

Energy market harmonisation, The European Voice 28.6.2007

There has been a lot of noise around ownership unbundling in gas and electricity markets.

The same rules and practices should not, however, be fully applied in both of these markets. The unbundling options are more complicated for gas.

Finland, for instance, has only one pipeline connecting its market to the Russian grid. Gas is bought at a much cheaper price compared to that of the "European" market price, and the lower price shall not be jeopardised by any forced unbundling.

Unbundling is not a method by which all inefficiency, secrecy and manipulation of the market can be cured. State ownership of the grids could be, but in the EU it is out of the question. The big players, that own the monopolistic pipelines, have the political power to resist any state-based system.

In these conditions, we must settle for giving more power to independent system operators (ISOs) and the (all-European) regulators. They may solve the problem of transparency - but not that of new investments.

The problems linked to the electricity market are different by nature.

In the Nordic countries, there is a common regional market (Nord Pool) with the same wholesale reference price.

In these countries (except in Denmark) cheap hydro and nuclear electricity is produced, and the production costs are reflected in retail prices paid by industrial and household consumers.

Over the coming years, market mechanisms will erode this advantage due to the pricing mechanisms.

The wholesale price is fixed in the bourse by a system which is based on companies auctioning all the electricity produced for the next day. It is priced at the margin, and even low cost producers get the same high price as the most expensive producers. The emission trading scheme makes the profits of the hydro and nuclear energy producers even higher.

The big players of the market know each others' production capacity well, and they act - and speculate - in the market as oligopolies.

Surprisingly, the dirty tricks became public in Germany, where the secret market data of the Leipzig EEX was published by an unknown insider. Based on that first hand information, it was concluded that the manipulated market price was up to 30 % too expensive.

This is undisputed evidence that undertakings manipulate wholesale and emission trading prices and reap windfall profits from the pricing system. The profits are invested in market shares rather than in low CO₂ generation or distribution.

The EU goal is to harmonise all internal markets.

The way Nord Pool functions as a harmonised market is a lesson for the future: what happens, when the price of electricity becomes independent of production costs and is based on the price bid by the most expensive producer. The consumers of low production cost countries see electricity produced in their countries go to more expensive markets in pursuit of profit, and cheap electricity prices in high cost countries are subsidised by the consumers in low cost countries

In Germany, where politicians are dismantling their old nuclear installations and not licensing new ones, electricity is expensive.

When Finland is licensing new reactors, the German multinational E.ON will seek to produce nuclear energy in Finland.

In the harmonised market, electricity can be exported out of the country (and even to Germany) through the common Nordic market. In this case, Finland will be a nuclear producer country with all the nuclear waste repository problems but without cheaper electricity prices.

And when the EU directive comes into force requiring 20 per cent of the primary energy to come from renewable sources, Finland may be obliged to extend its renewable energy production by an extra 35 % (which could be its country quota for renewables) per every new atomic installation. This would have unbearable ecological repercussions for the landscape and woods in Finland.

Thus, market mechanisms or ownership unbundling do not solve all the energy problems.