

Press Statement

24 February 2005

“Let the Markets do their work”

Background

EFET in January published a paper as a response to the European Commission Proposal for a Directive on Electricity Security of Supply (Dutch Presidency text 18 November 2004) and to the plan to issue Security Guidelines in comitology under the Regulation on Cross-Border Exchanges in Electricity (1228/2003). The full paper is available on our website: [see here](#)

The European Parliament, prior to its possible adoption by the Council and the Parliament later in the year, is debating the draft Directive. EFET has proposed some key amendments to the text, to address some of the remaining challenges to the development of the internal electricity market, as revealed in the Commission’s latest benchmarking report.

‘Let the market do its work’

Proper long term functioning of markets will guarantee energy security of supply and attract investors. Existing regulation of system operators (TSOs) ensures third party access to networks on objective and non-discriminatory terms. Robust wholesale markets will be based on duly regulated access, a sound infrastructure and liquid, transparent physical and financial trading, ranging from intra-day to day-ahead to mid-term future and longer settlement. Market forces thus yield security of supply while specific legal obligations on particular actors to “provide security” must be viewed only as a backstop.

The Autumn 2003 blackouts were unrelated to long-term energy security and to the process of liberalization of the energy markets. However, they revealed that TSOs could do a better job to help each other in their security roles, especially at cross-border interconnection points. They do not share enough information with each other; equally, insufficiently transparent information about capacity availability and utilization is available to market participants who use the interconnections.

Ensuring there is enough reserve generating capacity

Long-term security of supply in electricity is principally about the availability not of fuel, but of sufficient generation capacity. Markets will encourage sufficient generating capacity through pricing signals. Well-designed (and thus transparent and liquid) forward, spot and balancing markets at the wholesale level therefore best ensure efficient use of assets. If generation reserve margins are found to be falling below desired levels, the design and regulatory framework for the relevant markets might need to be reviewed.

Pre-conditions for any introduction of compulsory generating capacity obligations should include:

- Freedom to invest in generation in practice
- Transparency in the market of short and long-term price signals
- Balancing markets properly functioning
- Market distorting generation capacity withdrawal discouraged
- Demand response encouraged by appropriate incentives

Experience suggests standard rate, constant capacity payments are inefficient and are likely to distort competition. A preferable mechanism involves TSOs' purchasing options from certain producers at market related prices.

Security and reliability across national boundaries

The most effective way to improve security on a trans-national basis, while not jeopardising third party access and competition, will be to optimise the utilisation of existing cross border transmission capacity across the continent.

The level of physical interconnection is already well developed on much of the continental high voltage grid. However interconnection capacity is not always fully used or its usage is dominated by a small number of incumbent companies. Regulation needs to make sure

that all actors are really able to obtain access to this capacity and market based mechanisms are applied to allocate capacity to the most effective use.

At many borders significant improvements can be achieved by applying existing European legislation and *without massively investing in new transmission lines*. Compliance with important elements of EU Regulation 1228/2003 is still very patchy, although it came into force in July last year. Enforcement of it by regulators must be a priority. Any security guidelines adopted in comitology under that Regulation must not be at odds with proper enforcement of its central measures.

Editor's note:

EFET is the European Federation of Energy Traders with 75 members from 18 European countries. EFET promotes and facilitates European Energy Trading in open, transparent and liquid wholesale markets, unhindered by national borders or other obstacles.

For more information please contact:

EFET

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|--------------|--|------------------------------------|
| Peter Styles | peter.styles@efet.org | +44 207 930 4544 |
| or | | |
| Jan van Aken | jan.vanaken@efet.org | +31 20 520 7970 +31 621 537 537 |