

GEODE POSITION ON EUROPEAN ELECTRICITY MARKETS

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ON IMPACT OF ELECTRICITY AND GAS
DIRECTIVES**

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CURRENT SITUATION OF EUROPEAN ELECTRICITY MARKETS

- **Europe divided into many geographic electricity sub-markets**
- **TSO's operate in a rather isolated way**
- **Existence of bottlenecks limiting trade and market development**
- **Increasing market power of dominant generating**
- **Vertically integrated companies**
- **Insufficient number of market players at national level**



NECESSARY IMPROVEMENTS IN THE PROCESS OF MARKET OPENING (I)

- **CROSS-BORDER TRADE AND CONGESTION:**
 - Congestion must not be used as an excuse for dominant players to keep national markets closed
 - GEODE supports re-dispatching or counter-trading mechanisms as adequate to manage congestions → Good experience in Nordic countries
 - Explicit auctions are very complex systems. Local and regional players can not afford to deal with them. It requires access to information only available to TSO's
 - Effectiveness of implicit auctions is still unclear



NECESSARY IMPROVEMENTS IN THE PROCESS OF MARKET OPENING (II)

- **STRONGER COOPERATION BETWEEN TSO's:**
 - **To facilitate cross-border transactions**
 - **Establishment of a single European TSO**



NECESSARY IMPROVEMENTS IN THE PROCESS OF MARKET OPENING (III)

- **UNBUNDLING:**
 - Transmission operation needs to be separated from other activities
 - Every TSO must be effectively unbundled from other activities of a vertically integrated company →to avoid conflict of interests
- **ADEQUATE TARIFFICATION SYSTEMS:**
 - Costs for fulfilling distributors functions and obligations have to be included in tariffs to create incentives for investments
 - GEODE supports a system based on rewards rather than a system imposing penalties



NECESSARY IMPROVEMENTS IN THE PROCESS OF MARKET OPENING (IV)

- **INTERCONNECTIONS:** have to be improved in quantity and quality:
 - Lack of necessary liquidity in energy exchanges does not exist in sufficient numbers
 - The target from EC of increasing interconnections between 10-20%, should be higher in MS with high level of concentration, specially in generation



NECESSARY IMPROVEMENTS IN THE PROCESS OF MARKET OPENING (V)

- **COMPETITION POLICIES: have to be reinforced**
 - Dilute market power of dominant generating vertically integrated companies
 - Prevent abuse of dominant market positions



NECESSARY IMPROVEMENTS IN THE PROCESS OF MARKET OPENING (VI)

- **BALANCING REGIMES:** could be a barrier to new market participants:
 - All market players must be able to take care of their own balancing arrangements
 - Regulatory bodies should assert their authority to trans-national balancing zones
 - Balancing regimes shall be fully market based and organise in cooperation between TSO's and power exchanges



NECESSARY IMPROVEMENTS IN THE PROCESS OF MARKET OPENING (VII)

- **POWER GENERATION: competition has to be stimulated in the generation market:**
 - **GEODE suggests:**
 - National level : one to four market dominant players
 - Many difficulties for new IPP to build new power capacity, due to market control by the existing generators. The creation of a European single market will dilute the market power of generators, permitting new IPP to invest in a more competitive framework



REINFORCEMENT OF MEASURES TO PROTECT INTERESTS OF CUSTOMERS

- **TO ENABLE CUSTOMERS TO CHOOSE BETWEEN SUPPLIERS, THE MARKETS MUST:**
 - Include sufficient number of players applying transparent prices and conditions
- **TO REINFORCE THE POSITION OF DISTRIBUTORS AS KEY OPERATORS IN A WELL FUNCTIONNING, LIBERALISED ENERGY MARKET:** establishment adequate tariffication systems that create incentives to invest.
 - Distributors assure quality of service and the right to choose suppliers
- **TO ESTABLISH WELL FUNCTIONNING SWITCHING PROCEDURES**

