

## **15 years later**

### **The fundamentals of the European gas and electricity markets revisited**

*Bruegel, March 18<sup>th</sup>, 2011*

In this *ECE* (Energy and Climate Exchange), Mr Jean-Pierre Hansen (Member of the Executive Committee of GDF SUEZ, Professor at the Université Catholique de Louvain and the École Polytechnique) provided an overview of the major changes that the European gas and electricity markets have experienced during the last 15 years.

Mr Hansen started by pointing out some characteristics that make electricity and gas markets peculiar. He referred to the first European directive (which celebrates its 15<sup>th</sup> anniversary in 2011) and stated that it was motivated by the introduction of competition and a consequent improvement of efficiency in the European electricity market. Even so, he stated that this liberalisation process did not abolish the participation of the state and that market regulation and market design still had to remain in the public agenda.

Prof. Hansen stated that at that time it would have been convenient to look at other more advanced reforms (as the cases in the US or UK). He then talked about the “missing money” problem (when prices are not sufficiently high to cover the costs of peak capacities) and how it could be solved/ameliorated by market design (capacity markets, etc.). Mr Hansen stressed the difficulty of measuring market power in energy markets and that common concentration indicators are not a proper tool to do so. Concerning market definition, he considered the convergence of electricity prices as a substantial proof that electricity markets are far beyond national borders. He also affirmed that this price convergence was caused by the definition of the system, rather than by the respective level of competition.

Prof Hansen said that subsidiarity of countries (TSOs, regulators, etc.) in respect to the EU has slowed down the implementation of the reforms. He argued that the lack of regulation at the EU level has forced the DG COMP to deal with two roles that in principle should be clearly separated. Concerning the increase of renewable energies, Mr Hansen discussed some relevant issues like the difference between capacity and production, the tariffs to be used, the importance of maintaining (and rewarding) classical capacities, and the role played by subsidies.

After the presentation by Mr Hansen, Georg Zachmann (Research Fellow, Bruegel) highlighted some of the issues that had been put forward by Prof. Hansen and referred to a forthcoming Bruegel publication on electricity markets definition and concentration measures.

The audience raised several questions and took part in the discussion. Market definition was the topic that attracted most attention, and the audience’s opinion was basically divided into two. On the one hand, there was the understanding (mainly by energy experts) that electricity markets are supra-national and that competition authorities have been wrongly assuming that markets have to be nationally defined. On the other hand, it was believed (mainly by Competition Policy experts) that correlation between prices is not sufficient to justify a supra-national market definition, and that many other factors (as interconnector capacity, cost structures, demand and supply

alternatives, and others) have to be duly taken into account.

The audience also raised some doubts on Mr Hansen's conclusion that electricity prices were not explained/influenced by the level of competition or market power in the market. The idea of remunerating traditional capacities which (given the entrance of more renewables) are needed during peak times was also discussed.

Finally, Georg Zachmann (Research Fellow, Bruegel) closed the event by thanking Mr. Hansen and the audience for their active participation in a so fruitful discussion.