Market Concentration

"Without stricter rules on market dominance and a phase out of the existing market distortions in favour of some big players, the European electricity market will be dominated by a handful of oligopolies. This is a threat to the functioning of the market and the democratic control of a vital public service", Claude Turmes, rapporteur of European Parliament for the directive on liberalisation of the electricity

Over the past decade most of Europe's state-owned electricity monopolies have been disbanded. This has been driven by ideology, the desire for short term increased government revenues and shareholder value. This process has been further encouraged, but not required, by the Electricity Market Directive. The avoidance of market dominance is of particular importance in this sector as electricity cannot be stored and the potential to exercise market power is much greater than in other commodities. The importance of this phenomena's has been highlighted during the crises in California, but also through the manipulation of the electricity prices in the UK pool and recently on the German power exchange. The market dominance is most threatening on the generation side where three parallel evolutions can be observed:

- In certain countries - France, Greece - the market for electricity generation has not been opened and the historical operators dominate these markets.
- In the countries that have seen market opening, political pressure on national merger authorities has weakened mergers control and has allowed market dominance. This is the case notably in Germany and Spain
- The EU Commission is not addressing important economic market distortions in the emerging EU market like the access to decommissioning funds (see fact sheet on the issue) where some companies have access to enormous funds to build up an aggressive acquisition policy in other countries. This is notably the case for EDF, E.ON, RWE.

The European Parliament has a crucial role to play in highlighting these problems as national governments have vested interests in the debate. Most Member State are trying to build one or more national champions which will be able to compete against the European number 1 utility EdF and will thus give more importance to "industrial" policies than to national merger control.

The weakness of today's EU merger control is illustrated by the fact that the EU had no say in EdF buying Dalkia, its main competitor in industrial co-generation. Even a 'mega-fusion' like the one proposed between E.on and Ruhrgas does not fall under the current EU competition law.

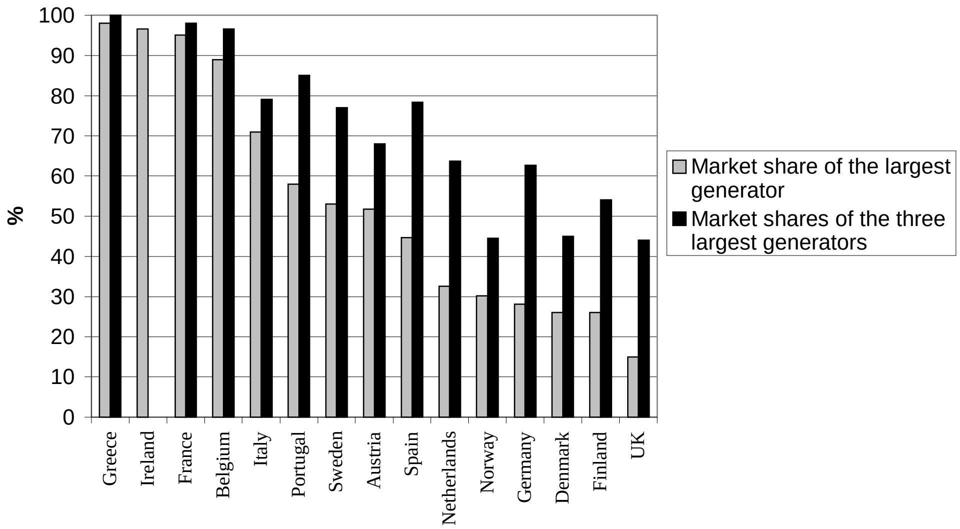
Electricity is unlike other many other commodities in that it is difficult to store. Consequently, it is easier for dominant players to manipulate the market a key times to significantly alter the price of electricity. With this in mind, the revised Directive proposes to review market concentration, but clearer guidelines are required. Specifically, the regulator should monitor market concentration trends, make recommendations to the Parliament and advise Monopolies and Mergers Committees on developments in the Electricity Sector. Furthermore, the Commission should develop specific requirements about market concentration.

The dominant European electricity companies are shown in the following table. Within this group, more large-scale mergers and acquisitions are imminent, further increasing the dominance of a handful of companies. In particular, EnBW is already largely controlled by EdF. Power Gen (UK) is in the throes of being taken over by E.ON while CEZ (Czech Republic) is being proposed to be sold virtually in its entirety – transmission, distribution and generation, the reported front runner is EdF. In Germany the recent announcement of a deal between E.ON and Ruhrgas has raised serious discussions about market dominance.

