Conditions for making competition work in the Central European electricity market

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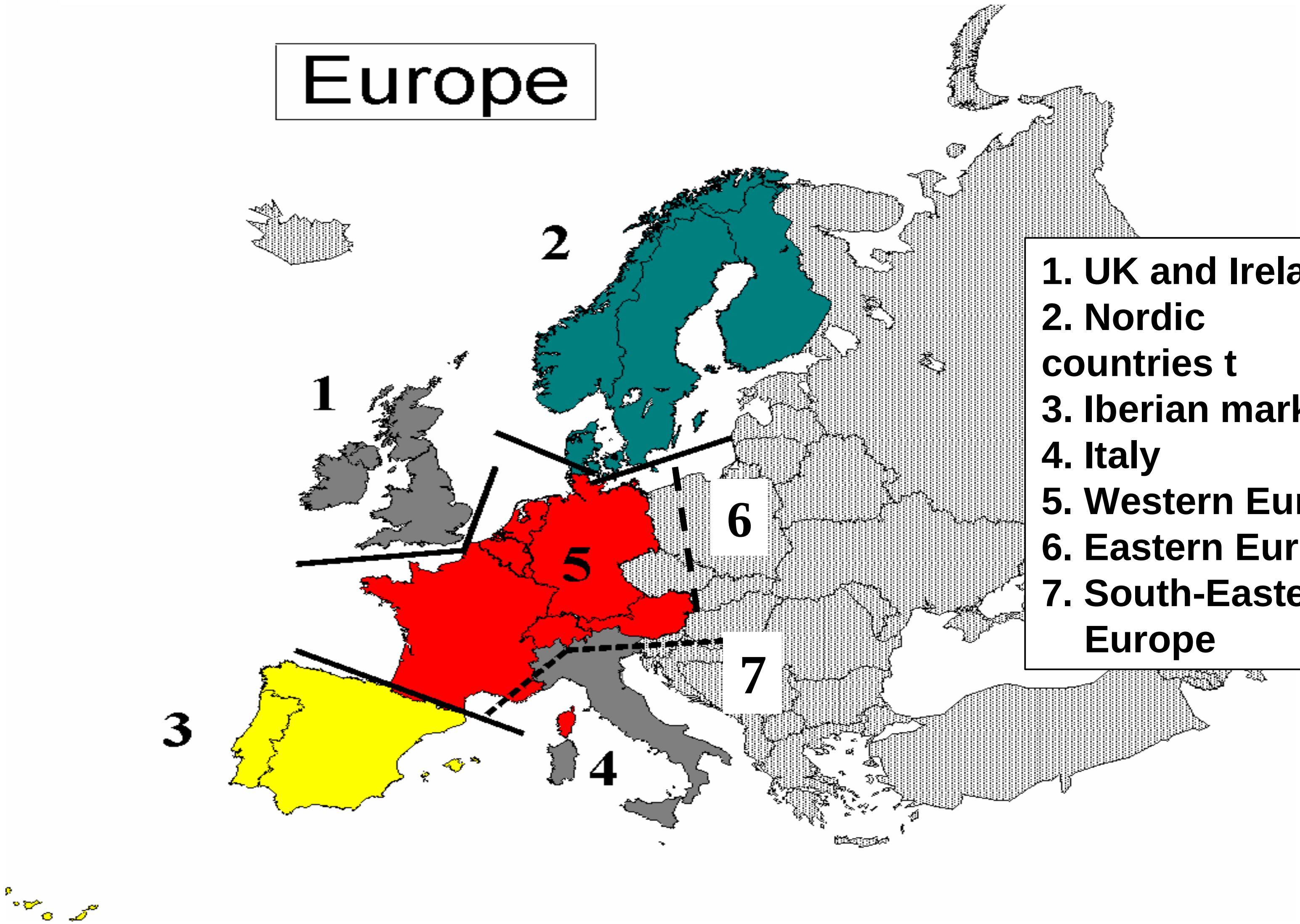
1. INTRODUCTION

- Competition: expectations of EC -> very simplified assumptions on strategic behaviour of generators / grid operators!

- General lack of competition: in generation and supply in every country and sub-market

- In wholesale markets: strong suspictions regarding exertion of market power in every sub-market

EUROPEAN ELECTRICITY SUB-MARKETS



1. UK and Ireland
2. Nordic countries t
3. Iberian market
4. Italy
5. Western Europe
6. Eastern Europe
7. South-Eastern Europe

