Competition in CEE electricity markets? Lessons learned from the Czech and Austrian point-of-view

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SURVEY

1. Introduction
2. European electricity sub-markets
3. Background: electricity consumption
4. How market prices come about
5. Market power and market extention
6. Future perspectives
7. How many generators are required for competition ?
8. Conclusions

1. INTRODUCTION

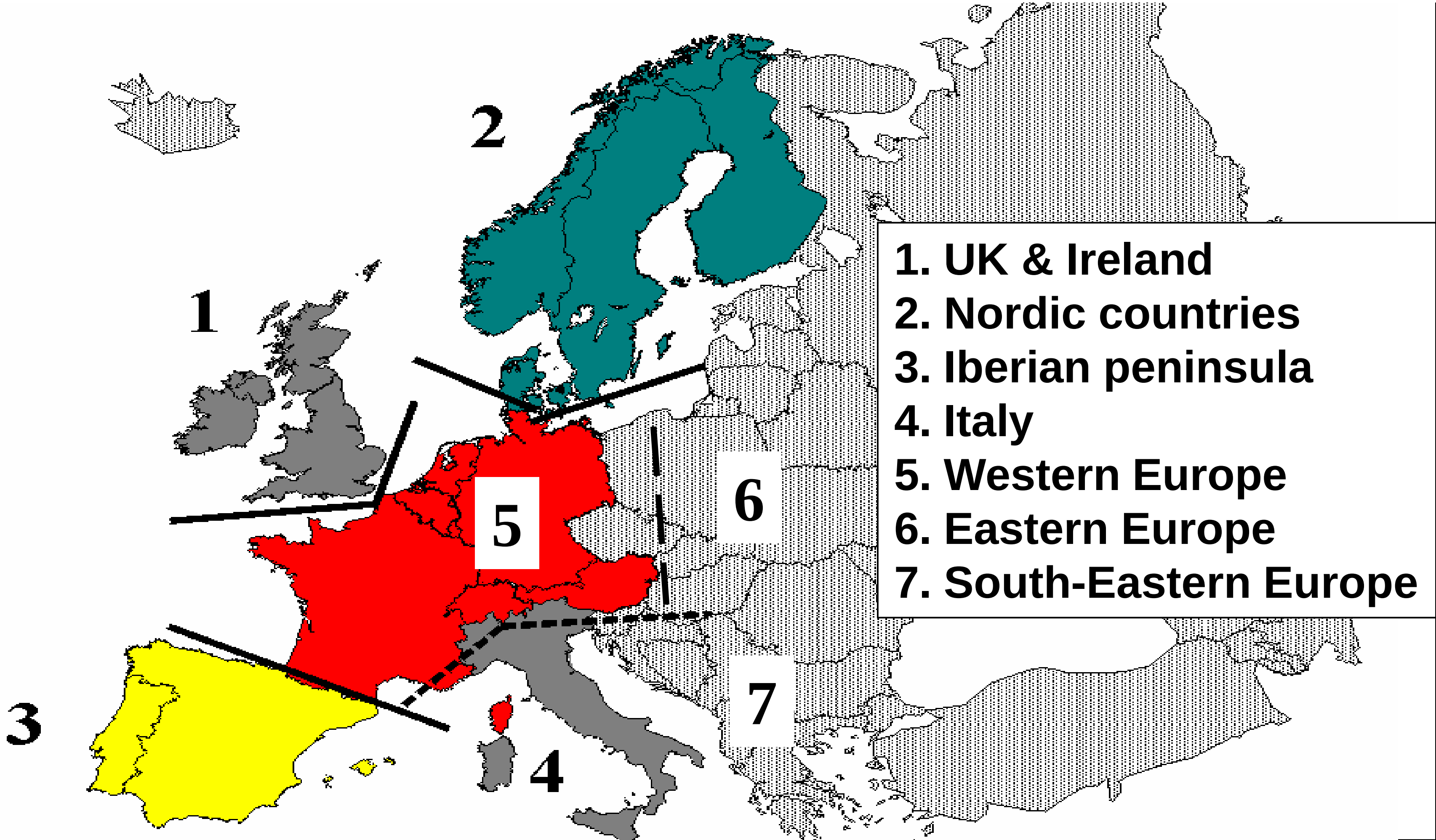
- **Intentions of the EC directive:**

→ **Competitive markets**

→ **Free choice of supplier**

→ **lower electricity prices**

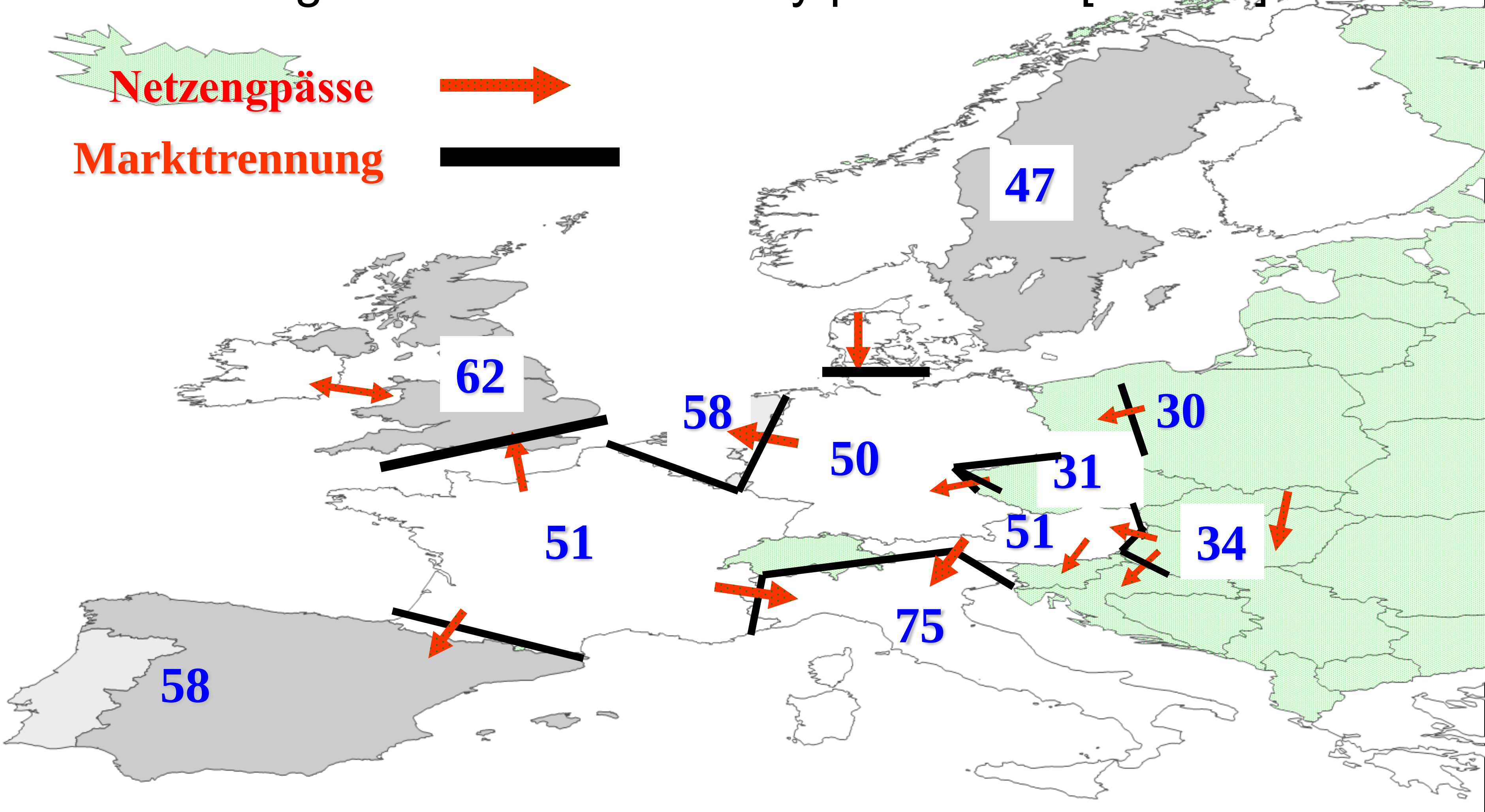
2. EUROPEAN ELECTRICITY SUB-MARKETS

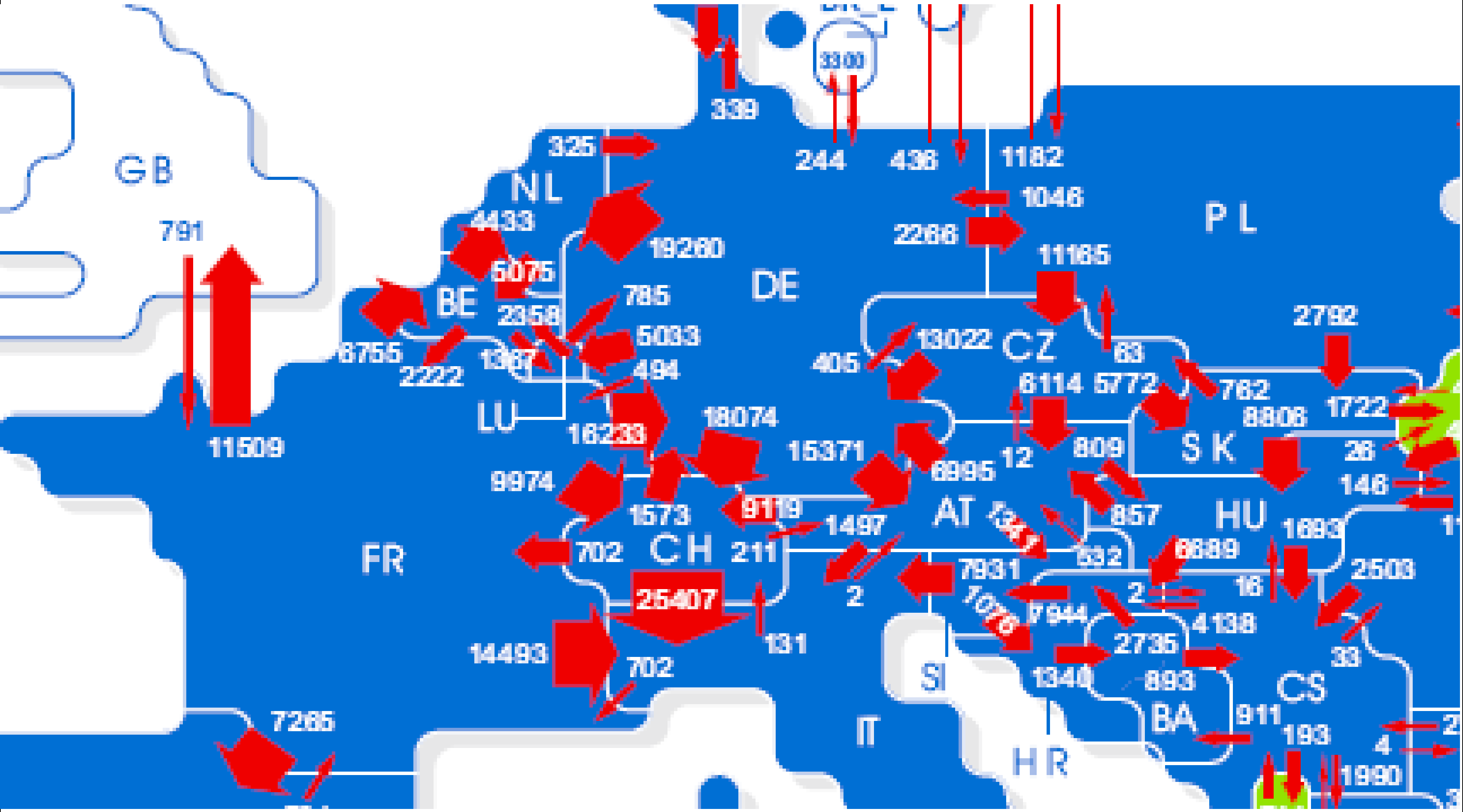


