



Need for monitoring in regional EU electricity markets

SESSA - European Regulation Forum on
Electricity Reforms

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Contents

- Market Monitoring - Introduction
- Market Monitoring & Regional markets
- Questions - Industry response

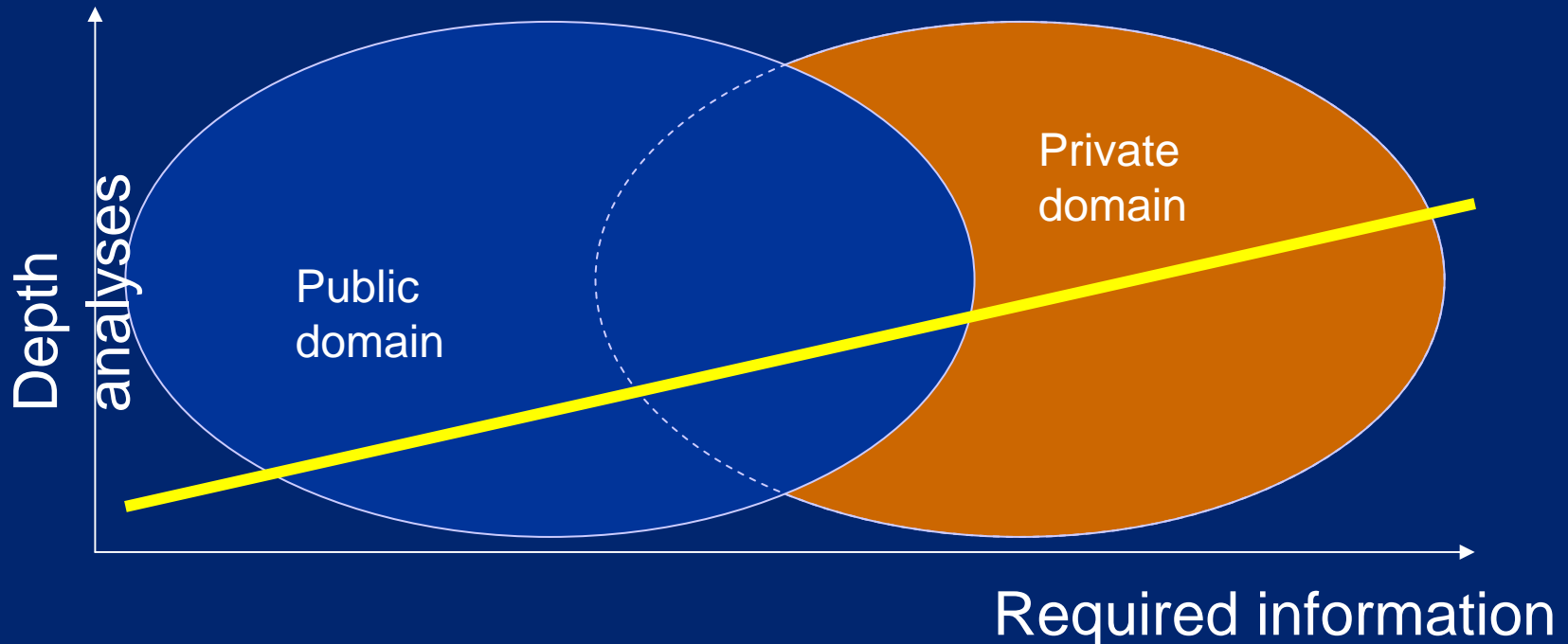
Market monitoring is essential

- NL: legal obligation on DTe as per July 1st, 2004 (based on EU Directive, art. 23)
- Features of electricity make competition law alone an inadequate foundation for monitoring
- Monitoring facilitates evaluation of EU liberalisation of energy markets
- Market monitoring facilitates application of competition law

Required information regarding market monitoring expands rapidly due to time dimension

Enhancing competition	Market share Prices Volumes Load Configuration	Marginal costs	Market shares Bids
Concern for effective competition	-	Output generators Causes generation restrictions	Outages Causes generation restrictions Contractual positions
Guard sufficient transparency	Compare information with information from other markets	-	Asymmetrical information Unfair information advantage
	Structure	Conduct	Performance
	Monitor		Explain

