



Competition without divestiture: *energy release auctions*

XV IENE Conference «Ενέργεια και Ανάπτυξη»

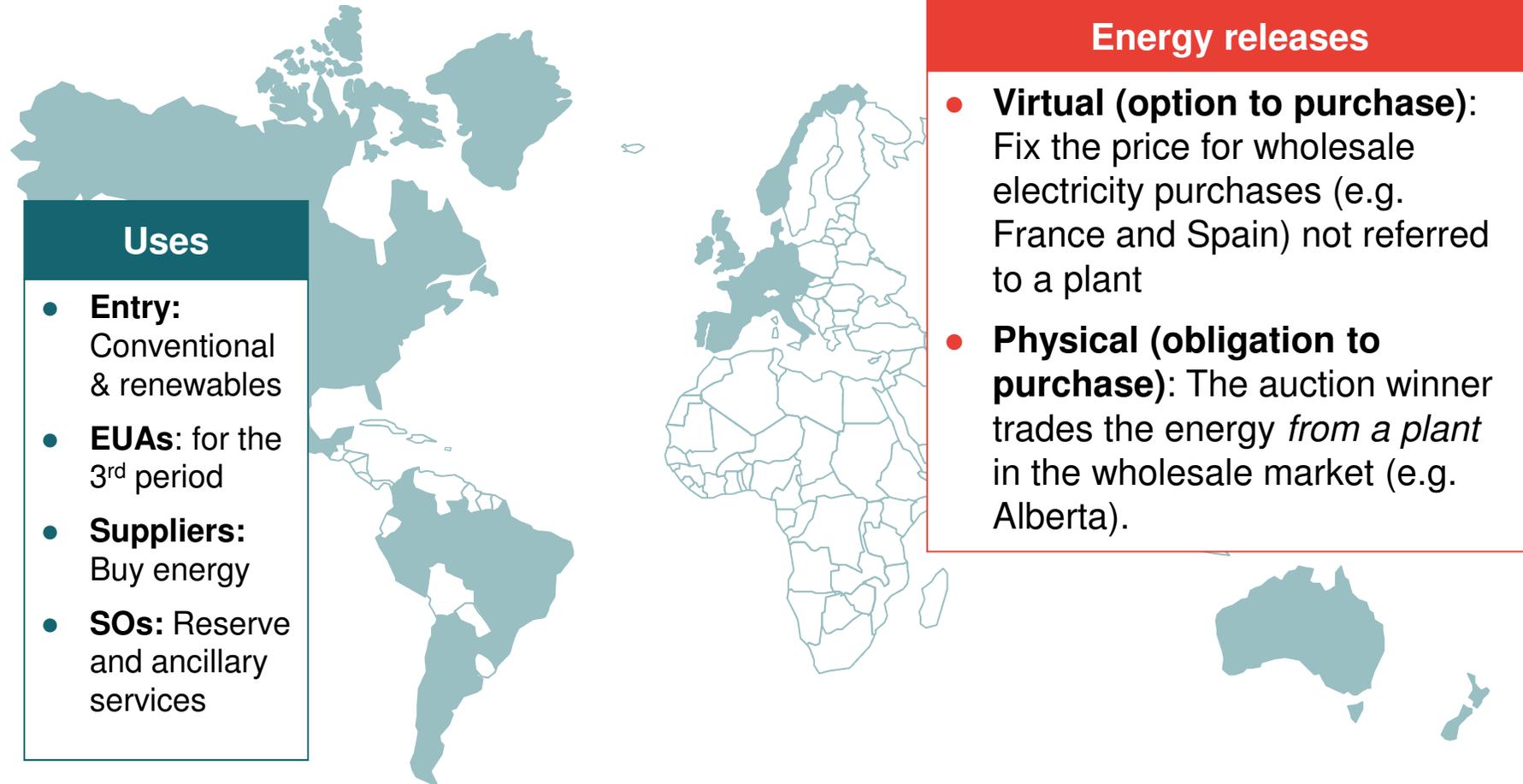


Athens, 23rd November 2010

Introduction

- Competition in the wholesale power industry has been regarded as a good idea:
 - Removes inefficiencies (reduces costs)
 - Removes excess profits (prices are similar to costs)
 - Makes entry decisions more economical
- Investment decisions become responsive to prices – and efficiency – rather than planning or any other objective
- Large part of the efficiency gains come from entry and this implies that the profit motive should drive *new* investment decisions
- For new entry the concern in these markets is the:
 - Market power of the incumbents
 - Lack of profit motive of incumbents and possibility of stranded assets
- A number of measures could be introduced to promote competition in these circumstances and “energy release” auctions have been one of the least intrusive
- This presentation reviews those cases and extracts lessons for their introduction
 - Product: depending on the objective
 - Allocation Method: depending on the product

