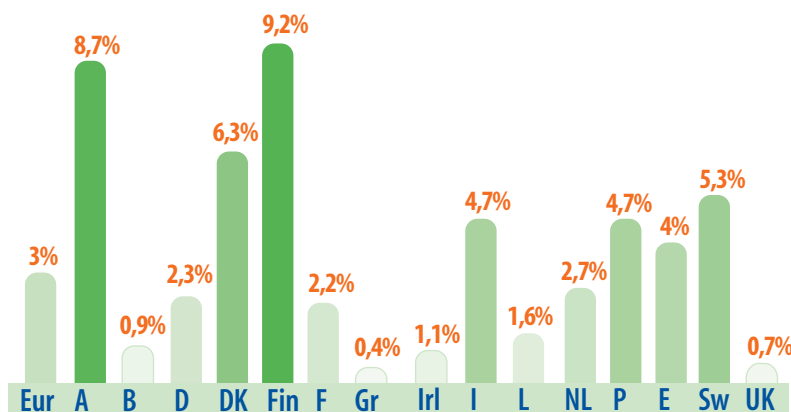
In this light, the Commission intends to adopt, early in 1999, a proposal for a draft Council and Parliament Directive on common rules for supporting renewable-generated electricity.

The primary objective of such a proposal will be to facilitate the access of renewable-sourced electricity to the internal electricity market once

a certain 'critical mass' of electricity generated from renewable energy sources exists across the European Union. Barriers to trade between Member States, both legal and technical, must be removed in order to create a single market for electricity generated from renewable sources. It will also create a level playing field through the requirement of a minimum level of consumption of electricity from renewable energy sources in each Member State. Secondly, the proposal will also contribute to the EU's environmental objectives by laying the foundations, in terms of the rapid development of a critical mass of renewable-sourced electricity, for the future measures that the Union will need to take in this field.

The Commission will push for rapid adoption of the proposal as it represents a basic element of the package of measures that it is preparing in the field of completion of the internal electricity market and integrating environmental considerations into energy policy.

Figure 6: Electricity generated from renewable energy sources in % of total electricity consumption (*). Hydro installations above 10 MW are excluded.



(* Total electricity consumption is defined as production plus imports minus exports
Source: Eurostat.

A SINGLE MARKET WIDER THAN THE EU

Enlargement of the EU will result in increased electricity trade, an increasing number of market players and enhanced security of supply.

The single market for electricity will, over time, be wider than the European Union. Norway will be a full participant under the European Economic Area (EEA) agreement. Switzerland, which is also liberalising, can be expected to play a role. Eastern European countries which have applied for membership of the EU will progressively participate in the market. This offers additional benefits and opportunities and must be welcomed and encouraged.

Electricity has always been traded between EU countries and their neighbours, albeit for technical reasons. Many of these countries, such as Switzerland, are currently undergoing market reforms similar to, indeed based upon, the electricity Directive. These countries will play an integral part in the EU's single electricity market as the General Agreement on Tariffs and Trade (GATT) rules give them non-discriminatory access to EU markets in this area. Other countries, and particularly the Eastern European countries that have applied for accession to the EU, are in the process of considering similar reforms. Indeed, the adoption of legislation compatible with the electricity Directive is a necessary pre-requisite to their entry into the EU. In any event, once they have adopted such legislation, they will be able to participate in the single electricity market.

However, assistance by the EU in preparing the applicant countries for restructuring their electricity sector in line with the Directive is vital, as their integration into the internal energy market will be a very delicate task. It represents a high

priority for the Commission. A specific action programme is being implemented vis-à-vis these countries to deal with this challenge. The objective is to share with them the 'know-how' of the EU countries undergoing the reforms, by providing technical assistance and organising workshops and bilateral meetings on the major issues concerning electricity liberalisation. It is evident that an extended transitional period is needed for candidate countries to introduce these important reforms. Each country is faced with different problems that need to be addressed during this process.

Over time, therefore, the single market in electricity will become wider than the EU. This can only be of benefit to all EU and European citizens. It will assist in ensuring security of supply, and will provide increasing economies of scale, leading to continued lower prices. It is an opportunity that the Commission will pursue during the coming months and years.



CONCLUSION



Falling prices

At present there is every reason to be optimistic regarding the single market for electricity. Member States are not only implementing the Directive fully and properly, but they are choosing structures and approaches that will ensure that competition is effective, and in most cases are liberalising far more rapidly than is required by the Directive. Already, prices in Europe are beginning to fall, as can be seen from Figures 7 and 8.

Making a real single market: the future outlook

The implementation of the electricity Directive is not the last step towards the creation of a single electricity market. The Directive lays down the groundwork for the liberalisation of 15 electricity markets. Nevertheless, much remains to be done to achieve a single market for electricity. In this line the remaining barriers to intra-community trade should be identified and eliminated.

Furthermore, the Commission, in close collaboration with the Member States and the electricity industry, should establish more coherent principles concerning a range of unresolved issues that can block cross-border trade. The development of tariff systems and trade facilitating mechanisms to enable the single market to become effective is of utmost importance. It will be the principal challenge that the Commission, together with national authorities and Europe's transmission and distribution industries, will be dealing with in the coming months and years

Figure 7: % Modification of 1998 prices compared to 1994 for household consumers (7500 kWh)

Prices in national currency/kWh, tax included, prices deflated

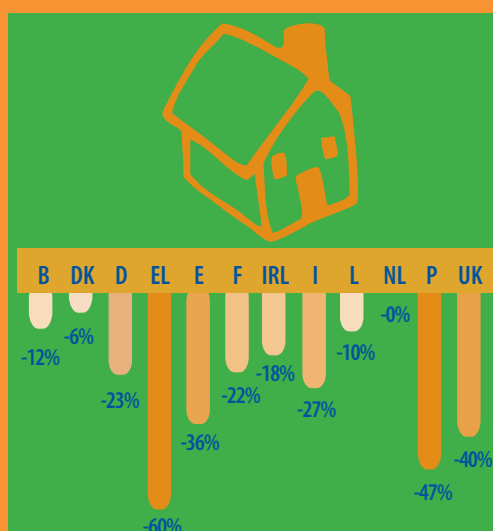
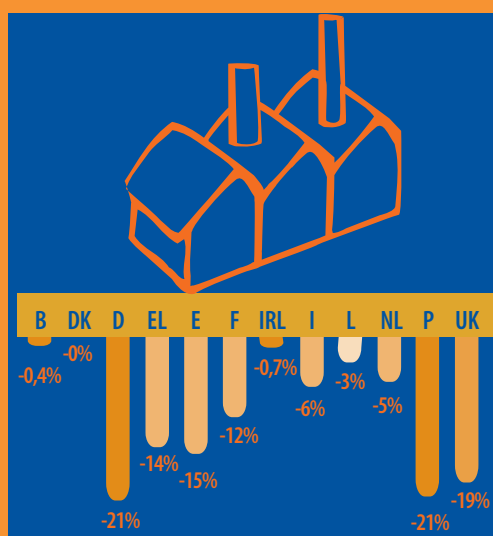


Figure 8: % Modification of 1998 prices compared to 1994 for industrial consumers (10 GWh)

Prices in national currency/kWh, VAT excluded, prices deflated.



Source: Eurostat