Competition Directorate-General

16 February 2006

# Preliminary Report – Electricity

## Presentation of DG Comp´s findings

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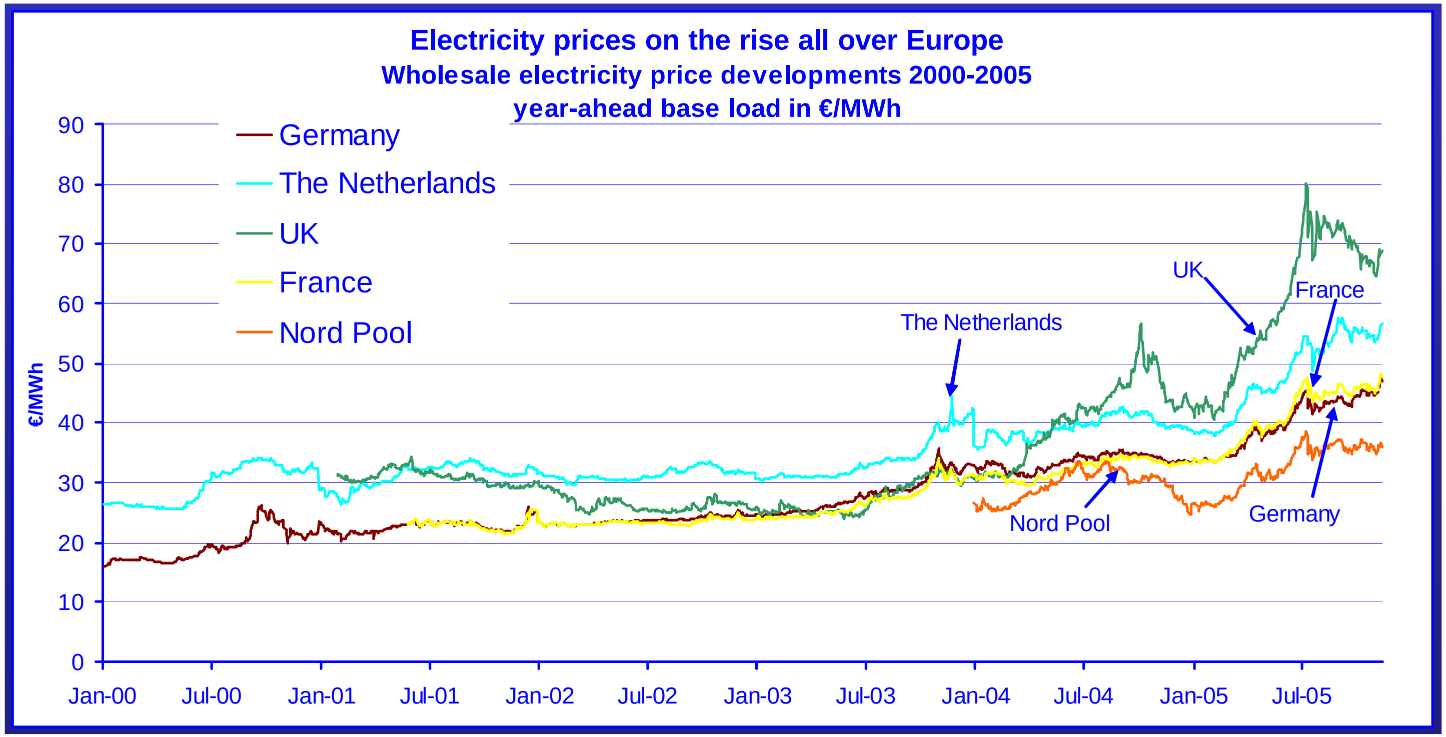
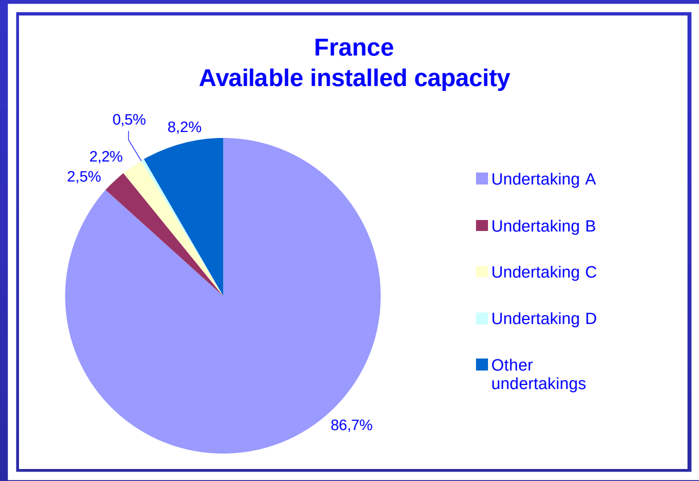
# Introduction