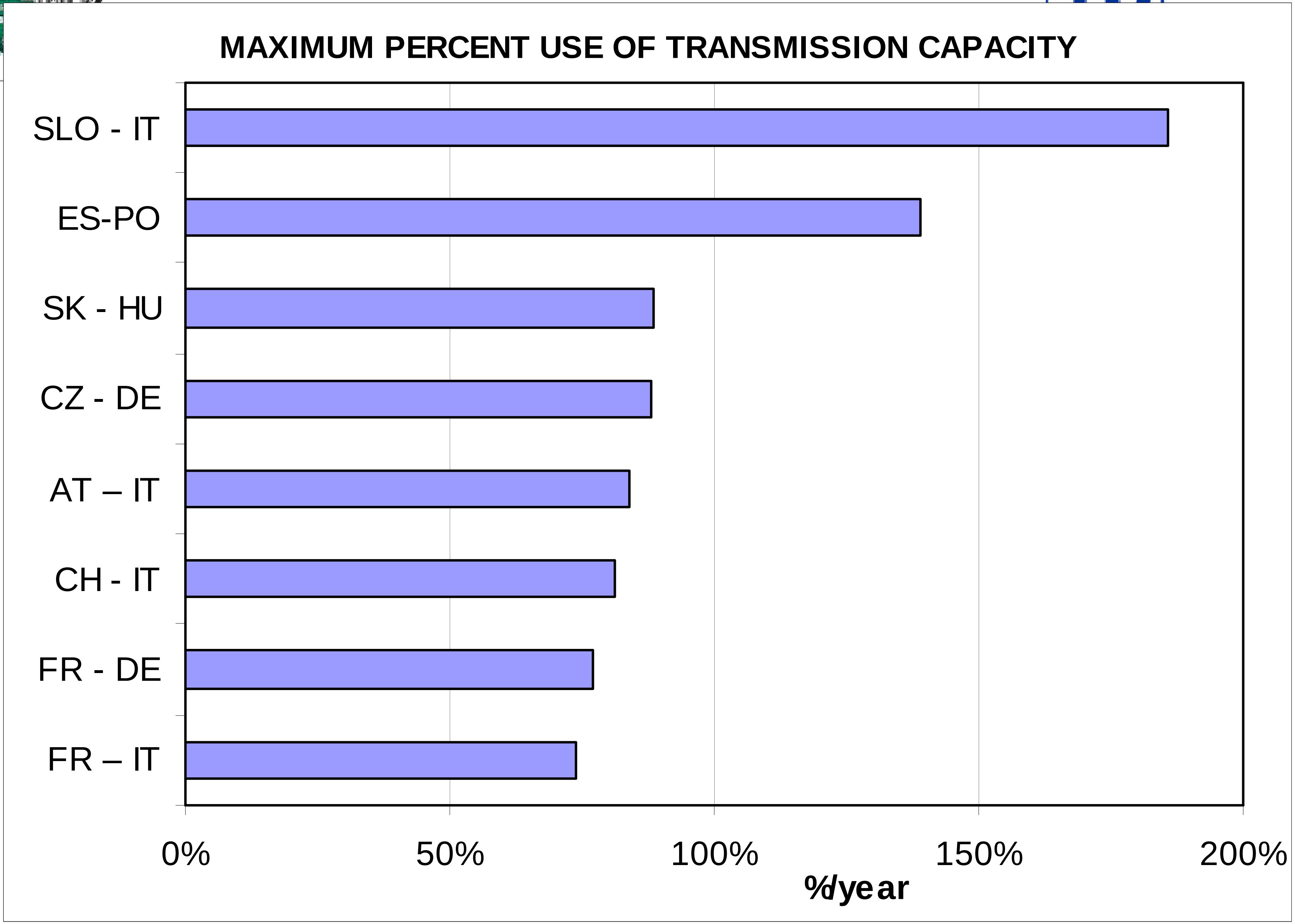
2. UNBUNDLING AND TRANSMISSION

UNBUNDLING REQUIRED BECAUSE:

- **to ensure that potential new generators are not discriminated from access to the TM grid and**
- **to avoid cross-subsidization of generation by transmission.**

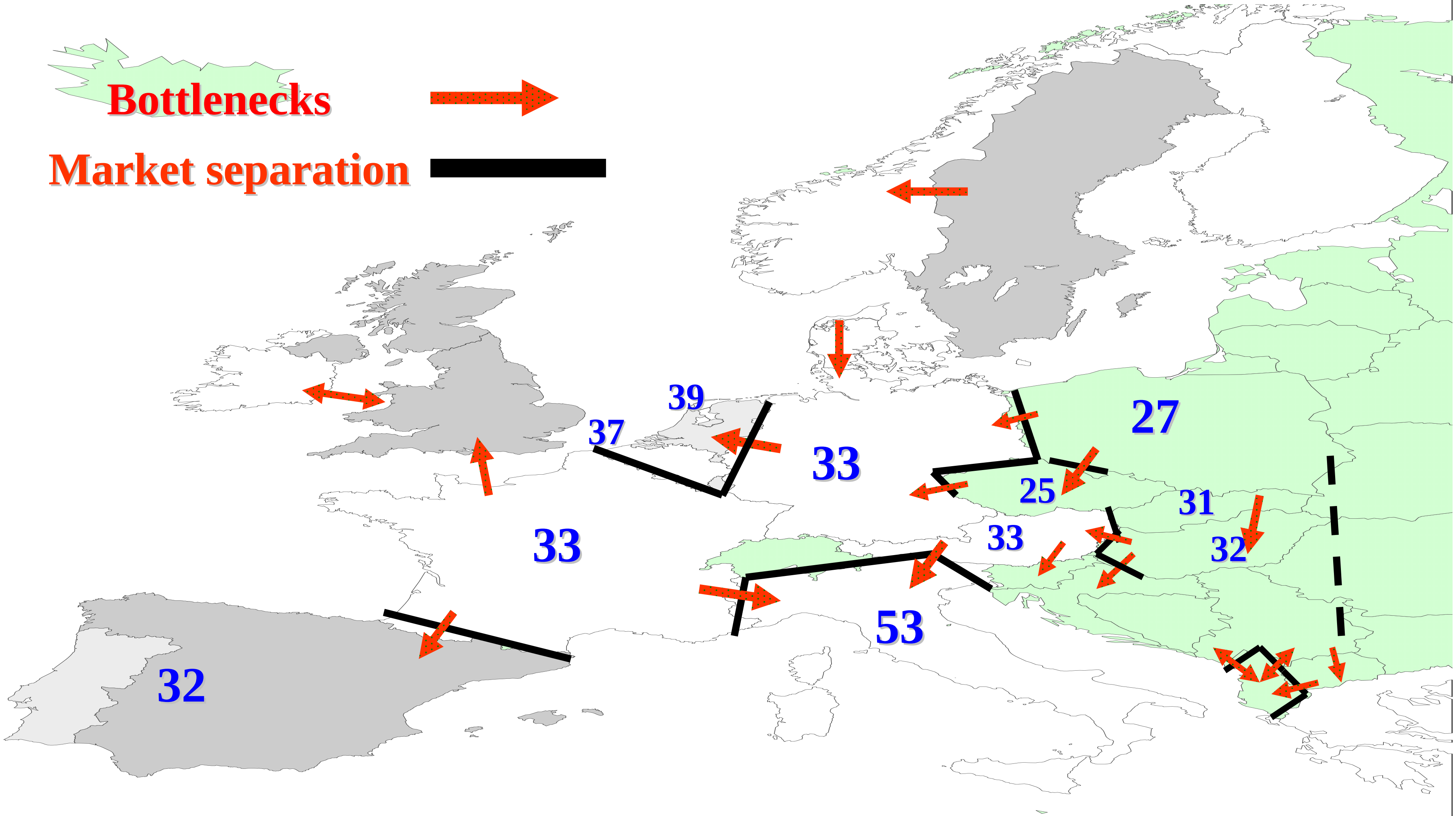
SUFFICIENT TRANSBOUNDARY TM CAPACITIES:

- **to ensure a larger market**

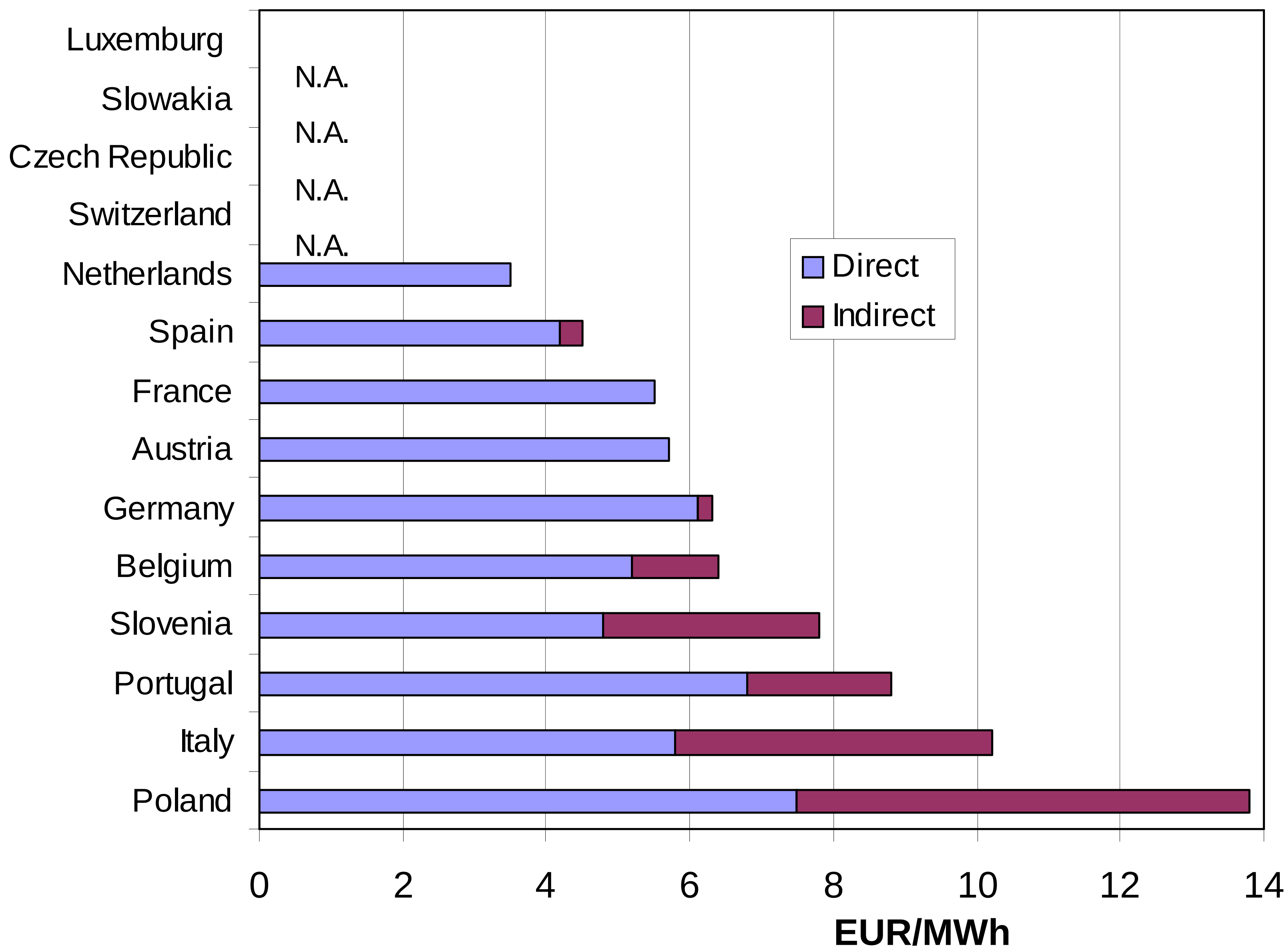

MAXIMUM PERCENT USE OF TRANSMISSION CAPACITY
SLO - IT
ES-PO
SK - HU
CZ - DE
AT – IT
CH - IT
FR - DE
FR – IT
0%
50%
100%
150%
200%
%/year

GRID BOTTLENECKS IN EUROPE

Average wholesale electricity price 2003 [€/MWh]



