Energy Policy ∎ (∎∎∎∎) ∎∎∎–∎∎∎

Contents lists available at ScienceDirect

Energy Policy

journal homepage: www.elsevier.com/locate/enpol

Expanding opportunities: Strategic buying of utilities in new EU member states

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A R T I C L E I N F O

Article history:
Received 12 December 2008
Accepted 4 June 2009

Keywords:
Mergers
Utilities
Privatization

A B S T R A C T

During the 1990s, limited investment opportunities in Western Europe, the opening of the energy markets in Eastern Europe, and the future expansion of the European Union (EU) prompted an expansionist strategy by energy companies from the original EU member states. In this paper, the acquisition and divestiture activities and strategies of utilities from France and Germany are analyzed in the context of the 2004 and 2007 EU enlargements. Through quantitative and qualitative data analysis, including the development of two case studies, the strategy for expansion and evolution in new member states is examined. The results demonstrate a concerted effort to establish economies of scale through ownership of distribution companies. A change in strategy occurs as these privatization opportunities disappear. Generation and trading activity become the growth area for these companies as electricity supply becomes another factor that can contribute to the economies of scale. Recent EU-supported efforts towards regionalization of electricity markets, positions these companies well due to their strong regional presence. This paper will explore these issues in the context of ownership and geographic distribution.

1. Introduction: the eastward flow of energy investment

The opening of the electricity and gas markets in the former Communist countries in central Eastern Europe created an investment opportunity for newly restructured Western European companies. The privatization of three types of energy company (electricity generation, and electricity and gas distribution) resulted in these becoming key investment targets from the mid-1990s to the mid-2000s. The outcome has been a fundamental restructuring of ownership and operations for former state-owned companies. As will be demonstrated, this new geographic organization reflects the timely convergence of the reduction in state ownership with the implementation of an expansionist strategy by companies. The market expansion was largely accomplished by old member state (OMS) utilities into what are now the 2004 and 2007 new member states (NMSs). As one interviewee from E.ON stated,

> The breakdown of the wall and the liberalization [of the economies] in these former Communist countries, and their wish to get into the European Union, had quite a significant impact on what the [energy] companies in Germany, Italy and France did (interview Schultz, 2007).

The eastward expansion of energy firms should not be considered simply on a country-by-country basis. Rather, the current geographic and shareholder arrangements of these companies indicate a concerted regional spatial strategy that should be examined within its geographic context. Examined below are the methods by which these utilities, acting in concert with one another, firmly inserted themselves into the modernizing economies of the 'soon-to-be' European Union (EU) member states. The policies of the EU are not addressed that may have fostered privatization of these assets and created the opportunities for the expansion of OMS firms.

This article will first establish which companies from OMSs bought privatized electricity and gas utilities. In addition, quantitative data on company acquisition and divestiture transactions will be reviewed, highlighting in particular the entrances and strategies of OMS utilities into the 'soon-to-be' NMSs. Secondly, two case studies are developed that highlight how the companies moved first into Hungary and then into other NMSs as privatization opportunities emerged. These are based on qualitative methods, including interviews with company representatives who have been granted anonymity for their open assessment of their companies' roles in market development. Finally, the drying up of privatization opportunities is examined. In this period, I show an alteration in company strategy towards generation, hastened by developments in Bulgaria and Romania stemming from their 2007 Energy Strategies.

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doi:10.1016/j.enpol.2009.06.022

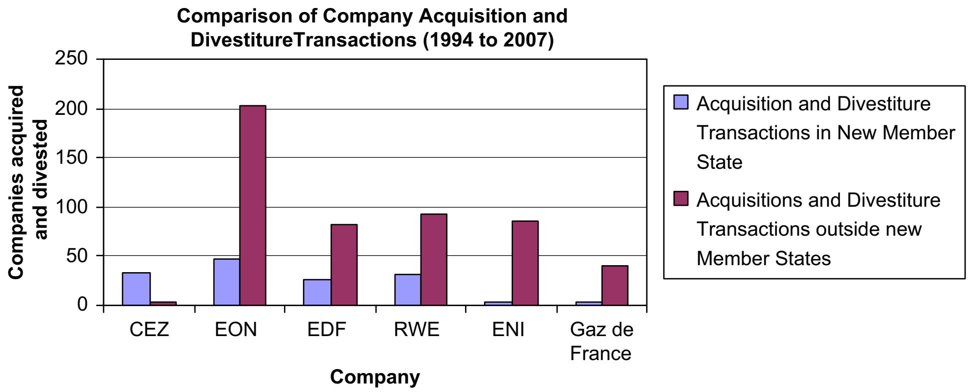

Fig. 1. Company acquisition and divestiture transactions 1994–2007. Source: Reuters Knowledge v2.7 and author's analysis.

