



EUROPEAN COMMISSION
IMPACT ASSESSMENT BOARD

Brussels, 04 September 2007
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Opinion

Title **Impact Assessment for the legislative package on the internal market for electricity and gas**
(draft version of 6 August 2007)

Lead DG **DG TREN**

1) Impact Assessment Board Opinion

(A) Context

In January 2007, the Commission adopted a package of energy measures. Part of the package were two (annual) reports on gas and electricity markets, which included an overview Member State by Member State of the situation on the gas and electricity markets, as well as a set of recommendations. These were then endorsed by the European Council in Spring 2007 and listed in an action plan for energy policy in Europe, where the Council called on the Commission for action. In July 2007 the European Parliament supported transmission ownership unbundling, yet pointed out to differences between electricity and gas markets that may call for differentiated measures.

The IAB gave on 16 July an opinion on a previous draft of the present IA report. In line with the recommendation made by the Board, the responsible service resubmitted a revised version of the IA report. The present opinion thus up-dates and replaces the IAB opinion issued on 16 July.

(B) Positive aspects

The resubmitted version of the IA report follows most of the IAB recommendations and has been significantly improved regarding assessment of the economic and environmental impacts of the measures in question. Relations between the different measures proposed and their contribution to achieving the objectives of the initiative have been clarified and are presented in annex IV. The IA report has also gained in readability.

(C) Main recommendations for improvements

General recommendation: The report is an improvement on the previous version examined by the Board. The political context, the analysis of economic and environmental impacts and the relations between various measures are now explained more clearly. However, some elements of the analysis still deserve further work, in particular the baseline scenario, the

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impacts on infrastructure investment, the employment effects and the consequences for market transparency.

(1) The baseline reference scenario needs to be streamlined. The IA report refers to business-as-usual scenarios for each problem investigated. These expected developments should follow from a single coherent and rigorous analysis that would allow taking into account all factors at play; whereas now the IA report gives the impression that different and independent baselines have been applied separately.

(2) Effects on investment should be better analysed. The IA report projects an increase in network investment (including interconnections) due to unbundling. The IA report should make clearer what the significance of unbundling is for investments vis-à-vis other factors that may also significantly affect investment decisions (where in particular the role of long term contracts in gas and tariff regulations need to be better analysed).

(3) Effects on employment deserve further analysis. The IA report concentrates on explaining existing arrangements that protect workers facing lay-offs. Instead, the IA report should try to estimate the potential volume of job losses and the transaction costs of these. The IA should also analyse whether the employment effects will be concentrated in specific regions and could try to estimate quantitatively or qualitatively whether the expected boost in economic growth stemming from improved market efficiency will offset any negative employment effects. Experiences of the countries that already implemented unbundling measures could be used as an illustration.

(4) The envisaged changes to the transparency regime should be stated more clearly. Doing that would allow for a more detailed analysis of impacts on market prices, and thus on consumers and producers. It would be advisable to deal with electricity and gas markets separately to allow market specific peculiarities to be taken into account.

(D) Procedure and presentation

The IA report should contain a short description of how the Board recommendations were taken into account.

2) IAB scrutiny process

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| Reference number | 2007/TREN/007 (strategic initiative) |
| Author DG | TREN |
| External expertise used | No |
| Date of Board Meeting | Written procedure |
| Date of adoption of Opinion | 04 September 2007 The present opinion concerns a resubmitted draft IA report. The first opinion was issued on 16 July 2007. |