TRANSMISSION INVOICES

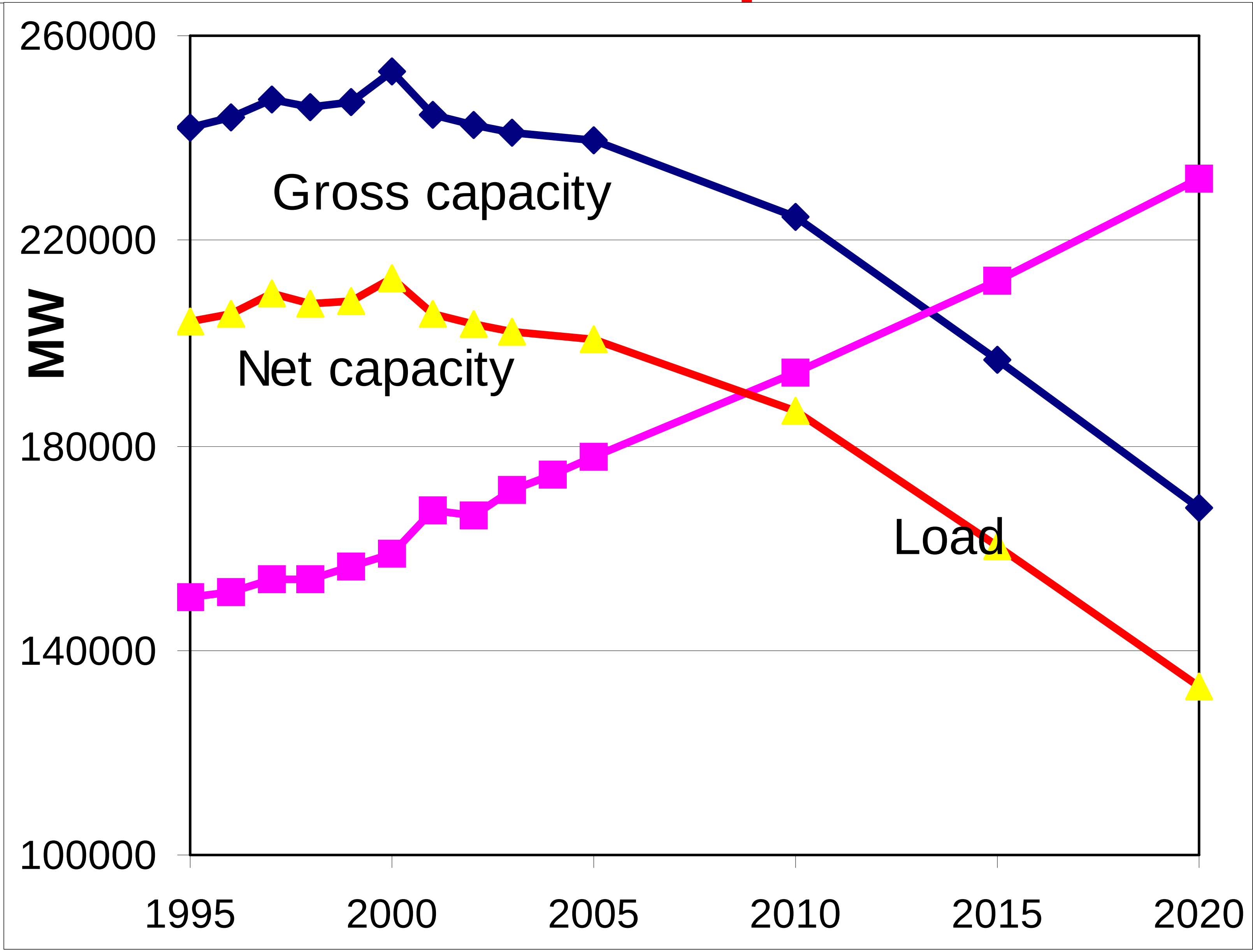


Continental Europe: Type of access to transboundary transmission capacities

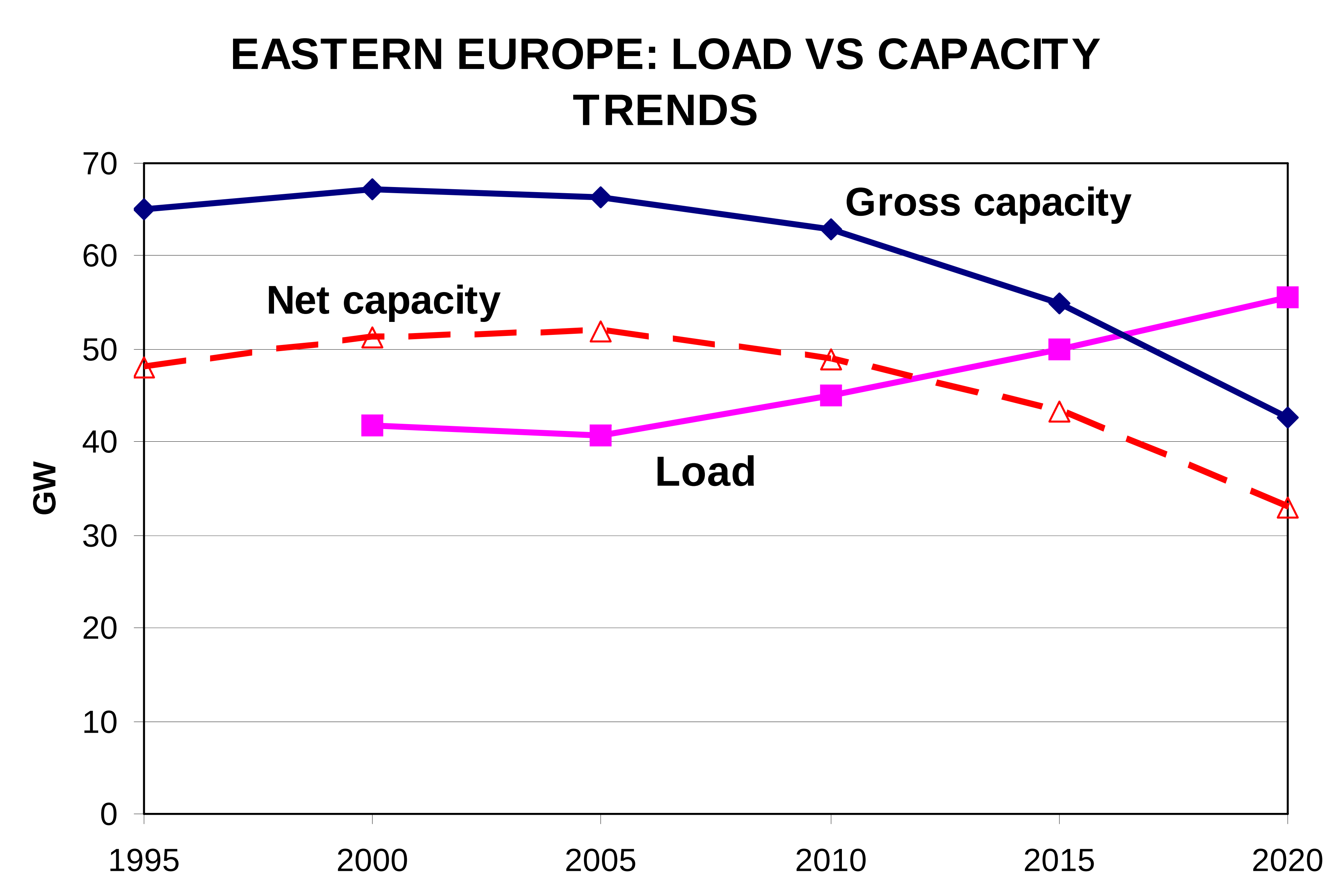
	Type
FR – DE / DE - FR	Priority list / Pro-rata /Partly auctions
AT – DE / DE – AT	Priority list
NL – DE	Auction
DE – NL	Auction
FR – IT / IT – FR	Pro-rata
FR – BE / BE – FR	Priority list / Pro-rata
NL – BE	Auction
BE – NL	Auction
FR –ES	Priority list
ES – PO / PO – ES	New method foreseen
SK – HU	Auction
SL – IT	Auction (short term), Pro-rata (long term)
CZ – AT	Auction
CZ – DE	Auction
AT – IT	Pro-rata