2. Geographic expansion of energy

The expansion of energy companies from OMSs (the EU-15) into what would become the NMSs (the EU-10), and in particular the countries in central Eastern Europe (the Czech Republic, Hungary, Poland, Slovakia, and Slovenia), started on a substantial scale almost a decade before the 2004 EU enlargement. Market openings also occurred in Bulgaria and Romania, but these began just prior to these countries joining the EU in 2007. Even before this, a more limited expansion into East Germany took place after the fall of the Iron Curtain in 1989.

E.ON's recent history can be traced back to the merger of the German industrial groups VEBA (64.5% ownership) and VIAG (35.5% ownership) in 2000. Before this, the fall of the Berlin Wall opened up opportunities for both companies to modernize the East German energy infrastructure. The E.ON companies, along with other West German companies, RWE and the parent companies of EnBW, invested heavily in the East. This included buying electricity suppliers and establishing 'partnerships' in nuclear power which increased safety. Through joint ventures and eventual consolidation of East and West German companies, they grew in size and geographic scope. The opening of Eastern Europe had a similar effect on EDF and CEZ. They drew upon their expertise and historical experience to expand into nuclear and coal powered generation along with electricity distribution.

The opening of the electricity and gas markets in 'soon-to-be' NMSs saw OMS gas and electricity companies participating in the privatization processes of utilities and the establishment, as best as possible, congruent service territories and synergies between generation and distribution. The result was significant investment and restructuring of the NMS electricity and gas infrastructure by OMS companies.

The three most active OMS energy companies in the 2004 NMSs were E.ON, EDF, and RWE, which at the time of EU membership were mainly focused on NMS electricity and gas distribution markets. The Czech company CEZ has been more active in distribution in Bulgaria and Romania. These companies are proving to be instrumental through their investments and upgrading of infrastructure. In Hungary, for example, by 2003 the combined foreign direct investment by the 25 largest companies included five energy companies with a total of $210 billion invested. E.ON and RWE provided the largest energy investments, totaling around $760 million each by 2003.

The extensive economic participation of these companies demonstrates the concerted strategic effort involved in acquiring a large percentage of the companies in central Eastern Europe. Fig. 1 shows the acquisition and divestiture activity of E.ON in all the NMSs, which accounts for 23% of its overall company activity.

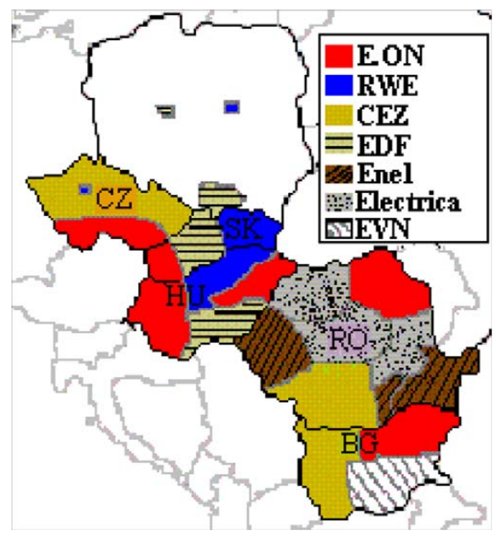

Fig. 2. Ownership and key shareholder of electricity distribution companies. Source: author.

For EDF this activity accounts for 24%, while for RWE it is 25% (Thomson Reuters 2007). With a quarter of the companies' activities focused on NMSs, substantial company resources were directed at entering these new markets and establishing a new geographic organization.

A more complete picture of the investment strategies can be created by analyzing the geographic structures that the OMS energy companies have constructed throughout the NMS territories. Fig. 2 shows the geographically coherent organization of the different national electricity distribution companies owned by EDF, E.ON, CEZ, Electrica, Enel, EVN, and RWE. Electrica SA, from Romania, is the only fully state-owned distribution company remaining in the five countries (excluding Poland) that have actively privatized their electricity distribution companies.

