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COMMUNICATION FROM THE COMMISSION TO THE COUNCIL AND THE EUROPEAN PARLIAMENT

Report on progress in creating the internal gas and electricity market

(SEC(2005) zzzz)

A. CONTEXT AND MAIN CONCLUSIONS

Europe is currently seeking means to re-launch its economic performance to achieve a higher level of growth and competitiveness. A reliable electricity and gas service at acceptable prices is the key to this and businesses and households should be able to benefit from efficient energy supply. This is a key element of Europe's Lisbon strategy.

To achieve this objective, the EU decided to bring the energy sector into line with the competitive parts of its economy by gradually introducing competition. On the basis of the second Electricity and Gas Directives[1] the EU now has the unique opportunity to create the largest integrated competitive electricity and gas market in the world. The EU cannot afford to miss the opportunity of making this market a success. This has been recently underlined by the European Council at the Hampton Court Summit.

It is now one year since the new directives should have been implemented by Member States and there are one and a half years to go before markets will be fully open to competition. This report takes stock of the current situation and identifies areas requiring further improvements.

The main conclusion of this report is that, whilst the initial opening period of energy markets has largely been a success to date, with, for example, electricity prices now being lower in real terms than in 1997 notwithstanding recent price rises for oil, gas and coal, more needs to be done to ensure that industry and citizens receive the full benefits flowing from market opening. This assessment is shared by energy regulators and most interested parties consulted during preparation of this report.

The most important persisting shortcoming is the lack of integration between national markets. Key indicators in this respect are the absence of price convergence across the EU and the low level of cross-border trade. This is generally due to the existence of barriers to entry, inadequate use of existing infrastructure and - in the case of electricity - insufficient interconnection between many Member States, leading to congestion. Moreover, many national markets display a high degree of concentration of the industry, impeding the development of effective competition. The gas market continues to suffer from a lack of liquidity of both gas and transport capacity. In this context, the effects of long-term gas contracts will have to be taken into account, both in terms of competition and the fact that such contracts may be necessary to underpin the financing of major new gas infrastructure[2]. Another indicator of the lack of real competition is that switching by customers remains limited in most Member States and that choosing a new supplier from another Member State remains the exception.

Thus, this Report shows that in economic terms, with very few exceptions, electricity and gas markets in the EU remain national in economic scope. Sufficient cross-border competition has not yet developed to provide a fully effective constraining influence on the economic power of companies in each national market. This issue needs to be addressed with determination, by the Commission, Member States, Regulators and Industry. The main immediate action that is necessary is the full and complete and effective implementation of the second Gas and

[1] Directives 2003/54/EC and 2003/55/EC concerning common rules on the internal market in electricity respectively gas (LS).

[2] For details see Commission Staff Working Document, Technical Annexes (TA) to this communication, section 5.

Electricity Directives. The fact that most Member States have transposed the new Directives only with delay and some not yet at all is particularly damaging. The Commission will continue to insist on compliance, when necessary in infringement procedures. In particular, Member States need to give careful consideration to ensure that in their implementation of the Directives in practice, they pursue their spirit and not only their letter. The Directives provide a common minimum set of principles and measures applicable to all Member States. However, additional measures may well be necessary in certain areas, to take account of the specific characteristics existing in certain countries in order to ensure that individual markets really integrate with their neighbours. The development of the Nordpool area provides examples in this respect. Some Member States have already taken such active, additional steps; for example reinforcing the minimum unbundling measures provided in the Directives, strengthening the power and independence of Regulators, freeing up existing and building new interconnection capacity, and taking measures to promote liquidity on gas markets.

All Member States therefore need to consider carefully how to implement the Directives in a manner that will rapidly lead to wider, more open and more competitive markets. This means in particular, in addition to ensuring that the requirements of the Directives regarding effective non-discriminatory network access, unbundling and effective Regulation work in practice, taking an active approach to ensuring the existence of adequate and available interconnection capacity. They also need to take care to ensure that any price regulation does not act to exclude competition. At the same time, the Commission and national Regulators will accelerate their efforts under the gas and electricity Regulations to deal with a number of technical issues such as cross-border trading mechanisms, balancing, etc.