Source: ETSO

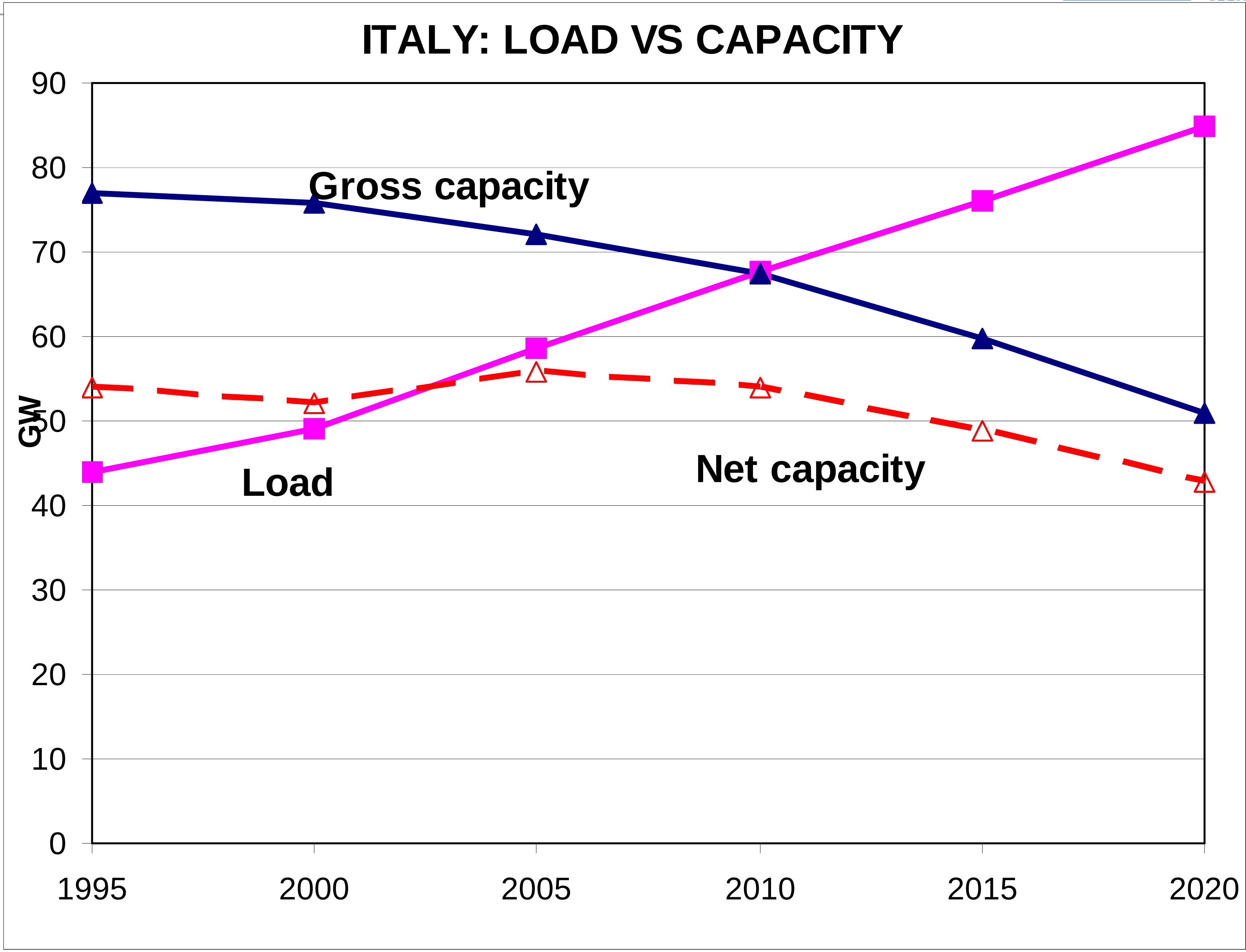
3. EXCESS CAPACITIES
Central Europe



Eastern Europe

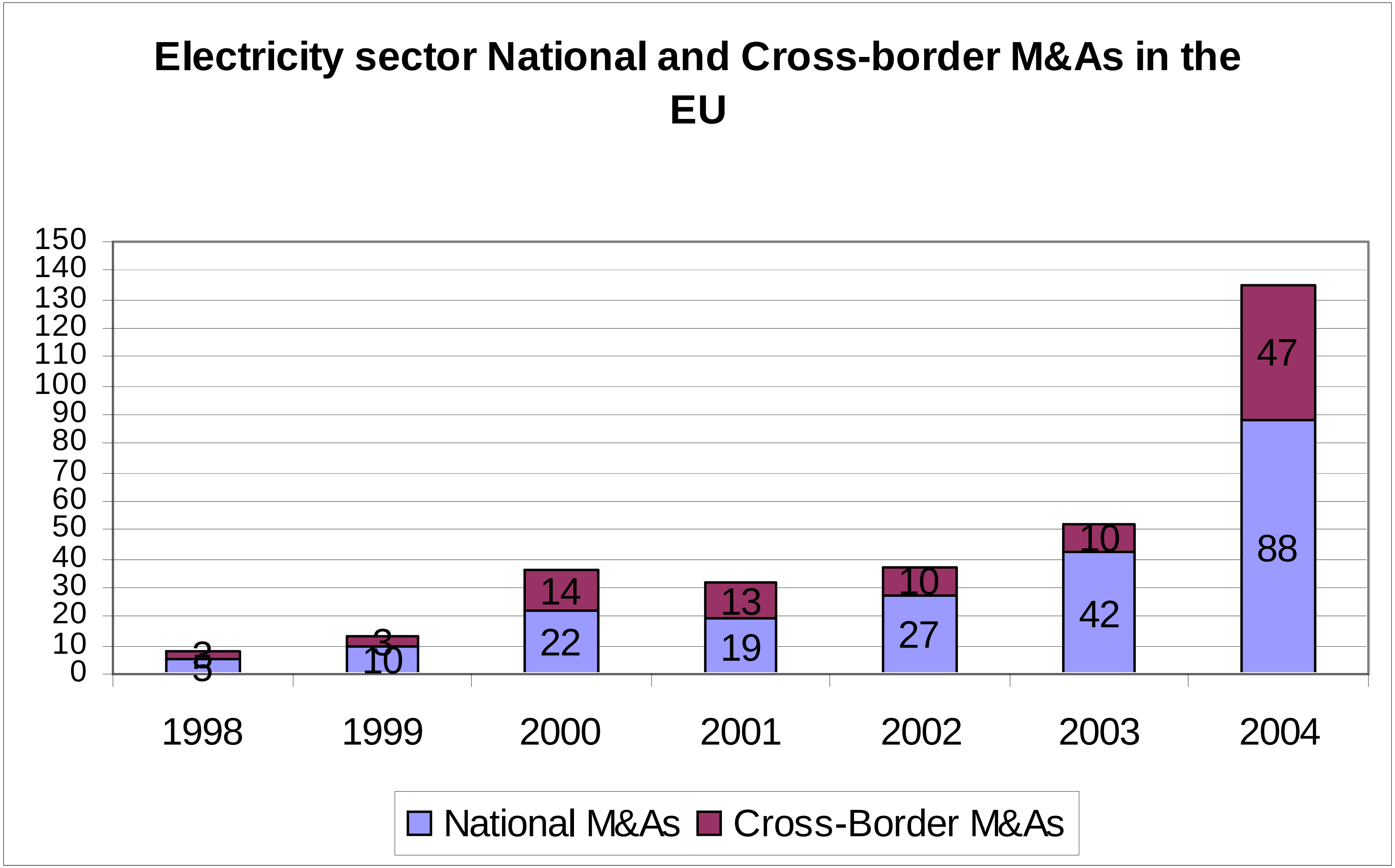


Italy

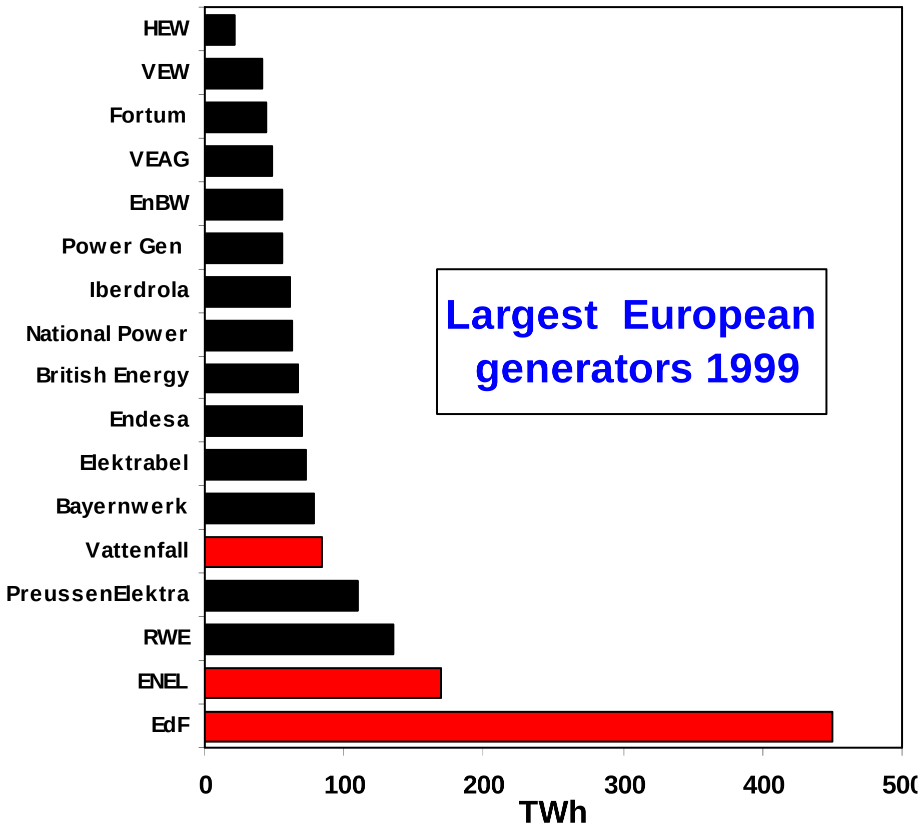


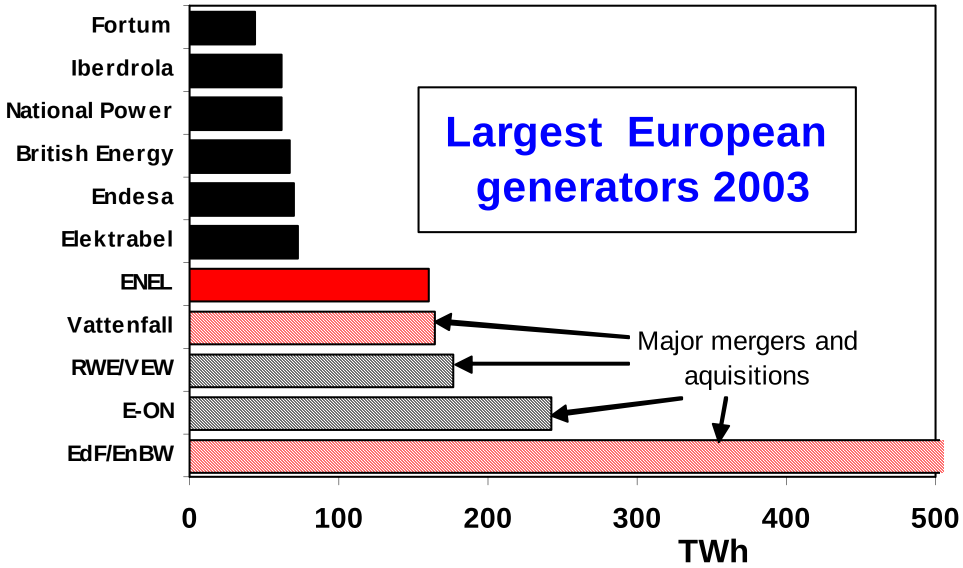
ITALY: LOAD VS CAPACITY
90
80
70
60
50
40
30
20
10
0
GW
Gross capacity
Load
Net capacity
1995
2000
2005
2010
2015
2020