Overall, it is apparent that RWE, EDF, E.ON, and CEZ have created geographic organizations that are territorially contiguous across national borders. The participation of these companies in the privatization processes in NMS countries demonstrates the efforts they made to create a regional, geographically coherent structure among distribution companies. It should also be noted that in Romania, CEZ, Enel, and E.ON demonstrated clear intentions to become owners of the remaining three state-owned electricity distribution companies; these are currently owned by Electrica, and were originally going to be privatized. Ownership would have expanded the territories of these companies into a more congruent structure, since each company already owns one electricity distributor. In particular, one of these companies CEZ had planned to bid on one or two of the state-owned distribution companies (interview Badica, 2008). If E.ON, for example, bought the company in the northeast of the country, it would hold territorially contiguous cross-border distribution companies in Romania and Hungary. Plans for further privatization were stopped in 2007 with the publication of Romania's new Energy Strategy (Government of Romania, 2007), however after the election of a new Government at the end of 2008 continued state ownership is being reexamined.

2.1. Privatization of energy assets in new member states

The initial privatization of NMS distribution and generation companies began in 1995 when Hungary privatized the majority of the state-owned energy distribution firms. There was a subsequent flow of capital from west to east as companies paid for the assets and then began investing. Following Hungary, other countries privatized their electricity and gas distribution companies (Table 1) as well as some of their generation companies. The Czech Republic, Poland (in two cities), and Slovakia all privatized their distribution companies before or shortly after the EU Enlargement of 2004. Bulgaria and Romania also followed suit by privatizing their electricity distribution companies by 2006, and Romania also privatized its gas distribution (although Bulgaria did not).

The purchase of distribution companies in NMSs by OMS companies did not occur in isolation. There were simultaneous factors that influenced the expansion of these companies. The perceived need for some utility companies to expand in order to increase profits, the wider global liberalization of the energy industry that underpinned this need for greater performance by utilities, and the support by the EU Commission to promote an internal energy market all played a role. These factors came together just as privatization was occurring in the former Communist countries. As an executive of E.ON stated,

> We have three developments, first the privatization in the enlargement countries…. Privatization on one side means growth potential on the other. Second… we have privatization falling together with liberalization procedure, and [third this is] promoted by the market opening by the [EU] Commission (interview Schultz, 2007).

The unfolding of privatization, liberalization and competition, as laid out, conformed to a newly formed company vision. The management of E.ON became committed to make a German "regional company into an international company" (interview Schultz, 2007), a vision they could fulfill with the opportunities available in the NMSs.

Table 1
Electricity and gas distribution privatization by year and country.

Country	Year electricity distribution privatized	Year gas distribution privatized
Bulgaria	2004 (all)	State owned
The Czech Republic	CEZ—state owned	2002 (all)
Hungary	1995 (2); 1997 (1); 2000 (1); 2004 (1) (all)	1995 (6) (all)
Poland	2002 (1); 2003 (1)	85% state owned
Slovakia	2003 (all)	2002 (all)
Romania	2005 (4); 2006 (1)	2005 (1) 2006 (1)

Source: Reuters Knowledge v2.7 and author's analysis.

Importantly, as established in interviews, both E.ON and RWE took a tentative first step into Hungary where they initially tested this new international corporate vision (interviews Brenner, 2007; Breuer, 2007; Schultz, 2007). The same companies that participated in Hungary became involved in the privatization processes in Bulgaria, the Czech Republic, Poland, Romania, and Slovakia.

3. Strategy and asset management

The initial privatization of state energy assets resulted in a period of acquisitions by large OMS energy companies. This occurred mainly from 1994 to 2003 in the NMSs that joined in 2005, when large shareholdings or whole companies were bought. The period since 2004 has been marked by ownership consolidation and the strengthening of companies' shareholdings and market positions. This is occurring in the four geographically interconnected states of the Czech Republic, Hungary, Poland and Slovakia. The remaining two countries, Bulgaria and Romania, which joined in 2007, have matched this privatization activity with activity occurring mostly in 2004 and 2005. Such strong regional activity by a handful of OMS companies indicates a perceivable movement towards the potential regional coordination of company assets within the CEE region.

