

Competition Directorate-General

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Malfunctioning Markets: the evidence

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Sector inquiry – reason, objectives and timetable

- Reason
 - Concerned that competition may be restricted or distorted
- Objectives
 - Understand more fully how these markets work
 - Identify possible barriers to competition
- Timetable
 - Sector Inquiry – launched June 2005
 - Issues Paper – November 2005
 - Preliminary Results – February 2006
 - Final Report – beginning 2007



Preliminary findings

- (1) Market Concentration
 - Gas: wholesale markets remain highly concentrated, as incumbents largely control upstream markets and new entrants remain dependent on them
 - Electricity: markets remain national; generation is highly concentrated; incumbents retain market power



Preliminary findings

- (2) Vertical foreclosure
 - Gas: lack of liquidity on wholesale gas markets; difficulties to gain access to upstream gas; difficulties to gain access to infrastructure (eg pipelines, storage)
 - Electricity: vertical integration of generation, supply and networks continues; reduces liquidity on wholesale markets; reduces incentives to open up network to new suppliers



Preliminary findings

- (3) Lack of market integration
 - Gas: cross-border sales do not exert significant competitive pressure; new entrants find it difficult to find network capacity; incumbents not active in neighbouring markets
 - Electricity: cross-border trade hampered by lack of capacity and long-term reservations; improved congestion management required; different market designs hamper integration



Preliminary findings

- (4) Lack of transparency
 - Gas: transparency is normally the lifeblood of healthy competition; network users request more information on access to networks; transit capacity; gas storage
 - Electricity: wide recognition of lack of transparency; more than 80% of market participants are not content; rules on transparency and enforcement vary widely in EU



Preliminary findings

- (5) Price formation
 - Gas: prices are often linked to oil prices and so do not appear to reflect supply and demand; lack of liquidity on wholesale markets means that in most Member States there is little confidence in hub prices
 - Electricity: the price of electricity appears to increase more than marginal costs; the degree of pass-through of CO₂ prices varies widely; regulated prices or special schemes for large customers can distort competition



Final Report

- The main body of the report will be updated versions of the chapters in the preliminary report
- In addition, there will be:
 - A summary of the comments received on the preliminary report
 - New chapters on downstream markets in both gas and electricity
 - New chapters on LNG and price formation and market power in electricity markets



Final Report: Summary of responses

- 60 responses (34 gas and 45 electricity) from broad range of respondents
- Mainly very positive and agree with the analysis of how the markets work.
- Less positive comments mainly came from parties with an interest in maintaining the status quo
- Non-confidential versions of comments are now available on DG Competition's website



Final Report: Downstream markets

- Analysis of downstream markets will focus on
 - Foreclosure through long term contracts
 - Anti-competitive clauses (eg exclusivity clauses, or clauses restricting the use or resale of gas purchased)
 - Other issues (eg number of alternative offers, tying, bundling)



Final Report: Liquefied Natural Gas

- Launched a study with Bocconi University IEFE expected to conclude in the autumn
- Aims:
 - Understand the functioning of the LNG sector
 - Understand the role of LNG in increasing competition in EU gas markets
 - Identify possible barriers and suitable remedies to the development of LNG supply



Final Report: Electricity Study (1)

- Launched a study with London Economics and Global Energy Decisions, to conclude in autumn
- Scope: Belgium, France, Germany, Netherlands, Spain, UK
- Period: 2003-2005
- Part of the sector inquiry; aim is to improve our understanding of how the markets work and identify any barriers to competition



Final Report: Electricity Study (2)

- Specific aims of the study:
 - Modelling the outcome of the electricity markets (eg reconstructing offer curve for each hour, calculating system marginal cost)
 - Comparing historical unit dispatch with modelled dispatch
 - Measuring market power in a number of ways (eg residual supplier indices, pivotal suppliers, HHI etc for specific hours)



Competition cases

- Merger Cases: GDF/Suez; EON/Endesa
- Inspections in May at the premises of gas and electricity companies in six Member States:
 - Germany, France, Belgium, Italy, Austria and Hungary
- The main concerns that prompted the inspections were foreclosure of markets and collusion
- Information gathered must now be studied in detail



Regulation

- The Commission ensuring framework for a competitive single market:
 - transposition of the Directives;
 - access to interconnector capacity;
 - congestion management guidelines;
 - country reviews
- Currently considering third package:
 - duties and powers of regulators
 - TSO co-operation and effective unbundling
 - transparency



Conclusion

- Sector inquiry has improved our understanding of energy markets and gathered evidence of barriers to competition
- We can already see some results from sector inquiry (eg wide-spread acceptance of need for third package, developments in transparency)
- DG TREN is enforcing the existing legislation and considering which issues might be included in a third liberalisation package
- In parallel, DG Competition is pursuing cases in the energy sector, focusing on foreclosure and collusion