1. UK & Ireland
2. Nordic countries
3. Iberian peninsula
4. Italy
5. Western Europe
6. Eastern Europe
7. South-Eastern Europe

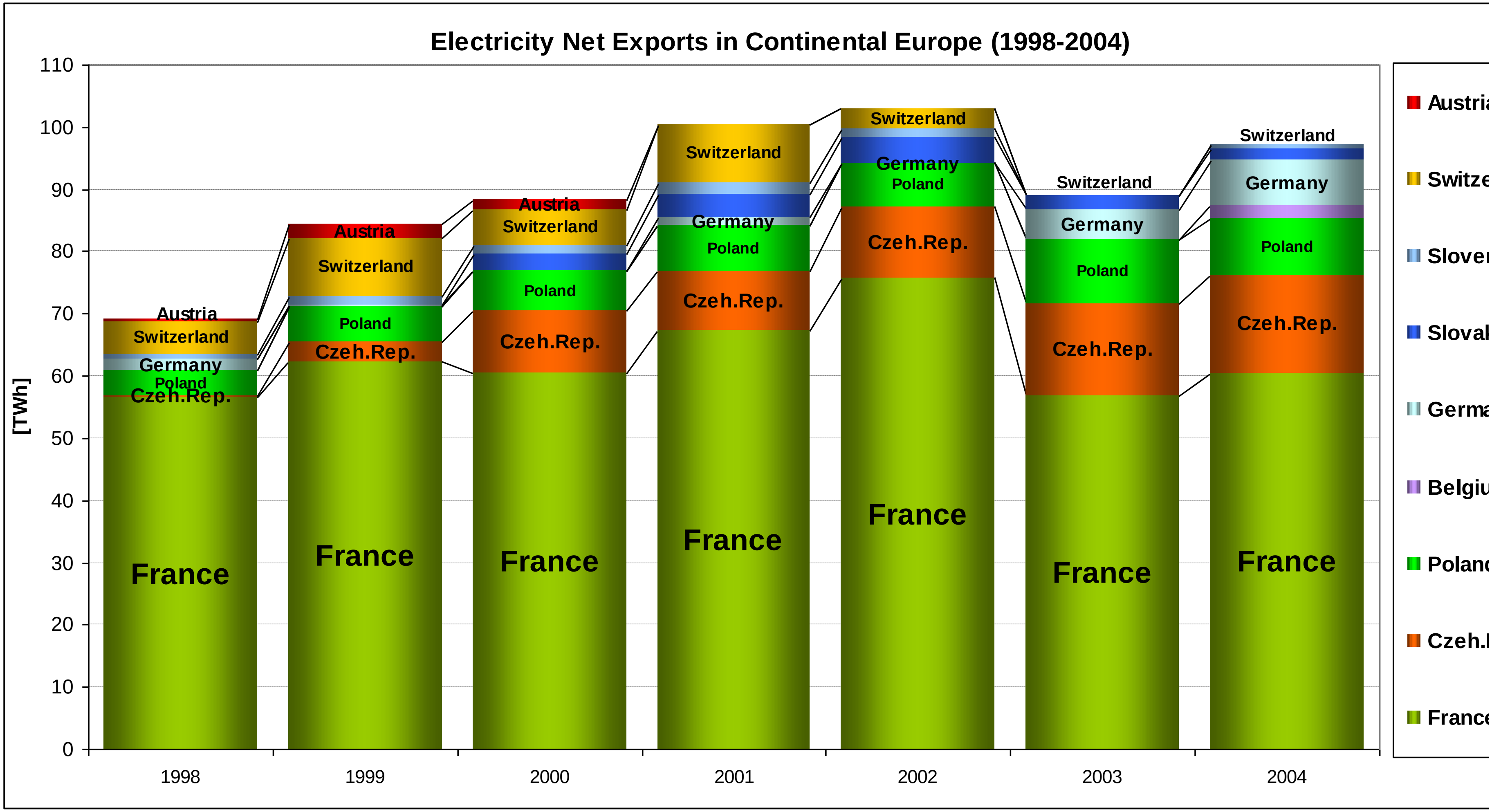
PREISUNTERSCHIEDE UND NETZENGPÄSSE IN EUROPA

Average wholesale electricity price 2006 [€/MWh]



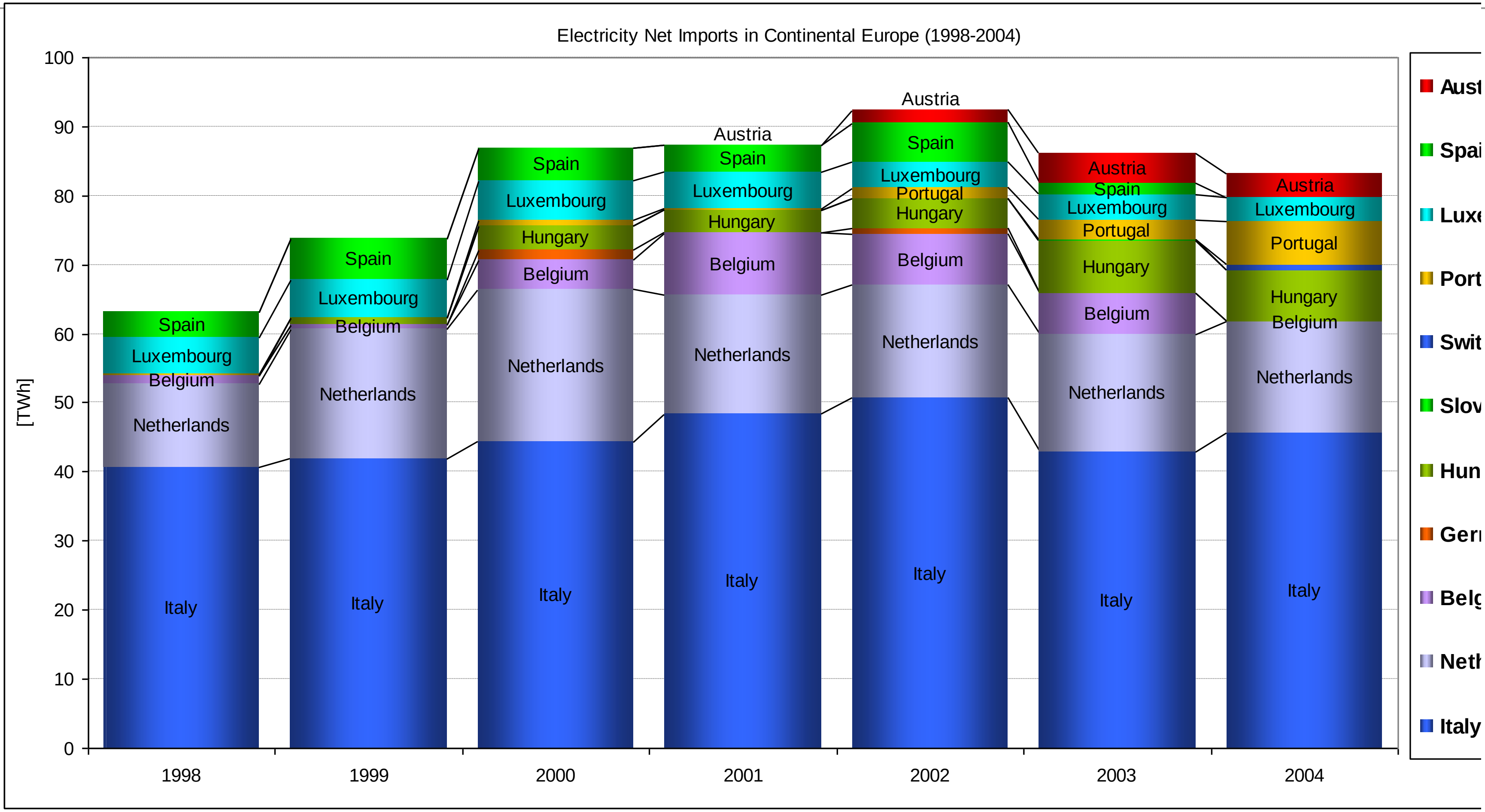

GB
NL
BE
LU
DE
PL
CZ
SK
AT
HU
CH
FR
IT
SI
HR
BA
CS
791
11509
325
339
244
436
1182
1046
2286
11165
4433
19280
5075
785
2358
5083
494
6755
2222
1367
16233
18074
15371
9974
1573
9119
1497
702
211
25407
14493
131
702
7265
2
405
13022
8114
5772
63
762
2792
1722
8808
26
146
12
809
6995
857
1693
2503
16
4138
2735
893
1340
911
193
1990
4
33

NET EXPORTS



(To be updated to 2006)

NET IMPORTS



(To be updated to 2006)