Power auctions are widely used



... releases share the belief that entry and reduced concentration are desirable

Some examples

Market Concentration

Problem

- Merger between EDF and EnBW
- Unions' opposition to divestiture
- Weak retail competition and captive customers



Response

- Encourage new retail entrants
- Virtual auctions
 - Options
 - Baseload and Peak
 - Long term durations

Problem

- Illiquid forward market
- An independent study showed concerns about dominance and weak competition



Response

- 5 joint (Endesa-Iberdrola) virtual auctions
 - Baseload and Peak
 - Different durations
 - Max: one year

Entry

Problem

- Lack of competition
- Prices too low to encourage new entry



Response

- Physical power sales (PPAs) implemented through auctions
- PPA holder pays to get capacity available and sells it on.

Problem

- Private investor entry affected by incumbent's conduct
- New investment needed

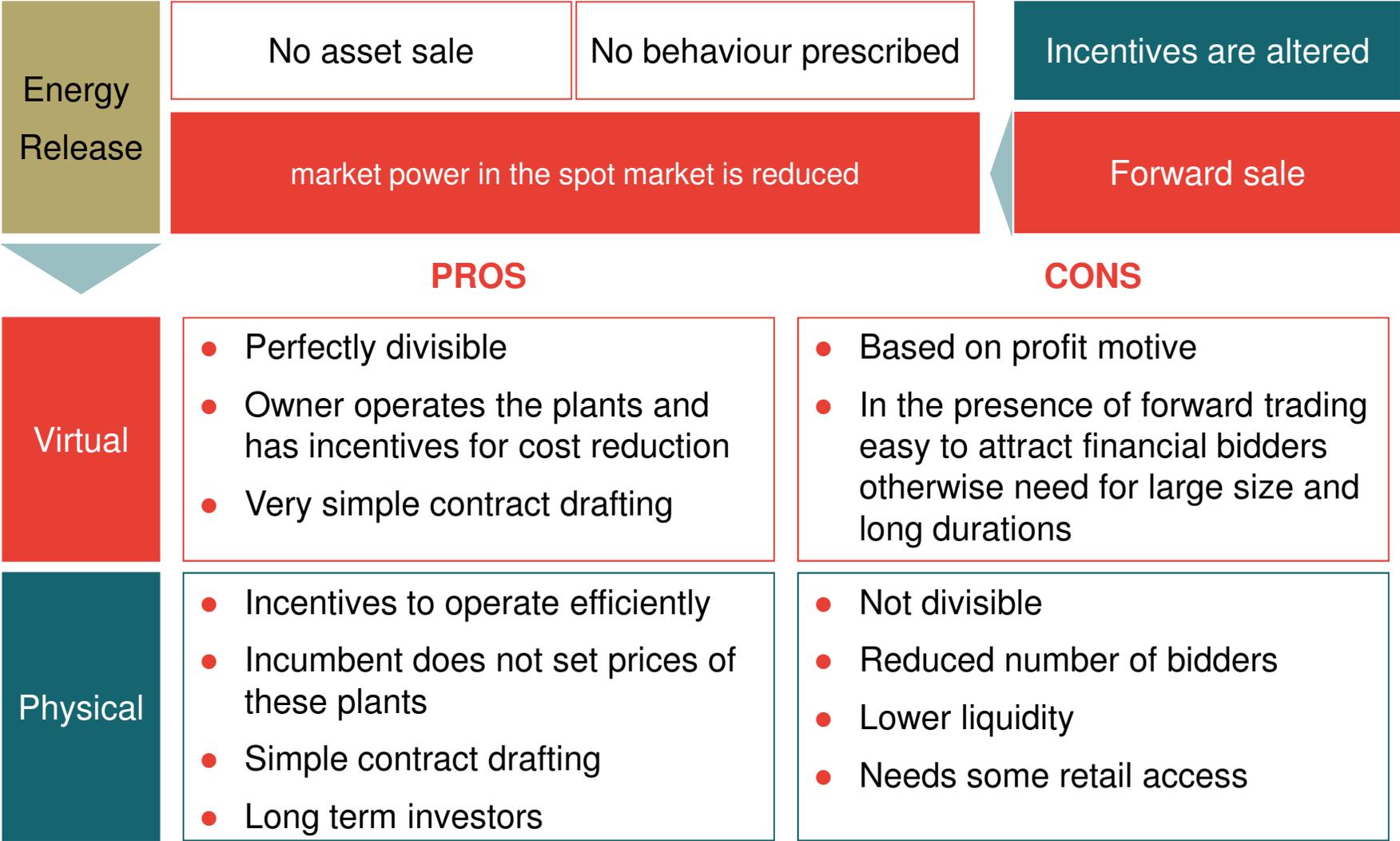


Response

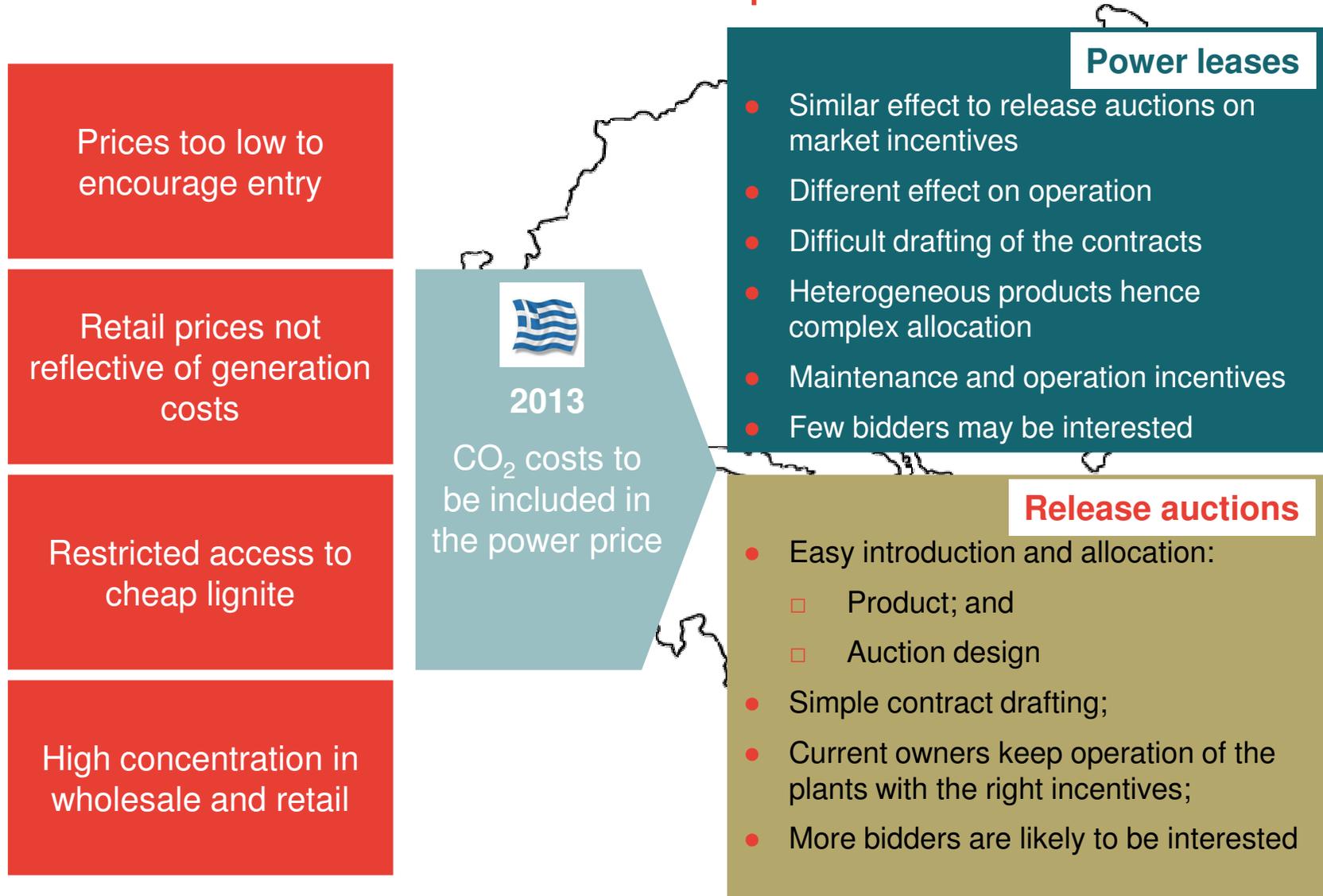
- Leasing has been considered and found to be too complex
- Virtual auctions are being discussed

Effects of release auctions

... divestiture is more effective but costly to introduce



Greece's concerns and current options





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FRONTIER ECONOMICS EUROPE LTD.
BRUSSELS | COLOGNE | LONDON | MADRID

Frontier Economics Ltd, 71 High Holborn, London, WC1V 6DA
Tel. +44 (0)20 7031 7000 Fax. +44 (0)20 7031 7001 www.frontier-economics.com