Collection of company information from the private domain is time consuming



Market Surveillance Committee experiences:

- June July price spike investigation rapport in 2002
- Liquidity in the Dutch wholesale electricity market 2003-4
- Towards more transparency in the Dutch electricity sector
- Transparency and monitoring of security and adequacy of supply

Reporting regulators with monitoring mandate increasing slowly

 Mandate of regulator

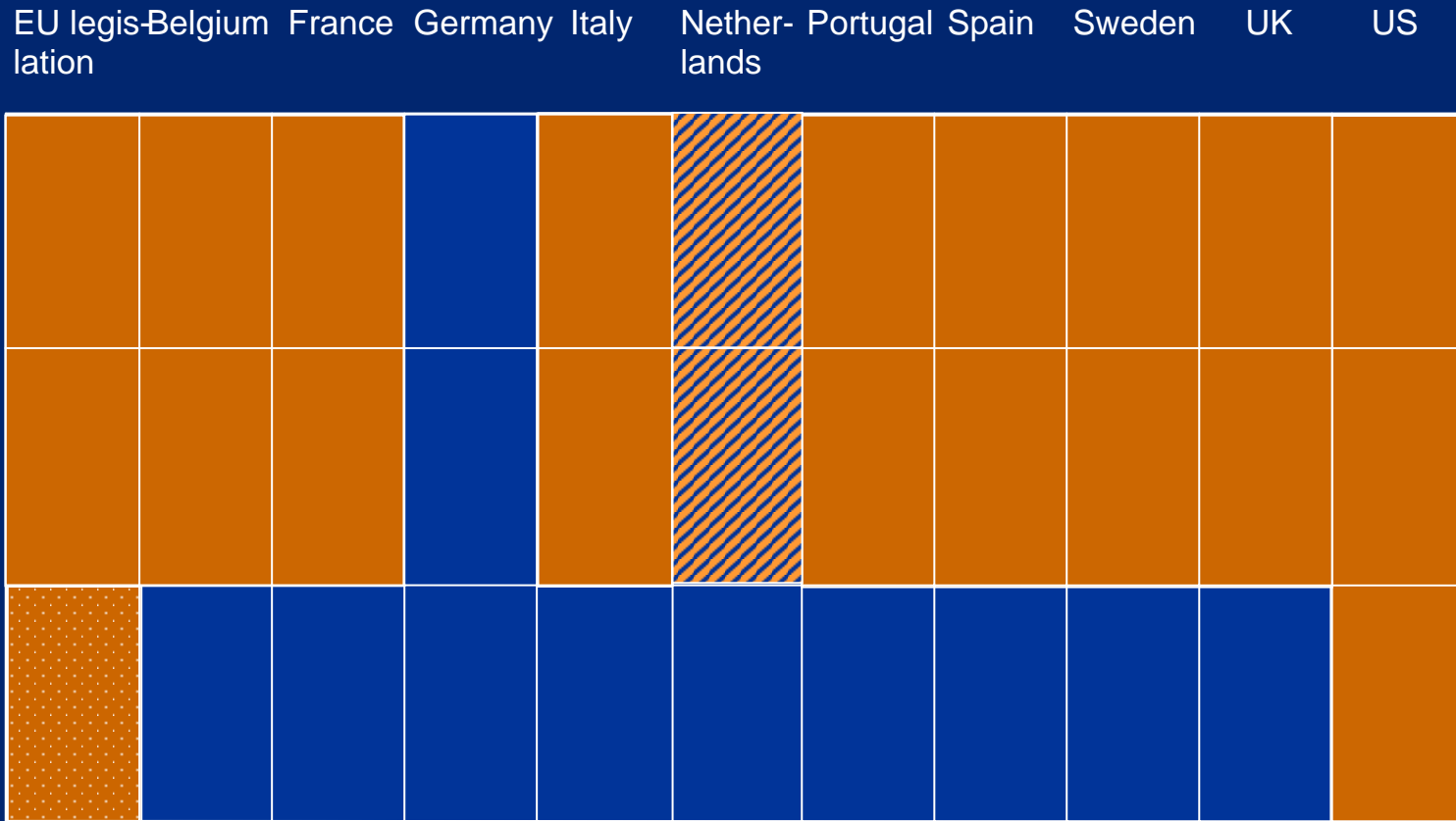
Regulator's role on market

surveillance

Collects Information / monitors market

Advices efficiency improvement pro-actively or on request

Enforces efficiency improvement measures



- 1) Directive describes EU countries should take measures to enforce efficiency; Directive does not prescribe which authorized body to do so
- 2) Germany currently has no regulator; electricity division in Federal Cartel Office ensures compliance of electricity players with antitrust law
