

Mapping the Route to Market Transparency

Increased transparency is widely seen as key to an integrated, liquid and competitive European market for power and gas, Moffatt Associates' latest European Energy Trends survey reveals. Differences arise, however, on the issue of how best to achieve this objective.

The importance of transparency

The issue of market transparency is one of the major challenges facing the EU as it tries to achieve an effective single energy market. The survey of our panel of experts in this edition of *Energy Viewpoints* shows general agreement about the importance of transparency in achieving an effective single energy market in Europe, although there are differing views about how best to arrive at this objective.

Market participants need access to accurate and timely information so that they are able to make key strategic decisions. Data such as production and transmission availability, cross-border energy flows and gas storage are all regarded as crucial, as is information on levels of demand. There is a consensus that ensuring the release of this kind of information is essential for the development of an integrated and efficient energy market which will be trusted by industry stakeholders, thus promoting liquidity.

Market players, especially traders, need to know what is driving prices in the market if they are to have the confidence to trade. New players need information to facilitate decisions on when and whether to enter the market. Consumers also need data to allow them to participate in the trading markets and to make an accurate assessment of their demand strategy. Industrial users in energy intensive sectors such as the iron and steel industry have complained vigorously about a lack of transparency on the European electricity and gas wholesale markets as prices have soared in recent months. Energy producers,

suppliers and Transmission Service Operators (TSOs), all require adequate market information to ensure efficient power and gas supply flows.

Our Panel of experts surveyed for this issue of *Energy Viewpoints* generally agreed that the data that should be made available should include information on production and transmission, including plant outages, interconnectors and transmission availability in general, and gas storage.

Improving information release should ensure non-discrimination and the equal treatment of all market participants. At present the situation in the gas sector, where there is limited information on access to gas storage, is a particular concern. ►



Participants in the Madrid regulatory forum for gas believe that the current low level of transparency is an obstacle to the development of a competitive market.

Gas price formation is not transparent because by being set largely by reference to oil prices, prices fail to reflect the supply-demand balance. Long-term contracts based on oil prices also show a lack of volatility relative to gas hub prices and this is seen as a disadvantage because by failing to reflect the fundamentals of gas supply and demand, oil-linked gas contracts harm the market's ability to provide the right price signals for investment in new transport and storage infrastructure. In the case of power prices, the European Commission has fewer fundamental concerns than it does for gas, but the Commission has nonetheless identified a lack of trust amongst electricity users in the way prices are set.

Regulatory action

The issue of improving market transparency is the subject of wide-ranging discussions at a European level. Eurelectric, the association representing the European electricity industry, the European energy regulators' association ERGEG, the energy traders association EFET and the

transmission system operators' association ETSO all want to see greater market transparency in the energy market and have published several documents on the issue.

At the European Commission, DG Competition (DG COMP) and the energy directorate DG TREN both believe that liberalised and competitive markets help security of supply by sending the right investment signals to industry participants. However, the market needs to be transparent and predictable if this competition is to work effectively.

In its report on progress in creating the internal gas and electricity market, published in November 2005, DG TREN declared that appropriate rules on transparency, together with obligations to disclose important information such as available generation capacity, must be in place. A situation in which only the incumbents have the information necessary to trade effectively in the market is deemed unacceptable. The Commission's increasingly forceful approach to perceived market abuses is part of a renewed effort to achieve a fully liberalised market in which all participants have access to timely and accurate information to make informed choices. ►



The 2003 EU electricity directive (2003/54/EC), the EU gas directive (2003/55/EC), the 1228/2003 regulation on cross-border electricity exchanges and guidelines on congestion management all already contain requirements to publish information, and ERGEG is seeking to ensure that these requirements are implemented. However, there are no specific transparency requirements for energy production, and there is also a lack of clarity about the regime governing access to gas and electricity networks. Both of these are recognised to be key barriers to competition.

In March of this year ERGEG launched a public consultation on the issue of improving information and transparency on the electricity markets for large industrial consumers. Draft guidelines outlined by the group as part of this process aim to establish a minimum level of transparency for the provision of market-related information to wholesale market participants.

Other industry initiatives

Some further initiatives have already been taken at a European level. For example ETSO now publishes certain key data relating to interconnection capacities, grid availability data, planned outages on the network, and load data. ETSO also publishes information on generation, including expected planned outages and energy stored in hydro reservoirs.

Some market players are also taking initiatives to increase transparency. For example, four large power producers in Germany, E.ON, RWE, Vattenfall and EnBW, are now presenting previously unpublished *ex ante* and *ex post* data concerning the availability of German power stations through the power exchange EEX's web site.

Although it could be alleged that the initiative is a response to recent accusations in Germany that these companies are abusing their dominant market position, the move has been welcomed by EFET Germany as a limited step in the right direction, and other market participants may themselves decide to voluntarily release information. However, in order to ensure a level playing field across Europe, obligatory, EU-wide rules still seem to be the most likely way forward.

In a position paper on the issue, published in February 2006, Eurelectric provided a detailed list of relevant information that it believes should be disclosed. This includes information on transmission and access to interconnectors, such as a day-ahead forecast of available commercial capacity on borders between price areas, as well as planned maintenance and its impact on day-, week- and month-ahead available capacity. As far as generation is concerned, the document states that information on available generation capacity by fuel type should be published.

