

# Competition in the EU Electricity Market

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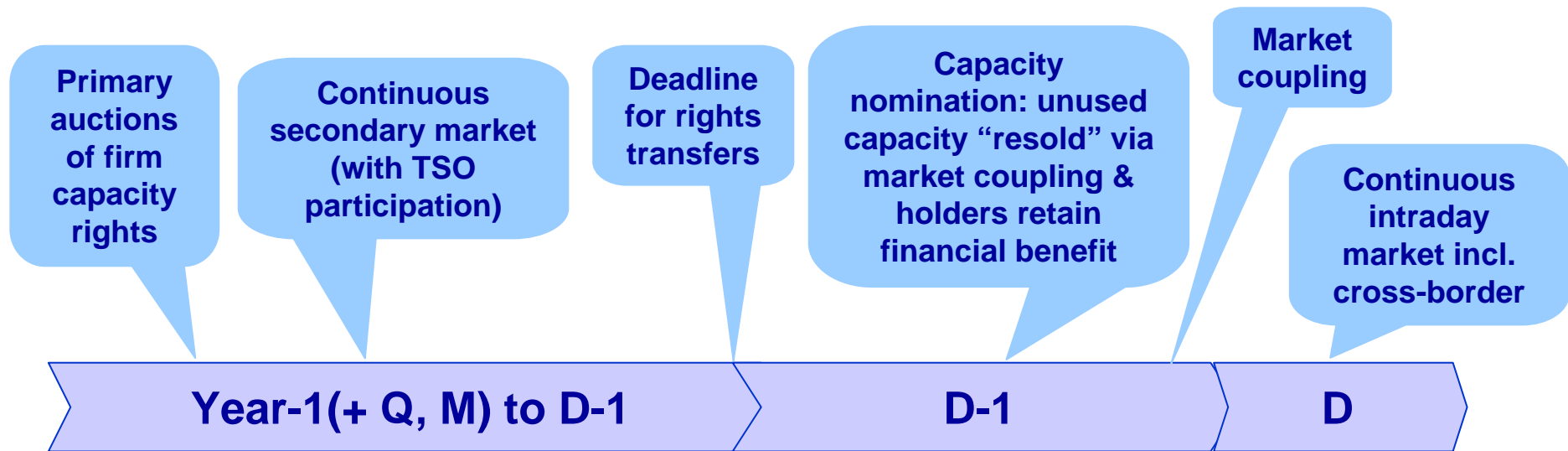
# Regulatory priorities

- **Reform capacity allocation and congestion management**
- **Unbundling in mind and spirit and not just on paper**
  - Compliance must be robust, transparent and audited
  - Affiliates and third parties must receive equal treatment and information
  - Overarching commitment to non-discriminatory provision of efficient, pro-competitive transmission services unencumbered by group financial considerations
  - The impact on third-parties and on competition should be considered for every functional or organisational change
- **Greater information transparency essential**
  - Ex post plant production, consumption and flow data
  - Forecasts of generating capacity, demand and transmission capacity (aggregated as appropriate to protect commercial confidentiality)
- **Develop, improve and extend market arrangements**
  - Greater coordination, harmonisation and removal of trade barriers
  - Development of intra-day markets
  - Development of economic, competitive balancing arrangements