It is therefore too early to decide whether additional legislative measures at Community level are necessary, such as those suggested by some respondents to the Commission's enquiries when preparing this report; for example additional unbundling or further powers to Regulators. It is first necessary to see the results of the implementation of the Second Directives in practice. The Commission will therefore, in addition to following-up closely the formal legal compliance with the Directives, carry-out detailed country-by-country reviews of the effectiveness in practice of legislative and regulatory measures, including specific additional national measures. This will lead to a further Report by the end of 2006 and, if necessary, proposals to address any remaining requirements in 2007.

In addition to these measures, a number of other supporting actions are necessary. The introduction of competition will tend to exert downward pressure on prices. In themselves, falling prices for energy do not encourage either careful consumption or investment in energy efficiency, another area where the EU needs to make further progress, as the Commission highlighted recently in its Green Paper on Energy Efficiency[3]. In response to this dilemma, in December 2003 the Commission proposed a directive on energy end-use efficiency and services, aiming at providing a framework for the development of a real market for energy efficiency.

Furthermore, the increasing share of renewable electricity needs to be integrated into the internal electricity market, both technically, through the provision of sufficient network capacity, and commercially. The European Union has set a target of 21% renewable

3 "Doing more with less" – Green Paper on Energy Efficiency, COM(2005) 265.

electricity in 2010[4]. Member States have been supporting the development of renewable electricity through specific schemes. A separate Commission report will analyse the impact of these schemes on operation of the internal market. There is a need to continue to monitor the situation and encourage best practice, as the share of renewable electricity has to increase further to achieve the 21% target.

Finally, as regards climate change policy, a new instrument – the EU emissions trading scheme – became applicable in January 2005. Since then there has been a marked increase in the price of the allowances, for various complex reasons. The Commission will continue to follow developments on the new and not yet fully stabilised market for allowances very closely, will examine, in the report due in mid-2006 on the emissions trading scheme, its functioning, including the possible effect on energy prices and, if necessary, will propose changes to make sure that the market works properly.

This Report and its follow-up form part of a coherent Commission strategy to ensure the effective functioning of the Internal Energy Market. In particular, it is closely connected with the sector competition policy enquiry, the final results of which are also expected in 2006.

B. THE PRESENT STATE OF THE INTERNAL MARKET - DEVELOPMENTS IN KEY AREAS AND REMAINING DEFICITS

1. Implementation of the new directives

Most Member States missed the deadline of 1 July 2004 for the transposition of the new Electricity and Gas Directives. In most Member States the legislation implementing the directives has been in force for less than a year and some Member States have not yet implemented the directives at all[5].

This delay runs counter to the commitment made by the European Council to complete the internal energy market rapidly. As a result, a number of the structural measures will come into effect later than provided for in the directives. Particularly important in this respect are the rules on regulatory oversight and the unbundling provisions.

2. Market integration

It must be recalled that the objective of opening the market is to create a single electricity and gas market, not a juxtaposition of 25 national markets. This is a challenging task and integration of all national markets will not happen overnight. At the moment the degree of market integration remains insufficient. Two key indicators point to this conclusion:

– the significant price differences prevailing in the internal market

– the low level of cross-border trade.

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4 See target contained in Directive 2001/77/EC on the promotion of electricity produced from renewable energy sources in the internal market and the acts of accession of the new Member States.

5 TA, section 1.

When trade is easy in an integrated market, the resulting EU-wide competition keeps prices close together across the EU, or at least between adjacent Member States or regions. This is not yet the case with electricity and gas[6]. Price differences for electricity for industrial customers in the EU, for instance, are more than 100% in some cases. On the other hand, wholesale price levels have started to converge in some neighbouring countries. Whilst these are promising first steps, the development of regional markets, as an intermediate step before ultimate integration at EU level, is still in its infancy, with the exception of the relatively well developed Nordic electricity wholesale market.

Cross-border trade increases competitive pressure on prices. In the internal energy market trade is currently underdeveloped. Cross-border flows of electricity, for instance, in 2004 stood at around 10.7 % of total consumption[7], which is an increase of only around 2 percentage points compared to 2000 (8-9%). Although commercial trade activities are not necessarily fully reflected in flows, flows would be expected to increase if trade increases significantly.

Likewise, in merger procedures under EU competition law it has generally not been possible to define the “relevant market” as any wider than national.

