



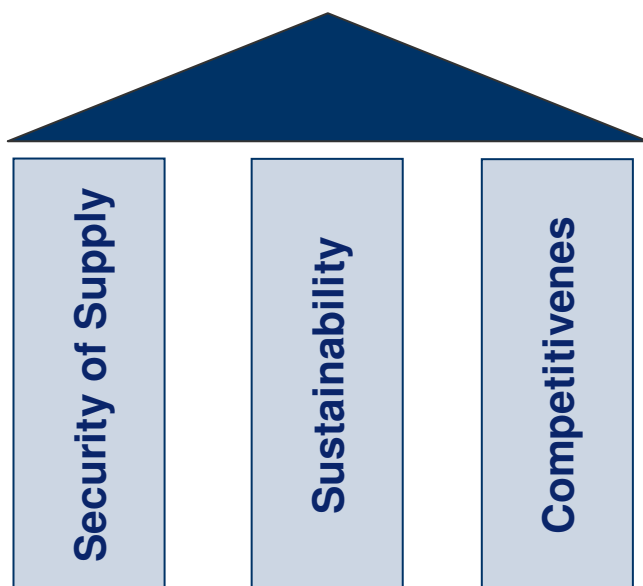
Competition in the European energy market from a Central and Eastern European prospective

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Mission and success factors of the European Union's Energy Policy

The 3 pillars of the European Union's Energy Policy:

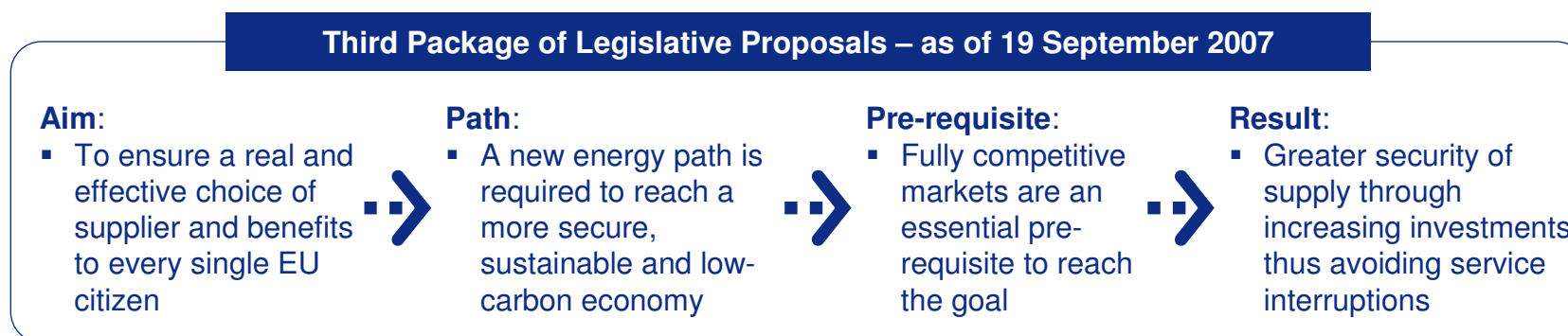


Success factors of the implementation of the European Union's Energy Policy:

- Degree of decentralisation of the industry
- Ownership structure of the industry (degree of privatisation)
- Structure of customers (industrial, commercial, residential)
- Ownership structure of industrial customers (privatisation)
- Social sensitivity or residential customers (price sensitivity)
- Current status of the industry to achieve the three pillars of the EU's energy strategy
- Level of integration of the particular regions' economies
- Level of integration of the particular regions' electricity and natural gas markets

The Commission`s 3rd Energy Market Liberalisation Package (19 Sept 2007)

- **According to the Commission creating a coherent energy policy for Europe requires the simultaneous liberalisation and integration of the EU`s fragmented national energy markets**
- **The Commission proposed a fundamental revision of energy market ownership structures in its 3rd Energy Market Liberalisation Package**



Controversial acceptance from stakeholders

E.ON – ‘unbundling doesn’t lead to lower prices’

RWE - ‘it would discourage investment and competition’

Endesa - ‘provide no clear process and set out no steps towards market integration’

Anonym Brussels energy specialist - ‘The scale has to be defined another way to compensate shareholder of German companies for any ‘loss’ of assets.’

Source: EurActive

Overview of CEE Electricity Markets

- **Liberalization in 2000 as part of the EU accession process**
- **Overcapacity in the system due to the decrease of energy intensive industrial production**
- **Baseload profile industrial customers enjoyed the price benefit of cheaper capacity, while residential consumers absorbed the relatively more expensive capacities**
- **As a result of the liberalization, the contractual arrangement is changing in the energy market: there are no more state guaranteed long term contracts**
- **Existing generation capacities approach the end of their life span**
- **CO₂ concerns stopped the lignite and black coal capacity refurbishments**
- **Constrains on renewables, difficult to reach 10 percent by 2010 and 20 percent by 2020**
- **Electricity consumption increases as living standard converges towards the EU average**



These factors resulted in the current price of the electricity being on a historically high level and this trend is not expected to change.



Focus is on the security of supply and not on competition

Dilemmas regarding two key elements of the 3rd energy package

1. Agency for the Cooperation of Energy Regulators to be set up

- to complement at an European level the regulatory tasks performed at a national level by the regulatory authorities
- to coordinate national regulators' action where necessary

Dilemma: effectiveness of harmonisation

2. Separation of system operation and transmission activities

Dilemma: will this solve the problem of capacity shortage and provide adequate answers to the lack of primary energy sources?

Note: In Central and Eastern Europe the TSOs are state owned entities

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