



EUROPEAN ELECTRICITY MARKETS

THE SECTOR INQUIRY

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OUTLINE



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

What prompted the inquiry? Prices



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



➤ 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



January - June 2005:

- cooperation of regulators, competition authorities,
- consultation of market operators, users
- identification of issues
- preparation of questionnaires

- Commission decision to launch the inquiry in June
- 1800 questionnaires sent

The process

Questionnaires - timetable



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

December 2005: interim report

The process

WHO has been REQUESTED TO PROVIDE INFORMATION?



- ❖ 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?



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?



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



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



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



Network issues that affect trade

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

Market conditions

Getting the facts right



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?



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



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



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



Network operators and their affiliates

Impact of vertical integration on

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

Competition conditions



Transparency and supervision

- Information needed to trade
- Supervision of wholesale markets

What should you expect?



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?



- **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?



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 !

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