

Special Edition European Electricity Liberalisation

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Pages 1-10

Introduction

by David M. Newbery (Professor, Faculty of Economics, University of Cambridge)

Abstract

Europe is liberalising electricity in accordance with the European Commission's Electricity Directives. Different countries have responded differently, notably in the extent of restructuring, treatment of mergers, market power, and vertical unbundling. While Britain and Norway have achieved effective competition, others like Germany, Spain and France are still struggling to deal with dominant and sometimes vertically integrated companies. The Netherlands offers an interesting intermediate case, where good economic analysis has sometimes been thwarted by legalistic interpretations. Investment under the new Emissions Trading system could further transform the electricity industry but may be hampered by slow progress in liberalising European gas markets.

Pages 11-42

Electricity Market Reform in the European Union: Review of Progress toward Liberalization & Integration

by Tooraj Jamasb (Faculty of Economics, University of Cambridge) and Michael Pollitt (Judge Institute of Management, University of Cambridge)

Abstract

The energy market liberalisation process in Europe is increasingly focused on electricity market integration and related cross border issues. This signals that the liberalisation of national electricity markets is now closer to the long-term objective of a single European energy market. The interface between the national electricity markets requires physical

interconnections and technical arrangements. However, further progress towards this objective also raises important issues regarding the framework within which the integrated market is implemented. This paper reviews the progress towards a single European electricity market. We then discuss the emerging issues of market concentration, investments, and security of supply as well as some aspects of market design and regulation that are crucial for dynamic performance of a single European market.

Pages 43-70

Electricity liberalization in Britain: The quest for a satisfactory wholesale market design

by David M. Newbery (Professor, Faculty of Economics, University of Cambridge)

Abstract

Britain was the exemplar of electricity market reform, demonstrating the importance of ownership unbundling and workable competition in generation and supply. Privatisation created de facto duopolies that supported increasing price-cost margins and induced excessive (English) entry. Concentration was ended by trading horizontal for vertical integration in subsequent mergers. Competition arrived just as the Pool was replaced by New Electricity Trading Arrangements (NETA) intended to address its claimed shortcomings. NETA cost over £700 million, and had ambiguous market impacts. Prices fell dramatically as a result of (pre-NETA) competition, generating companies withdrew plant, causing fears about security of supply and a subsequent widening of price-cost margins.

Pages 71-98

The Nordic Market: Signs of Stress?

by Nils-Henrik M. von der Fehr (Professor, Department of Economics, University of Oslo), Eirik S. Amundsen and Lars Bergman

Abstract

The supply shock that hit the Nordic electricity market in 2002-2003 put the market to a severe test. A sharp reduction in inflow to hydro reservoirs during the normally wet months of late autumn pushed electricity prices to unprecedented levels. We take this event as the starting point for analysing some potential weaknesses of the Nordic

market. We conclude that fears regarding supply security and adequacy are likely to be unfounded. Nevertheless, as inherited over-capacity is eroded, and new market-based environmental regulation takes effect, tighter market conditions are to be expected. It is then crucial that retail markets are fully developed so as to allow consumers to adequately protect themselves from occurrences of price spikes.

Pages 99-126

Regulation, Competition and Investment in the German Electricity Market: RegTP or REGTP

by Gert Brunekreeft (TILEC, University of Tilburg) and Sven Tweleemann (University of Hannover)

Abstract

The German energy industries will be subjected to regulation of network access enforced by a sector-specific regulator. Whereas the gas industry broke the regime of negotiated third party access, in electricity nTPA 'worked', although it clearly resulted in a margin squeeze. The government currently discusses whether to use rate-of-return or incentive regulation, to allow ex-ante approval of charges, and the length of the regulatory lag. Close examination suggests that generation capacity still is adequate, but in the longer term there is reason to be alert. The regulatory changes and emission trading system can both contribute to supply security by increasing investment.

Pages 127-154

The Spanish Electricity Industry: Plus ca change...

by Claude Crampes (Université de Toulouse) and Natalia Fabra (Universidad Carlos III de Madrid and CEPR)

Abstract

In this paper we describe the Spanish electricity industry and its current regulatory regime. Special emphasis is given to the description and discussion of market design issues (including stranded cost recovery), the evolution of market structure, investment in generation capacity and network activities. We also provide a critical assessment of the 1997 regulatory reform, which did not succeed in introducing effective competition, but retained an opaque regulation which has been subject to continuous governmental interventionism. Furthermore, the implementation of the Kyoto agreement could show the lack of robustness of the regulatory regime.

Pages 155-180

Liberalizing the Dutch Electricity Market: 1998-2004

by Eric van Damme (Prof. dr. E.E.C. van Damme, Tilburg University, CentER for Economic Research and Tilburg Law and Economics Center (TILEC))

Abstract

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A Competitive Fringe in the Shadow of a State Owned Incumbent: The Case of France

by Jean-Michel Glachant (Coordinator of the European R&D Specific Action SESSA within the European Union 6th FP; and Professor at University Paris) and Dominique Finon (Deputy Director of the programme of energy at CNRS (National Centre for Scientific Research in France); and Director of research at CIRED, CNRS & EHESS)

Abstract

We examine what kind of competitive fringe has been built in France around the State owned incumbent without destroying it or significantly weakening its dominant position; what impacts has this particular reform process on the market in which the incumbent monopolist is still overly dominant; and what more can be done to strengthen the opening of the market while staying in this typical French policy framework (no industrial restructuring and no forced divestiture by the monopolist). We wonder if a larger window of opportunity will open up at some later date for contesting the position of the monopolist, especially when investment in generation resumes.