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

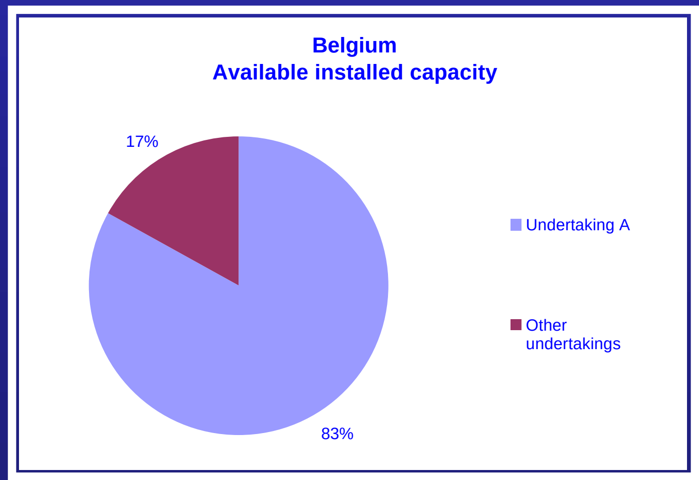


# Concentration I

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



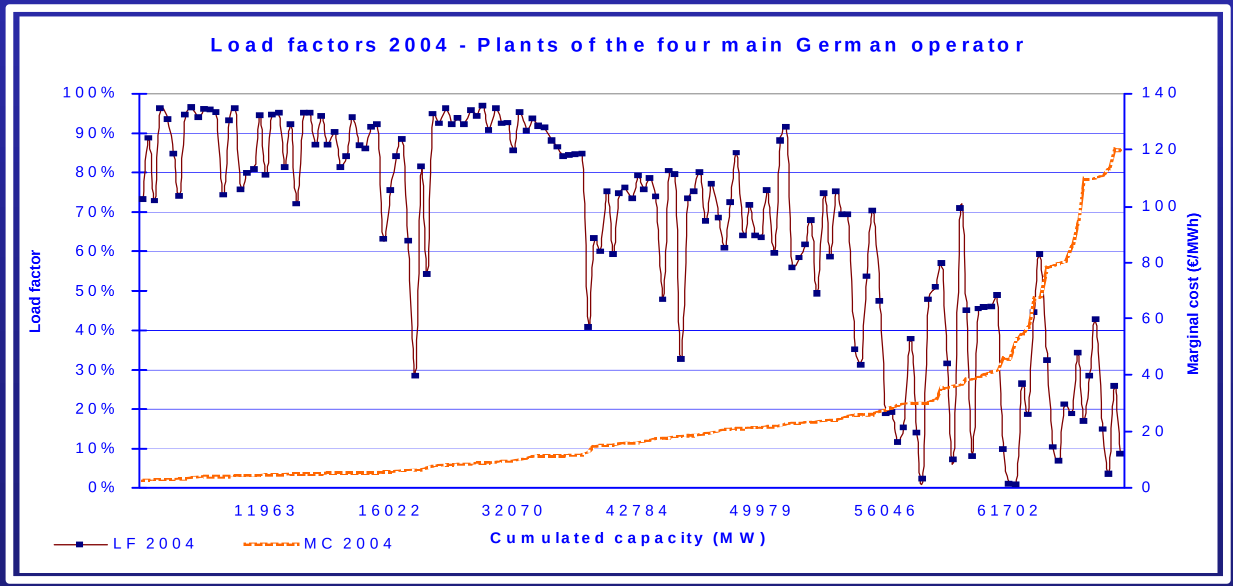

- Scope for influencing prices exists at a number of power exchanges (examples: I, E, DK)



