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# **EUROPEAN ELECTRICITY MARKETS**

## **THE SECTOR INQUIRY**

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All views expressed are purely personal and cannot, under any circumstances, be considered as an official position of the European Commission

# OUTLINE

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- ◆ **What prompted the inquiry?**
- ◆ **The process**
- ◆ **What are we studying?**
  - ◆ Market conditions
  - ◆ Competition conditions
- ◆ **What should you expect?**

# **What prompted the inquiry? Prices**

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## **Rising prices raise questions about competitive conditions**

- **Concentration in generation**
- **Low liquidity on exchanges**
- **Lack of confidence in pricing mechanism**

**⇒ Are there abuses of market power? Is there manipulation of power exchange prices?**

# What prompted the inquiry? Complaints

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## ➤ From consumers

- lack of alternative offers
- difficulty to negotiate non-price terms of contracts

## ➤ From suppliers

- anti-competitive practices by incumbent operators

# **The process**

## **Consultation period**

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### **January - June 2005:**

- cooperation of regulators, competition authorities,
  - consultation of market operators, users
  - identification of issues
  - preparation of questionnaires
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- Commission decision to launch the inquiry in June
  - 1800 questionnaires sent

# **The process**

## **Questionnaires - timetable**

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### **July-August:**

- receipt of the first set of answers
- all major operators replied
- begin of the analysis

### **September-October:**

- receipt of the second set of answers
- continue analysis of the first set of answers
- begin of the analysis of the second set of answers

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**December 2005: interim report**

# The process

WHO has been REQUESTED TO PROVIDE INFORMATION?

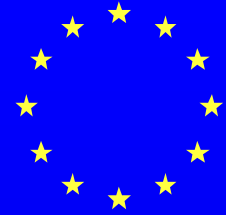
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- ❖ Electricity generators
  - ❖ Suppliers and traders
  - ❖ Power exchanges, Brokers and trading platforms
  - ❖ TSOs, merchant lines, DSOs.
  - ❖ Customers
  - ❖ Regulators and surveillance authorities
- => all issues are addressed by gathering the facts and views of all concerned

# What are we studying?

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## 1. Market conditions :

- *getting the facts right*

## 2. Competition conditions

- Market power and the scope for abuse
- Always taking into account the regulatory framework, as it influences market and competition conditions



# What are we studying?

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## Market conditions : getting the facts right

- a. Wholesale market mechanisms
- b. Liquidity on wholesale
- c. Network issues that affect trade
- d. Retail experience

# Market conditions

## Getting the facts right

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### The wholesale markets

- Sales and pricing by generators and suppliers: channels used (exchange vs bilateral, inhouse vs third party, spot vs forward), price formulas (use of indexes, etc)
- Strategy of procurement of retailers
- Possible procurement by large users directly on wholesale markets
- Planning of generation (maintenance, mothballing, part allocated to balancing, etc)

# **Market conditions**

## **Getting the facts right**

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## **Liquidity on wholesale markets**

- **Size of observable markets (exchanges and platforms) compared to overall wholesale markets**
- **Scope of vertical integration between generation and supply**
- **Scope of long-term contracts**

# **Market conditions**

## **Getting the facts right**

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## **Network issues that affect trade**

- **Network capacity assessment (internal and external)**
- **Effective use**
- **Long-term reservations on interconnectors**

# **Market conditions**

## **Getting the facts right**

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### **Retail experience of large customers**

- **Checking how procurement is done: method, number of offers received, selection criteria**
- **Range of price offers**
- **Elements users would have liked to negotiate but could not negotiate**
- **Problems in getting network information**

# What are we studying?

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## Competition conditions

*Focusing on wholesale and network issues*

- a. Concentration and market power
- b. Network use and impact of its constraints
- c. Network operators and their supply affiliates
- d. Transparency and supervision
- e. There may be more...

# Competition conditions

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## Market concentration and market power

- Market shares: generation, power exchanges, trading platforms
- Market power and price formation
- Use of generation to exercise market power: e.g. withdrawals of capacity

# Competition conditions

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## Network use and impact of its constraints

- Capacity availability and use
- Impact of allocation methods (e.g. anomalies in flows from high to low-price areas)
- Identify where network constraints (internal or external) create scope for anti-competitive practices



# Competition conditions

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## Network operators and their affiliates

### *Impact of vertical integration on*

- Treatment of connections
- Switching
- Other possible anti-competitive practices

# Competition conditions

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## Transparency and supervision

- Information needed to trade
- Supervision of wholesale markets

# What should you expect?

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## There may be more to come...

- Information gathered by questionnaires may reveal additional problems
- Some analysis will be refined to address specific products: e.g. balancing

# What should you expect?

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- Too early to indicate results of the analysis
- Too early to conclude whether proposals will be made on the regulatory framework
- But we are determined to make these markets work and there will be more active enforcement by COM and NCA

# What should you expect?

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## What should you expect?

- Possibly more questions...
- Interim report – late autumn 2005 :  
addressing some of the issues
- Final report 2006
- Case investigations could be opened  
where appropriate (by COM or NCA)



**Thank you for your attention !**

*Maria Rehbinder*