

Progress made and challenges ahead for EU gas and electricity market integration reported by ACER/CEER

Brussels, 29 November 2012

- **Wholesale price convergence is increasing in both the electricity and gas markets in Europe, which is an indication of greater integration**
- **However, efforts are still needed to transfer these benefits to European energy consumers**
- **Barriers detected and measures proposed**

Today, the Agency for the Cooperation of Energy Regulators (ACER) and the Council of European Energy Regulators (CEER) presented their first market monitoring report in Brussels¹. Its findings strongly support the core messages of the Commission's Communication on the Internal Energy Market².

Wholesale price convergence is increasing

According to ACER's Director, **Alberto Pototschnig**, "Increasing price convergence is a clear sign of progress towards market integration and greater competition. Transferring the benefits of the single internal energy market to final consumers is the challenge we are now facing."

One of the main findings of the [Annual Report on the Results of Monitoring the Internal Electricity and Natural Gas Markets](#) is that, due to market coupling³, electricity price convergence is increasing. In natural gas, wholesale price convergence continued to improve in North West Europe (Belgium, France, Germany, Netherlands and the UK). Convergence was more limited in the rest of Europe⁴.

From wholesale to retail – the consumer must benefit

Wide variations in household prices persist among Member States, even between those featuring similar retail market frameworks. In 2011, average retail prices ranged between 8.5 and 29.4 euro cents per kWh for electricity and between 2.8 and 11.7 euro cents per kWh for gas.

The report provides further analysis of retail regulatory frameworks: most Member States still maintain regulated prices for gas (15 countries) and electricity (17)⁵. The analysis also shows that supplier switching generally remained low in 2011.

CEER President and Chair of ACER's Board of Regulators, **Lord Mogg**, said, "Of central importance to the success of the Internal Energy Market is that efficient and competitive markets translate into real benefits for consumers. This is why CEER, working closely with BEUC the EU consumer organisation, has developed a 2020 Vision of the energy sector which puts smaller customers first."

Barriers detected and measures proposed

According to the regulators, the **growing penetration of electricity from renewable sources** – the production of which cannot be entirely predicted – and remaining **bottlenecks in the European electricity network** are two of the main reasons for the increased level of unplanned flows at several EU borders. These flows reduce the cross-border capacity that could be offered to the market and might threaten security of supply. ACER proposes immediate measures to address **electricity network bottlenecks**⁶, to ensure **the more efficient use of gas capacity**⁷, and points out important **gas tariff transparency**⁸ issues.

ENDS (See Notes for Editors on next page)

Notes for Editors

- (1) The [Annual Report on the Results of Monitoring the Internal Electricity and Natural Gas Markets](#) presented on 29 November 2012 fulfils the Agency's mandate established by Article 11 of [Regulation \(EC\) No 713/2009](#). It covers retail prices for electricity and natural gas, access to networks (including network access by electricity produced from renewable energy sources), and compliance with the consumer rights laid down in [Directive 2009/72/EC](#) and [Directive 2009/73/EC](#). By producing a joint report, ACER and CEER aim to provide as complete an assessment as possible of progress towards the implementation of the [Third Energy Legislative Package](#), including the completion of the internal energy market by 2014.
- (2) The European Commission published (15 November 2012) its [Communication on the Internal Energy Market](#), as well as a set of accompanying supporting documents.
- (3) For example, the frequency of hours with identical wholesale prices across the German-Dutch border rose from 12% in 2010 to 87% in 2011, when coupling was introduced.
- (4) Gas-on-gas competition is gradually replacing traditional long-term oil-indexed contracts that do not quite reflect underlying gas market conditions. The strengthening of current organised gas markets, such as in Austria and Italy, and similar future developments, as in the Iberian Peninsula, should further promote price convergence.
- (5) Where regulated prices persist, they must be consistent with the provisions of the Third Package, which calls for competitive, adequate, fair and transparent prices, and for consumers to be in a position to select their energy provider.
- (6) ACER proposes immediate measures, such as the establishment of a legal framework for compensating and reallocating the additional costs incurred by transmission system operators for dealing with unplanned flows. Additional investment in networks and the reconfiguration of areas for wholesale trading (bidding zones) are among the measures proposed for the longer term.
- (7) Furthermore, the report notes inefficiencies in the utilisation of cross-border gas transportation capacity, typically at those interconnection points between Member States where capacity is fully contracted, but neither used nor made available on secondary markets. ACER and CEER are working to guarantee that capacity is allocated fairly, unused capacity is released to the market, and any congestion is efficiently managed.
- (8) In addition, the report shows that cross-border interconnection tariffs are extremely heterogeneous and, in general, not sufficiently transparent, as the methodologies for estimating costs and setting prices are usually not published. Moreover, access to some interconnection points seems to be priced arbitrarily. ACER and the National Regulatory Agencies (NRAs) are currently developing tariff framework guidelines to address this issue.

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