3. BACKGROUND ELECTRICITY CONSUMPTION

ELECTRICTY CONSUMPTION

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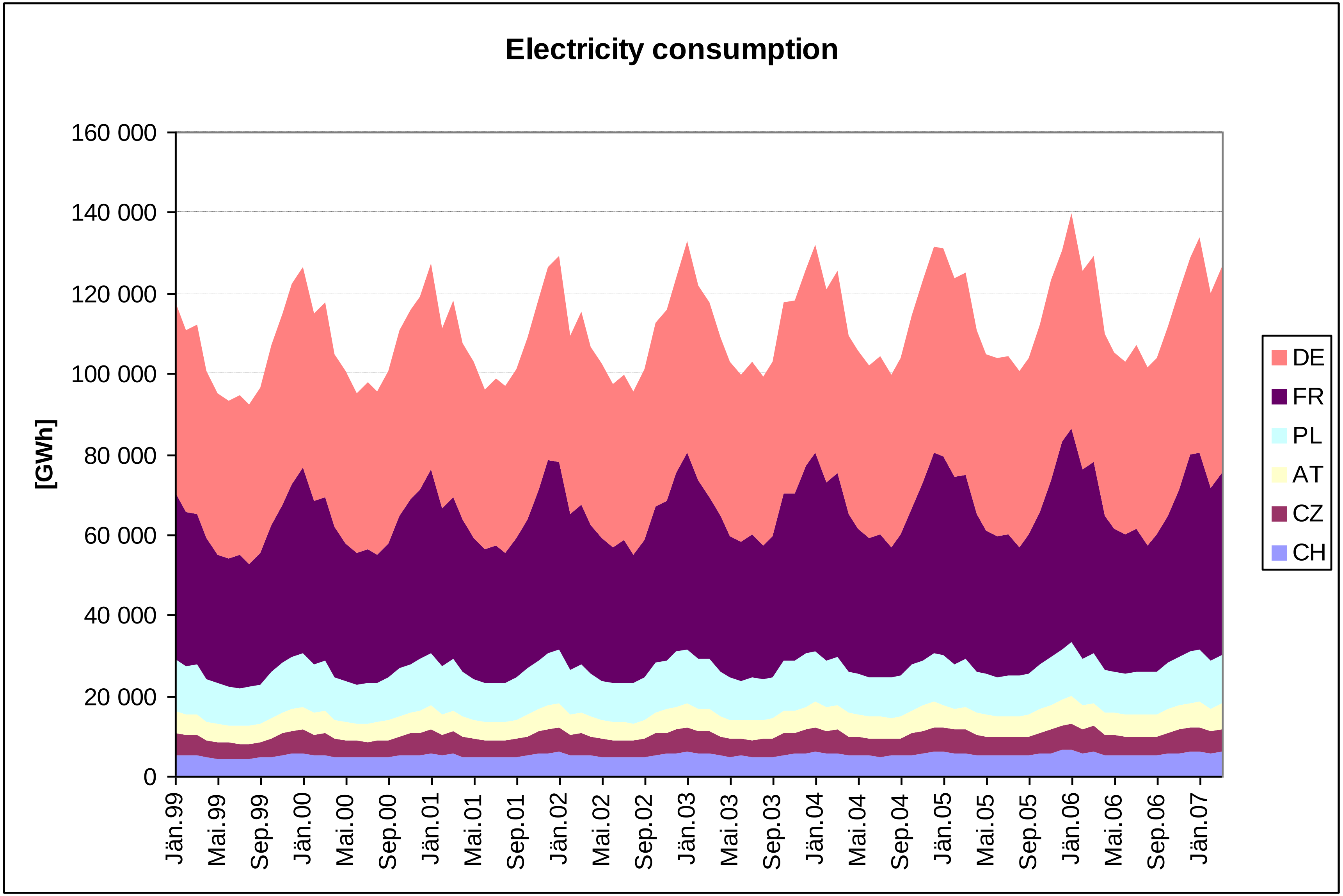
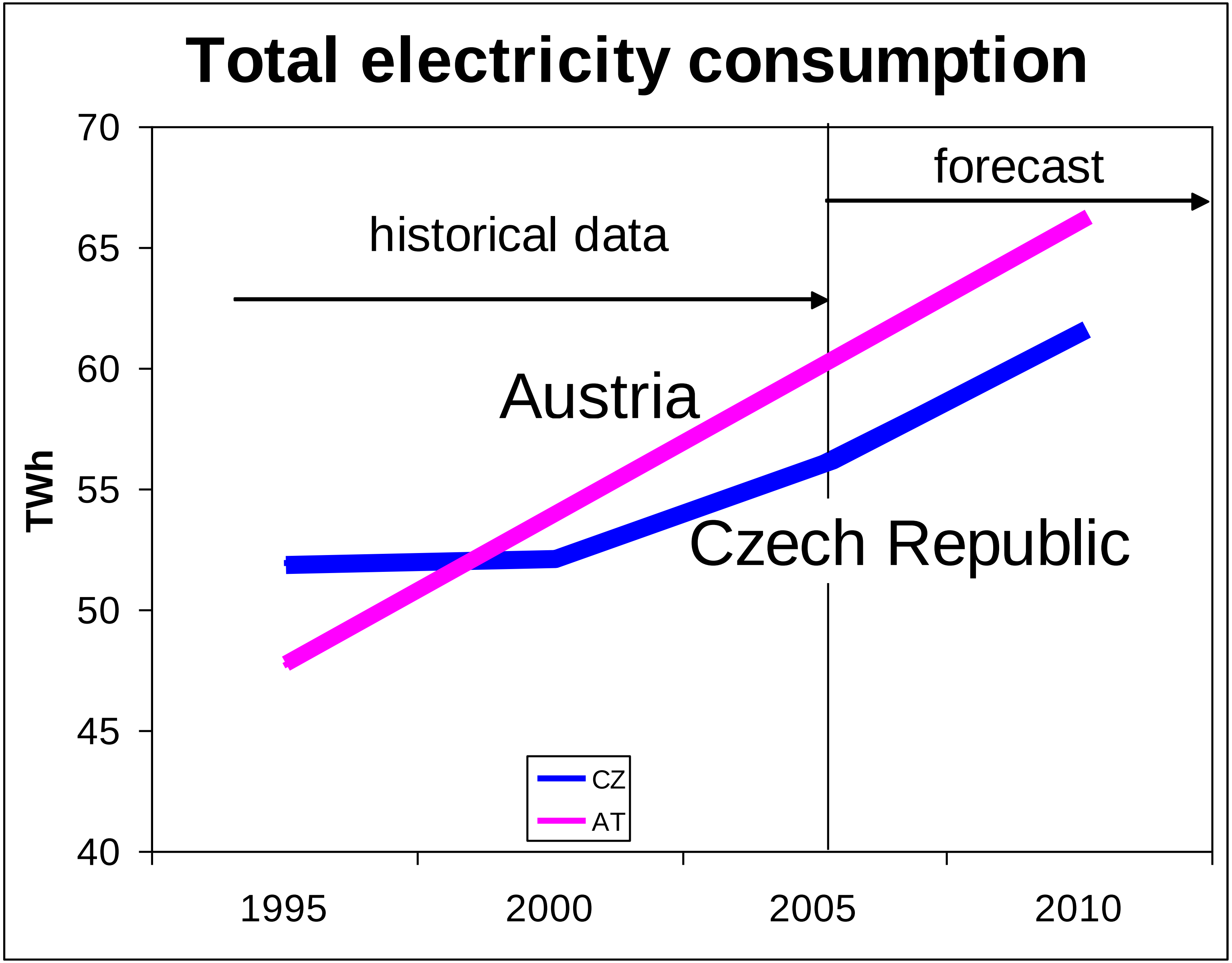
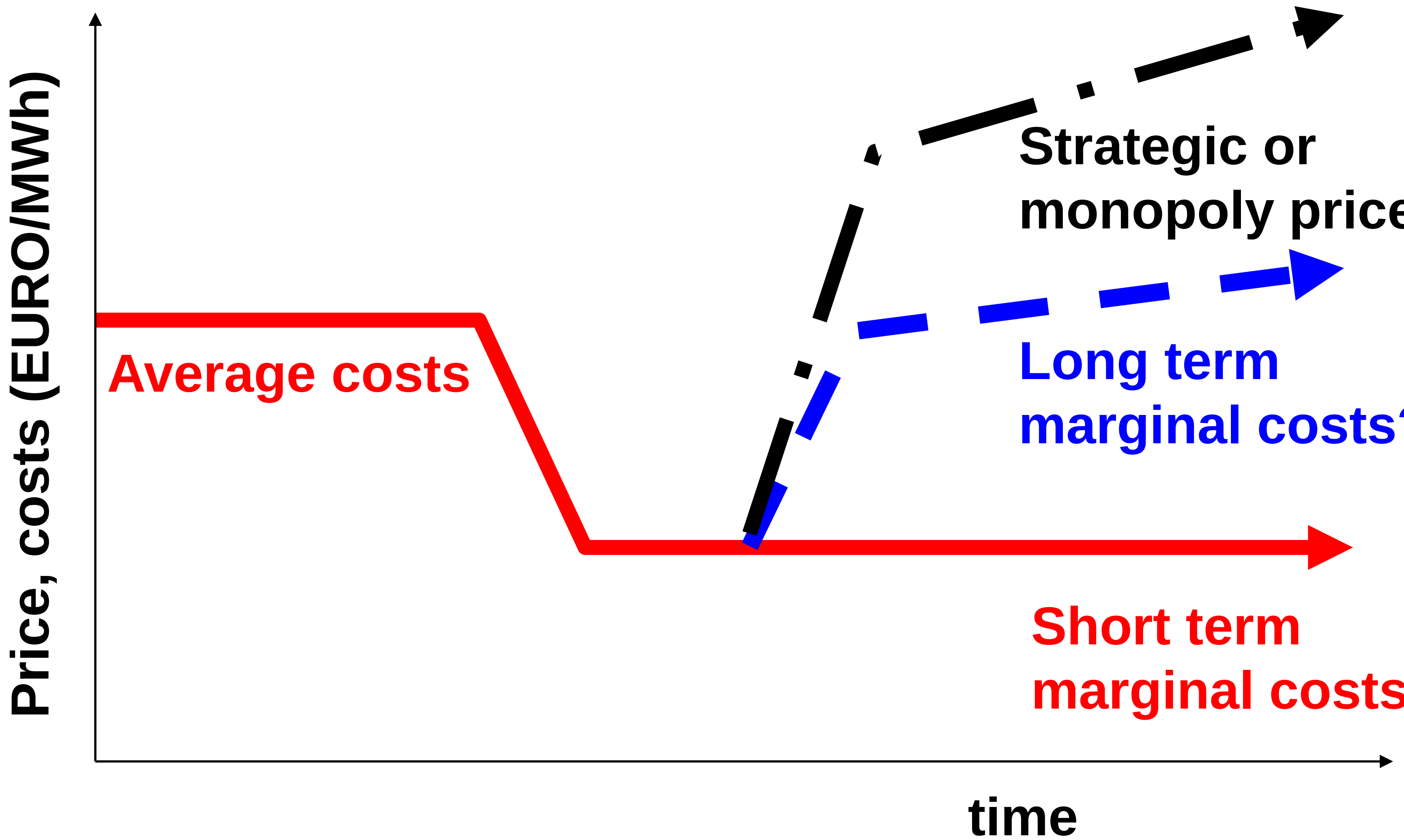