In the case of electricity, the lack of market integration is largely due to the fact that the interconnection capacity available to the market between many Member States is still broadly insufficient to allow proper integration of national markets and competitive pressure from imports. Congestion is frequent at many borders in the EU. It must be recalled that back in 2002 the European Council in Barcelona adopted the objective that all Member States must have interconnection capacity equivalent to at least 10% of their national consumption, an objective which has not yet been achieved. The graph below illustrates the correlation between missing electricity links and price differences on the internal market[8].

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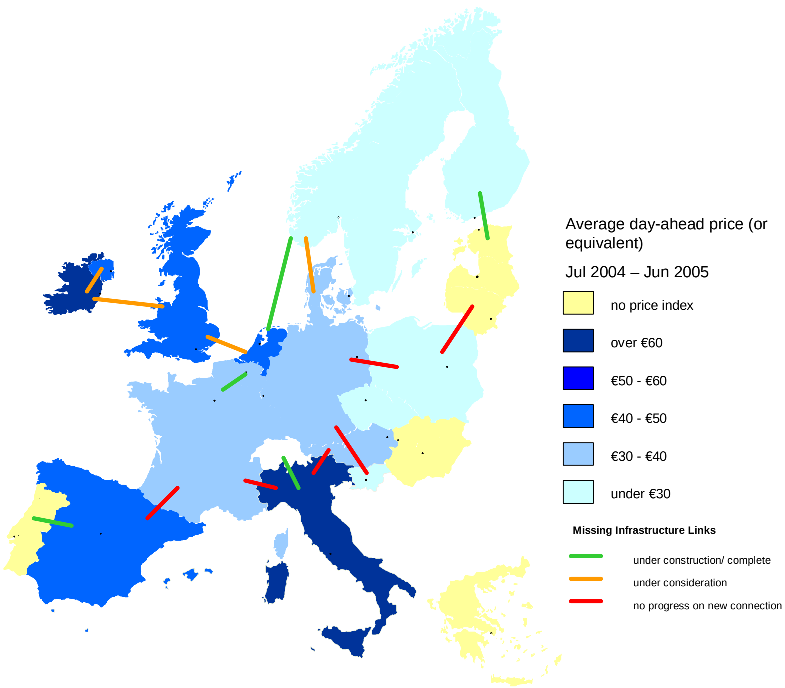
6 TA, section 4.

7 Flows between member countries of the Union for the Co-ordination of Transmission of Electricity (UCTE).

8 TA, section 5.



The persisting bottlenecks in electricity infrastructure need to be removed. A stable regulatory framework conducive to investment must be in place. Regulators play a key role in this respect. Effectively unbundled transmission system operators must demonstrate their independence and fulfil their role of market facilitators by investing in missing links, even if it increases competition for the related supply branch.

Another equally important issue is planning procedures. In this respect, Member States must strike a reasonable balance in the general interest of ensuring a competitive and safe energy supply for European citizens. There is also a need to be innovative and develop solutions less likely to affect the interests of the local population, such as the integration of electricity lines in new railway tunnels.

The construction of priority electricity and gas infrastructure has been supported under the TEN-Energy (TEN-E) programme. Given the persisting lack of infrastructure, it is important to reinforce the TEN-E programme further. The Commission has proposed a significant increase in the budget of the programme under the new financial perspective (2007-2013).

The full benefits of the existence of sufficient physical infrastructure will not be felt unless the capacity is made available to market participants on a non-discriminatory basis. This is, however, often not the case and major improvements are necessary in this respect[9].

One important issue has been capacity reservation in favour of historical long-term contracts. In a recent ruling[10] on a case concerning capacity reservation in the electricity sector, the European Court of Justice, without questioning long-terms contracts as such, declared a system under which historical contracts are *per se* given priority over other requests for interconnector capacity incompatible with the principle of non-discrimination. In the light of this judgment the legality of the current practice of capacity reservation for both electricity

9 TA, section 6
10 Case C-17/03

and gas needs to be reconsidered by regulators and transmission system operators, in consultation with companies benefiting from reservations. The Commission will insist on compliance of capacity allocation with EU-Law and will publish its view on the consequences of the ruling of the Court.

