



**European Regulation Forum
on Electricity Reforms**

Cambridge SESSA Conference “Refining Market Design” Press Release

First Part: 9 academic papers describing the existing national market designs
Second Part: Stakeholders discussing the progress towards a single electricity market

SESSA, a programme financed by the European Commission, is a European forum on electricity reforms involving researchers and energy stakeholders (www.sessa.eu.com). The first SESSA Conference, *Refining Market Design*, was held in Cambridge, England, on 14-15 July 2004. It was organised by David Newbery, Department of Applied Economics. The objective was to examine the performance of electricity market designs. The goals of market design include, as a pre-condition of continued popular and therefore political support, confidence in security of high quality supply at sustainably competitive prices. Sustainability here refers both to the ability of the sector to finance and deliver efficient and reliable electricity supply and in the environmental sense of reducing greenhouse gas emissions. Efficiency requires that energy, capacity and other services are at least cost but at prices that allow adequate investment to be financed by the private sector. This in turn requires that the markets provide price signals for entry of new generating capacity that is efficient in location, timing, scale and fuel choice, and for dispatch that minimises social costs including environmental costs. Market integration in turn means that European costs are minimised, trade takes place guided by comparative advantage, importing competition into more concentrated markets.

First Part: Nine academic papers describing the existing national market designs

All papers can be downloaded at www.sessa.eu.com

The first day of the conference was devoted to academic papers describing the experiences of mainly EU countries, and drawing conclusions for the discussion by stakeholders, on the second day. The academic papers identified salient events in each country that throw light on issues of market design and governance.

→ **Newbery**'s paper described the costly change in wholesale market design in Britain, intended to address the initial problems of market power that had largely been resolved before the change.

→ **Von der Fehr** presented the encouraging performance of the Nordic market in withstanding a severe price shock comparable to the one that destroyed the Californian experiment, and compared the less competitive retail market in Sweden with the lower priced Norwegian experience.

→ **Brunekreeft** criticised the lack of a regulator in Germany, combined with extensive vertical integration and market power, that led to margin squeezes in the competitive businesses, being cross-subsidised by costly monopoly transmission and distribution.

→ **Van Damme** noted that the Dutch Government's initial attempts to create one national champion had fortunately failed to win the companies' support, but that the resulting moderately unconcentrated market structure still led to concerns over market power. He observed that loose legal wording and imperfectly informed courts had undermined the intentions of regulation and competition decisions, requiring further changes to the law, that now put The Netherlands in the lead in transposing the new Directives.

→ **Joskow** guided us through the variety of US experiments in liberalisation, recounted progress and impediments to introducing a Standard Market Design, but explained how PJM (The Pennsylvania-New Jersey-Maryland

system in the North-eastern US) had implemented such a design with sufficient success to serve as a possible model for Europe.

→ **Crampes** explained how Spain had encouraged market concentration and vertical integration before restructuring, but had put in place a system for compensating stranded costs that reduced incentives to raise prices and thus mitigated the extensive market power, although perhaps at the expense of encouraging much-needed new investment.

→ **Glachant** explained how France was attempting to soften the market power of the wholly dominant public EdF through minimally meeting the Directives' obligations, combined with auctioning a modest amount of virtual power plant. Given France's substantial excess capacity, new entry is unlikely to be economic for many years. The current concern is that the obvious potential entrant, GdF, might merge at least partly with EdF and remove that opportunity initially for retail and eventually for wholesale competition.

→ **Neuhoff** argued for market coupling of neighbouring transmission areas to improve the efficiency of cross-border trade. Extensive subsequent discussion on the stakeholder day focussed on how to better integrate neighbours into regions with shared spot and balancing markets. Finally,

→ **Pollitt** drew cross-EU comparisons highlighting the importance of market structure, ownership unbundling of transmission from generation, cross-border capacity, and regulatory competence in delivering sustainably competitive outcomes for consumers.

Second Part: Stakeholders discussing the progress towards a single electricity market

PowerPoint presentations can be downloaded at www.sessa.eu.com

The stakeholder discussion on the second day was designed to hear from regulators and the industry about progress towards the single electricity market, how best to promote efficient market integration, what obstacles prevent or slow this progress, and how these might best be addressed.

Much of the discussion was directed towards how regulators and Transmission Systems Operators might use the *Regulation on cross-border exchange* and its associated comitology procedures to improve prompt and balancing market integration across borders. This could evolve towards regional markets with shared information, rules and objectives to deal with the current inefficient use of cross-border

transmission capacity and create liquidity and flexibility to facilitate the integration of intermittent renewable generation capacity.

Whilst it is a considerable achievement for the EU to agree an *Emissions Trading Scheme*, there are concerns that the different ways in which different countries allocate emission allowances to companies could distort trade and investment. There was considerable agreement that regulatory and political uncertainty was currently the main obstacle to investment in generation, while planning and environmental objections stymied the increasingly needed transmission investment. Resolving these problems will be required if security of supply is to be assured.