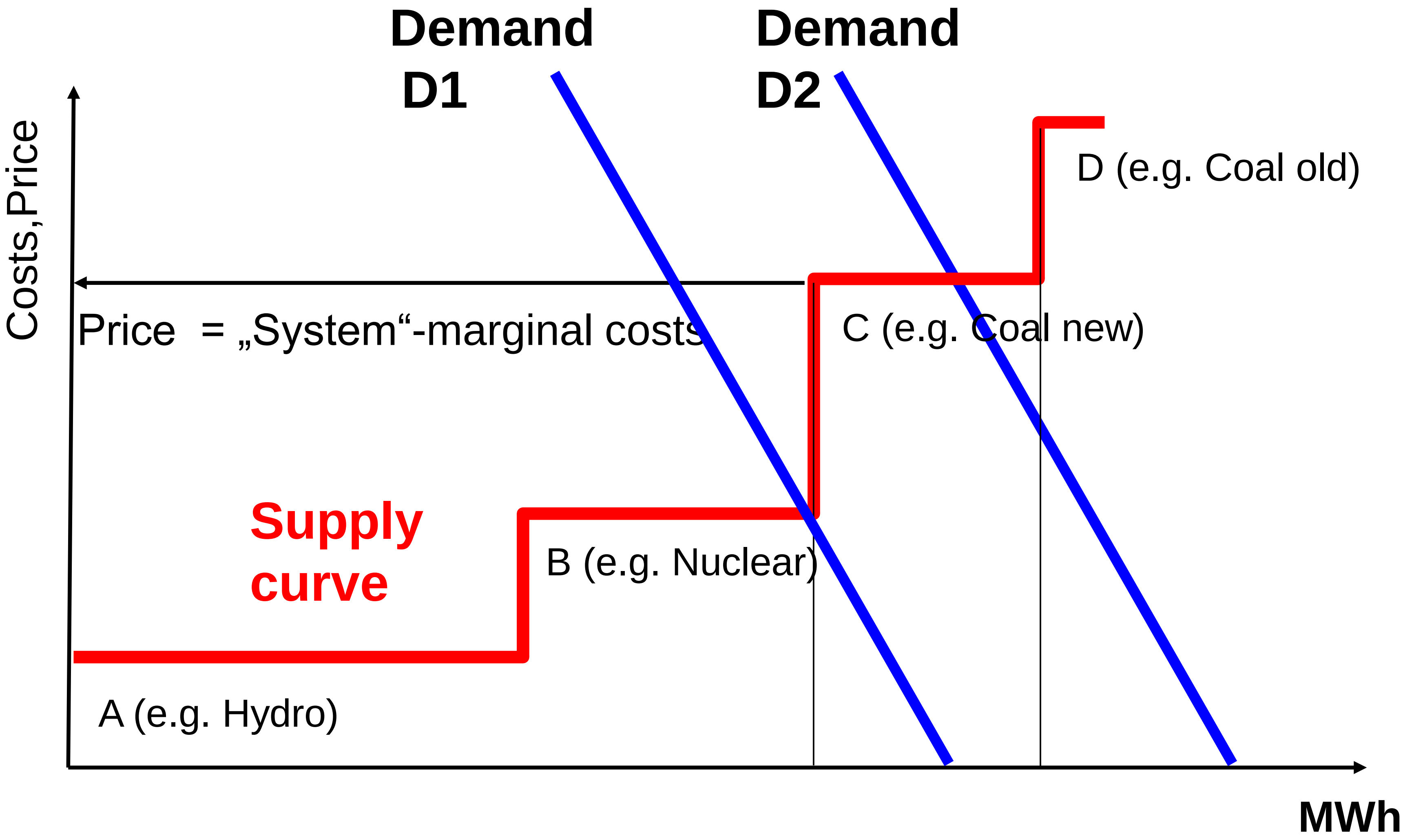
COMPARISON CZ-AT



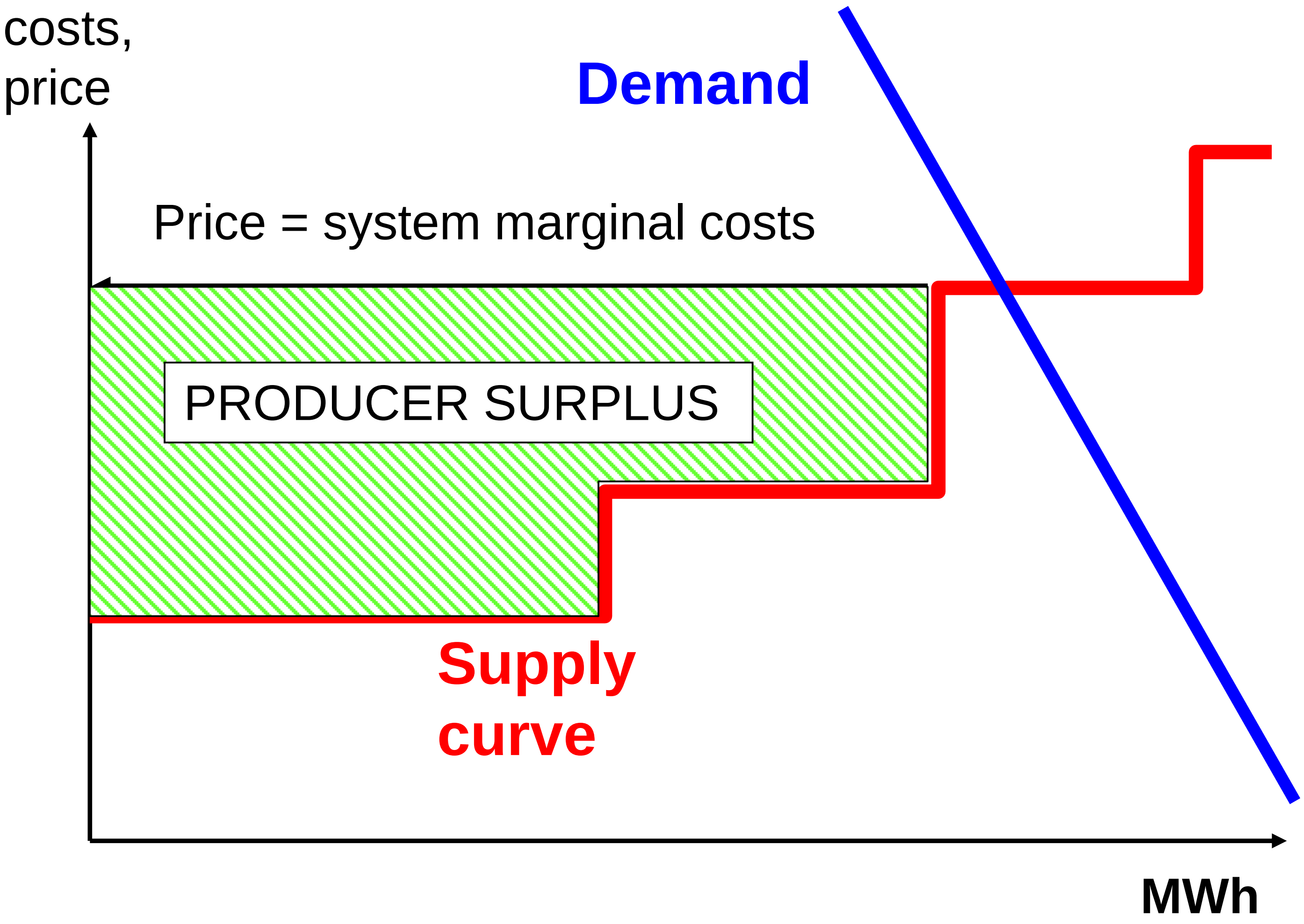
4 HOW PRICES COME ABOUT (SOME THEORY)