Company representatives of CEZ, E.ON, and RWE indicate that the common legal framework brought about EU membership does influence the strategic thinking and asset management of utilities (interviews Badica, 2008; Brenner, 2007; Breuer, 2007; Schultz, 2007). Importantly, it affects their strategic movements, which reflect the broader influence that EU enlargement has on the operation of utility companies. In the long term, both EU and company strategies aim to increase coordination and cooperation across country borders, allowing greater emphasis to be given to regional coordination of companies (European Regulators Group for Electricity and Gas, 2008).

This closer coordination is a result of both a common legal framework and the emergence of a more integrated energy market. "Fortunately, every company in these countries is in the EU, with all its common legal framework…. Because the legal system is getting harmonized, the (market) environment is getting harmonized" (interview Schultz, 2007).

The repositioning of companies reflects the thinking among industry executives. "If you think more deeply and about the past 3 years (since 2004)… in the strategic thinking of the people in the companies, we have some operations in enlargement countries. How do we connect these operations into a European model?" (interview Schultz, 2007). Thus, the adoption of a common legal framework and the emergence of a more coordinated market offer greater opportunities to coordinate energy assets for some of the larger energy companies active in NMSs.

The change in strategic thinking underscores the two separate time periods of market evolution in NMSs. The first time period was represented by the first round of privatization carried out in the late 1990s and early 2000s. It is now giving way to the reorganization of the shareholding interests of OMS companies accumulated in the first round of privatizations, this occurred from around 2004 to 2007.

The first time period includes a period of low and gradually increasing acquisition activity, starting in 1995 and peaking in 2003 (a year before the EU accession of four countries) (Fig. 3). The year 2004, when these four countries joined the EU, marks the start of a period of reshuffling of assets. Importantly, analysis of company acquisition and divestiture data shows that the transactions occurring from 2005 occurred between companies and were not heavily affected by participation in the privatization

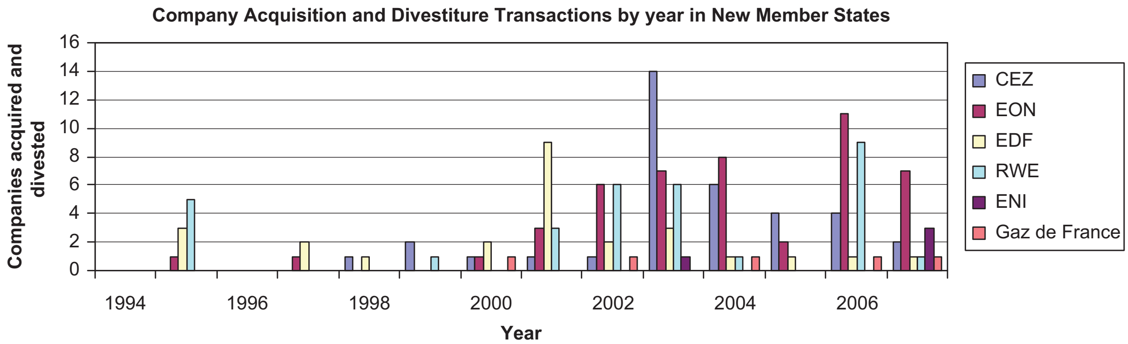

Fig. 3. Large utilities acquisition and divestiture transactions by year in NMSs. Source: Reuters Knowledge v2.7, company reports and author's analysis.

processes, as was the case in the previous period (also see Table 1). This reduction in participation in the privatization process should be seen not as unwillingness to participate, but rather as the result of a limited number of companies being privatized. Even those privatizations that did occur reflected privatizations that were started years before. Romania finalized its privatization of four electricity distribution companies in 2005; however, it had been locked in negotiations with Enel since 2003.

The second period, which began in 2005, involved the restructuring of share ownership in the gas distribution field. The largest example is the share swap carried out by E.ON and RWE in their gas divisions in the Czech Republic and Hungary in 2006. In 2002, after the privatization of gas assets, they were joint shareholders in seven gas distribution companies in the Czech Republic and two gas distribution companies in Hungary. As each company further developed its regional strategy based on holdings and as the national and regional market matured along with the benefits of the common legal framework afforded by EU membership, some of the assets took on strategic importance. RWE and E.ON, for example, sought to "clarify business management… in both companies and (for RWE to) reinforce the strategic focus of natural gas distributors" (RWE Transgas, 2006).