Transparency is not the only barrier to the development of competition in the market. Other key issues include industry concentration, the slow implementation of the EU's liberalisation directives, low liquidity, and vertical integration. Nonetheless, there is a general consensus among EU ►



authorities, energy suppliers, producers, traders and consumers that a lack of market transparency is one of the key problems which must be resolved if the EU single energy market is to become a reality.

Creating a level playing field

One of the main challenges is how to ensure a level playing field in terms of market transparency, since progress on ensuring information release varies greatly between national European markets. Although some of our respondents believe that transparency has declined in the UK recently, most agree that the UK and Scandinavia are examples of fairly open and transparent markets, with the regular publication of maintenance schedules and outages at power plants and transmission facilities.

In contrast, markets in other countries are less transparent. The overwhelming majority of our respondents feel that the need to improve transparency is greatest in continental Europe, with France often cited as an example of a country where there is a lack of published data. Several members of our panel believe that the dominance of a few leading energy utilities in particular markets does not help to ensure market transparency.


Although some member states have already established rules on market transparency, there is no overall framework across the EU, an issue that the European Commission is keen to address. In February of this year, DG COMP produced a preliminary report detailing results of its energy sector enquiry. This provided indications that concentration and market power, vertical integration and a lack of transparency may be all contributing to a low level of market competition and high prices and restricting

choice to consumers. DG COMP found that as many as 83% of power market participants are not content with current levels of transparency.

Possible pitfalls

However, in implementing transparency there are legitimate concerns that commercial confidentiality should be protected, for example that specific outage plans should not be released to the market in advance. According to ERGEG, "this could motivate some market participants to withdraw additional generation capacity at those times, in order to create artificial scarcity and boost prices." However, the association also declares that the general aim should be to offer to the market all the detailed information needed and where necessary, "impose additional ring fencing and/or regulatory measures to prevent misuse."

Some observers have warned that greater information release will promote collusion between dominant market participants. However, the application of existing EU and national competition laws should help to prevent this. In addition, as more players enter the market, the opportunities for a small number of players to collude will decrease.

The way in which the information is published still has to be worked out. There are several possibilities, including the involvement of the energy exchanges, as well as the TSOs. EFET has proposed that Gas Infrastructure Europe (GiE), the gas market's equivalent of ETSO, should produce and keep up to date an on-line map where users can click on each border point and see all the information required via links to the appropriate TSO web sites in consistent format and units. 

A regional or EU-wide approach?

The question of how to facilitate an increase in market transparency, whether by regional development or by imposing EU-wide standards, elicits differing views. Both Eurelectric and ERGEG, however, are proposing a regional step-by-step approach to integrating the EU electricity market rather than the alternative route of imposing standards across Europe and then raising them at a uniform rate.

Both Europe-wide and regional processes have their advantages and their disadvantages. In its February 2006 position paper on market transparency, Eurelectric declared that Europe-wide regulation is “a tried and tested route with clear and well understood governance arrangements.” However, it could potentially take longer to establish, and there is the risk that by adopting a single uniform requirement,

given the different stages of market development across the EU, “the slowest/least developed market could end up setting the pace”.

In contrast regional arrangements “have the advantage of tailoring the transparency requirements and determining appropriate priorities in the light of current practices.” The danger is that this may distort trade between regional markets, but Eurelectric believes that this can be avoided by ensuring that all involved parties coordinate their activities to deliver the required changes in a timely fashion.

As part of the European regulators’ programme, ERGEG is proposing 7 European macro-regions which would serve as the building blocks for a single EU energy market. The 7 macro-regions are set out in Table 1.

Table 1. ERGEG’s seven Regional Energy Market projects for electricity:

Region	Countries	Lead regulator
Central-West	Belgium, France, Germany, Luxembourg, Netherlands	Belgium
Northern	Denmark, Finland, Germany, Norway, Poland, Sweden	Denmark
UK and Ireland	France, Republic of Ireland, UK	UK
Central-South	Austria, France, Germany, Greece, Italy, Slovenia	Italy
South-West	France, Portugal, Spain	Spain
Central-East	Austria, Czech Republic, Germany, Hungary, Poland, Slovakia, Slovenia	Austria
Baltic	Estonia, Latvia, Lithuania	Latvia

Source: ERGEG

Our Panel of experts interviewed for *Energy Viewpoints* hold differing views on whether a regional or pan-European strategy is best, although there is a clear majority in favour of making the process mandatory rather than voluntary.



Next steps

The transparency issue will continue to be the focus of debate in the months to come. The ERGEG consultation will end on 10 May 2006, and the group is then expected to present new guidelines for transparency to the meeting of the Florence electricity regulatory forum in the autumn. It is possible that Eurelectric, ERGEG and the European Commission may present a common proposal on market transparency at this event.

With the 1 July 2007 deadline for full energy market liberalisation approaching, the final reports by DG TREN and DG COMP on the functioning of the energy market are both scheduled to be published by the end of 2006, and both are expected to address possible remedies for the transparency issue. ■