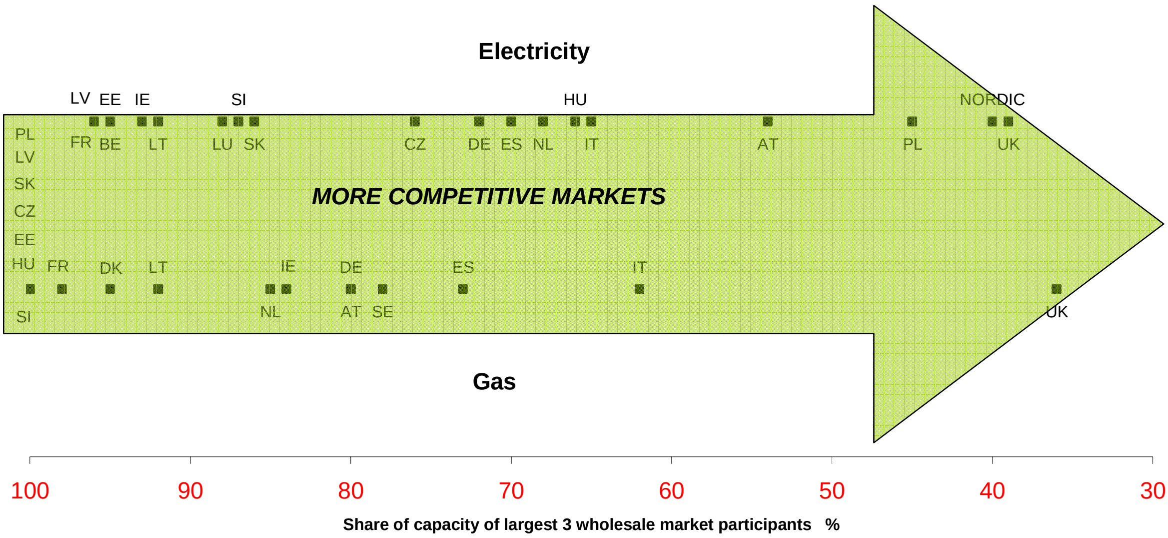
3. Concentration and consolidation of the industry

In the absence of well developed cross-border competition, the structure of the industry in national markets requires special attention. Market opening started in many Member States from a monopolistic or at least oligopolistic market structure. The introduction of competition at EU level was intended to put an end to this situation by exposing companies to EU-wide competition. This has not yet been achieved in most markets. Concentration in many markets remains high and industry has been further consolidating since market opening started.

In the case of gas, there is still a lack of liquidity on the market, largely due to the limited access to gas supplies for new entrants as well as the limited scope for moving gas around the European network.

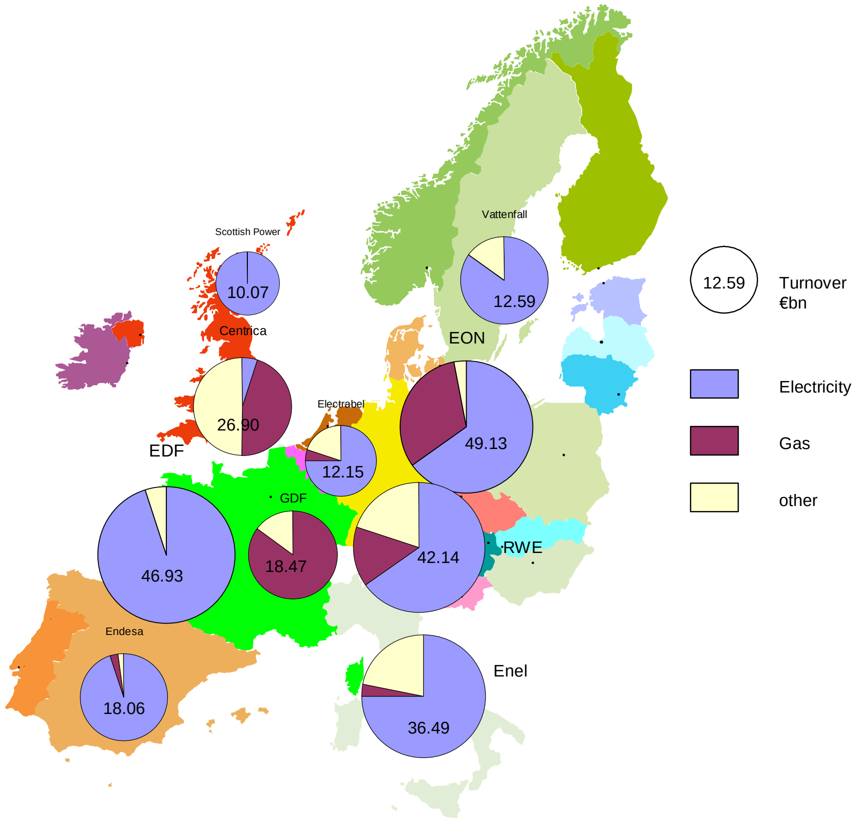
The number of genuine newcomers to the market has decreased recently and, for instance, only a very limited share of new electricity generation projects were commissioned by non-incumbents.