4. MERGERS IN EU-15



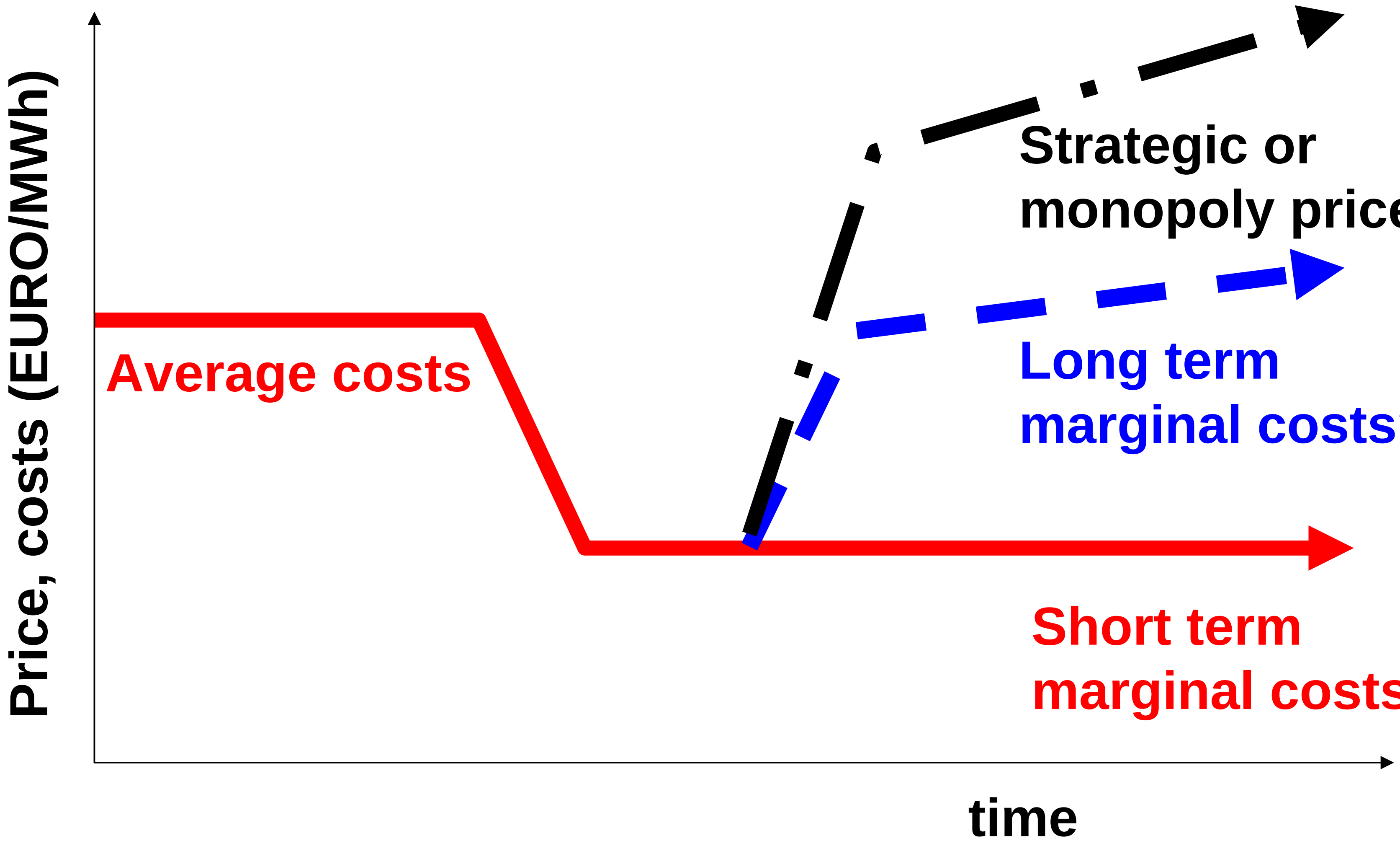
NUMBER OF LARGE GENERATORS IN EU-15



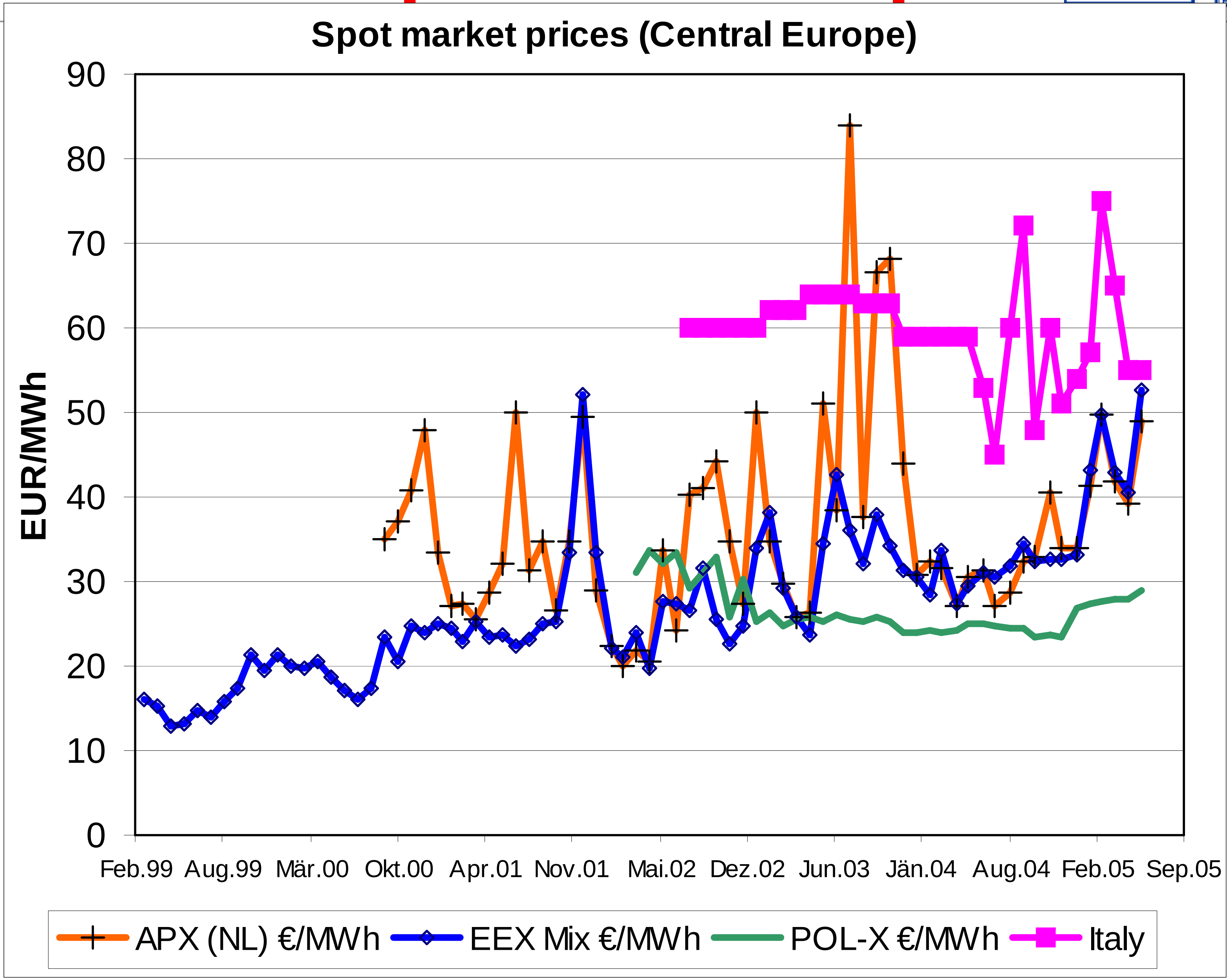


17 → 11 !