The result was a change in the share ownership in eight gas distribution companies in the Czech Republic and Hungary. The significance of this share swap is twofold. First, the investment risk, which had led energy companies to carry out joint ventures in order to spread the initial investment risk (and expertise), has severely diminished since the first period of privatization. "For (our company) in the Central and Eastern European region it is now a core region, like Germany. For example, we have no higher risk ratio for these companies. If we invest in Poland, Slovakia, the Czech Republic or Hungary it is like Germany" (interview Brenner, 2007).

Second, the three countries with the most privatization have interlinked electricity and gas distribution businesses. While different national laws and regulations restrict how much coordination occurs between different distribution branches of a single company like E.ON, greater coordination of assets can be seen to exist when a more coherent regional or European energy market develops in the future (addressed below). The companies appear ready for an increased regional marketplace where greater asset coordination can occur.

To conclude, the privatization of Hungary's distribution companies marked the first stage of the wider privatization of energy assets in the four NMSs of 2004. Privatizations slowed in 2004, despite the privatizations in Bulgaria and Romania. A second strategic stage was implemented that allowed the shares of the distribution companies to be reorganized between companies. As explored below in case studies, these early privatizations were marked by cooperation in joint ventures, a learning curve followed by a new strategy to create greater coordination between existing assets due to the lack of privatization opportunities.

4. The eastward expansion of OMS energy companies

The heavy investment of OMS energy companies into NMSs set the stage for a dramatic reorganization of the energy markets in central Eastern Europe. Four key OMS energy companies seized opportunities and emerged as the largest and most active in four of the ten NMSs from the 2004 enlargement. CEZ, the only NMS company, also emerged as an active participant in the Bulgarian and Romanian energy markets before their accession in 2007. Below I describe two case studies that expose the strategies used by EDF, E.ON, and RWE in moving further east in central Eastern Europe. What emerges is a description of a strategy of risk reduction and the role that EU expansion played in each company's ability to operate in a new market.

4.1. Direct and indirect company expansion: EDF

The entrance of EDF into NMSs during the 1990s relied on a diversification strategy, concentrating on electricity generation, distribution, and combined heat and power (CHP) operations. EDF entered into the region by forming partnerships with OMS energy companies. Subsequently, as the market developed in Poland and Hungary, the company sought to create subsidiaries that would possess the expertise necessary to better manage the companies.

Through a joint holding structure, EDF became active in the Polish market (Fig. 4). It acquired a majority stake in the generator Elektrownia Rybnik S.A. The deal made the EDF Group the leading foreign electricity producer in Poland. EDF currently owns 45% of EnBW, while OEW also has a 45% stake. As a result, both companies have direct and indirect ownership of Polish generators, including the joint shareholding arrangement in Kogeneracja, located in the Wroclaw–Czechnica region.

EDF's presence in Hungary began in 1995 with the purchase of DEMASZ, a distribution and supply company in southern Hungary. It has since expanded, like in Poland, through cross-shareholding in EnBW. This process serves its interests in Hungary by allowing indirect shareholding in the generation company Matrai Eromu and the distribution companies ELMU and EMASZ, which are all co-owned with RWE Energy Hungaria (Fig. 4). In 2000, EDF directly bought controlling shares in the BERt cogeneration plant in Budapest. This share was subsequently boosted to 95.6%. BERt supplies two-thirds of the heating needs of the city. In addition, EDF invested €123 million in a new cogeneration power plant in Hungary's Ujpest and agreed to invest a further €123 million in a project at BERt's Kispest plant (Austrian Energy Agency, 2007).

