# Market Transparency – Pushing for a Breakthrough

Raising levels of transparency in the European wholesale energy market will not be without risks, at least during the transitional phase whilst some smaller, illiquid, national markets are still heavily dominated by incumbents. This notwithstanding, the process should be accelerated in those markets where current market depth and liquidity allows early progress, argues Peter Styles, Member of the Board of the European Federation of Energy Traders (EFET).

## The present situation

The European energy market is currently in a difficult and sensitive phase. Core legislation, which aims to bring more competition and complete the EU electricity and gas liberalisation endeavours, had to be transposed into national laws by July 2004. However, some Member States have been reluctant to implement the legislation as required and are now accused by the Commission of undue delay or inadequate transposition. This resistance to implement the Directives is aggravated by disagreements about how actually to achieve a competitive European energy market and by disputes concerning mergers, which might reinforce or create "national champions".

The more mature liberalised European markets are to be found in Scandinavia for electricity and in the UK for electricity and gas. A strong regulator and some ownership unbundling have helped develop competition in the Netherlands in power and more recently in wholesale gas too. Germany made rapid progress in opening its electricity sector in the late 1990s and has arguably now the most liquid wholesale power market in Europe.

Certainly numerous and significant obstacles to wholesale and retail market entry remain in most continental countries. One of these obstacles is a lack of transparency of information about the utilisation of infrastructure.

## Current data disclosure practices

The deficiency in the provision of data about utilisation of infrastructure is most notable with regard to gas imports, transportation and storage. And yet because the gas sector on the continent suffers from so many more pernicious barriers to competition, ironically the impediments to disclosure of power sector data currently produce a more serious limiting effect on market entry. Potential new entrants at least perceive that they cannot enjoy equal access to information, compared with incumbent generators and suppliers.

There is increasing recognition by regulators and Transmission System Operators ▶

(TSOs) of the legitimacy of demands for the publication of information about power transmission capacity availability and capacity utilisation (i.e. actual flows *ex post*.) In the case of electricity generation data, the majority of network operators and power exchanges do not release *ex ante* data about individual plant availability; many do not even offer aggregated information by fuel type across a given geographic market, nor prompt (H+1 or H+2) *ex post* electricity production data. This absence of publication allows certain market participants – in particular vertically integrated companies – to retain for themselves crucial advance information about, and immediate historic data pertinent to, the likely supply curve for generation output.

A lack of information on gas flows, outages, congestion, and available transportation, storage and processing capacity is still a major obstacle for gas traders shipping gas on continental pipeline networks. The deficiencies are similar to those in the power sector, albeit with differing emphasis depending on the TSO and/or the country concerned. Poor practices range from simple non-publication of historical flows on the main pipeline interconnections and of daily system demand, through to a failure to provide information about how available capacities have been calculated.

Overall the level of information at present published about utilisation of infrastructure in European energy markets is unsatisfactory. Only a few markets, such as those in Nordic and UK power, are highly transparent, with transmission system or market operators publishing data, about both generation and transmission availability on a daily, even hourly, basis. It is no coincidence that these are among the most competitive and liquid markets in Europe.

It is almost impossible to summarise briefly but accurately the nature of the data, which will facilitate competition and liquidity in gas and power wholesale markets, but the following table gives at least a comparative approximation.

## Table 2 Summary of data requirements

| Gas | Electricity |
|---|---|
| • Aggregate demand levels and the level of line pack | • Aggregate demand levels |
| • Cross-border transmission capacity availability *ex ante* | • Cross-border transmission capacity availability *ex ante* |
| • Charges for balancing services | • Charges for balancing services |
| • Pipeline flows *ex post* | • *Ex post* transmission flows and generation by plant |
| • Maintenance and outages of pipelines and storage facilities | • *Ex ante* generation availability aggregated by fuel type |
| • Gas storage capacity availability and flexibility | • Plant maintenance schedules |
| • Gas allocation factors | • Plant and network outages promptly upon occurrence |
| • Congestion management methodologies in force | • Congestion management methodologies in force |
| • Supply and demand forecasts used by transmission system operators | • Supply and demand forecasts used by transmission system operators |

## Dealing with arguments against *ex ante* disclosure of power plant availability

EFET explained at some length in its major 2003 paper *"Transparency and Availability of Information in Continental European Wholesale Electricity Markets"* the benefits of wider and more prompt dissemination of data by TSOs and generators. Since then ETSO, the association representing European TSOs, has responded positively to the challenge of establishing EU standards for transmission system information disclosure. On behalf of generators, Eurelectric has proved more hesitant in agreeing the appropriate standard and in proposing a timetable for improvements in disclosure.

