



European Regulation Forum  
on Electricity Reforms

## Berlin SESSA Conference "Perspectives and Challenges of EU Electricity Enlargement" Press Release

**S**ESSA, a programme financed by the European Commission, is a European forum on electricity market reforms (<http://www.sessa.eu.com>). One of the aims of the programme is to evaluate electricity markets reforms in Europe and elsewhere, and to identify good examples of market design, market power mitigation, schemes for introduction of renewable energy and many other aspects of electricity market reform.

**E**lectricity market reform is motivated by the *consumer benefits* that increased competition and trade across national borders are expected to bring. These benefits include lower prices, resulting from increased efficiency in electricity generation and distribution, as well as from reduced margins between prices and the relevant marginal costs. But the lower prices should not come at the expense of security of supply, the environment and the long term sustainability of energy supply.

**T**he SESSA programme involves both researchers and stakeholders, and includes a series of conferences, each one focused on a particular set of issues. The third SESSA conference, *Perspectives and Challenges of EU Electricity Enlargement*, was held in Berlin, Germany, on 9-10 December 2004. The objective of the conference was to discuss the perspectives and the challenges of electricity sector reforms in the new East European EU member states (Poland, Czech Republic, Slovakia, Hungary, Lithuania, Latvia, Estonia, Slovenia) and candidate countries (Romania, Bulgaria, Croatia).

The objective of EU electricity enlargement consists of moving towards a single, sustainable European electricity market. This process is *far from being achieved*. In purely technical terms, the East-West integration was realized in 1995, when the CENTREL-countries (Poland, Czech and Slovak Republics, and Hungary) were synchronized with Western Europe (UCTE). However, in economic terms, the new member countries have only achieved “semi-commercialization”. Price adaptation towards full cost-recovery and an adequate relation between industry and household prices is not achieved in many countries. Effective regulation is lacking in several countries, where regulators have only a limited degree of independence and capacity. Privatization of generation and distribution companies, pushed strongly in the early reform phase, has decelerated recently. All international benchmarking exercises point at an *intensive need for further reforms* in the sector.

In particular, the new member states have *not succeeded in establishing competitive electricity markets*. Vertical integration between the network owner and electricity generation remains a feature in several countries. Concentration in electricity generation remains high in most new member countries. Due to a lack of interconnection capacity, this can not be offset by international trade. Some countries (such as Poland and the Czech Republic) are trying to push “national champions”, thus emulating similar earlier trends in the EU-15 electricity markets.

The legacy of non market-based long-term power purchase agreements (PPAs) hampers the emergence of workable wholesale markets. Hopes that Eastern Europe would push the use of renewable energies have *not* been fulfilled. Only hydropower plays a role in some countries (Latvia, Romania, Slovenia), whereas wind, solar, and biomass are marginal. By contrast, most new member countries hang on to traditional sources of energy: coal and nuclear. Whether this strategy can be maintained under the new environmental (coal) and financial (nuclear) constraints is questionable. Concerns about undercapacity in generation seem to be unfounded.

An important element in the enlargement process is the development of *cross-border electricity flows*. These account for less than 10% of electricity consumption at present. What is required is a more efficient use of the existing capacities, a change of the regulatory regime on cross-border trade, a more efficient pricing system for congested transmission lines and – eventually – the construction of new domestic and cross-border transmission capacities. In the medium term, it will become more important to look beyond the current EU and UCTE borders. In particular, *Russia* and *Ukraine* are emerging as the new “frontier” of the EU electricity market.