

*Reinhard Haas, Jean-Michel Glachant, Hans Auer, Nenad Keseric
and Yannick Perez*

COMPETITION IN THE CONTINENTAL EUROPEAN ELECTRICITY MARKET: DESPAIR OR WORK IN PROGRESS?

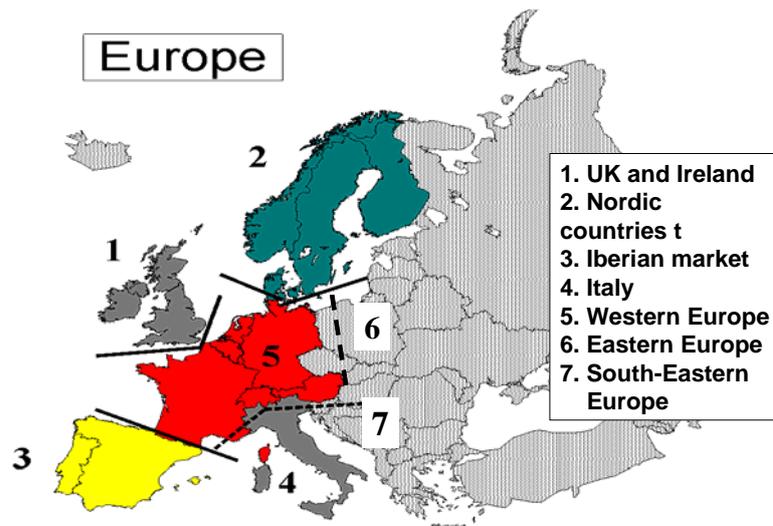
R.Haas, H. Auer, N. Keseric: Energy Economics Group, Vienna University of Technology, Austria
J.-M. Glachant, Y. Perez: Groupe Réseaux Jean-Monnet, University Paris-Sud 11

The restructuring of electricity markets in most Continental European (CE) countries started in the late 1990s, and, with the exception of Spain which initiated its own electricity pool in 1997, is still going on. This process was triggered by the European Commission directive, 1996(EC), “*Directive for a common electricity market*” The major motivation for this directive was the EC’s conviction that liberalization, price deregulation and privatization would directly lead to competition in generating, as well as supply which would then result in lower prices for the whole of Europe.

The intention of the EC was and is to create one common European electricity market, In 2006, however, this area still consists of at least seven different sub-markets, separated by insufficient transmission capacities, and differences in conditions for access to the grid (Fig. 1).

Figure 1. Electricity sub-markets in Europe in 2005

EUROPEAN ELECTRICITY SUB-MARKETS



In this paper we focus on the Continental European electricity market (regions 3, 4, 5, 6, 7 in Fig 1) and analyse whether liberalisation, deregulation, and privatisation are sufficient to bring about one common European electricity market. While this market is still under construction, major conclusions regarding developments so far can already be drawn.

Firstly, liberalization in CE started about a decade after the advances made in the UK and Norway. However, it seems that the CE countries did not learn much from their experience regarding conditions for competition. Instead of divesting generation capacity and increasing the number of competitors (as recommended by Newbery & Pollitt (1997)) most countries pursued mergers (DE, NL), retained oligopolies (NL, ES, AT, CH), private monopoly (BE), or supported the concept of national champions (PO, FR). Only Italy has chosen a quite different strategy of divestment of the former national champion ENEL.

Secondly, the CE electricity market is the largest regional market in Europe, and its geographical position implies that further progress towards an integrated electricity market in Europe will depend

strongly on the development of this market (Politt and Jamasb (2005)). France and Germany play a key role within this market because of their size and geographically central positions.

Thirdly, the major obstacle for a common market that works reasonably, is currently, a general lack of competition in virtually all local and national wholesale as well as retail electricity markets. The number of competitors is too low because barriers to entry are too high, or incentives to collude are too high. This aspect is being reinforced by two others: (i) insufficient transmission capacity is available between the submarkets; (ii) an increasing horizontal integration with natural gas supply.

Fourthly, the EC itself is in an ambiguous position. On the one hand, it still advocates the goal of a European-wide common electricity market. By the year, it is said, 2012. On the other hand, only very weak light-handed measures are being implemented on the European scale. One of the major problems is still, and will be, that the market power of the large – and still growing – incumbent generators cannot be tackled by the EC.

Finally, it is stated that currently in most regions still sufficient spare capacities in generation and transmission exist. The definitive litmus test for liberalization will come in every sub-market in CE at the point-of-time when the bulk of excess capacities has disappeared and demand has come close to available capacities. That is to say, the most important problem is to provide long term incentives for investments in the upgrade and in new generation and transmission capacities, as well as in demand-side efficiency and demand responsive measures. This issue is especially relevant in the context of decentralized – vs - further centralized – development of the electricity supply system.

Our major final conclusion is that the following conditions are necessary to bring about effective competition in the Continental European electricity market: (i) a complete separation of ownership of the transmission grid and the generation and supply in all countries and sub-markets; (ii) sufficient transmission capacity for creating a larger market; (iii) adequate margins in generation capacity ; (iv) a sufficiently large number of generators to share this capacity. Therefore the prospects for a vibrant competition in Continental Europe are bleak.