

Market design and supervision. A global challenge

Michel Thiollière – CEER Vice-President

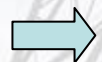
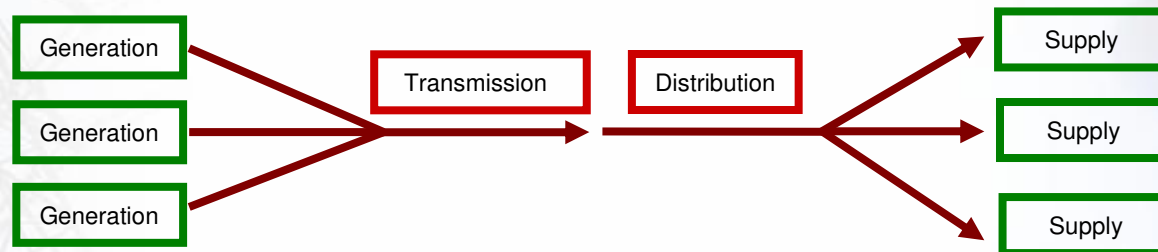
ARIAE-CEER meeting, Madrid, 23 March 2011

- Which regulation, which objectives?
- Development of competition, example of cross-border trade
- Prospects for improving the market integration process

Market liberalisation

Why and How?

- **Energy market liberalisation aimed at:**
 - Increasing competitiveness of the European energy industry
 - Improving market efficiency through competition to the benefit of the end consumers
 - Creating a single European energy market
- **The energy sector is divided into four parts where:**
 - Competition is enhanced in **production and supply**
 - Regulators monitor the activities in **transmission and distribution**



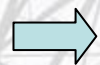
Electric interconnections became the key element in order to:

- Develop competition on national markets
- Benefit from the complementarities of national production parks and demands

Market Integration

Why?

- **Power sectors initially based on national needs and with only few/limited possibilities to coordinate with neighbours:**
 - Emergence of markets with different rules and constrains
 - Very little room left for cooperation and competition
- **National power networks interconnected for:**
 - Helping mutually in case of an emergency
 - Enabling a common adjustment of the frequency in the case of synchronous systems
- **Since 1996, European institutions have pushed for the development of the internal energy market in order to:**
 - Deliver real choice for all consumers
 - Achieve efficiency gains, competitive prices and higher standards of service
 - Contribute to security of supply and sustainability



The development of cross-border trades is the first step towards the creation of a single integrated market.

The regulator's main tasks

Independent energy regulatory authorities required to:

- **Monitor the market** (prices, market shares, etc.)
- **Ensure non-discriminatory access to the grid** mainly through:
 - Proposal to the government on tariffs for transmission and distribution
 - Approval of congestion management methods on interconnections
 - Settlement of disputes
- **Verify the absence of cross-subsidies** between the various activities inside integrated companies (generation / transmission / distribution)
- **Define rules regarding unbundling of accounts.** In this respect, the regulator enjoys totally free access to these companies' accounts (power to audit).
- **Evaluate the independence** of the network operators

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Economical basis for cross-border trade

- **Main expectations** from the development of cross-border trade to the benefit of end consumers:
 - Take advantage of the **complementary nature of generation capacities** (base/peak generation units) **and demand** (various peak hours of consumption: 5pm in England, 7pm in France and 8-10pm in Spain) for electricity in the different European Member States
 - Stimulate competition between European operators
In France, cross-border trade represents one of the **main sources of competition towards the incumbent**

Legal basis for cross-border trade

- The decision of the European Court of Justice in June 2005
 → Put an end to **priority access granted to long term contracts**
- Regulation 1228/2003 on **conditions for access to the network for cross-border exchanges in electricity**

Network congestion problems shall be addressed with non-discriminatory market based solutions which give efficient economic signals to the market participants and transmission system operators involved.