- 3) Based on statements of regulatory authorities; not verified with law texts / official foundation documents

dte

Source: DTe; Regulator websites; EU Directive 2003/54/EC

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European Context of regional markets

Developments into the right direction

Florence Forum

- Established in 1998
- To avoid 15 separate markets
- Harmonisation of national rules
- Main focus on cross border trade
- Tarification of CBT
- Congestion management

New Electricity Directive

- As from 1 July 2004
- Full market opening
- Independent regulator
- Regulated TPA
- Legally unbundling of TSO from supply

Regulation on CBT

- As from 1 July 2004
- Harmonisation national tariffs
- Compensation transit flows
- Allocation cross-border interconnection capacity
- Authorises EC to set binding guidelines

Strategy paper of EC

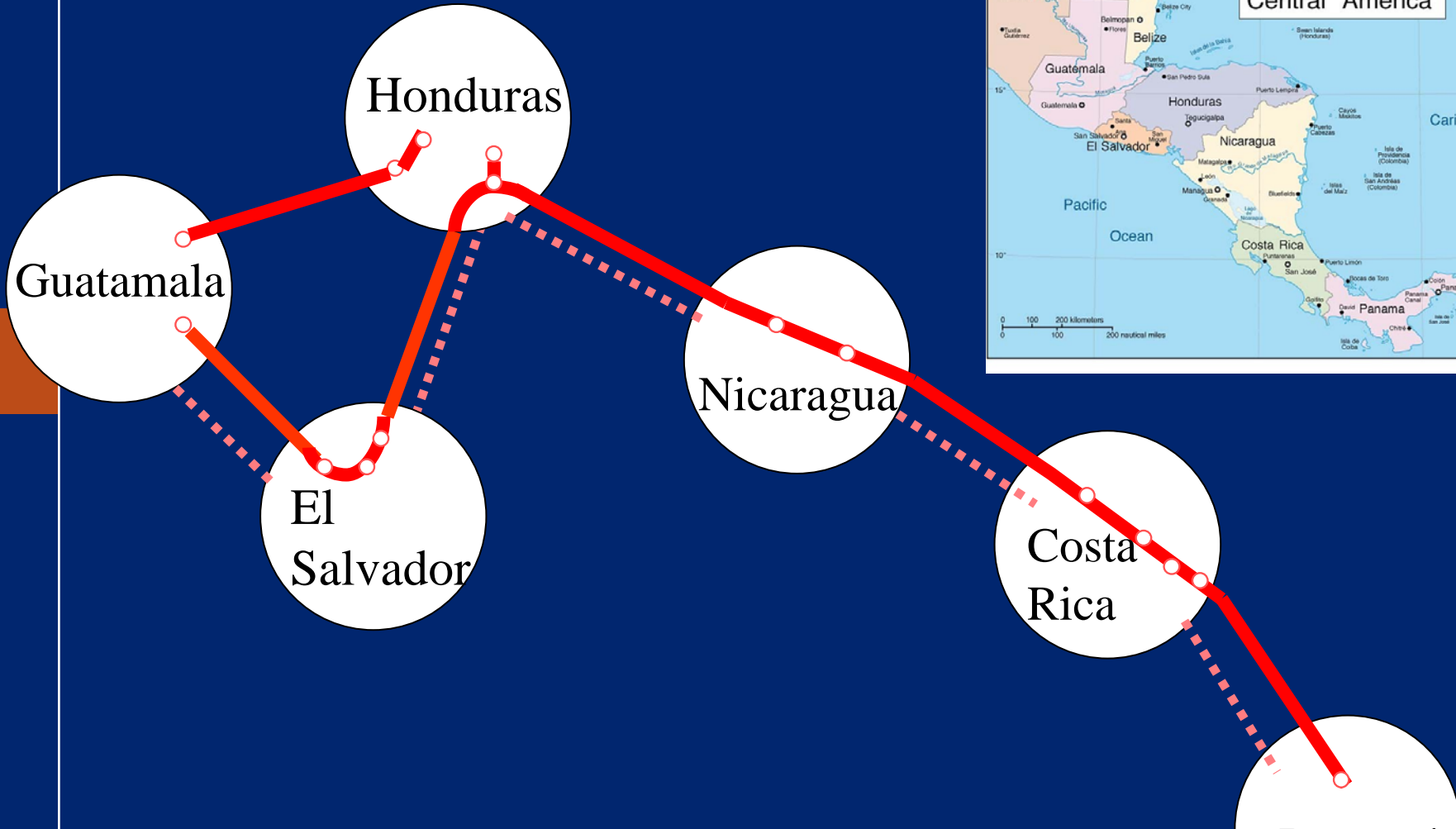
- 1 March 2004
- Medium Term Vision for the Internal Electricity Market

