

Competition in the EU Electricity Market

**Florence Forum
Florence
1-2 September 2005**

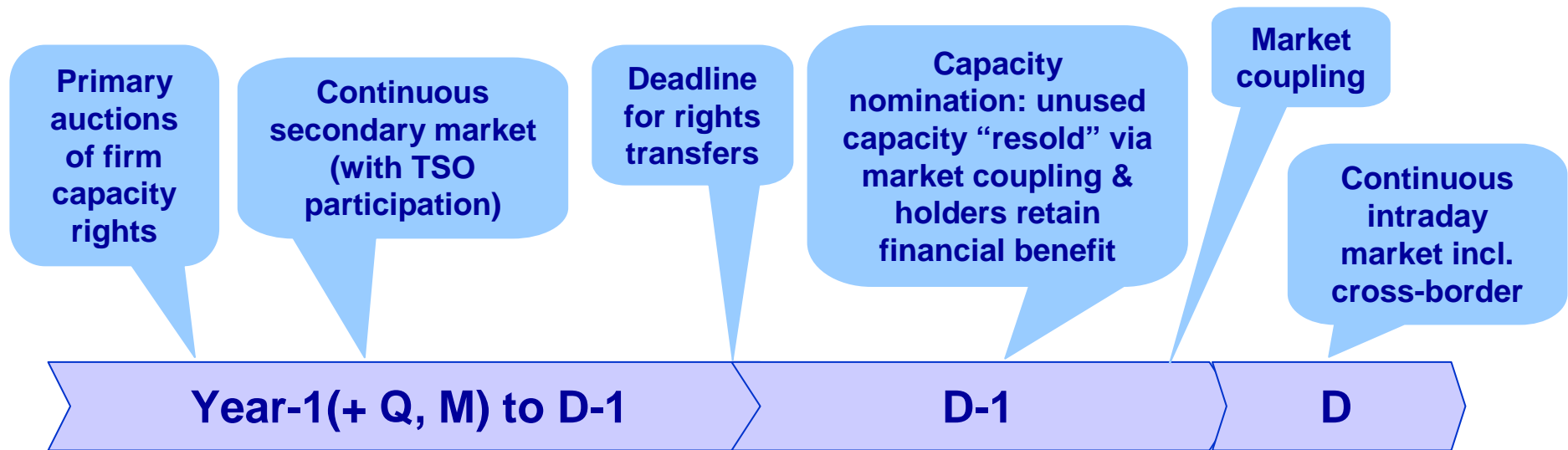
Regulatory priorities

- **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 is 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 intraday 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 investigation is a welcome opportunity to review
 - Without explicit restructuring, unbundling, cross-border competition, information transparency and (regulatory) monitoring become indispensable
- **Complementary policies should not undermine competition**
 - 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
- **Ensure proportionate implementation of MIFID**
 - Harmonised rules and passporting for regulated institutions is welcome
 - Wholesale nature of market and participants needs to be recognised
 - Capital requirements should be proportionate and recognise the assets backing performance