The expansion of EDF, and in particular its involvement in Poland and Hungary, highlights the strategy an OMS energy

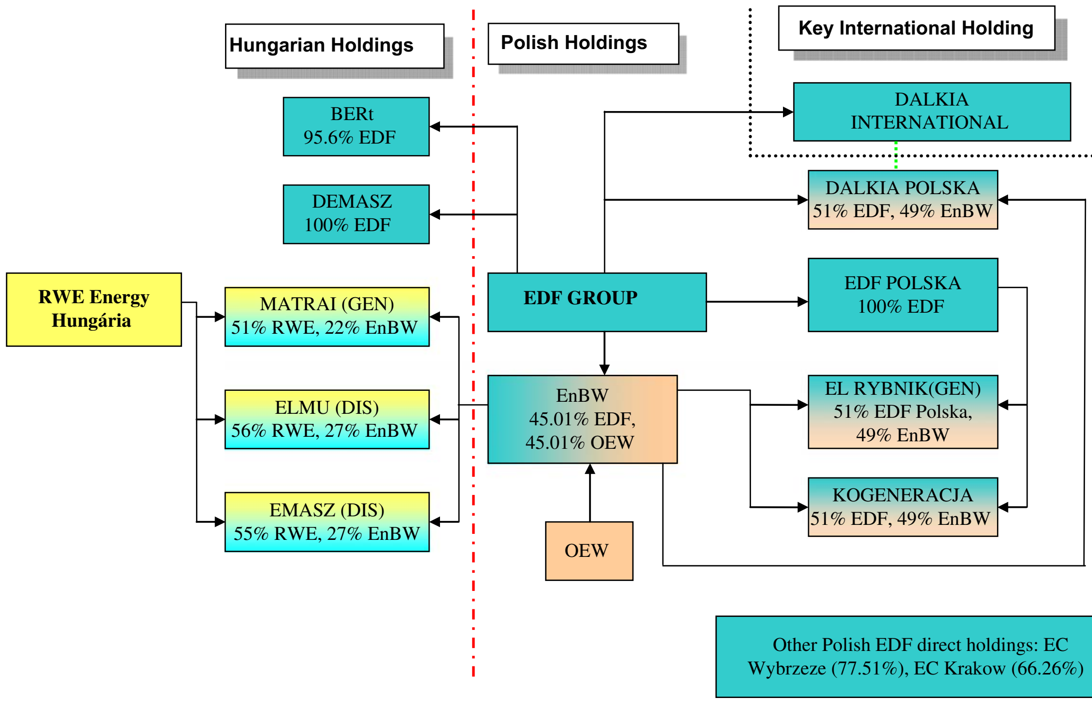

Fig. 4. EDF group holdings in Hungary and Poland (holdings as of August 2007). Source: company reports and websites as compiled by author.

company may use to enter directly or indirectly into NMS energy markets. In some areas, EDF has chosen to invest directly while in other areas it has sought specialized partnerships either through companies it owns directly or through partial shareholder ownership. It has not been able to gain the larger territorial strength of E.ON or RWE in NMSs, as displayed in maps of electricity and gas distribution companies throughout the region (see Fig. 2). EDF is developing its generation business through EnBW in Poland and directly through EDF in Hungary. The limited privatization opportunities in Poland and the limited ability to extend its shareholding in Slovakia's SEE past 49% constrain its ownership and territorial reach.

4.2. Internationalization of German energy companies

The interplay between the internationalization of energy companies and the privatization opportunities offered by governments in the 2004 NMSs demonstrates a symbiotic investment relationship. The expansion of E.ON and RWE into the Hungarian energy sector can be used as a case study to expose the strategic decision-making of these two companies and how EU membership helped governments attract large energy investments through privatization. In addition, accounts from both companies suggest that the Hungarian example represents a successful roll-out of each company's preferred portfolio mix, which served as a model for their further expansion into other NMSs.

Hungary turned out to be a springboard for later investments into NMSs for both E.ON and RWE. For both companies, this was their first international experience as interviews with the CEOs of the companies reflect:

> This is the first time we had a foreign company in our portfolio, Hungary was the first time, and Hungary is the oldest foreign company in the portfolio of E.ON (interview Schultz, 2007).
>
> Hungary was the first investment not only in the CEE region, but for the RWE group.... It was the driver for the strategy to say, 'Let's invest more money in Central and Eastern Europe' (interview Brenner, 2007).

For these companies, the operation of the Hungarian units provided enough international experience to enable the companies to expand into other countries and even to contribute to influencing business and organizational decisions within the mother companies (interviews Brenner, 2007; Schultz, 2007). The initial strategy of operating in both the electricity and gas sectors in Hungary appears to be common among the companies. It can be described as the pursuit of producing a "critical mass that is supporting your economies of scale" (interview Schultz, 2007); that is, the ability to use the synergies between different companies and at a large enough scale to extract extra value. For RWE, this translated into being involved in electricity, gas, and water.

