THE END FOR THE LARGE EUROPEAN UTILITIES?

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A decade ago, it seemed likely that European electricity and gas markets would increasingly be dominated by about ten European companies with bases in a number of countries. The companies included: E.ON and RWE (Germany), EDF and GDF (France), Endesa and Iberdrola (Spain), ENEL (Italy), Electrabel (Belgium), Vattenfall (Sweden) and Fortum (Finland). The main markets they targeted were the UK and Eastern Europe. Particularly in the UK, there was much less resistance to what are often seen as strategic assets falling into foreign hands.

A decade on, the number of internationally-based companies has declined to just a handful of companies. Fortum, Vattenfall and Iberdrola have no plans for further expansion. GDF and Electrabel have merged to form the France-based ENGIE, ENEL has taken over Endesa leaving just five companies with significant international scope. However, while these companies appear to have a stronger grip than ever, closer examination shows their grip is weakening and these companies may be broken up or forced to retreat largely to their former home territories.

From 2009 onwards, EDF began to try to position itself as a global nuclear power supplier taking equity stakes in new nuclear power plants, targeting UK, Italy, USA, South Africa, India and China. Of these, USA and Italy have failed, India and South Africa appear a remote prospect, while opportunities in China and UK appear limited and risky.

While its debts are lower than they have been, it faces formidable calls for capital over the next decade. The 58 reactors it operates in France are nearing the end of their design life. The cost of replacing them with new reactors is prohibitive so life-extending them is the only option if it wants to retain its dominant position in France, but this is expected to cost at least €80 over the next decade. Life-extension will also put off the time the adequacy of their funds for decommissioning these reactors will be needed. The cost of its share in the four reactors it wants to build in UK is about €45bn. EDF is being required by the French government to take a majority stake in the collapsed French reactor vendor Areva NP for a comparatively low cost (about €2bn) but this company has made significant losses for each of the past 5 years so could be an ongoing drain on EDF.

As a result, EDF is now trying to sell as many non-core assets as it can to try to raise up to €10bn in the next year or two. These include assets in France, Poland, UK and USA. If it cannot do this, going ahead with its nuclear plans in UK is likely to seriously damage its credit rating.

Around 2009, E.ON and RWE, encouraged by signs from Chancellor Merkel that she was contemplating relaxing or even reversing the nuclear phase-out, began to look at new nuclear projects. However, the Fukushima disaster put paid to these plans and the rapid expansion of renewables, often owned by small new companies has led to an erosion of their home market. In 2014 E.ON announced it wanted to hive off its 'old' businesses, coal and nuclear generation, leaving renewables and retail energy supply as its core. It has been blocked from selling off its nuclear assets because of doubts about the adequacy of its nuclear decommissioning funds. RWE has suffered more than E.ON, also has question marks about the adequacy of its decommissioning provisions and there is speculation it will also split itself into two and even sell its UK business.

ENEL's big move was the acquisition of the largest Spanish company, Endesa, in 2007, but at a high price of €42.5bn and it has been trying to reduce the resulting debt since then. Like the others, ENEL saw a future in nuclear power around 2010 and entered into an agreement with EDF to build plants in Italy and take stakes in new French plants. It also bought a majority stake in the main Slovak utility which is building two new nuclear plants. But the Fukushima disaster put paid to those plans. It has extracted itself from its agreement with EDF and is selling its Slovak holding. Unlike EDF, it has retained its Latin American holdings, which came with Endesa, and these have proved profitable in recent years although the outlook appears much poorer now.

GDF and Suez, the owner of the Belgian Electrabel electricity utility, merged in 2009. However, a coherent strategy for the new group, ENGIE, has been slow to emerge and they have made no major acquisition in Europe. They have competed hard to build new power plants that would generate under contract (Independent Power Producers) in countries like Brazil. So at present, ENGIE seems a curious mix of traditional gas (France) and electricity (Belgium) businesses and new IPPs.

Over the past 20 years, the record of the corporate strategies of the large energy companies is poor but what has allowed them to increase their scope has been the scale of generating technologies which was large enough to discourage new entrants. They hoped that large scale technologies like nuclear and carbon capture and storage (a technique to capture the carbon dioxide emissions from coal plants) would continue to insulate them from competition but these technologies are being superseded by small renewable technologies like wind and solar. Unless the Big Five become more nimble and historic nuclear liabilities are not too heavy a burden, the future for them looks bleak.

Table: The Major Companies financial results (€bn): 2014 (2013)

Company	Sales	Group net income	Net debt	Main foreign markets in Europe
EDF	72.9 (71.9)	3.8 (3.8)	34.2 (33.4)	UK, Italy, Poland, Belgium
E.ON	111.6 (119.7)	-3.1 (2.5)	33.4 (32.2)	UK, Sweden, Czech Rep, Hungary
RWE	48.5 (52.4)	1.7 (-2.8)	31.0 (30.7)	UK, Netherlands, Czech Rep
ENEL	75.8 (78.7)	0.8 (4.8)	37.4 (39.7)	Spain, Slovak Rep
ENGIE	74.7 (80.0)	2.7 (2.9)	27.5 (28.8)	Belgium

Sources: Annual reports and accounts