Capacity allocation and congestion management



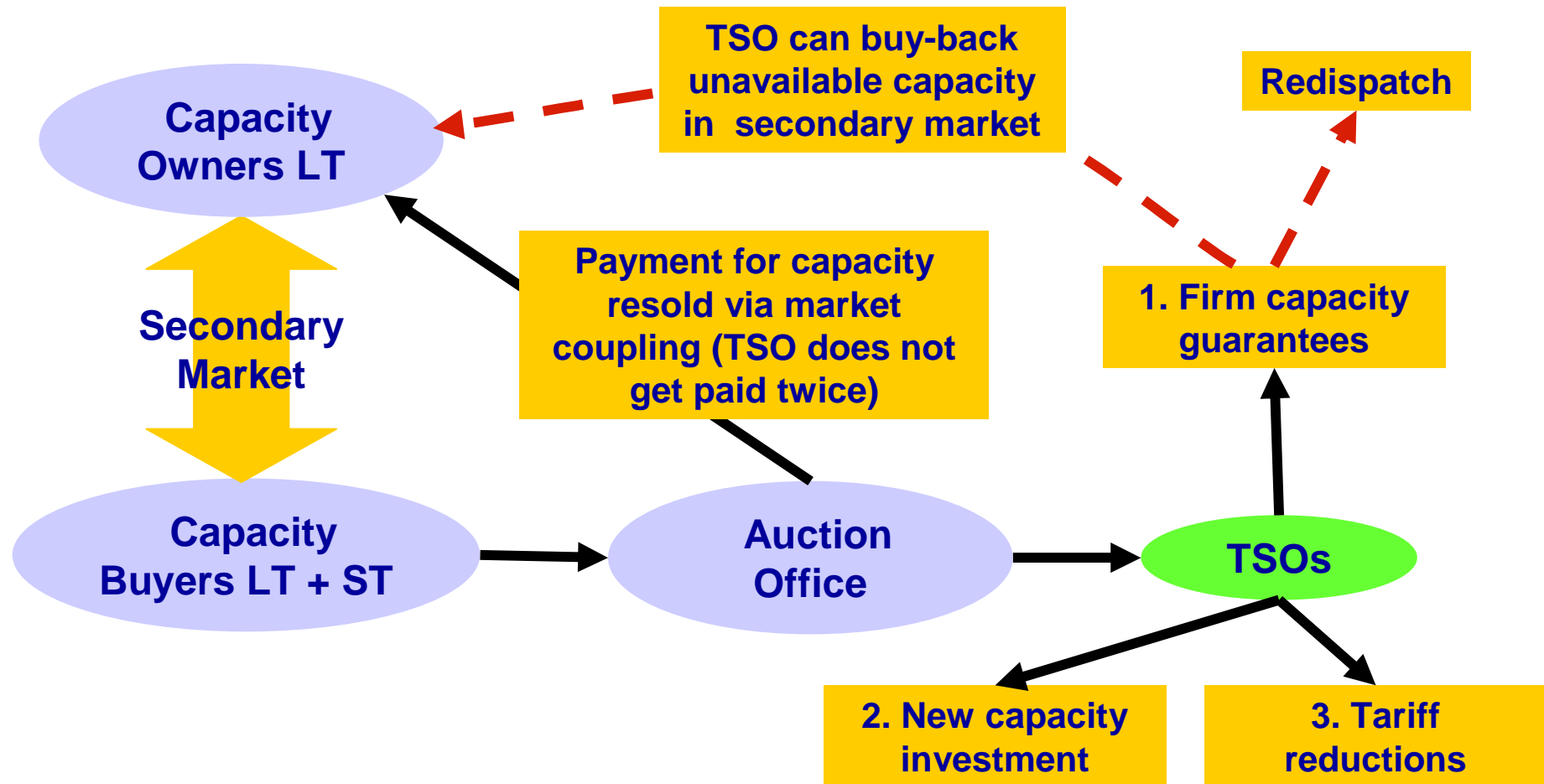
Ability to hedge 100% flows = effective cross-border competition

Secondary market allows capacity to be disaggregated and transferred efficiently

TSO can participate in secondary market to manage congestion efficiently

Automatic reallocation of unused capacity on day ahead promotes efficient dispatch & congestion management and prevents hoarding

Capacity transaction 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 fix transmission prices

Market cannot provide efficient hedges: TSO is the only party who is “long” in transmission

TSOs must maximize allocations

Greater coordination to maximise physical flows

Technical: physical flows must always be secure

Commercial: Increased forward allocations = more “rebalancing” (funded by increased forward revenues)

TSOs retain valuable option by not selling forward

Regulatory obligations

To promote competition and operate efficiently

To coordinate, publish and share information

To sell maximum amount of capacity

Regulatory incentives

Improved (regulated) returns to TSO from “doing the right thing”

- Increased physical flows and allocations
- Efficient maintenance and operations to manage congestion
- Efficient investment to increase capacity