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ENERGY INSTITUTE RELEASES NEW STUDY ON ENERGY LIBERALIZATION IN THE EU

The Energy Institute at the University of Houston's College of Business Administration published a new study entitled *Electricity and Natural Gas Marketization in the EU*. The report was written by **Vanessa Baird**, a Ph.D. candidate in Political Science and a Research Assistant at the Energy Institute. The White Paper was prepared for an invitational roundtable in London on Europe and North American approaches to natural gas and electric power restructuring.

The report focuses on the role of EU institutions on the process of energy liberalization, which has been uniquely arduous because EU institutions are always in flux. It is unknown just how much power EU will yield in relation to member states. Also unknown are the future relationships among the EU institutions themselves: the Council of Ministers, the Commission, the Parliament and the European Court of Justice (ECJ). Since relationships change so often and vary so dramatically across policies, it is difficult to predict how the balance of power will affect the policy making process. Furthermore, the roles of the EU institutions are confusing. The European Parliament does not have as much power as national parliaments. On the other hand, the Commission, a bureaucratic agency, has enormous legislative power compared to average national bureaucratic forums. The ECJ has more power than most member states' high courts at the national level, and enormous power considering that it is a transnational ECJ. Each institution in the EU has legislative, executive and judicial authority.

In EU countries, the energy industries are not regulated by independent agencies. There is no parallel to the U.S. Federal Energy Regulatory Commission (FERC) or state public utility commissions, either on the member state level or at the level of the EU. Instead, state monopolies have completely controlled production, transportation and distribution of natural gas and electricity. There is no regulatory infrastructure in place outside of the European Commission to ensure compliance once the utilities are privatized. The exception is Great Britain, which privatized both its natural gas and power industries and where the Office of Gas functions much like the FERC.

The report provides a detailed overview of the history of electricity and natural gas industries, and all interests involved, including consumers, producers, and distributors as useful foundation for analyzing the politics of energy liberalization in Europe. The analysis indicates that the future of natural gas and electricity policy in Europe seems to hinge on the question of which institutions hold the keys to direct and implement policy. Understanding the relationship between member states and EU institutions, the power of individual member states in vetoing legislation and the relationships among EU institutions is crucial. Both Natural Gas and Electricity Directives have passed, but this does not necessarily mark the end of the policy making process. Beyond legislation, there is the problem with regulation. The directives simply set a course; they must be implemented in each of the member states to be effective. Thereafter, it is unclear who will provide oversight -- the EU or member states? If every member state allows competition with incompatible approaches, are producers and consumers better off? Will the legislative

bodies be willing to "cede" power to the regulatory commissions? Will states choose simply to regulate through their ministries? This report highlights the constraints that act against an efficient and effective energy legislative and regulatory liberalization. It further identifies which institutions are equipped with overcoming particular barriers.

One of the most interesting findings of the report is that the catalysts of energy liberalization have been, and are likely to continue to be the ECJ and the Commission. The Commission's bias is notably pro-EU, and its policy proposals invariably lay the ground for greater integration and open competition. The ECJ will likely amend both the Gas and Electricity Directives. In fact, some conflicts have arisen and appear to be opportune premises for the ECJ to commence its review.