# 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

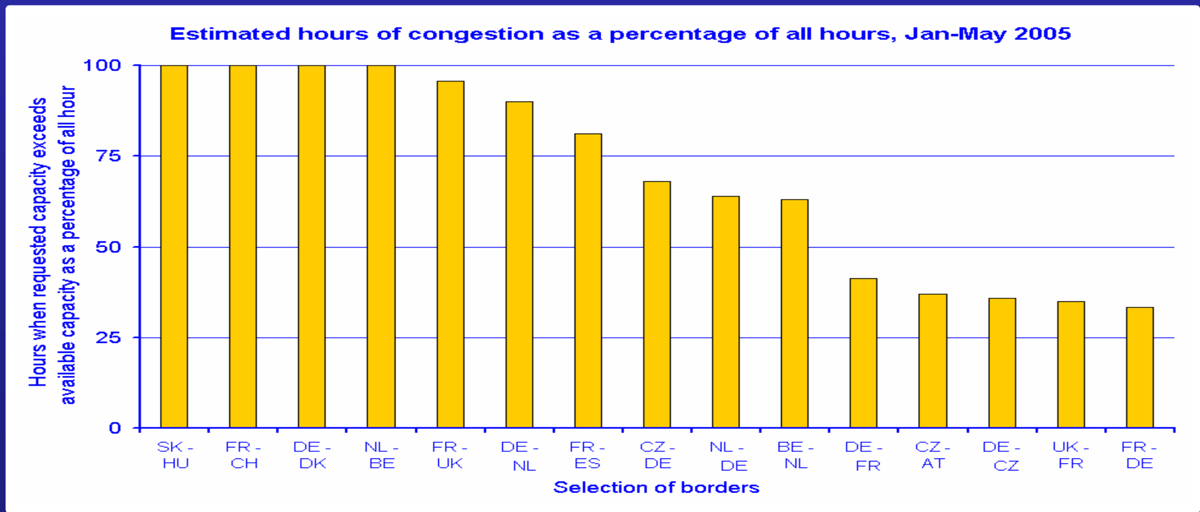


# Vertical foreclosure

- 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

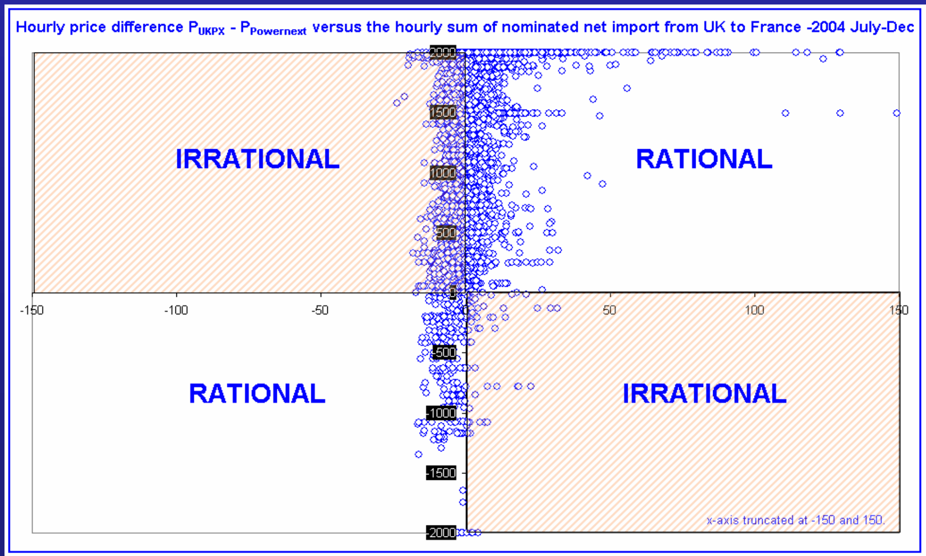
- Competition from imports is insufficient to erode market power of incumbents
- More interconnector capacity is needed
- Many interconnectors are chronically congested
- Long term capacity reservations reduce capacity available for new entrants