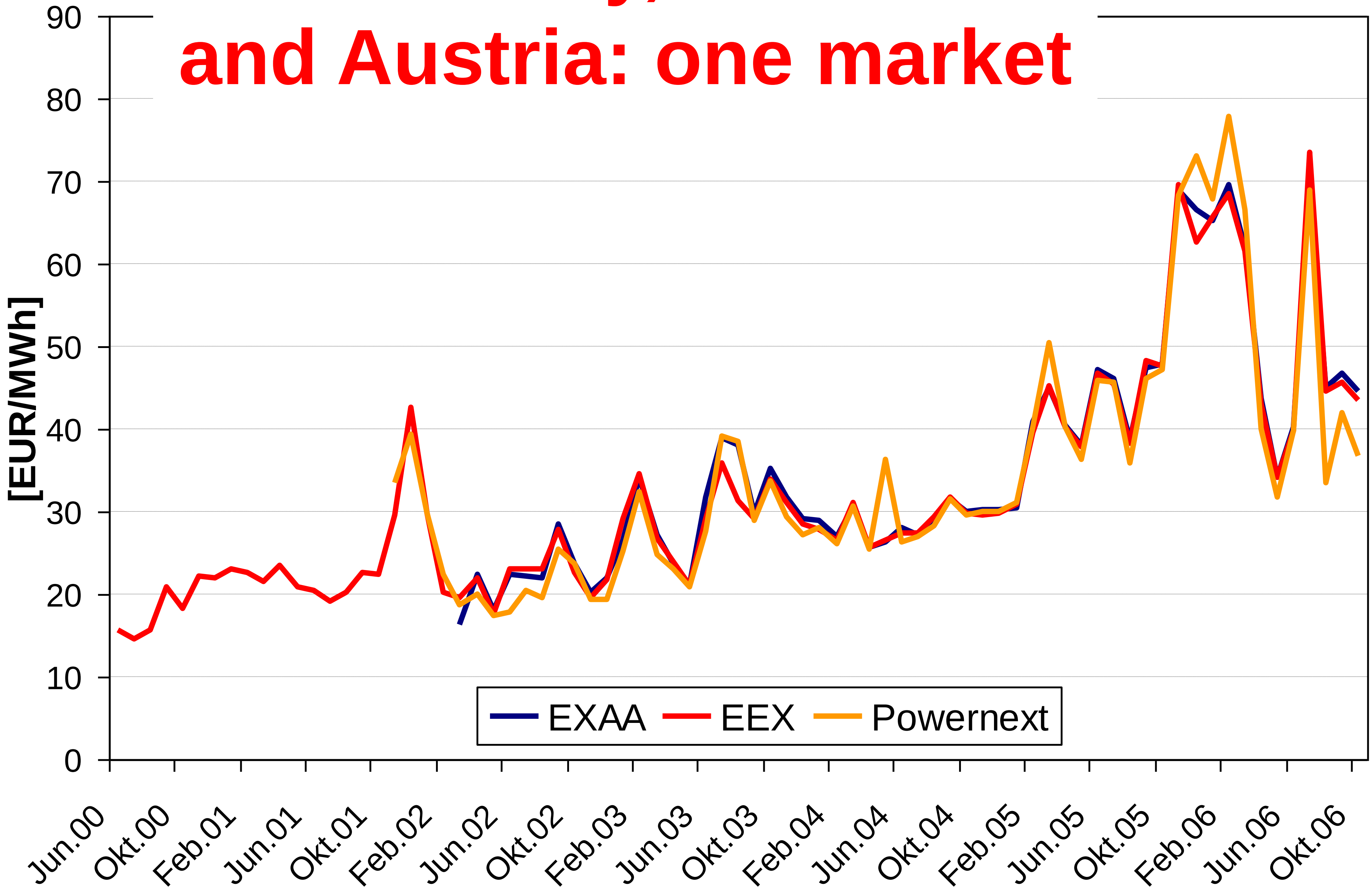
BASIC PRINCIPLE OF COMPETITION: PRICE = MARGINAL COSTS



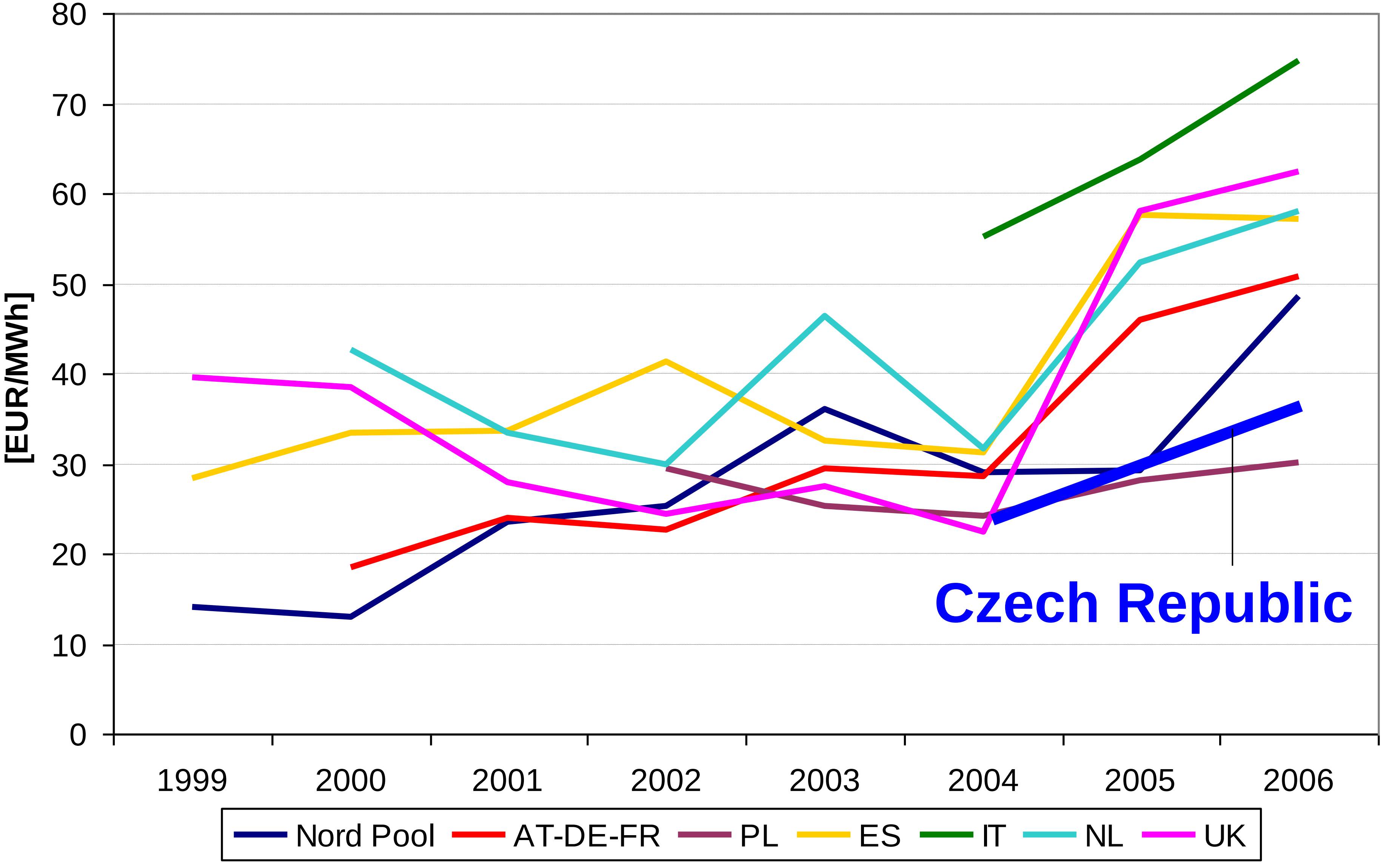
PRICES UNDER COMPETITION



Germany, France and Austria: one market

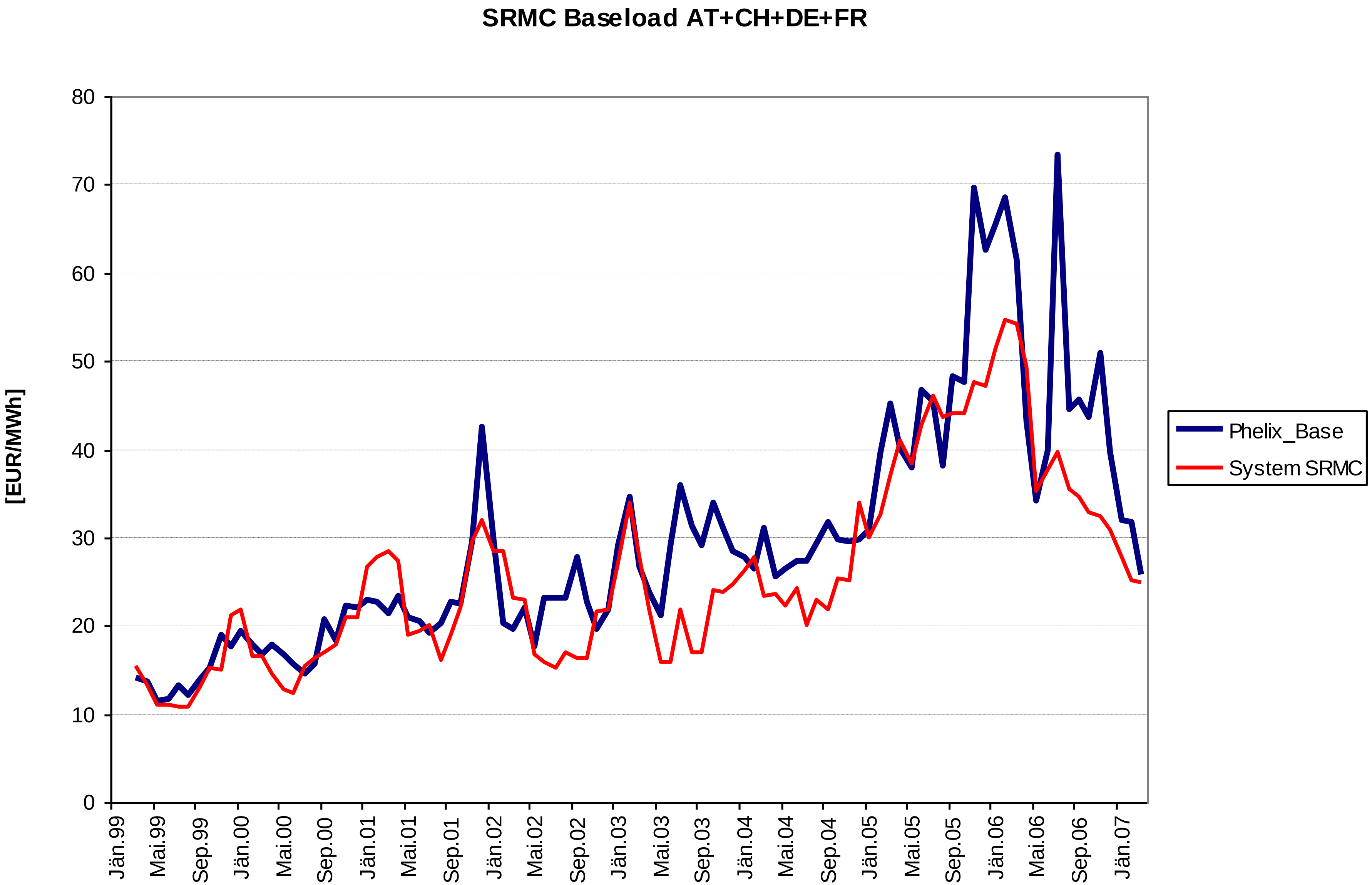


Do prices convergence?