> At the end of the day we want to have, in all these countries, appropriate stakes in gas and electricity, like in Hungary. If we have balanced portfolios in these countries, then we can generate, with open borders, we can generate portfolio effects at a higher level of security of supply. This means we are linked to this privatization process and on the other side the opening of the borders in electricity and gas (interview Brenner, 2007).

Achieving a critical mass in Hungary and creating a 'balanced portfolio' meant having a substantial territorial presence. Of the seven electricity distribution companies in Hungary, E.ON owns three, while RWE holds controlling interests in two. Of the six Hungarian gas distribution companies, both E.ON and RWE each control two companies; in addition, E.ON owns Hungary's key gas storage facilities. RWE is also involved in the water distribution business and holds a stake in Budapest's water utility. This mixture of assets in Hungary is viewed by each company as a robust portfolio demonstrating optimal use of each company's management expertise, which has reached a 'critical mass' of assets.

This multiple holding strategy is seen by RWE as offering greater returns in a business that is marked by long investment cycles and limited growth potential. "Anyone who can offer more than one product in one region has both cost and competitive advantages" (RWE, 2004). This strategy of multiple holdings within Hungary and the CEE region underscores both the initial strategy that these companies held when entering the market in 1995 and the way in which it continues to influence their operations:

> The Hungarian experience was the cornerstone of our strategy, which we built up for the Central Eastern European market. If you look at the market shares, the balance between gas and electricity, this would be really our vision, in all these markets, but it depends on privatization chances (interview Brenner, 2007).

The activities in NMSs of RWE and E.ON are heaviest in Hungary, Slovakia and the Czech Republic, with both companies entering to a limited extent into Poland. The strategic decision to expand into these NMSs markets was fuelled by the privatization process, and as the interviewees and company reports demonstrate, the higher growth potential over OMSs (RWE, 2004, p. 20). The imminent EU membership of these countries helped to shape the investment strategies of companies. "In taking part in privatization, everybody knows we will be part of the EU, be integrated into the European energy system, that was one of the main reasons to go to Hungary" for RWE (interview Breuer, 2007).

While the EU promotes its internal market and membership means joining this market, most business operations are still centered in national markets. Despite the territorially contiguous assets of RWE and E.ON throughout the CEE region and in the 2004 NMSs of the Czech Republic, Slovakia, and Hungary, national laws continue to separate the joint operations of these assets:

> As you know we have investments in Poland, the Czech Republic, Slovakia and here in Hungary; definitely the EU enlargement is helpful for this. We have the same European regulations, but due to the fact that the main impact of the business that the business is sticking to the national regulations, that is the biggest hurdle we have to overcome (interview Breuer, 2007).

A common EU legal framework coupled with a common internal energy market, as supported by the EU Commission was cited by all interviews as a benefit when dealing with separate national laws. In fact, the perspective of the EU Commission and its desire to foster a common European Internal Energy Market was cited as an important influence that supports market based solutions, even when drafting national laws. "The EU Commission is supporting us in opening up the market and coming up with market orientated solutions. This means as an investor, you can use this argument if you are threatened with some new national regulation and issues you cannot solve" (interview Brenner, 2007).

4.3. *Refocusing strategies of the big three*

The limited new privatization opportunities in NMSs since approximately 2004 means companies from OMSs need a new strategy if they want to continue expanding in the region. A new strategy for OMS companies appears to be reliant on creating greater coordination among different national units while also expanding in the sectors of generation and trading.

> These countries [Central Eastern European] have significant generation needs and will offer industrial investors like EDF numerous opportunities as energy companies continue to be privatized and environmental constraints tightened (EDF, 2007, p. 82).