# Market Integration II

- Congestion revenues are not used for interconnector expansions

| Congestion revenues and total investments in interconnectors during 2001 - 2005 in mln. Euros | | |
|---|---|---|
| **TSO** | **Congestion Revenues (2001 - 06/2005)** | **Interconnection Investments (2001 - 06/2005)** |
| A | 200-300 | 25-35 |
| B | 0-20 | 0-10 |
| C | 80-150 | 0-10 |
| D | 200-300 | 0-10 |
| E | 200-300 | 50-100 |
| F | 80-150 | 0-10 |
| G | 20-80 | 0-10 |
| H | 80-150 | 80-150 |
| J | 0-20 | 10-40 |
| K | 0-20 | 10-40 |
| **Total** | **1000-1300** | **200-300** |




- Explicit auctions on day ahead markets lead to inefficient capacity allocations

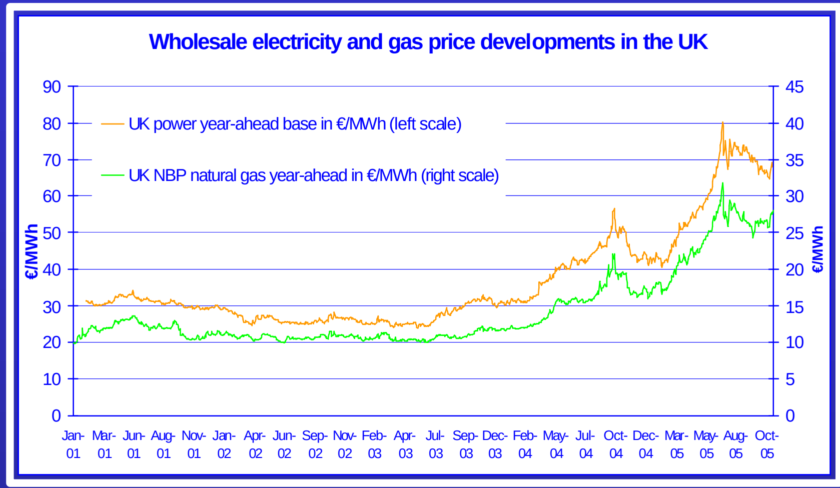
# Transparency

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

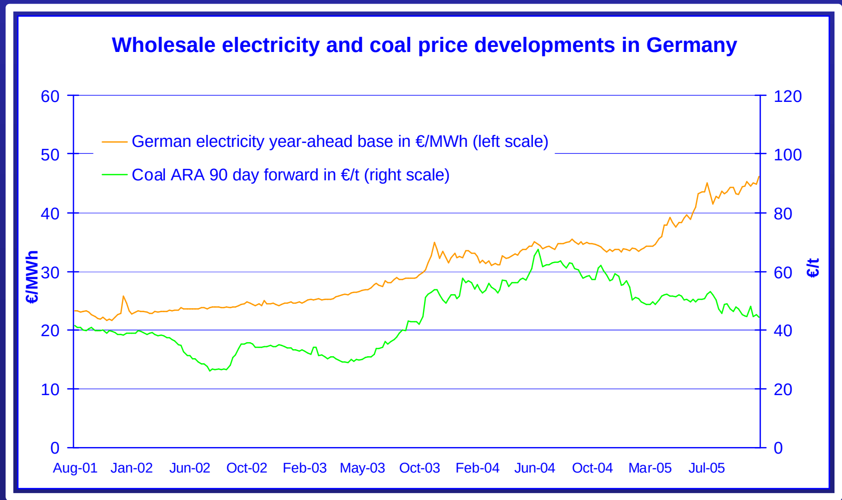
| Importance of information according to suppliers | | |
|---|---|---|
| | indispensable important or useful | not useful |
| TSO network | 95.2% | 4.8% |
| Interconnectors | 91.8% | 8.2% |
| Load | 94.6% | 5.5% |
| Balancing | 90.7% | 9.3% |
| Generation (production) | 86.2% | 13.8% |
| Generation (capacity) | 94.1% | 5.9% |

# Prices

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




- CO2 allowance prices influence electricity pri-ces, 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 insuf-ficient **unbundling** of network and supply activities which calls for further reflection
- There is a general consensus that more **transparency** is needed urgently