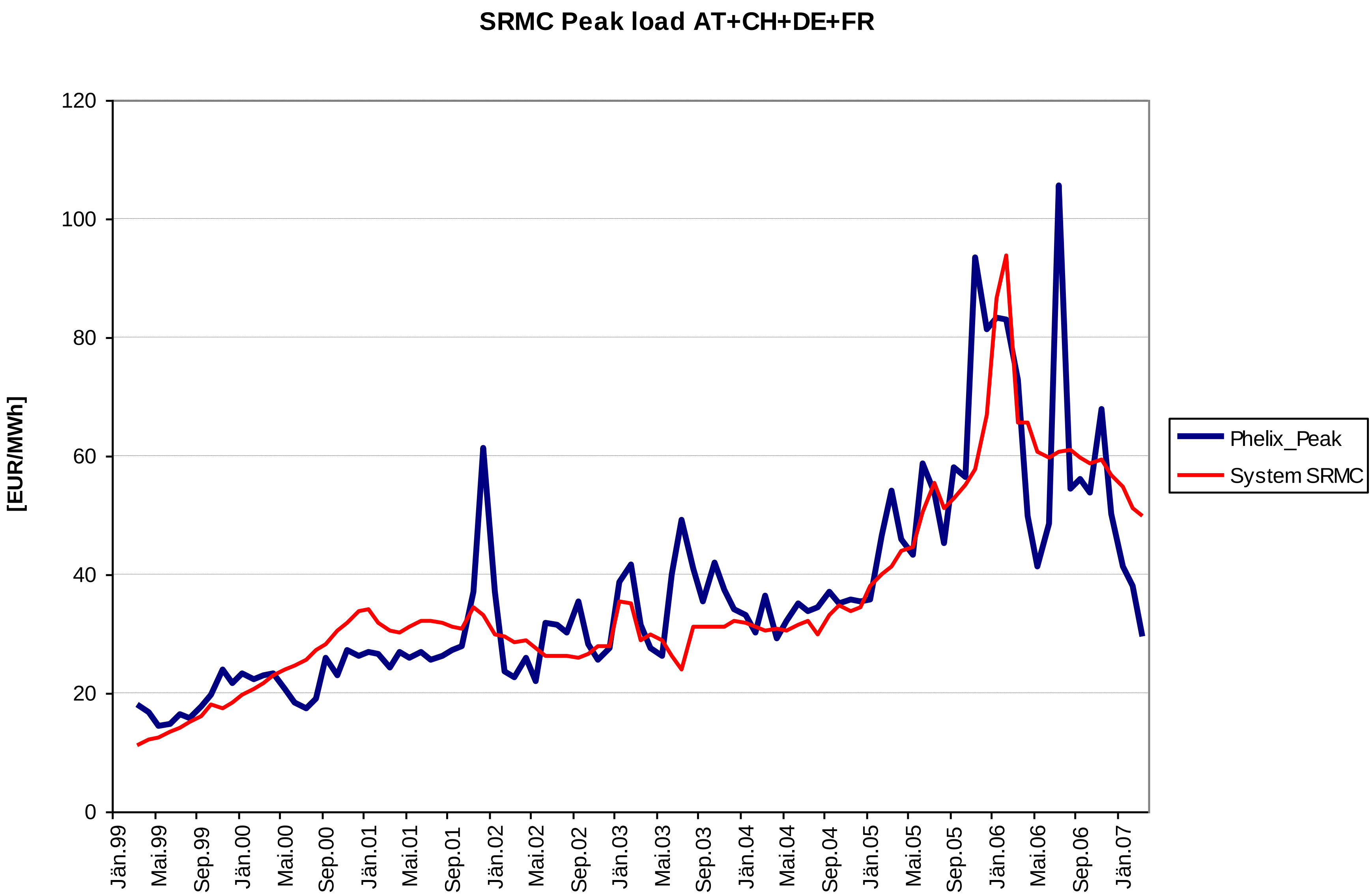


5. ANALYZING MARKET POWER AND THE EFFECT OF MARKET EXTENTION

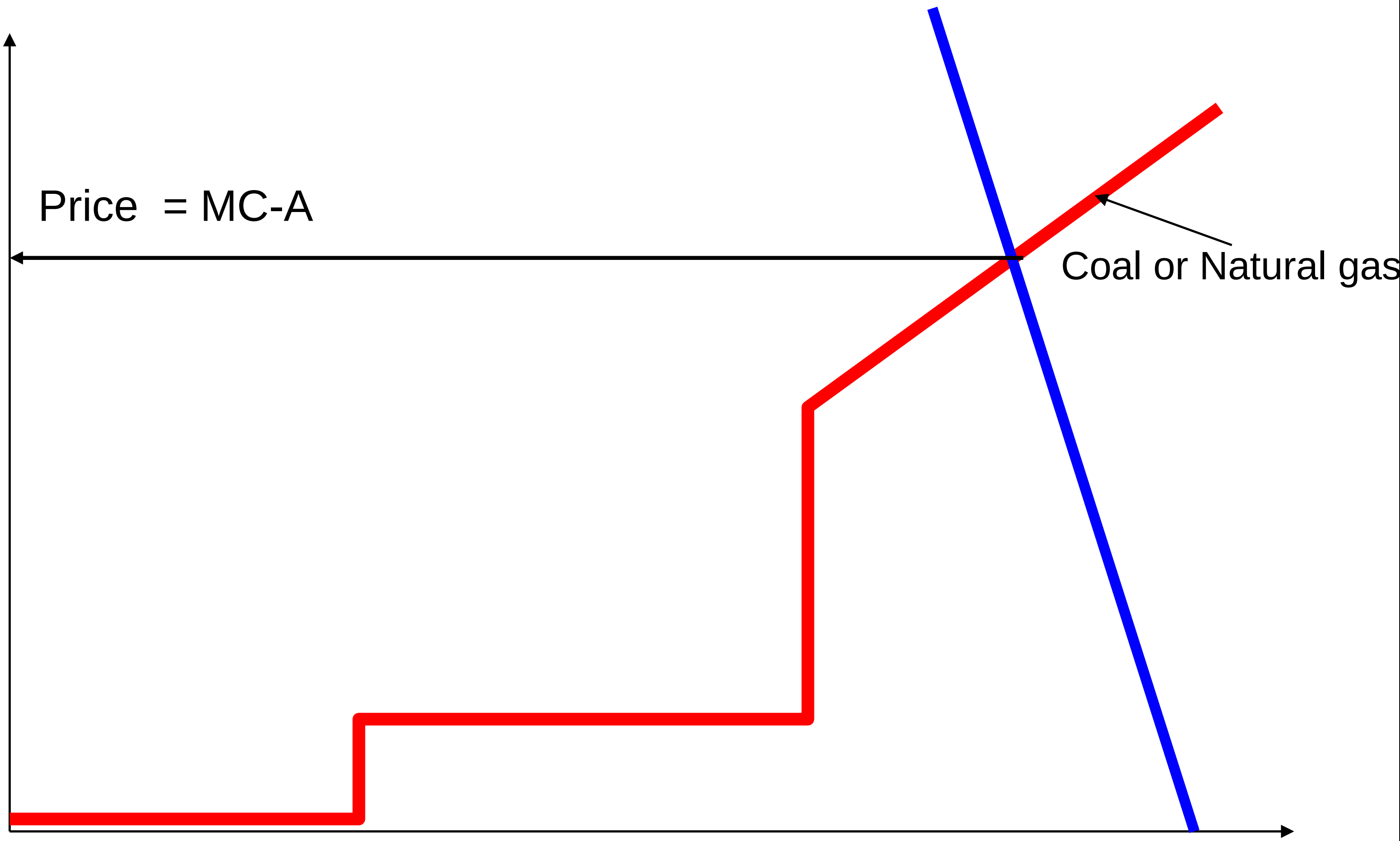
BASEPRICE VS SRMC (EEX)



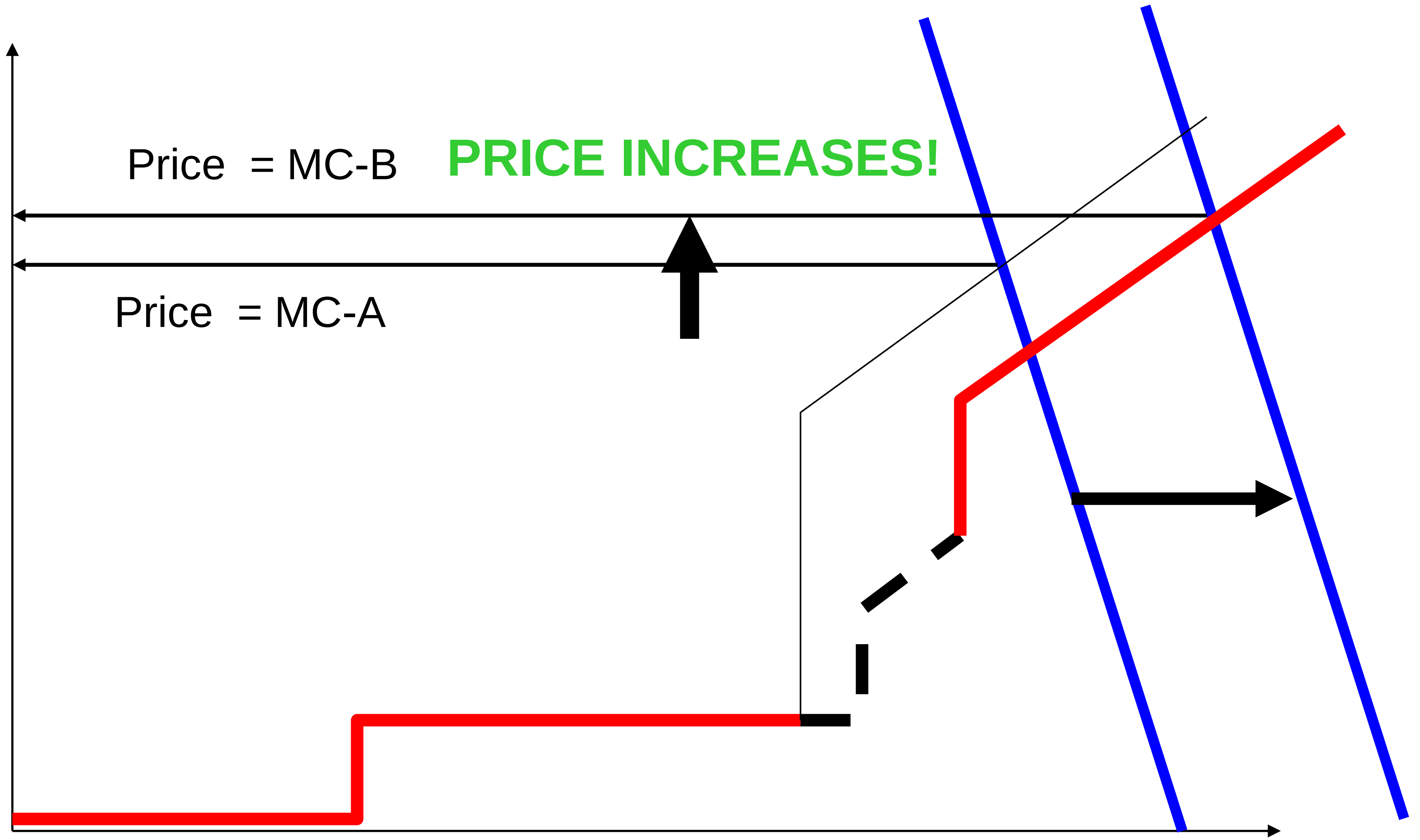
PEAK-PRICE VS SRMC (EEX)



