



# Power market design and industrial consumers in Europe

**Florence Forum**

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## IFIEC Europe & liberalisation

- From the beginning, IFIEC Europe has defended the liberalisation process to achieve the choice and flexibility in the electricity market.
- Energy is a key cost component for our industries, on average from 10 to 50% of total manufacturing costs; it is therefore not only a significant factor of production costs but also a key criteria for doing business in Europe.



## Objective of liberalisation

- Since the EU political debate concerning the Single energy market began in 1989, it has always been recognized that we are in a dynamic process of reform in greenfield territory : there is no one fixed way to go about electricity liberalisation in the world today.
- However, the objectives themselves do not change over time : introduce greater economic efficiency in the internal electricity market wherever possible, **to the advantage of consumers and the European economy** as a whole.



Much has been achieved within the legislative process with two electricity directives and one regulation concerning cross-border exchanges.

Much remains to be accomplished:

The **insufficient unbundling** of grid infrastructures systems from the competitive activities,

**incomplete regulatory coverage of the electricity sector; greater independence of regulatory authorities and more efficient coordinated action between national regulators must be achieved**



But the implementation of the EU legislation itself has not kept up with the dynamics of market realities.

- the reinforcement of **concentrations** in the electricity sector since 2000 has reduced the number of existing dominant players to five,
- the **disappearance of new, independent entrants** (generators/traders) who, after a short appearance in 1998-99, have abandoned Europe altogether,
- the development of **electricity trading** between the subsidiary arms of the dominant players.



## What are the consequences ?

- The market power of the existing players has increased.
- There is no effective competition between generators, there are no alternative supply offers to industrial consumers.
- All offers are currently linked to the “Wholesale market” where the dominant players exchange blocks of power between themselves.
- Forward prices on the “Wholesale market” are derived from short term (balancing) prices and, in turn, become the so-called market price indicator for electricity.



What are the consequences ?

- “Wholesale market” prices have soared for unjustifiable reasons : since 2002, more than 60%.
- The “wholesale market” escapes effective scrutiny. Who is ultimately responsible to oversee electricity trading: financial or sectorial regulators ?

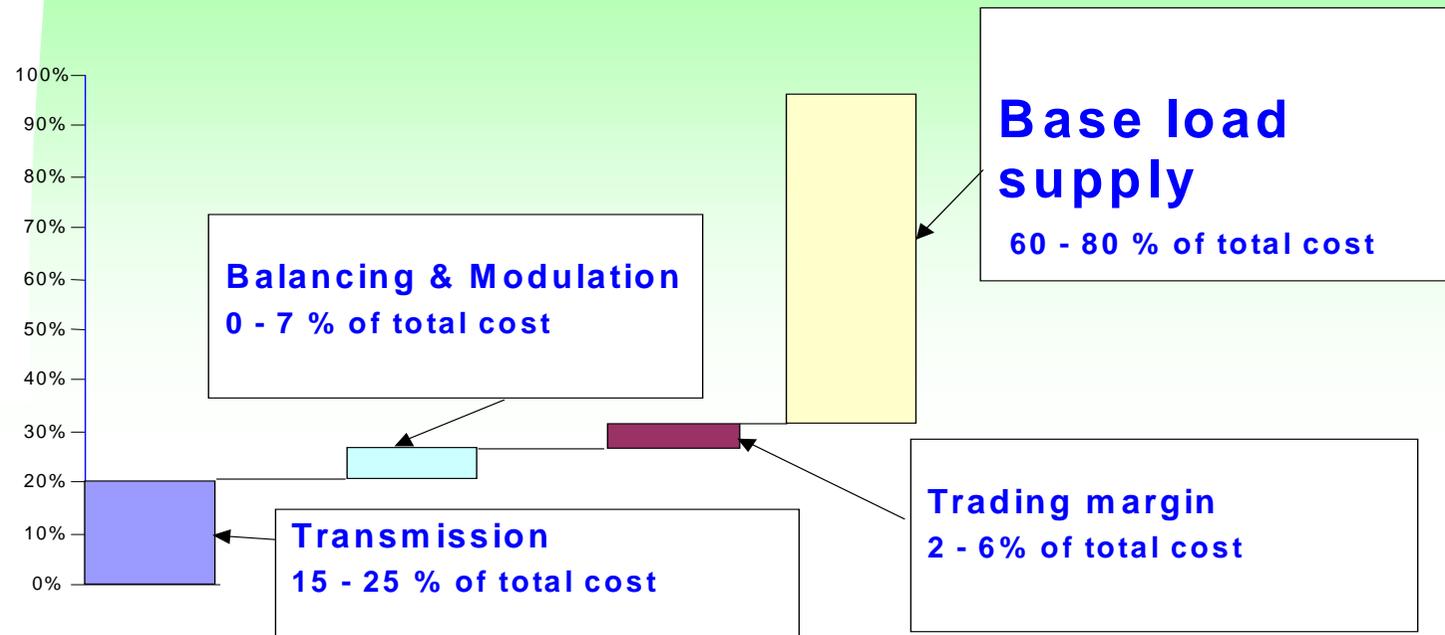


One of the major goals of the liberalisation of the electricity market was to give industrial consumers the possibility to negotiate balancing and supply contracts (e.g. up to 85% of the electricity bill) under competitive conditions.

However, in the current situation, the only component of the electricity bill which is effectively “negotiable” by industrial consumers is the trading margin



## Break-down of the EU electricity bill in 2004 not including surcharges





The few dominant electricity producers do not compete for market share against each other, but are relying instead on the existing wholesale trading mechanism as a good tool to control the sales price to their customers.

A small number of producers thus impose the wholesale trading market price as a unique reference in their commercial negotiations for physical supply contracts with industrial consumers.



- The current trading regime does not favour competition, allowing many European electricity producers to increase their commercial margins significantly; this constitutes a **significant and undue transfer of wealth.**
- The trading regime creates erratic price signals, with the result that electricity is purchased in a tremendously unstable environment; this gravely destructs industrial asset value.



This has a negative impact on the decision-making process for new investment by industry and threatens the long-term viability of existing plants in Europe.

The current electricity market design is therefore a serious threat for achieving the Lisbon strategy to make the EU the world's most dynamic and competitive economy.