One indicator for the degree of competition on national markets is the total market share of the biggest three producers (electricity) and wholesale suppliers (gas) (see graph below)[11].



[11] TA, sections 4 and 5.

The graph below shows the turnover of the biggest energy companies in the EU.



In addition to the high levels of concentration in national markets, an increasing number of cross-border acquisitions can be observed. In certain electricity markets there also seems to be a tendency towards growing vertical integration between generation and supply activities, which might lead to a reduction of liquidity on the wholesale markets concerned, aggravating the risks associated with concentration. Furthermore there have been attempts by incumbent gas and electricity companies to merge. These mergers can reduce incentives for competitors to build new gas fired plants. The Commission is monitoring these developments carefully and – to the extent applicable – strictly applies its merger rules[12]. In its competition cases the Commission pays particular attention to remedies that facilitate market opening and integration. The Commission is investigating the concentration and consolidation of the industry in more detail as part of the ongoing sector inquiry launched in June 2005.

Rigorous application of competition rules, including merger control, is necessary, at both national and EU levels. Furthermore Member States should consider active policies aimed at stimulating competition, such as properly designed electricity capacity release and gas release programmes.

Oversight of the complex electricity markets which pose high risks of manipulation due to market concentration needs to be strengthened by Member States. Appropriate rules on

[12] Cf. merger cases 3440 EDP/ENI/GDP. The prohibition decision was confirmed by the Court of First Instance in case T-87/05 of 21 September 2005

transparency together with obligations to disclose important information, such as available generation capacity, must be in place. A situation where only the incumbents have the information necessary to trade effectively in the market is unacceptable.

There is a need to bring gas from new sources to the EU, in order to stimulate competition and strengthen security of supply. The recent decisions taken by investors, supported by national regulators and the European Commission, to launch a number of new liquefied natural gas (LNG) terminal projects in the EU are major progress in this respect.

4. Customer response

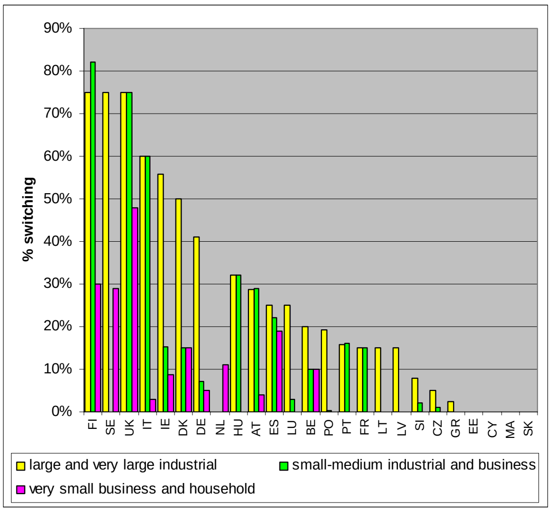
The number of customers switching supplier is a natural indicator of the effectiveness of competition. If few customers are switching, there is likely to be a problem with the functioning of the market, even if the benefits from the possibility of renegotiating with the historical supplier should not be ignored.

Whilst the rates of larger electricity customers switching continue to rise, gas consumers and small business customers and households, in Member States where they have the right to choose, remain reluctant to exercise their right to choose[13]. Many factors contribute to this. Often competing offers are unavailable or are too similar to constitute a real choice. Dominant positions and insufficient unbundling, especially at the distribution level, seem to discourage switching, and changing suppliers is still often perceived as risky[14].