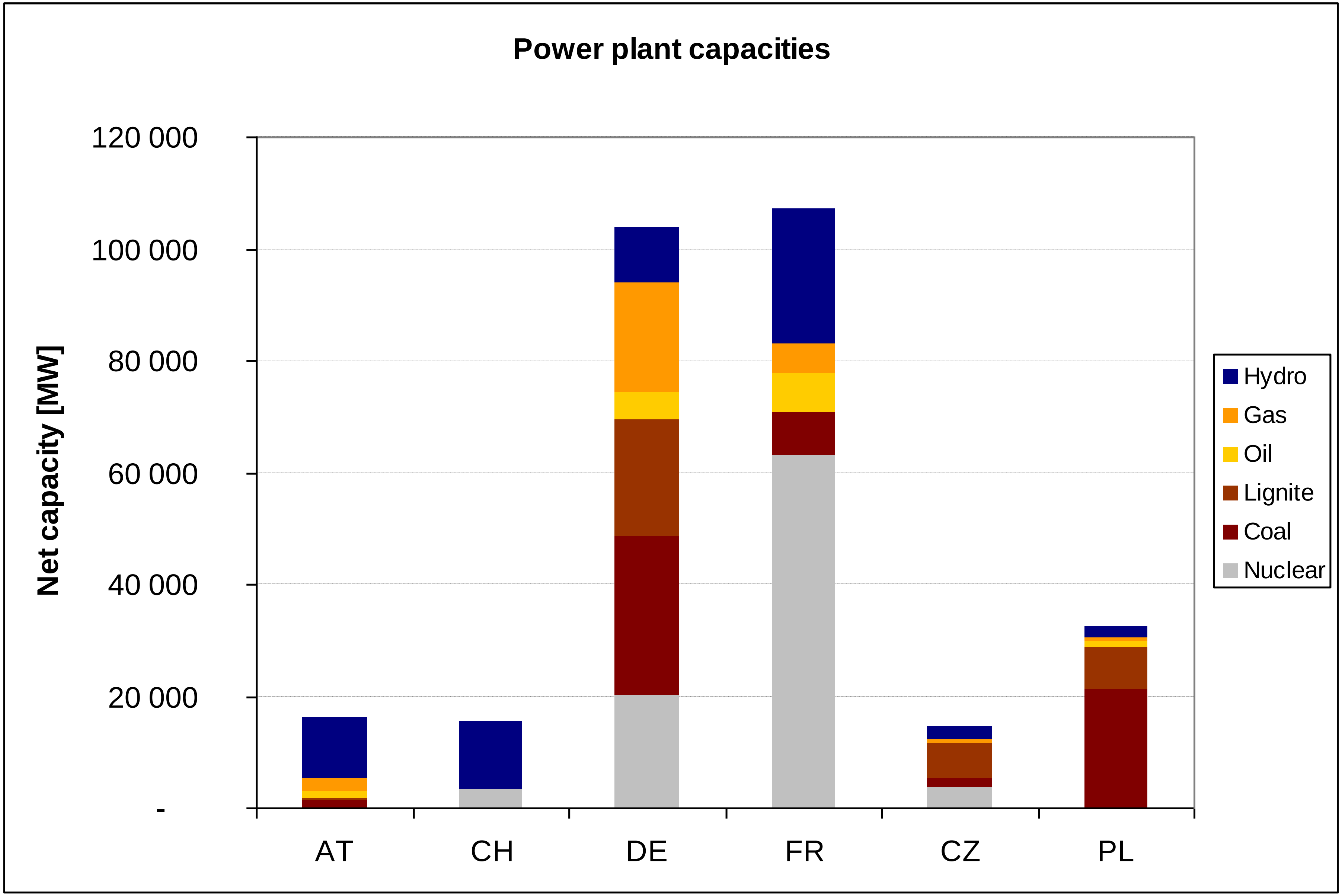
PRICE IN AREA A (DE+FR+CH+AT)



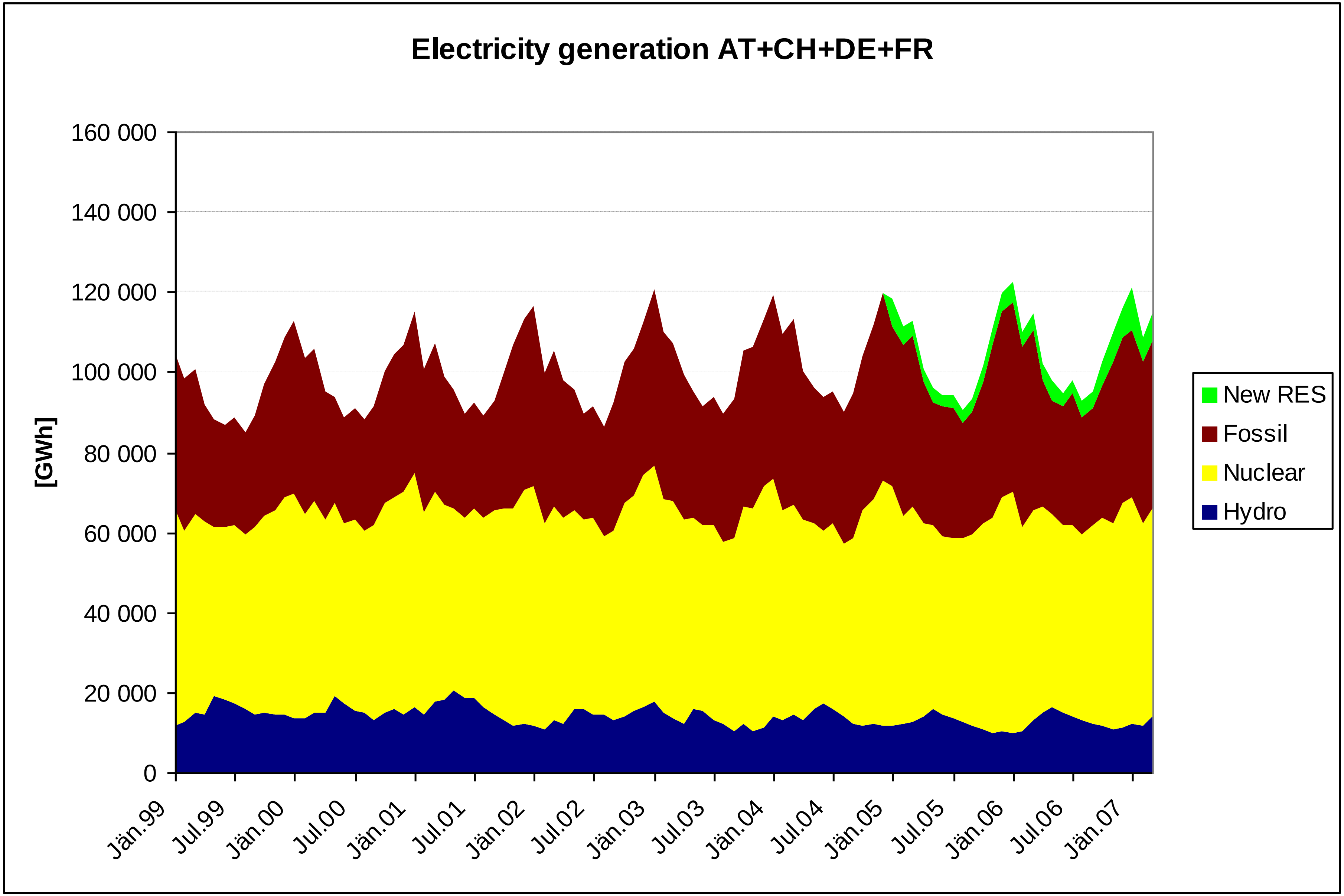
ADDING A „SHORT" COUNTRY (e.g. Hungary)