What is market integration? When is a market a regional market?

- Price in market A strongly related to price in market B
 - long run relationships
 - short run relationships
- Cross-border capacity
 - at least 10% interconnection capacity?
- Energy exchanges
 - e.g. LIFO and LOFI test (Little In From Outside and Little Out From Inside): if 75% of sales comes from within the region AND 75% of generation is consumer within region, then there is a regional market
- comparable market and system access rules
 - e.g. balancing rules but also transmission tariffs
- comparable legal & regulatory framework
 - but also: competition law
- or simply: if interconnection capacity is efficiently used and if installed interconnection capacity is close to optimal

Conclusion

- Regional markets with regional players require regional regulation
- But:
 - national regulators are restricted in co-operation
 - CEER & ERGEG are no regulators
 - EC is no regulator
- Regulators need to have comparable duties and authorities for regional co-operation
- A legal basis is needed for exchange of confidential information
 - **at EC level,**
 - **or through a regional Treaty**



----- Existing interconnection

○ National grid

— SIEPAC Line (230 kV, single circuit, 300 MW)



SIEPAC - Framework Treaty

- A market on top of six national markets, each with different designs
- Objectives:
 - Facilitate construction of larger power plants
 - Make region more attractive for private investments
 - Allow economic exchange of energy
 - Increase quality & lower prices
- Legal Basis is Framework Treaty:
 - **basic foundations of the organisation and structure of the regional market**
 - **created the “Regional Electric Interconnection Commission” CRIE as market regulator and the “Regional Operator Entity” EOR as market operator.**
 - **contemplates the further development of objective, transparent and non-discriminatory rules and regulations to govern the operation of the regional market and the participation and**

SIEPAC - regional market regulator

- **The CRIE has responsibility for:**
 - **Ensuring compliance with the legal framework and market rules**
 - **Monitoring the operations of the regional market and facilitating its development**
 - **Regulating regional generation and transmission**
 - **Promoting competition and watching over anti-competitive practices**
 - **Resolving conflicts and imposing sanctions to market agents**
 - **Approving charges for services provided at regulated rates.**
- **The CRIE Board of Commissioners is composed of one commissioner from each of the six member countries. The president of the Board has the authority to act as the legal and administrative representative of the CRIE. The presidency of CRIE is filled on a rotating basis by the members of the Board of Commissioners.**

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Questions - Industry response

- What type of market information should/can be in public domain?
- Is there any reluctance in providing confidential information to regulators?
- Is role and authority of regulators in market monitoring clear/accepted?
- What constitutes a Regional Market? What criteria are important for industry?
- What topics for harmonisation require priority?
- What requirements does industry place on regulation in regional/European context? Is there a need for regional or European regulator(s)?