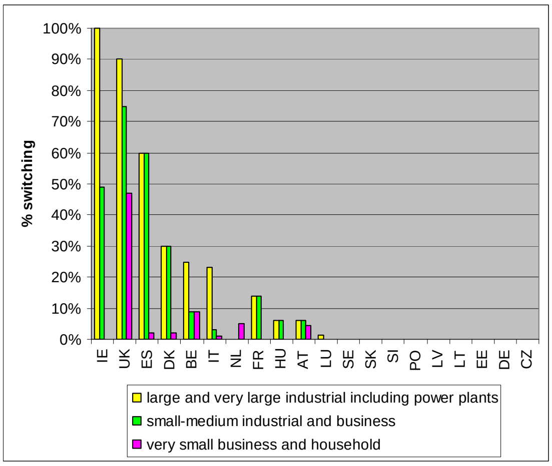
The graphs below demonstrate the diverging performance between Member States for this indicator.

[13] TA, section 3.
[14] TA, sections 3 and 7.

Electricity



Gas



Customers must have a real choice of supplier. Member States and national regulators must ensure that appropriate rules on information and transparency and that simple switching procedures exist, to provide the necessary confidence to customers.

5. Price trends

Particular attention must be paid to electricity and gas price trends on the internal energy market[15]. Certain energy-intensive industries have recently expressed concerns about rising prices, which have been particularly acute in some Member States. This was one of the reasons why the Commission decided, in June 2005, to launch an inquiry into the electricity and gas sector, to examine whether competition is restricted or distorted within the common market. Should the inquiry confirm the absence of real competition, the Commission will not hesitate to take the appropriate remedies.

It should, however, be noted that despite recent price increases electricity prices have decreased over the last 10 years in real terms. Also, prices of other fuels equally important for certain industries, such as gas and oil, have increased more significantly than electricity prices over the last three years. However, further action is clearly necessary to ensure that all the possible benefits of market opening flow to citizens.

6. Independence of network operators

Effective unbundling of network operation from the competitive parts of the business is essential to ensure independent network operation and non-discriminatory access to networks for all market participants.

At the moment the tightened unbundling rules in the new directives are not yet fully effective in practice. In many instances the process of unbundling has not yet been finalised by network operators[16], partly as a result of the late implementation of the directives by most Member States. This applies, in particular, to gas transmission and also generally to distribution system operators. On the other hand, with respect to TSOs more and more Member States have gone further than the directives and moved to ownership unbundling. At the moment, in around half of the Member States ownership of the electricity and/or gas transmission network is unbundled, as illustrated in the table below.[17]

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15 TA, sections 4 and 5.

16 TA, section 7.

17 The requirements of the Directive are that TSOs should be legally and functionally unbundled. Those Member States where transmission system operators are ownership unbundled have decided to go beyond the requirement of the Directive in order to ensure non-discriminatory third party access. Those Member States with blocked out sections for gas have derogation from the unbundling provisions.

	Electricity transmissison	Gas transmission
Austria	legal	legal
Belgium	legal	legal
Denmark	ownership	ownership
Finland	ownership	
France	legal	legal
Germany	legal	partly legal
Greece	legal	
Ireland	legal	unbundling not implemented
Italy	ownership	legal
Luxembourg	legal	unbundling not implemented
Netherlands	ownership	ownership
Portugal	legal	
Spain	ownership	legal
Sweden	ownership	ownership
UK	ownership	ownership
Norway	ownership	
Estonia	legal	unbundling not implemented
Latvia	legal	unbundling not implemented
Lithuania	ownership	unbundling not implemented
Poland	legal	unbundling not implemented
Czech Rep.	ownership	unbundling not implemented
Slovakia	legal	unbundling not implemented
Hungary	ownership	legal
Slovenia	ownership	unbundling not implemented
Cyprus		
Malta		

Regarding distribution, when implementing the unbundling provisions of the directives most Member States made full use of all the possible derogations, by exempting smaller distributors from both legal and functional unbundling and postponing legal unbundling for larger distributors until July 2007. Furthermore, generally Member States' national implementing legislation does not go beyond the minimum requirements of the directives. This rather unambitious national implementation of the unbundling provisions contained in the directives has not yet had the desired effect "on the ground"[18].

As regards network access, market participants continue to complain about the high costs involved[19]. In the case of gas, there has been no clear framework for network access conditions, especially for transactions between TSO areas. The application of the new regulation on access to gas networks from July 2006 onwards will bring improvements by providing such a framework.