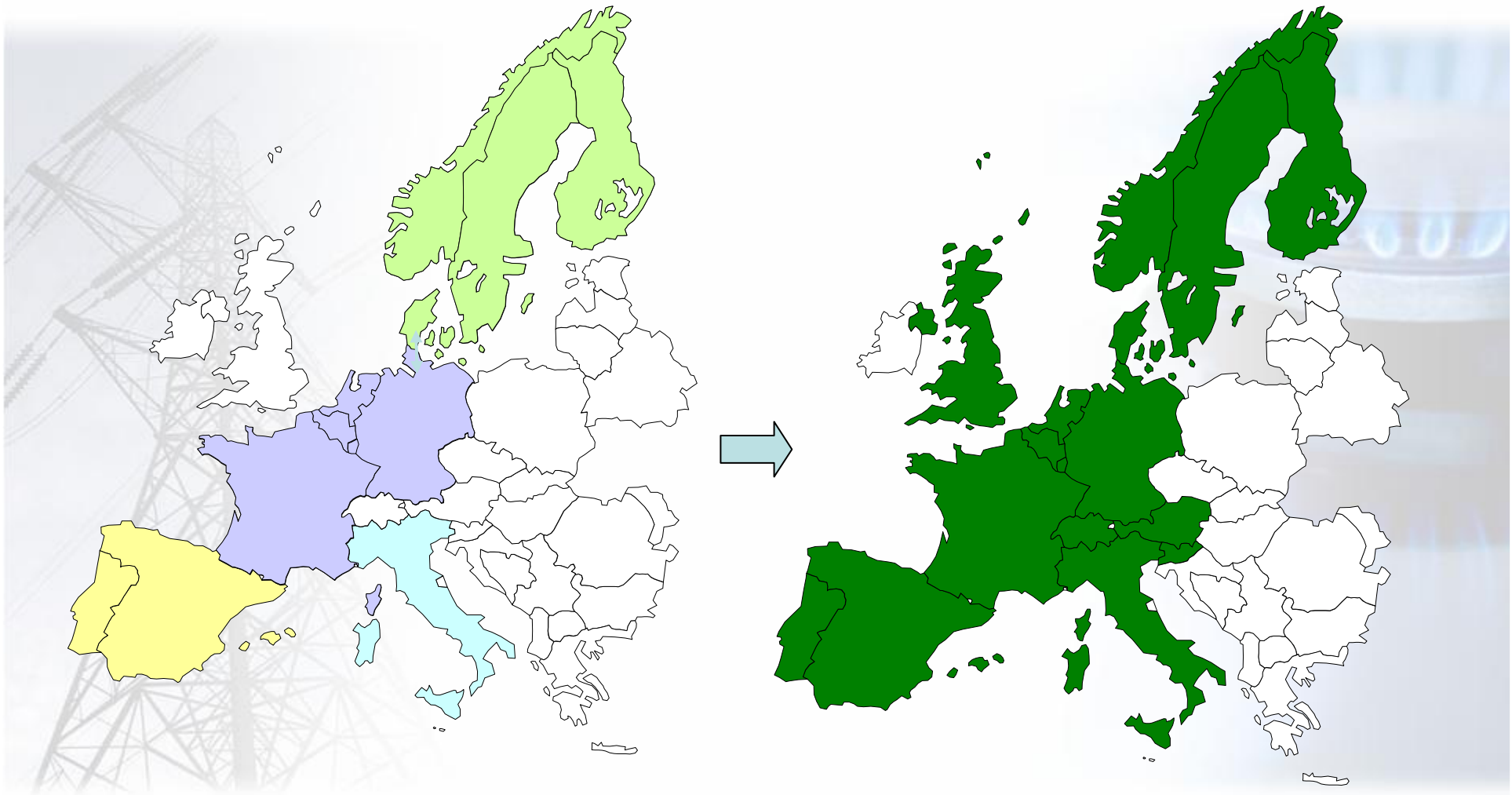
- **Established auction mechanisms to allocate interconnection capacities**
- Congestion management guidelines (9.11.2006)
 - Define congestion management methods
 - Require coordination among TSOs
 - Define transparency requirements
 - Define use of congestion income
 - Give power of evaluation and appreciation to NRAs
- **Improved the framework for improving congestion management**

A turning point for congestion management (1/2)

- **Main changes** in mechanisms for allocating interconnection capacities:
 - New economic signals resulting from the auctions enable capacity value to be estimated
 - Congestion income is now shared by all grid users
 - More transparent congestion management methods
 - Capacities are now shared amongst a greater number of participants
 - More efficient congestion management methods
 - Use of capacities is better correlated to price differentials

- **Challenges:**
 - How to organise the governance and the regulation of cross-border projects?
 - How to ensure coherence and convergence within the regional initiatives?
 - How to monitor the functioning of organized markets?

