

Regional market integration Why and how?

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Why regional markets?

- Diluting local market power
- Lack of political will for structural steps
- Minimum efficient size of generation: barriers to entry
- Concentration for technological reasons

MEH – University of Chicago oligopoly model

The Hungarian electricity market can function reasonably competitively if:

- 6 strategic players, no horizontal integration
- Small generators: Competitive fringe
- ATC only to non-strategic players
- ***These are very strong conditions***

Sustainable competition is very difficult in small markets (below 20000 MW). In CEE, it is worse

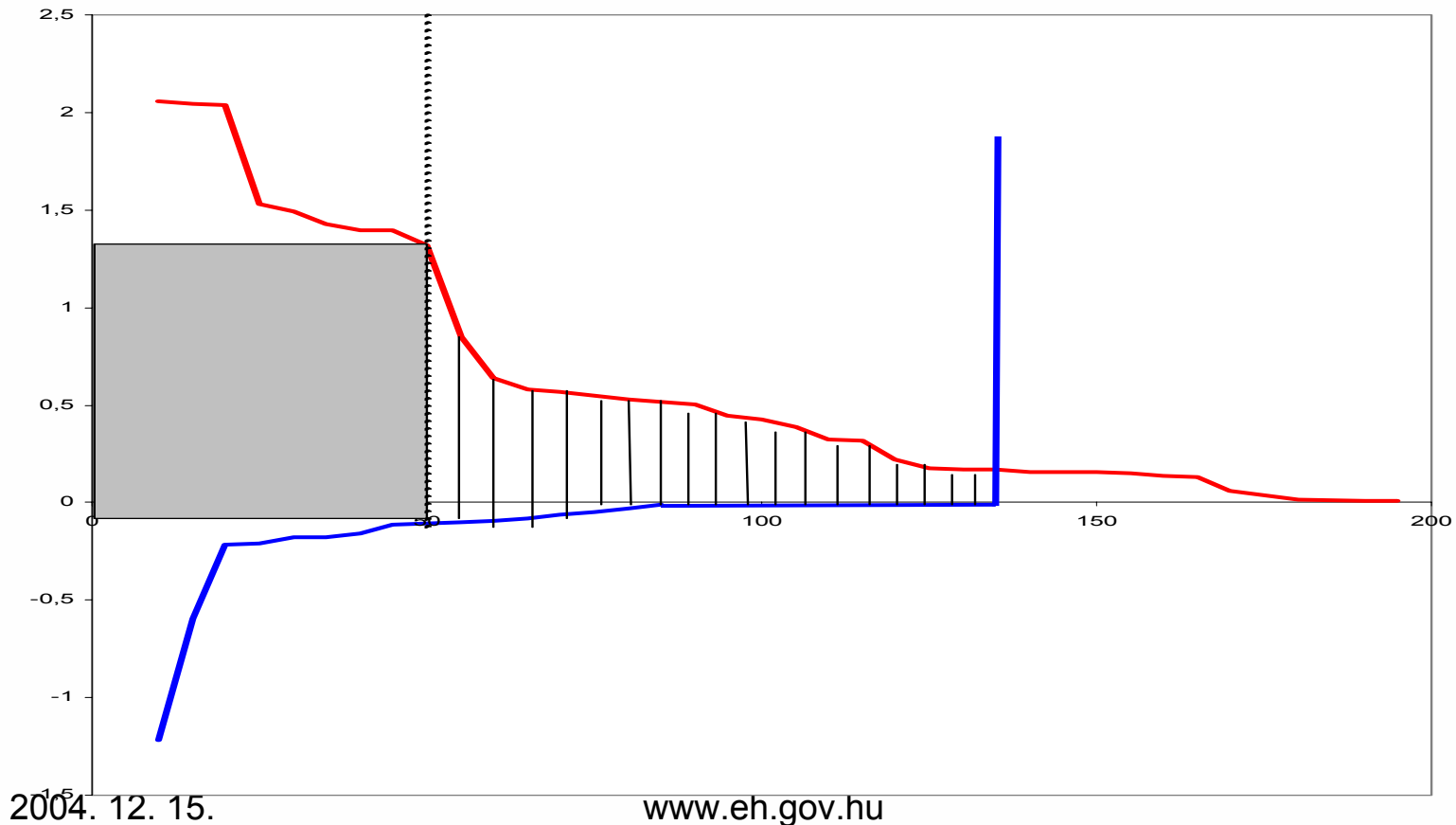
- Nordpool
- US: FERC Standard Market Design
- Iberian Single Market
- Central Europe???