# Policy priorities

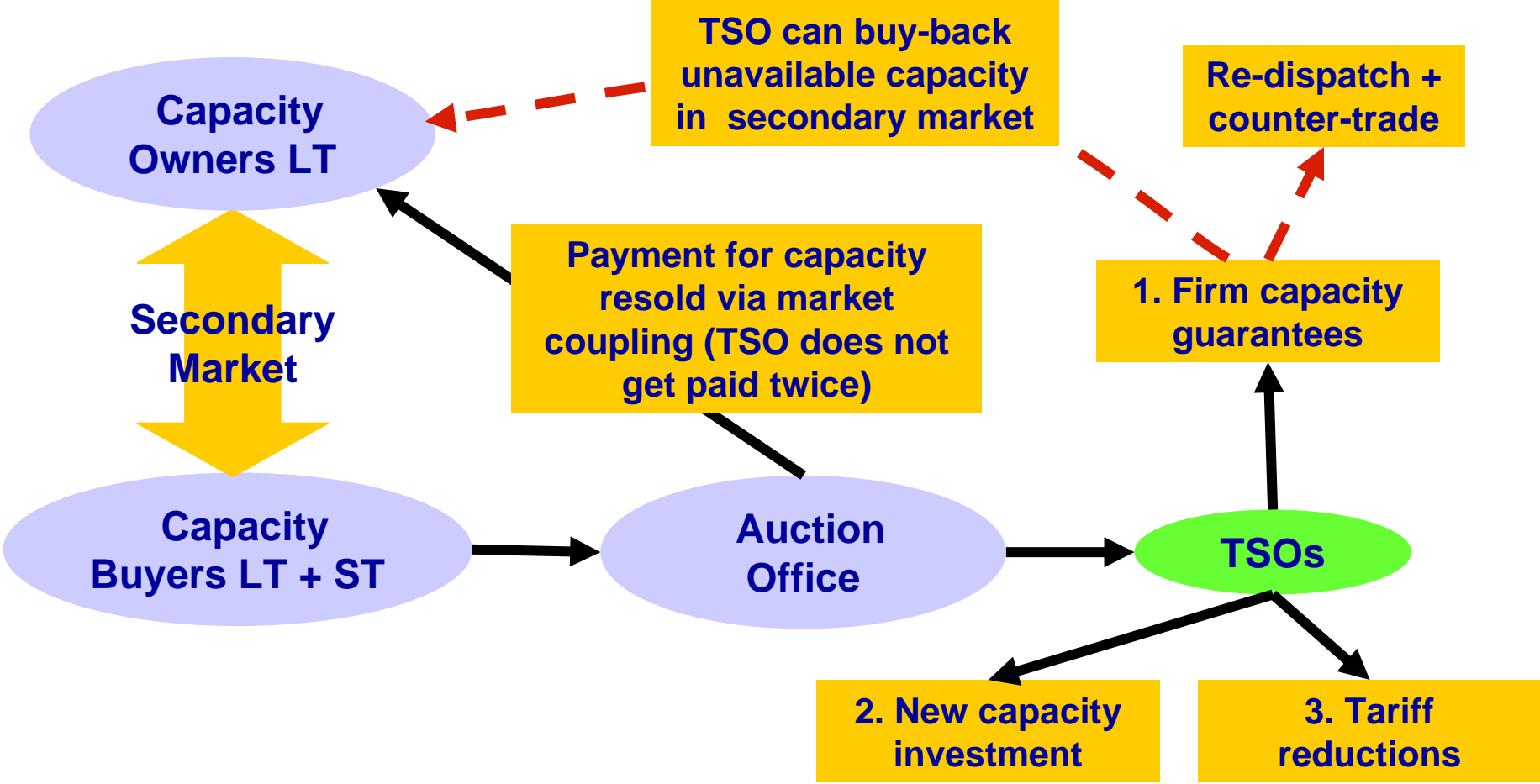
- **Market structure and concentration**
  - Concentration continues to impair liquidity
  - A more consistent approach from state to state is required
  - DG Competition review is an opportunity to intervene
  - Failing real restructuring, unbundling and cross-border competition, heavier regulatory intervention required
- **Related EU policies should not distort the market**
  - Harmonise renewable support schemes around tradable instruments
  - Focus on emissions trading as the primary climate change instrument and streamline other measures
  - Set clear objectives and boundaries for security, renewable and environmental policies
  - Ensure that inconsistent and misguided implementation of fuel-mix disclosure does not undermine competition
- **Limit application of MiFID and CAD to energy derivatives**
  - Harmonised rules and passports for regulated institutions are welcome
  - Wholesale nature of market and participants needs to be recognised
  - Capital requirements should be proportionate and recognise physical assets

# Capacity allocation and congestion management



- Ability to hedge 100% basis risk = effective cross-border competition
- Secondary market allows capacity to be disaggregated and transferred
- TSO can participate in secondary market to manage congestion efficiently
- Automatic reallocation of unused capacity on day ahead promotes efficient dispatch and prevents hoarding

# Capacity rights transactions and payment flows



Use of auction revenues must be transparent and prioritised

# Additional requirements to maximise capacity and competition

## Capacity must be long-term & firm

- Customers require fixed delivered prices → traders must be able to hedge transmission costs
- Market cannot provide efficient hedges: TSO is the only party who is naturally “long” in transmission

## TSOs must maximize allocations

- Co-operation to release more transmission capacity to market
- **Technical:** physical flows must always be secure
- **Commercial:** Increased forward allocations = more “short term adjustments” (funded by auction revenues)
- TSOs retain free options if not required to sell capacity forward

## Regulatory obligations

- To promote competition and operate efficiently
- To co-ordinate, publish and share information
- To sell maximum amount of capacity

## Regulatory incentives

- Improved returns to TSO from “doing the right thing”:
- More revenue from forward allocations and secondary market
  - Efficient maintenance and operations to manage congestion
  - Efficient investment to increase capacity