

Competition Directorate-General

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Energy Sector Inquiry – the way forward

Presentation for Florence Forum

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Energy sector inquiry – timetable

- Sector Inquiry – launched June 2005
- Issues Paper – November 2005
- Preliminary Report – February 2006
- Final Report – end 2006 / beginning 2007
- Objective
 - Gather information to identify possible restrictions or distortions of competition



Sector Inquiry: preliminary report

- **Market concentration**
- **Vertical integration / foreclosure**
- **Lack of market integration**
- **Lack of transparency**
- **Pricing issues**



Sector Inquiry: Final Report

- The main body of the report will be updated versions of the chapters in the preliminary report
- In addition, there will be:
 - A summary of the comments received on the preliminary report
 - New chapters on downstream markets in both gas and electricity
 - New chapters on LNG and price formation and market power in electricity markets



Summary of responses

- 60 responses (34 gas and 45 electricity) from broad range of respondents
- Mainly very positive and agree with the analysis of how the markets work.
- Less positive comments mainly came from parties with an interest in maintaining the status quo
- Non-confidential versions of comments are now available on DG Competition's website



Downstream markets

- Analysis of downstream markets will focus on
 - Foreclosure through long term contracts
 - Anti-competitive clauses (eg exclusivity clauses, or clauses restricting the use or resale of gas purchased)
 - Other issues (eg number of alternative offers, tying, bundling,



Liquefied Natural Gas

- Launched a study with Bocconi University IEFE expected to conclude in the autumn
- Aims:
 - Understanding the functioning of the LNG sector
 - Understanding the role of LNG in increasing competition in EU gas markets
 - Identifying possible barriers and suitable remedies to the development of LNG supply



Electricity Study (1)

- Launched a study with London Economics and Global Energy Decisions, to conclude in autumn
- Scope: Belgium, France, Germany, Netherlands, Spain, UK
- Period: 2003-2005
- Not a competition case, but part of the sector inquiry to improve our understanding of how the markets work in practice



Electricity Study (2)

- Specific aims of the study:
 - Modelling the outcome of the electricity markets (reconstructing offer curve for each hour, calculating system marginal cost and comparing to spot prices)
 - Comparing historical unit dispatch with modelled dispatch
 - Measuring market power in a number of ways (eg residual supplier indices, pivotal suppliers, HHI etc for specific hours)



Inspections

- Inspections in May at the premises of gas and electricity companies in six Member States:
 - Germany, France, Belgium, Italy, Austria and Hungary
- The main concerns that prompted the inspections were foreclosure of markets and collusion
- A considerable amount of information has been collected, and this must now be studied in detail
- Inspections constitute only a preliminary step



Conclusion

- The broad thrust of the final report on the sector inquiry will be similar to the preliminary report
- Additional work will include downstream markets, LNG and more detailed quantitative analysis of the electricity markets
- In parallel, DG Competition is pursuing cases in the energy sector including analysing the results of the inspections