7. Effective regulation by regulatory authorities

After the designation of a regulatory authority in Germany in July 2005, all Member States now have regulators in place. Experience with the work of regulatory authorities is generally good; over time regulators have gained experience and strength.

18 TA, section 7.
19 TA, section 7.

Under the new Electricity and Gas Directives regulators now hold a minimum set of powers in every Member State. However, the possibilities for sector-specific regulatory authorities to take decisions and enforce them differ between Member States[20]. Furthermore, some Member States have set up several regulators, at national and regional levels, and in some cases powers are split between the sector-specific regulator, the competition authority and the ministry. The Commission will continue to pay particularly close attention to the levels of powers and independence of all regulators in the context of developing competitive markets.

Decisions by national regulators have an impact on the functioning of the European market as a whole. Therefore, regulators need to be European-minded and cooperation and coordination between regulators must be encouraged. The Council of European Energy Regulators (CEER) has already made significant progress in this area and continues to do so. Furthermore, in December 2003 the Commission set up the European Regulators Group for Electricity and Gas (ERGEG). In the course of the first two years of its existence the Group has made significant contributions, for instance on electricity cross-border issues and gas storage.

In addition, the European regulatory fora for electricity and gas (known as the "Florence Forum" and the "Madrid Forum"), which provide a discussion platform for all interested parties, have done excellent work on developing innovative solutions on key issues, for instance recently a voluntary agreement on conditions for access to gas storage.

In this way the CEER, the European Regulators Group and the Florence and Madrid Forums have made significant contributions to the development of the internal market, in line with Commission policy to promote co-regulation and better regulation.

Regulators need to be given sufficient and clear responsibilities in national legislation, as well as a proper level of independence, in order to allow them to fulfil their tasks. Coordination and cooperation between national regulators need to be further enhanced.

8. Service provided to users/consumers and public service considerations

The objective of the Electricity and Gas Directives - to maintain and improve the position of customers - is being met. Surveys of consumer's perception have concluded that the level of satisfaction with the quality of the electricity and gas services provided is generally good[21]. Fears that the introduction of competition would lead to a decline in service standards or problems in the provision of universal service have proved unfounded.

The Commission will also address the subject of vulnerable customers. In particular, vulnerable customer should benefit from special schemes, if necessary to ensure customer protection.

Furthermore, the Commission will remain vigilant, in particular regarding the social and employment consequences of the restructuring of energy companies, the effect of competitive energy prices on employment in energy intensive industries and the protection of consumers from unfair selling practices.Customer satisfaction should be monitored on a regular basis to detect market deficiencies and Member States and regulators need to continue address issues of relevance for consumers.

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[20] TA, section 8.

[21] EUROBAROMETER, Prices and quality of services of general interest, September 2005.

The Commission intends to propose a "Charter of Electricity and Gas Customers' Rights", which should be in place before the market becomes fully open throughout the EU on 1 July 2007.

C. SECURITY OF SUPPLY

Even if electricity companies have reduced available spare capacity in response to the introduction of competition in the sector, electricity adequacy in the European Union has been developing satisfactorily since the market was opened up. Lessons have been learnt from the difficulties caused by the heat wave in summer 2003. And even though summer 2005 again saw record demand in some southern European countries, this caused no significant electricity supply problems[22]. Parliament and the Council will adopt shortly a Directive on Security of Supply and Infrastructure Development in Electricity. Under this directive, which has to be implemented by the end of 2007, Member States will provide for a reliable regulatory framework conducive to new investment in both electricity generation and infrastructure.

As regards primary energy sources, the European Union relies heavily on imports. The 2000 Commission Green Paper on Security of Supply[23] highlighted the structural weakness of EU energy supply and warned against a further increase in import dependence. This is of particular concern with respect to gas. In the case of electricity, the EU will be able to continue to draw partly on indigenous, including renewable, sources and on fuels for which a diversified world market exists (coal and uranium). For gas, globalisation of the market and, consequently, diversification of imports will be more difficult to achieve. At the moment nearly all gas imports into the EU come from only three countries - Russia, Norway and Algeria. With indigenous gas reserves declining and gas consumption worldwide expected to increase significantly, the current heavy dependence on a small number of supplying countries needs to be overcome, in particular by maximising the use of all of Europe's indigenous energy resources, for example, through enhanced oil recovery in the North Sea, notably through carbon sequestration.