Part of the difficulty with publication of advance information about generation plant availability revolves around two arguments:

- The idea that publication may allow especially larger generators at least tacitly to collude in setting prices

- The risk that smaller generators may be exposed to exploitative trading strategies from large competitors if an outage shows that they are short

The European Regulators Group for Electricity and Gas (ERGEG) has in March this year issued a consultative document proposing guidelines for good practice in transparency throughout the EU. The ERGEG document suggests that individual national regulators may judge that publication of data could facilitate *collusion*.

With regard to this danger, EFET in 2003 concluded that, collusion could indeed be a problem in concentrated markets. But we went on to advocate that a concentrated industry structure should be a matter for longer term political resolution, whilst in the meantime the behaviour of dominant market participants was best addressed by either financial regulators (responsible for new market abuse legislation relevant to commodity derivatives trading) or competition authorities, on a case-by-case basis. Specific instances or risks of collusion could not constitute a justification for an overall failure to release the types of information required by a competitive market.

Nearly all traders remain of the opinion that the benefits of information release still outweigh any potential detriment, largely because collusion can be an equal – if not a greater – problem in opaque markets and because greater transparency at least makes it easier to identify, police and respond to instances of collusion. Using concentration and collusion as grounds to withhold information therefore risks creating a vicious circle, where competition is stifled because of the absence of information,

but information is not released, effectively owing to the lack of effective competition.

In a liquid, competitive wholesale power market, the *commercial* detriment to any particular market participants from requiring generators to release *ex ante* generation information to other and potential market participants is likely to be limited. Larger, vertically integrated players with a portfolio of generation assets, customers and wholesale traded positions (physical or indeed financial) can surely look after their own potential exposures when releasing purely physical asset related data.

However, in illiquid markets, revelation of unplanned outage information can potentially damage the commercial position of smaller players. For example, a single site generator is less likely to have access to a portfolio of assets and contractual purchases (including options) to cover its unforeseen outages, making it more likely that a requirement to reveal outage information will reveal its overall exposed commercial position to the market. In such illiquid markets, smaller generators may thus have to buy in power at short notice – or resort to balancing arrangements – at prices controlled by their larger competitors or alternatively countenance high premiums in buying options to cover potential outages in advance. The actual exposure will of course depend on what is the fuel type of the price setting plant in the particular geographic market during the hours of outage in question.

There may therefore be a case for temporarily differentiating the *ex ante* and immediate *ex post* disclosure obligation of small, independent generators in isolated, illiquid national markets. However, this difficulty need not stand in the way of rapid improvements in the disclosure regimes across the more mature power markets of continental western Europe.

## Next steps

EFET will suggest in its imminent updated position paper on transparency that ERGEG take a more proactive and determined approach to publication for the market of *ex ante* and *ex post* generating plant availability data. In a December 2005 joint roadmap for reforms in the prospectively linked French, Belgian and Dutch wholesale power markets, the three countries' national regulators CRE, CREG and Dte mentioned that most respondents to their consultation exercise pleaded for a higher level of market transparency.

These regulators have promised to publish a detailed list of transparency items by 1 August 2006. This list will contain a common benchmark for implementation by market participants (including TSOs) by 1 July 2007 at the latest. The three regulators will strive to aim for the "best practice" transparency of the three countries by way of a minimum benchmark, but will also take into account best practices in other areas, including apparently the Nordic countries.

It is understandable that ERGEG as a whole may not be in a position to adhere to the precise timetable envisaged by CRE, CREG and Dte, but a commitment to the fast implementation of improvements, utilising the framework of the planned regional wholesale power Mini-Forums, would be appreciated.

And if real improvements in information disclosure are finally realised across the whole continental power sector, at least the gas sector will receive an indication of the standards it should aspire to. ■