



Discussion Paper 2004

Important themes in EU electricity market regulation for 2004

Participants in the 10th Florence EU Electricity Regulatory Forum, which convened in early July last year, were able to welcome the final adoption of the internal energy market legislative package by the European Council and the European Parliament in June. In the official Conclusions from the Forum, the participants stressed the need for a timely and consistent application of the new regulatory framework in Member States, in order to successfully complete the internal market in electricity. Participants will gather again in March, just three months in advance of the deadline for transposition into national laws of the new liberalization measures.

The framework now includes a directly applicable EU Regulation regarding cross border trade in power. The Commission has explained that it intends to promulgate guidelines under the new Regulation, on conditions for access to the network for cross-border trade in electricity, as soon as possible after the Regulation comes into force on 1 July 2004. For this purpose it has issued three discussion papers on:

- Congestion management,
- Transmission tariff harmonization and locational signals, and
- The inter-TSO compensation mechanism.

The Commission has already presented a discussion paper on congestion management, outlining the need to complement and update rules, which already form an annex to the Regulation. Such rules should in particular provide more detail on co-ordination between TSOs, transparency of information and maximising of available capacity, as well as on the treatment of congestion rents. In response, some governments and regulators say there is a need for careful explanation of the criteria to be fulfilled, if a given allocation methodology is to be considered a “non-discriminatory market-based solution”, as required by the Regulation after July 2004. EFET has publicly stated its regret that, in contrast, no new auctions, explicit nor implicit, have been introduced at any Western European border for the last two years.

In relation to transmission tariffs, the Conclusions of the 9th Forum stated that strong short- and medium-term locational signals are already provided by instances of internal national congestion and (more markedly) of congestion on interconnectors. The Forum also considered that further research would be necessary, in order to develop an appropriate system of locational signals. These might be provided through specific G-charges, reflecting current and future infrastructure costs, or, maybe as an interim step, reflecting differential causation of losses. In the wake of the 10th Forum, it is clear that any harmonization of G-charges and any pan-European scheme for long term locational signals, factored into those charges, remain years rather than months away.

The Commission meantime published a second draft of a Strategy Paper for the internal electricity market. This second draft emerged from discussions at the 9th Florence Forum and from numerous comments submitted by industry and regulators. Security of supply, market concentration and interconnection investment were highlighted as three key challenges to be addressed in progressing towards a more competitive market.

Turning to transparency of market information, it should by now be clear to all stakeholders, that the need to develop efficient, liquid wholesale markets is at the heart of European electricity market liberalization. Efficient wholesale markets underwrite competition between generators and between retailers, and allow both to manage electricity market risks cheaply and efficiently. Market transparency is in turn crucial to the successful development of an efficient wholesale market. Some stakeholders believe the currently poor level of information release in continental European electricity markets is slowing progress of overall EU electricity market opening. The relevant missing data relates to generation output and power demand, in addition sometimes to transmission system utilization.

A final important theme, recurring across the electricity regulatory landscape this year, will be system balancing. It appears from experience of the introduction of new trading arrangements (NETA) in England, that even when a relatively level playing field in competition in generation and supply has been created, a balancing market requires careful design. NETA initially caused serious distortions in balancing prices, with disparities between system buy and system sell pricing. In less liberalized markets with less wholesale liquidity, achieving a transparent, cost reflective and non-discriminatory system balancing regime presents even more of a challenge.

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