Whilst Europe is in many respects in a favourable position, with around 80% of global natural gas reserves within economic transportation reach of the EU, access to new gas sources usually requires the construction of new transport infrastructure, pipelines or liquefied natural gas (LNG) facilities. In this respect the EU will need to give increasing focus on the strategic dimension of its energy relations with third countries, particularly suppliers, and how their deepeing can contribute to the functioning of the EU's energy markets. The recent decisions taken by investors to launch a number of new LNG terminal projects in the EU constitute progress in this respect. Other pipeline and LNG projects need to follow and the dialogue with gas-producing countries must be intensified. LNG imports from new producing regions are already becoming a competitive alternative in some cases.

Given the forecast heavy demand for gas and the resulting increased competition for gas resources worldwide, in particular on the evolving world market for LNG, the EU gas market must remain attractive. It must function properly, have a reliable and stable regulatory framework and allow gas to flow freely throughout the EU, enabling suppliers and investors to benefit from business opportunities offered by an open market.

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22 TA, section 10.

23 Green Paper "Towards a Strategy of Security of Supply", COM (2000) 769

The Directive on Security of Gas Supply[24]establishes a gas coordination group representing all Member States and provides for binding security of supply standards, with a view to safeguarding security of supply on a competitive market.

Nuclear power accounts for more than one third of electricity production in the EU. The total amount of nuclear power generated has never been higher than in 2004. A number of Member States (e.g. France and Finland) have decided to invest further in nuclear energy which, in addition, does not emit CO_2 and plays an important role in security of supply in the EU. The Commission has proposed a framework for EU-25 on the issue of nuclear safety and management of nuclear waste. It is important that Member States adopt this framework, whether or not they intend to use nuclear energy.

D. CONCLUSIONS

With the adoption of the second Electricity and Gas Directives the basic framework for the development of a real internal market is in place. It is now for Member States to implement the directives effectively and make the market work in practice. This needs to be done in the spirit of the objective of the directives, i.e. to create a functioning internal energy market in the interest of EU citizens.

This report sets out the reasons why this objective is still far from being reached.

Some Member States have taken additional measures in the light of national or regional circumstances to improve the functioning of the market, such as ownership unbundling of transport networks[25], gas release programmes[26], divestment of dominant companies[27] or establishment of a regional wholesale market[28]. However, generally Member States are tending to adopt a minimalist approach to implementing the directives[29]. Such reticence is damaging. Member States need to take the initiative themselves to identify and resolve problems on electricity and gas markets within the context of the directives.

Taking into account that in many Member States the legislation transposing the directives was only recently adopted and that results from the sector inquiry are not yet available, the Commission does not yet in this report draw definitive conclusions on the need for additional measures at European level. Member States and national regulators now have a crucial role to play in making the market work in practice.

Against this background, the Commission will:

- closely follow implementation of the new rules in Member States, insist on compliance and, in the months ahead, open the relevant infringement procedures in any cases of non-compliance;

- carry out detailed country-by-country reviews of the effectiveness in practice of legislative and regulatory measures, including additional national measures, in the months ahead. The

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24 Directive 2004/67/EC concerning measures to safeguard security of natural gas supply
25 See table on page 11
26 E.g. in Germany, Italy, France, Austria and Spain.
27 E.g. in Italy.
28 E.g. Nordpool.
29 TA, Executive Summary.

Commission will ensure the means necessary to perform this task comprehensively and efficiently. This review will permit the Commission to draw conclusions about which, if any, additional measures are needed both at Member State and Community levels. A final report on the outcome of this exercise will be presented by the end of 2006 and, possibly, if necessary, proposals will be submitted in 2007;

- use the instruments foreseen in the Electricity and Gas Regulations to adopt implementing measures in key areas, with a view to encouraging further market integration. The Commission will, for instance, shortly adopt new guidelines on congestion management in electricity which will facilitate cross-border trade through more efficient congestion management methods. In areas where the existing instruments do not allow the adoption of binding harmonised rules at the EU level, the Commission will request national regulators to develop, in the European Regulators Group for Electricity and Gas, harmonised approaches on key regulatory issues, such as balancing;

- continue to exert pressure on Member States and regulators so that investments in transport infrastructure are enhanced in order to solve cross-border congestion in electricity networks;

- complete its sector competition inquiry and draw operational conclusions from it.