



**IFIEC Europe**

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**EUROPEAN COMMISSION 2005 REPORT ON THE FUNCTIONING OF THE ELECTRICITY  
AND GAS DIRECTIVES**

**IFIEC EUROPE POSITION PAPER ON ELECTRICITY**

*IFIEC Europe represents the interests of industrial energy users in Europe for whom energy is a significant component of production costs. Energy prices therefore are a key factor for their competitiveness.*

In its paper from September 29, 2004 IFIEC Europe concluded, that the current market design results in a **flawed** price signal which has a direct impact on the competitiveness of industrial energy consumers. As a result, IFIEC Europe sees a significant and undue transfer of revenue to the electricity generating sector.

Intensive energy consumers are facing a crisis, due to the following important development which impact strongly the electricity bill:

- a) a steady increase of direct and indirect surcharges relating to energy, environmental and social policies are being passed through to the final electricity consumer ;
- b) effective competition between generators and other independent suppliers has virtually disappeared ;
- c) the wholesale market price in many EU countries has increased over **70%** on average since 2002 (100 % from 2000 to 2006).

This has a negative impact on the decision-making process for new investment by industry and threatens the long-term viability of existing plants in Europe. The current electricity market structure is therefore a serious threat for achieving the Lisbon strategy to make the EU the world's most dynamic and competitive economy.

Therefore **IFIEC EUROPE** proposed in its paper from 8 March 2005 a comprehensive but realistic program to set the shape for developing a really competitive market, which should be implemented immediately at the European level. The main components of this program are:

1. Limit market share of the largest generators
2. Fully unbundle the grids
3. Integrate markets and
4. Increase market transparency

In July 2005, the situation is worse than it was six months ago. Electricity prices have gone up even more and the full opportunity cost of CO<sub>2</sub> is passed through, while electrical producers have received a lot of free allowances (around 90 – 95 %). This leads to windfall profits for the electricity producers to the detriment of the consumers.

**In this specific crisis, Member States should be allowed to take temporary measures on a national basis to protect energy-intensive industries.**

IFIEC Europe would also like to make additional proposals regard methodology and scope of the Benchmark report.

IFIEC Europe proposes that the information in the benchmarking reports published by DG TREN is completed by class of date, with full coverage of Member States, including recent EU entrants and candidate countries.

Additional indicators should be introduced eg :

**On electricity production:**

- Return on capital employed (ROCE) on electricity generation activities within the European Union ;
- Comparison of the reported wholesale market prices as compared to reported short run marginal costs (SRMC) of production per power station per type of fuel (nuclear, coal, gas) ;

*For example, the following factors could be considered when making this comparison:*

→ coal plants : the Wholesale market price for the 7 000 highest-priced hours versus the SRMC Amsterdam Price Index (API n°2) – 7 000 kWh/ton – energy efficiency (EE) 42 % + 3 €/MWh Operation and maintenance (OM) cost + CO<sub>2</sub> futures 900 g/kWh multiplied by 0,05 – assuming free allowances 95 %)

→ nuclear plants : the Wholesale market price for the 8 000 highest-priced hours versus 10€/MWh SRMC

→ natural gas plants : the Wholesale market price for the 6 000 highest-priced hours versus SRMC CCGT (spark spread) NBP/TTF - EE 55 % + 2 €/MWh O&M + CO<sub>2</sub> 400 g/kWh x 0,05);

- Publication of off-peak - base load wholesale indexes [calculated by the subtraction of the peak prices from the base-load prices]
- Monitoring and publication of system margin data concerning the “generation factor” of power generators with more than 10 000 MW of installed capacity, expressed as a ratio between annual production/total installed capacity (calculated for base load, mid-merit and peak Load)

More particularly, as concerns the monitoring of degrees of market concentration:

- A good basis for such monitoring can be found in the “Market Monitoring Unit’s PJM [Pennsylvania, Jersey, Maryland] Interconnection 2004 State of the Market Report” : local market concentration and frequent congestion (p.57), ownership concentration (p. 70), pivotal suppliers (p. 60), etc.

→ full report available at : <http://www.pjm.com/markets/market-monitor/som.html> )

- Herfindahl Hirschman Index (HHI) calculations for power production, spinning reserve, marginal plant, ...

**On the grid:**

As essential facilities, electricity grids need to be available to all market participants on an efficient and non-discriminatory basis. But as long as grids are not fully unbundled there will be potential for direct or indirect influence by the dominant players. This influence opens the door for numerous cross-subsidies

and other means by which dominant generators secure their market position to the detriment of those smaller generators that are not affiliated with grid-management.

To overcome the current deadlock and set the ground for effective competition therefore the present unbundling regime needs to be invigorated. Further to the effective implementation of the present Directive the operational responsibility for transmission and distribution networks needs to be completely transferred to independent entities under regulatory scrutiny (regarding tariffs and access rights etc.). This needs to be applied to all grid operators including small distributors, who will have to find ways to cooperate efficiently. This effective neutrality of the grids could best be guaranteed by complete ownership unbundling.

IFIEC Europe proposes to incorporate the following data:

- Benchmark of tariffs
  - Exclusion losses & all over-cost
  - Repartition G & L
- Monitoring and reporting of auctioning values on cross-border and use of this revenue
- Monitoring and reporting on cross-border interconnection (share of cross-border investment vs national investment)
- Monitoring and reporting on TSOs benefits (cross-border benefits, ROCE...)
- Monitoring and reporting on ETSO fund and allocation
- Monitoring and reporting on interconnection users (supplier share of each producer including trading affiliates). The Spanish decision to refuse access to interconnections to suppliers with more than 10% market share should be implemented on all borders.
- Monitoring on cross-border capacity used. Energy transited/net transfer capacity (annual/monthly basis)