Company	**Nationality**	**Percentage of EU Market**	**Owned By**	**Key Strategic Ownership**
EdF	France	17	100% State Owned	ASA – Austria: Dalkia (France) ; Edison; Italenergia; London Electric; EnBW
ENEL	Italy	8.0	100% State Owned	Elcogas (Spain)
RWE	Germany	7	Private	
Eon	Germany	7	Private	Bayernwerk: Preussen Elektra: VEAG Sydkraft
Vattenfall	Sweden	3.2	100% State Owned	HEW (Germany); Finish and Baltic States
International Power/Innogy	UK	2.7	Private	American National Power; Spain
Electrabel	Belgium	2.7	Tractebel (40%) Communes (5%) Tractebel Suez	Hidrocantabrico (Spain) ; Belgo-Nucleaire ; Epon (Netherlands)
British Energy	UK	2.6	Private	Active in US market, Exelon
Iberdrola	Spain	2.3	Private 2% EdP	Enipower (Italy) : Iberdrola-Tractobel
EnBW	Germany	2.0	EdF (34%)	Hidrocantábrico
PowerGen	UK	2.0	Private	Energeticka (Czech)
VEAG	Germany	1.8	RWE (25%) Eon (50%)	
CEZ	Czech Republic	1.8	100% State owned	None
Fortum	Finland	1.8	50% state owned	IVO : Neste : Gasum

The graph below shows the extent of market concentration in Member States, where in all but three States the three largest companies control the majority of the market.

Market Power of Electricity Companies in Member States



Source: Jean-Michel Glachant

The market dominance of the companies is in some cases greater than demonstrated in the graph above, as a company may have an increase dominance of a particular section of the market often peak load. National regulators appear reluctant to act against market dominance in their domestic market as they wish to ensure a strong and large domestic utility exist, which is able to compete and survive in the European market. Across the EU there is also an increasing trend of diversification by utility companies. Pan-European multi-utilities are now developing which provide energy, water, waste and telecommunication services. The table below shows how far this has occurred within the power sector.

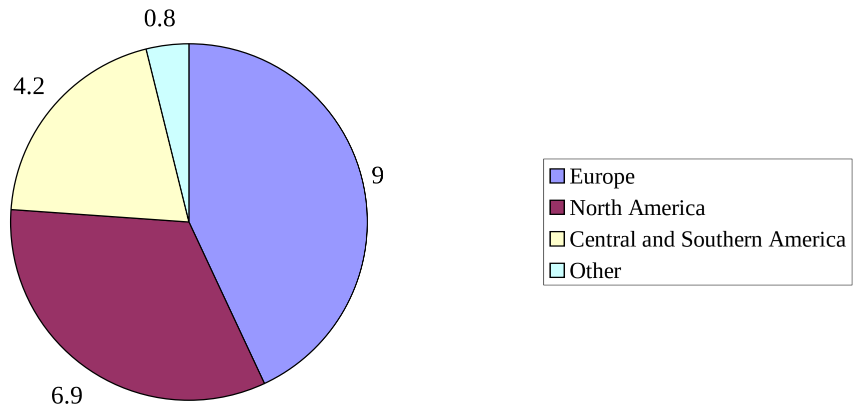
Concentration of multi-utilities

	Energy	**Water**	**Waste**	**Communications**
Suez	**X**	**X**	**X**	**X**
Vivandi	**X**	**X**	**X**	**X**
RWE	**X**	**X**	**X**	**X**
Eon	**X**	**X**	**X**	**X**
EdF	**X**		**X**	
Endesa	**X**			**X**
ENEL	**X**	**X**		**X**

Across Europe there is a growing trend of market concentration which is set to continue. It is widely forecast that within a few years a handful of companies will dominate the market. This is a threat to the functioning of the market and the democratic control of a vital public service. It is therefore essential that controls are put in place to ensure that mergers and acquisitions are carefully scrutinised and if necessary controlled.

Globally, Europe remains an important area of cross-border trade in electricity companies, although the value of transactions has decreased since a peak in 1998. In 2000 there were 180 cross-border deals in electricity companies with a total value of $US 38.9 billion. The majority of these transactions are targeted towards generators (47%), while distribution/supply companies represent 25%. Europe was the leading target continent with 53 deals worth $11.2 billion; there were 30 other deals in which the value was not disclosed. Although the number of cross-border deals in 2000 was double the 1999 figure, the total value fell by 50%. European companies were the leading bidders, globally investing $21 billion in 2000. The chart below shows the regional breakdown of this investment.

Investment Targets Of European Electricity Companies ($ billion)



Source: PWC 2001[1]

The companies that were most active in the global marketplace in 2000 are shown in the table below.

Company	**Country**	**Number of Deals**	**Value of Deals US $ billion**
AEA	US	12	4.5
Powergen	UK	2	3.2
National Grid	UK	1	3.0
EdF	France	9	2.5
Endesa	Spain	6	2.5
Vattenfall	Sweden	10	2.3
Reliant Energy	US	1	2.1
Fortum	Finland	9	1.8
Suez Lyonnaise des Eaux	France	1	1.4
TXU	US	5	1.3

Source: PWC 2001

This Briefing sheet has been prepared by the office of Claude Turmes, MEP, who is the Rapporteur for the European Parliament of the Directive on the Liberalisation of the Electricity Market. For more information contact: Tel. 32 2 2847246 or fax. 32 2 2849246 or visit http://www.eu-energy.com/electricity

[1] Electricity Deals, Cross Border Mergers and Acquisitions in the Global Electricity Market, PriceWaterhouse Coopers, January 2001