Going forward, it is apparent that further privatization of energy distribution assets will occur more slowly than in the past. Investment opportunities may lie with the generation side of the business, which can feed into the distribution and supply businesses that these companies have developed as part of their business portfolios. In addition, the movement to set up national energy champions in Romania and Bulgaria, thus making private suppliers more dependent on government pricing decisions, has prompted them to acquire their own generation sources. As one executive of a Romanian generation company stated,

> When I heard about this [establishment of a Romanian national champion], I was afraid that these [investment] projects will be stopped by the investors. Contrary. I discussed with Enel, CEZ, E.ON, Electrobel. They do not want to rely on this [national] company. This why they are still interested to invest [in new generation] (interview Seneslav, 2008).

Investment in generation can benefit the economies of scale, not just in terms of electricity production and supply, but also in terms of capacity to sell the electricity to each company's supply units or to other supply companies in the wider CEE or SEE region. "If you have the cross-border capacity, then you could easily use the electricity produced in Varna (Bulgaria) in Romania" (interview Badica, 2008). Current steps such as the establishment by the Energy Community of the South East Europe Coordinated Auction Office and the possible day-ahead market coupling of the Hungarian and Romanian markets led by OPCOM may mean greater regional market integration. Initiatives that are in line with EU directives and that can benefit investors operating in multiple countries are currently being developed.

Further steps are being taken in the area of generation by distribution company owners from OMSs. In Romania, work has already begun to build new generation units on the sites of existing but financially failing thermal power plants. There are planned investments into two brownfield power projects by Enel/E.ON and CEZ/Electrabel in Romania along with the state-owned Thermoelectrica. Each project has the capacity to produce approximately 800 MW of electricity (Petrescu, 2008; interview Seneslav, 2008). The development of a strategy that meets the requirements of operating in a common European energy market or a regional market, combined with dwindling opportunities for buying distribution companies, is prompting companies with distribution assets to shift their focus from distribution to generation and trading.

5. Concluding the eastward expansion

EDF, E.ON, RWE and other energy companies from OMSs have been expanding internationally for more than 10 years. The acquisition and divestiture of OMS companies have resulted in a new geographic order that emphasizes geographic contiguity and the potential for regional coordination among companies' subsidiaries. The rise of CEZ as a serious participant in the distribution system in the NMSs of 2007 is notable for the company's ability to follow the earlier strategy of OMS companies. Among these companies operating in the CEE region, emphasis has been placed on buying state-owned companies to reach a 'critical mass'. However, this initial strategy has encountered problems when political institutions have changed their countries' energy strategies, halting privatization in order to protect or develop national champions.

Ownership of distribution, supply and the development of generation allows investor-led companies to be involved in every facet of electricity production and delivery. While these markets are competitive, it is also apparent that economies of scale, including buying and trading electricity generation nationally and regionally, allow the parent company to benefit financially.

The massive capital inflows that OMS electricity and gas companies brought with them to the former Communist countries has played an important role in reshaping and developing the critical infrastructure for further national and regional economic and social development. The concerted regional spatial strategy of these companies has created a new energy geography that rests on the further development of regional energy markets. Just as the companies have entered each national market and operated on a national scale, as their operations mature and competitive pressures emerge, regional coordination of assets becomes an essential strategy in extracting further profits.

EU membership played a key role in fostering a common legal framework in each country and encouraged the opening of national markets for investments. The newest task for countries in the EU, and those looking to join in the future, is the development of regional markets. Such markets may allow greater coordination of assets, greater efficiency for energy producers, and the potential for a higher level of competition. The examination of the historical and strategic progress since the mid-1990s of OMS and active NMS utilities provides a novel perspective on how assets may be managed in a regional marketplace. Whether national regulations, legislation and utilities themselves restrict or facilitate cross-border operations remains to be seen.

Acknowledgments

Initial funding for this research was provided by the European Commission, Directorate General Energy and Transport (DG-TREN) no. PI096/06 for the project “Study on the Impact of the 2004 Enlargement of the European Union in the Areas of Energy”. This work is a portion of that study. A further update to the analysis for Bulgaria and Romania was drawn from the study “Electricity Post-Privatization: Initial Lessons Learned in South East Europe”, supported by USAID with the Energy and Infrastructure Division of the Bureau of Europe and Eurasia under the terms of its Cooperative Agreement with the National Association of Regulatory Utility Commissioners, No. REE-A-00-07-00050-00. The author would also like to thank Péter Kaderják, Peter Cameron and Gabor Szőcs for their help in developing this analysis. The opinions expressed are those of the author and do not reflect those of the funding agencies.

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