A turning point for congestion management (2/2)



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Organising the cross-border regulation (1/2)

- The 3rd Package defines a **new regulatory framework**:
 - An **increased coordination requirement**, both between TSOs and regulators for the purpose of integrating national markets (creation of ENTSO-E, ENTSO-G and ACER)
 - An **harmonization and enhancement of regulators' powers and competencies** regarding congestion management methods

*“The regulatory authorities shall **be responsible for fixing or approving** ... at least the methodologies used to calculate or establish the terms and conditions for: ... the procedures for the allocation of capacity and congestion management. ... National regulatory authorities may **request amendments to those rules**”*

- **Improved regional cooperation** between regulators notably to promote the development of cross-border trade.

*“Regulatory authorities shall **cooperate** at least at a regional level to: ... **coordinate the development of all network codes** for the relevant transmission system operators and other market actors”*

Organising the cross-border regulation (2/2)

- The 3rd Package establishes the **Agency for the Cooperation of Energy regulators (ACER)**:

“The purpose of the Agency shall be to assist the [NRAs] in exercising, at Community level, the regulatory tasks performed in the Member States and, where necessary, to coordinate their action”

- **Its duties are:**
 - **Regulatory oversight** of the cooperation between transmission system operators (ENTSO-E, ENTSO-G)
 - **Individual decision powers** regarding specific cross-border issues (e.g. on exemption requests, regulatory regime applicable to infrastructure within the territory of more than one Member State)
 - **General advisory role to the Commission** as regards market regulation issues

Ensuring coherence and convergence

- The “**bottom-up**” approach shall remain a vehicle for progress towards the creation of a single European energy market
 - Allowing flexibility: merger of regions by topic
 - ACER will monitor coherence and convergence on a annual basis and may issue opinions / recommendations to foster market integration
- The “**top-down**” approach: **Framework Guidelines** and **network codes** on electricity capacity allocation and congestion management are setting the **binding framework to converge** within and among regions (currently under preparation by ACER)
- Creation of Electricity Stakeholders Advisory Group within ACER to:
 - elaborate a **roadmap together with all stakeholders represented**
 - **monitor the implementation of cross-border projects**
 - ensure coherence and **convergence of these projects**

Monitoring the functioning of organized markets (1/2)

- **Access to information and data collection**
 - Data on market fundamentals: related to generation (availability, production and costs), storage, consumption, injections and withdrawals, cross-border exchanges
 - Transaction data (name of the counterparty, transaction time, price, delivery period and volume) and bid offers
- **Data analysis**
 - Transparency on fundamentals data
 - Consistency between market data (e.g. price) and fundamentals data (e.g. system tightness, generation costs)
 - Detection of anticompetitive behaviour (market abuse and use of insider information)
- **Integrated markets = new challenges**
 - Need for regulation and cooperation at the European level
 - ➔ Newly proposed Regulation on Energy Market Integrity and Transparency (REMIT) is welcomed by European regulators

Monitoring the functioning of organized markets (2/2)

- 2008 joint **recommendations of European energy and financial regulators widely taken up** in the new REMIT proposal
 - ➔ **Tailor made transparency regime** (defining inside information, market manipulation and prohibitions) **is the best solution** to prevent market misconduct in the energy sector
- Regulators' recommendations:
 - **All energy products and derivatives** should be covered
 - **All data on trading** in wholesale energy products (including those which are commodity derivatives) **should be reported to ACER**, which should serve as a central data provider to European Securities and Markets Authority (ESMA)/ national financial authorities.

Thank you for your attention!

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