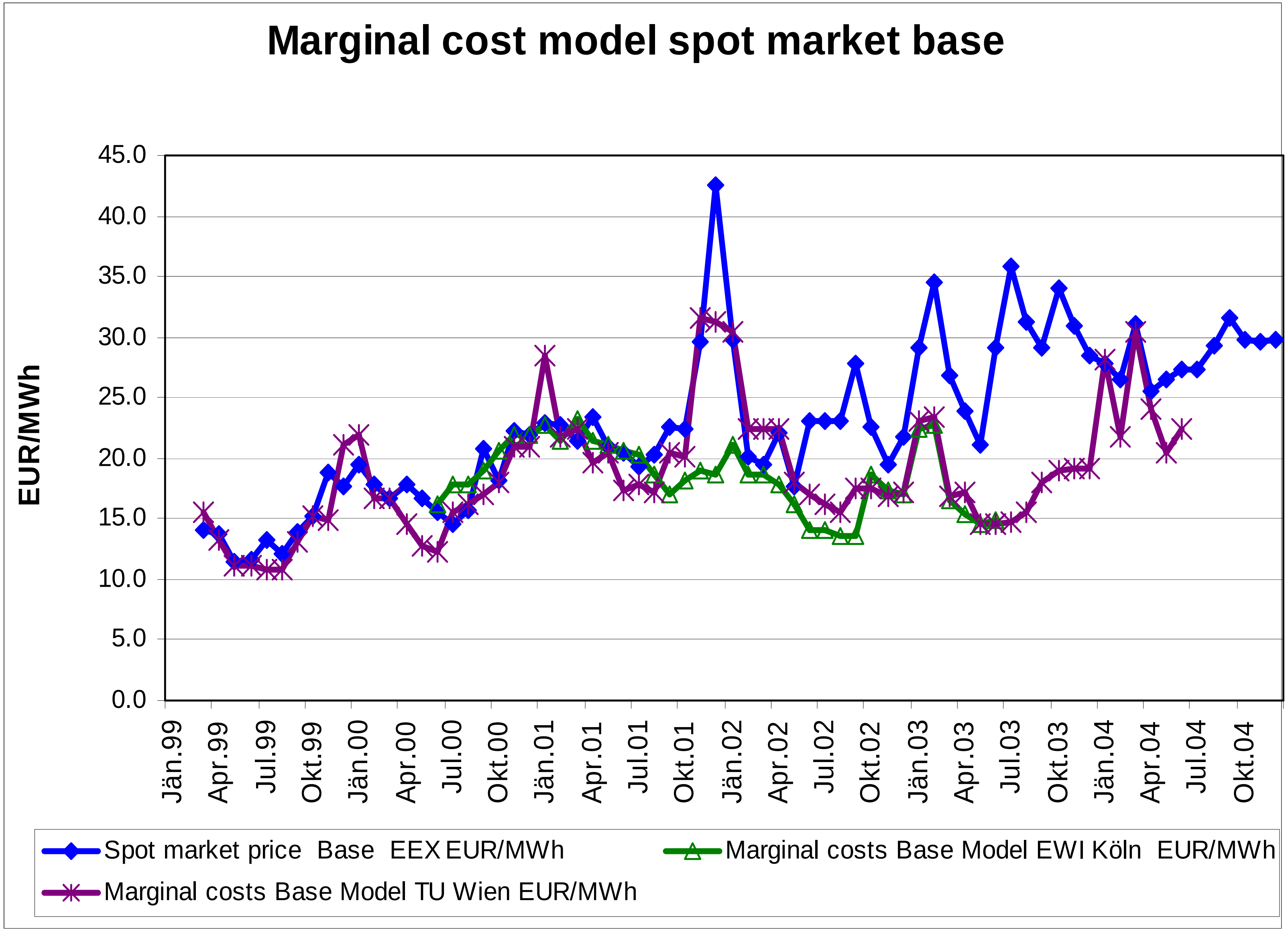
5. PERSPECTIVES FOR PRICE DEVELOPMENT



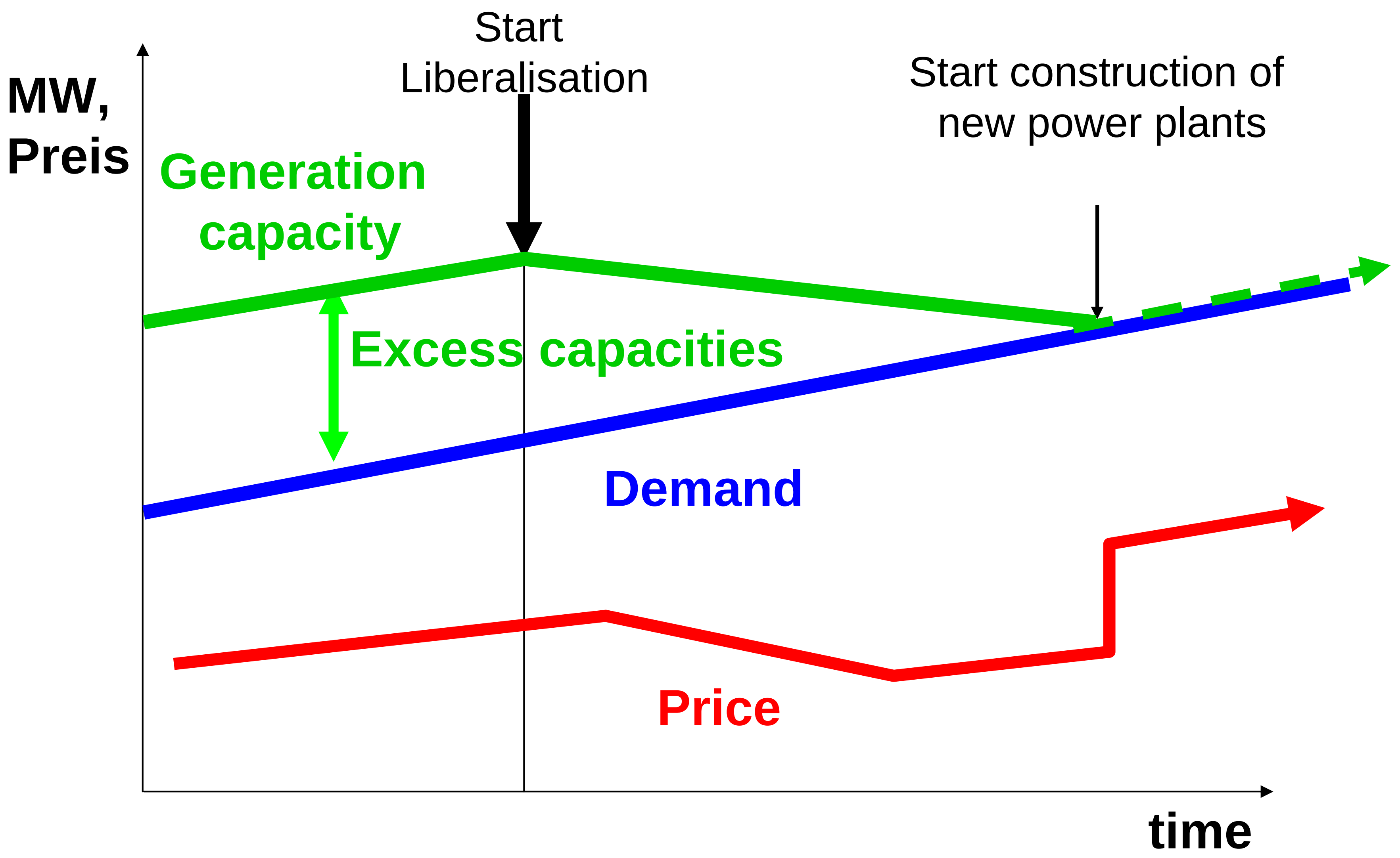
Wholesale price development



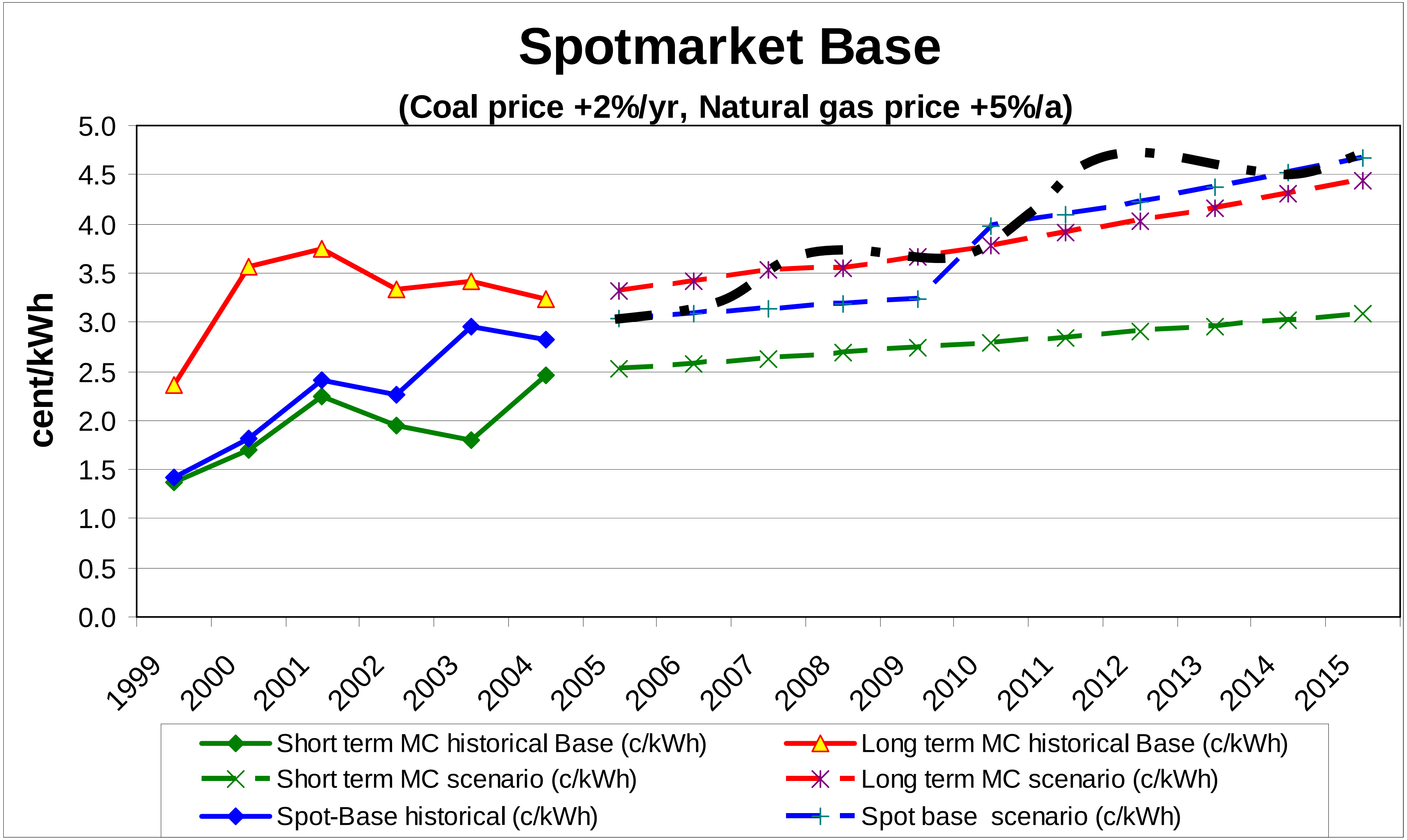
Market power?
A marginal cost model



CAPACITY DEVELOPMENT: MODEL BOTTLENECK



Perspectives for price development



8. OPEN ISSUES

- Balancing: Unfavourable for importers and new participants,
- Balancing: what are proper area sizes? Luxemburg, German sub-areas, France?
- How to ensure sufficient TM capacities?
- How to harmonize regulatory governance?
- How to deal with further privatisation in the light of increasing concentration and market power?

Current attempts to intensify competition…

… are quite different:

- Italy and France: Intensify auction of virtual capacity
- Germany: new regtulatory authority installed, to facilitate access to the grid for IPP's and other new players;
- Spain: White paper suggest divestment of generation capacities
- Eastern Europe: competition is to be encouraged by transboundary trade

9. CONCLUSIONS

To bring about effective competition it is necessary to …

- **conduct European-wide correct unbundling to avoid market power over the grid**
- **to ensure prevailance of excess capacities resp. demand-side measures**
- **avoid further mergers and cartelisation, divest capacities, provide incentives for new generators?**
- **harmonise (transboundary) conditions for access to the grid;**

9. CONCLUSIONS

- **Eastern European impact only if TM capacities are extendend**
- **Enhance transparency;**
- **Privatisation as a crucial issue? Who will buy EdF (in the long run)?**

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