Preliminary Report – Electricity

Presentation of DG Comp´s findings

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Introduction

• Prices increase significantly since 2003
• Prices differ significantly between Member States

Electricity prices on the rise all over Europe
Wholesale electricity price developments 2000-2005
year-ahead base load in €/MWh

- Germany
- The Netherlands
- UK
- France
- Nord Pool
Concentration I

- Incumbents control generation assets giving them scope to exercise market power by
  - withdrawing capacity or
  - increasing prices

- Scope for influencing prices exists at a number of power exchanges (examples: I, E, DK)
Concentration II

Load factors of German operators in 2004

- Many plants operate at low marginal costs
- Not all plants with costs below spot prices ran fully at times when it would have been profitable
Vertical foreclosure

- Many market participants complain about inadequate unbundling of network and supply activities

- TSO level:
  - Grid connection for new power plants
  - Interconnectors
  - Transparency

- DSO level:
  - Inappropriate switching procedures
  - Lack of ‘Chinese walls’
  - Discriminatory access tariffs
Market Integration I

- Competition from imports is insufficient to erode market power of incumbents
- More interconnector capacity is needed
- Many interconnectors are chronically congested
- Long term capacity reservations reduce capacity available for new entrants
Market Integration II

- Congestion revenues are not used for interconnector expansions

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<tbody>
<tr>
<td>A</td>
<td>200-300</td>
<td>25-35</td>
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<tr>
<td>B</td>
<td>0-20</td>
<td>0-10</td>
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<td>C</td>
<td>80-150</td>
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<td>D</td>
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<td>10-40</td>
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<tr>
<td>K</td>
<td>0-20</td>
<td>10-40</td>
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<tr>
<td>Total</td>
<td>1000-1300</td>
<td>200-300</td>
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- Explicit auctions on day ahead markets lead to inefficient capacity allocations
Transparency

- The level of transparency varies widely between Member States
- 83% of market participants are not content with current levels of transparency

<table>
<thead>
<tr>
<th>Importance of information according to suppliers</th>
<th>Indispensable important or useful</th>
<th>Not useful</th>
</tr>
</thead>
<tbody>
<tr>
<td>TSO network</td>
<td>95.2%</td>
<td>4.8%</td>
</tr>
<tr>
<td>Interconnectors</td>
<td>91.8%</td>
<td>8.2%</td>
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<tr>
<td>Load</td>
<td>94.6%</td>
<td>5.5%</td>
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<tr>
<td>Balancing</td>
<td>90.7%</td>
<td>9.3%</td>
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<tr>
<td>Generation (production)</td>
<td>86.2%</td>
<td>13.8%</td>
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<tr>
<td>Generation (capacity)</td>
<td>94.1%</td>
<td>5.9%</td>
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</table>
Prices

• Increase of fuel prices cannot fully explain price increases in all Member States

• CO2 allowance prices influence electricity prices, however analysts disagree as to the extent
Conclusions

- Markets remain **highly concentrated** giving incumbent operators scope for exercising market power/influencing prices
- Competition from **cross-border trade** does not so far reduce incumbents’ market power
- Market participants complain about insufficient **unbundling** of network and supply activities which calls for further reflection
- There is a general consensus that more **transparency** is needed urgently