Problems with explicit auctions

- Price can not go negative (value can)
- Lack of forward arbitrage: winners curse
- Netting
- Product definition in a meshed network (Czech Republic – Croatia)

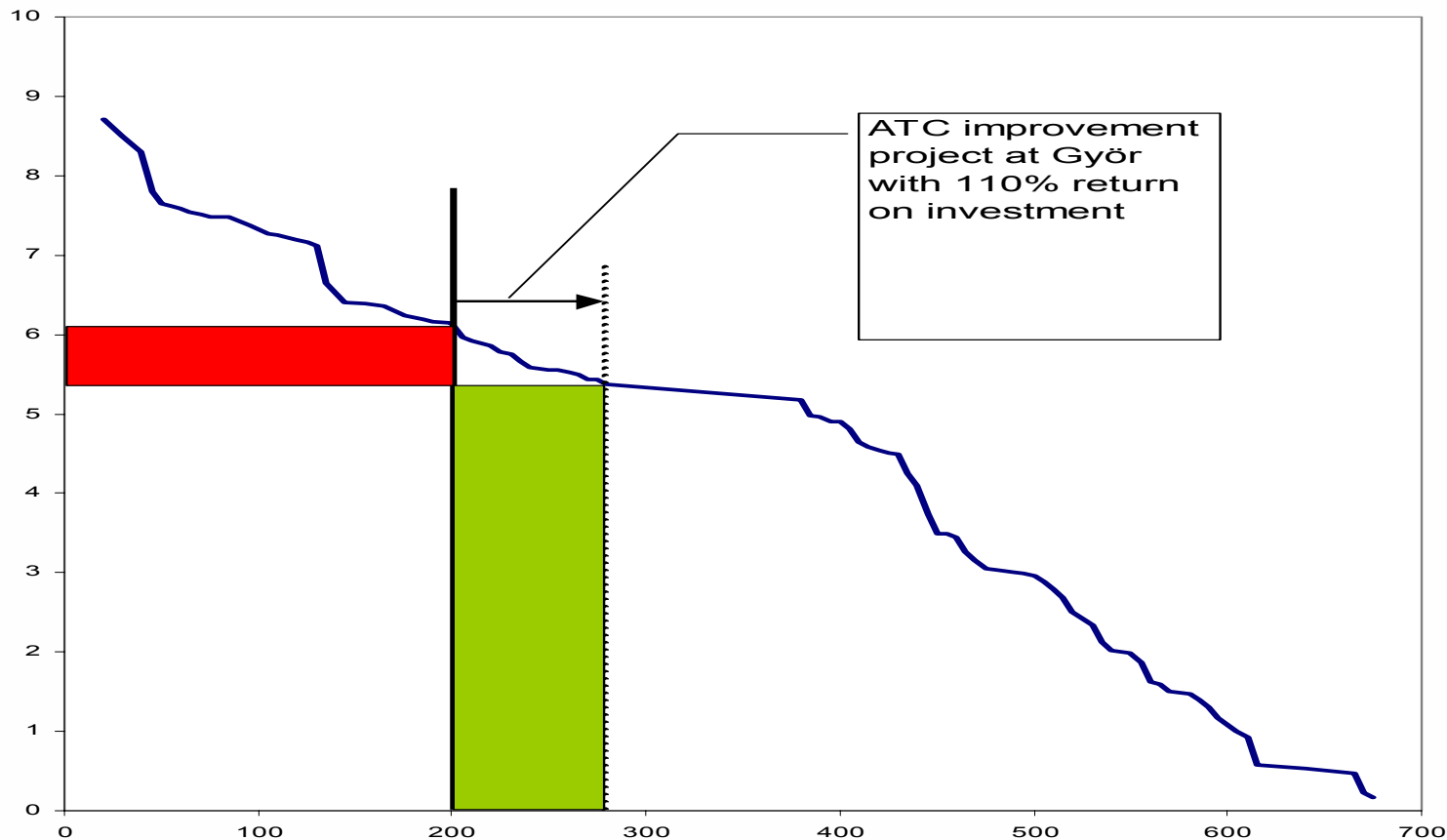
Lack of forward arbitrage – winners curse: the case of UCTE expansion

Equilibrium for Romania - Hungary capacity with and without netting



MAGYAR ENERGIJA HIVATAL

Distorted incentives, insufficient unbundling hinder investment



What next

- Regulatory roundtables
- Sorting out explicit auction problems (coordination, timing)
- Netting, single platform
- Big bang market splitting?

Thank You!
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