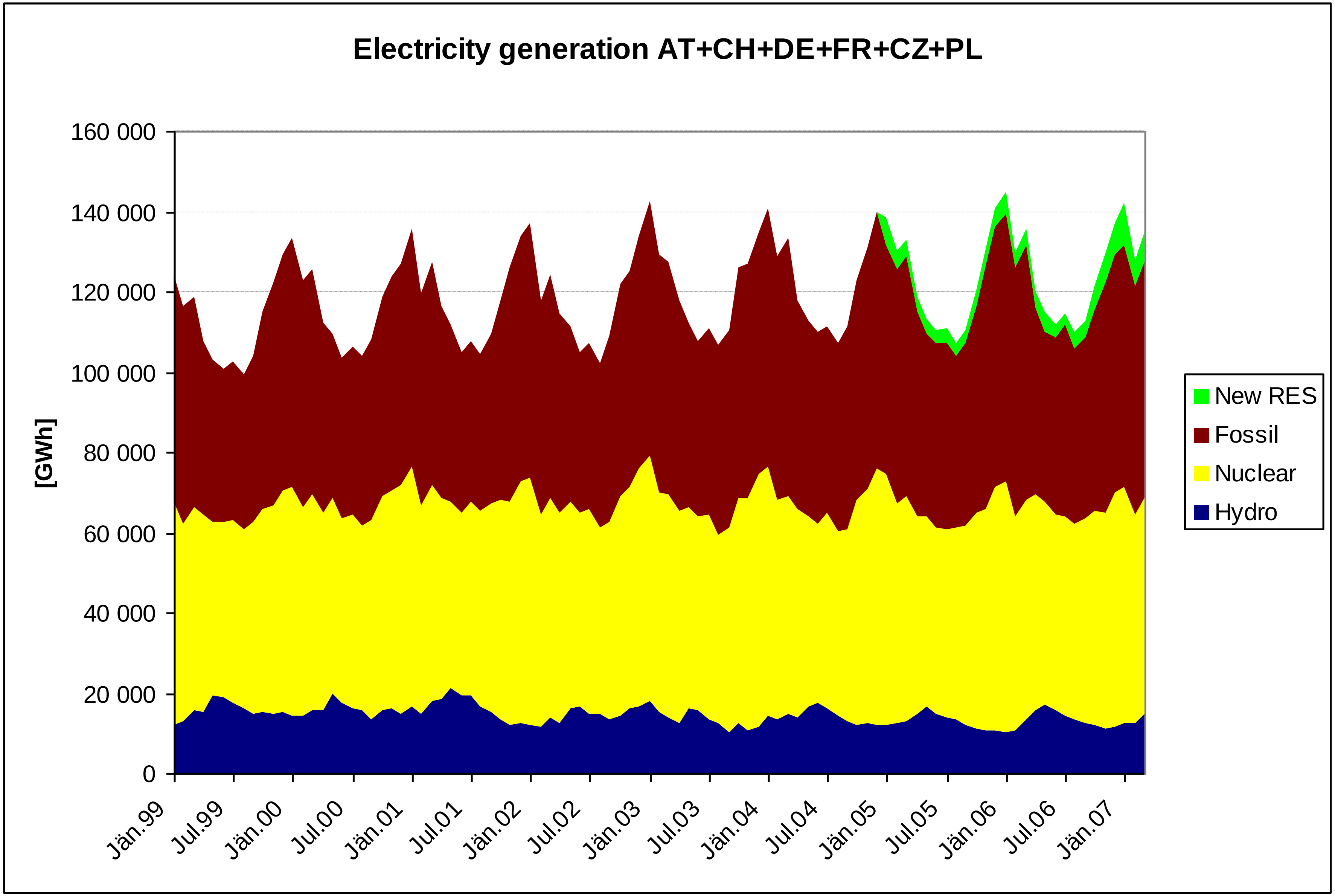
POWER PLANT CAPACITIES



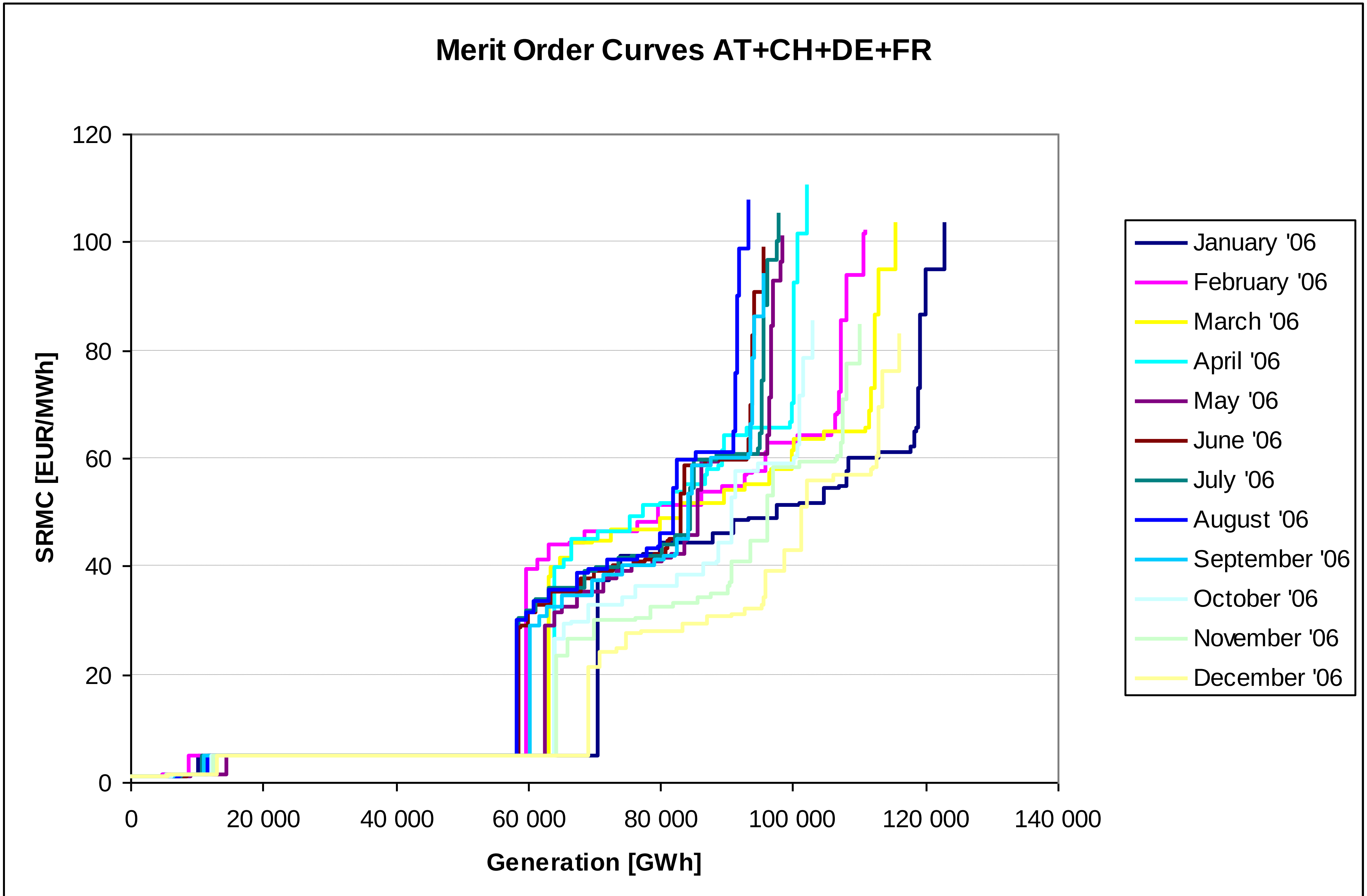
GENERATION AT+CH+FR+DE



GENERATION AT+CH+FR+DE+CZ+PL



METHOD OF APPROACH:



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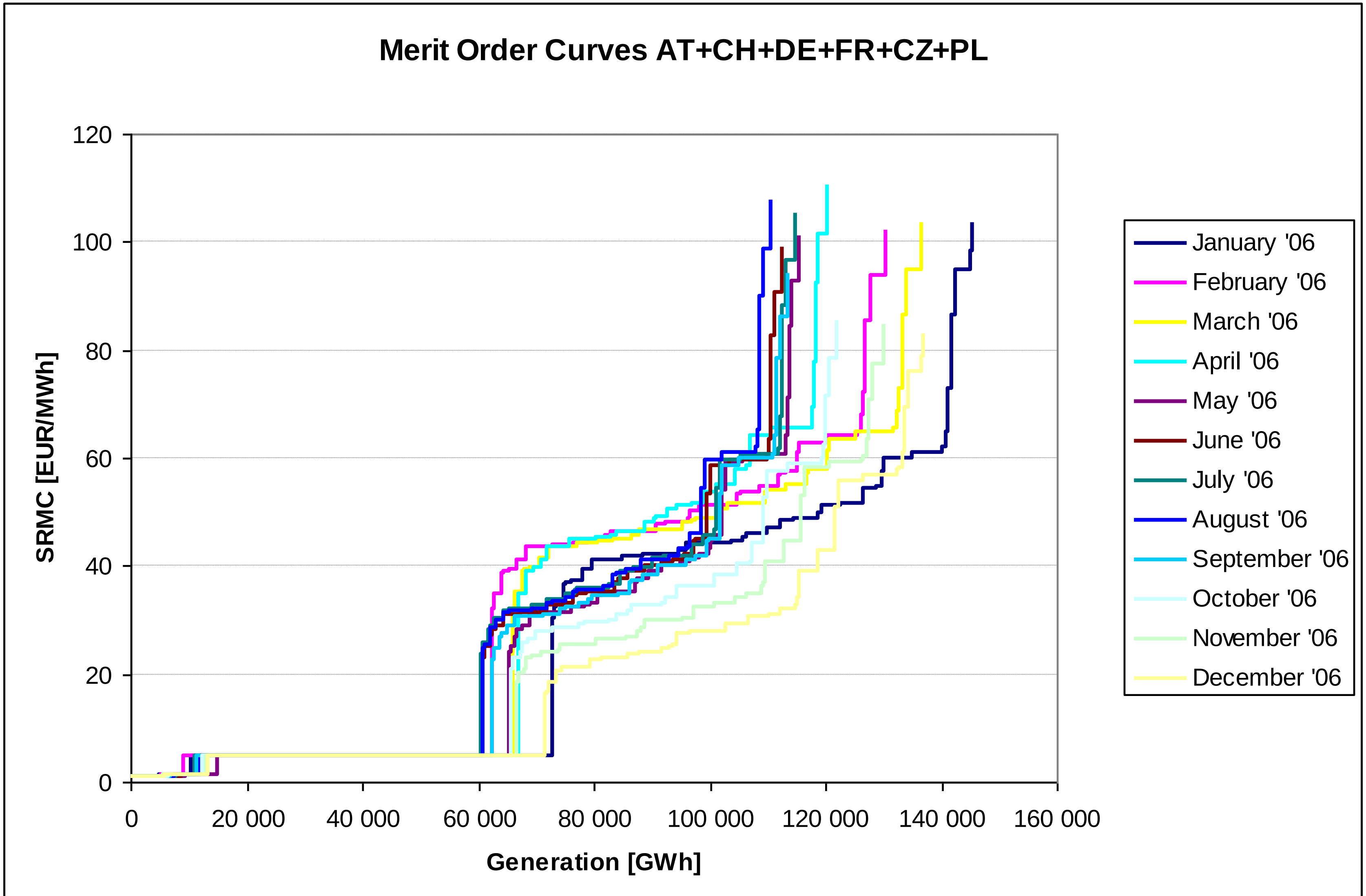
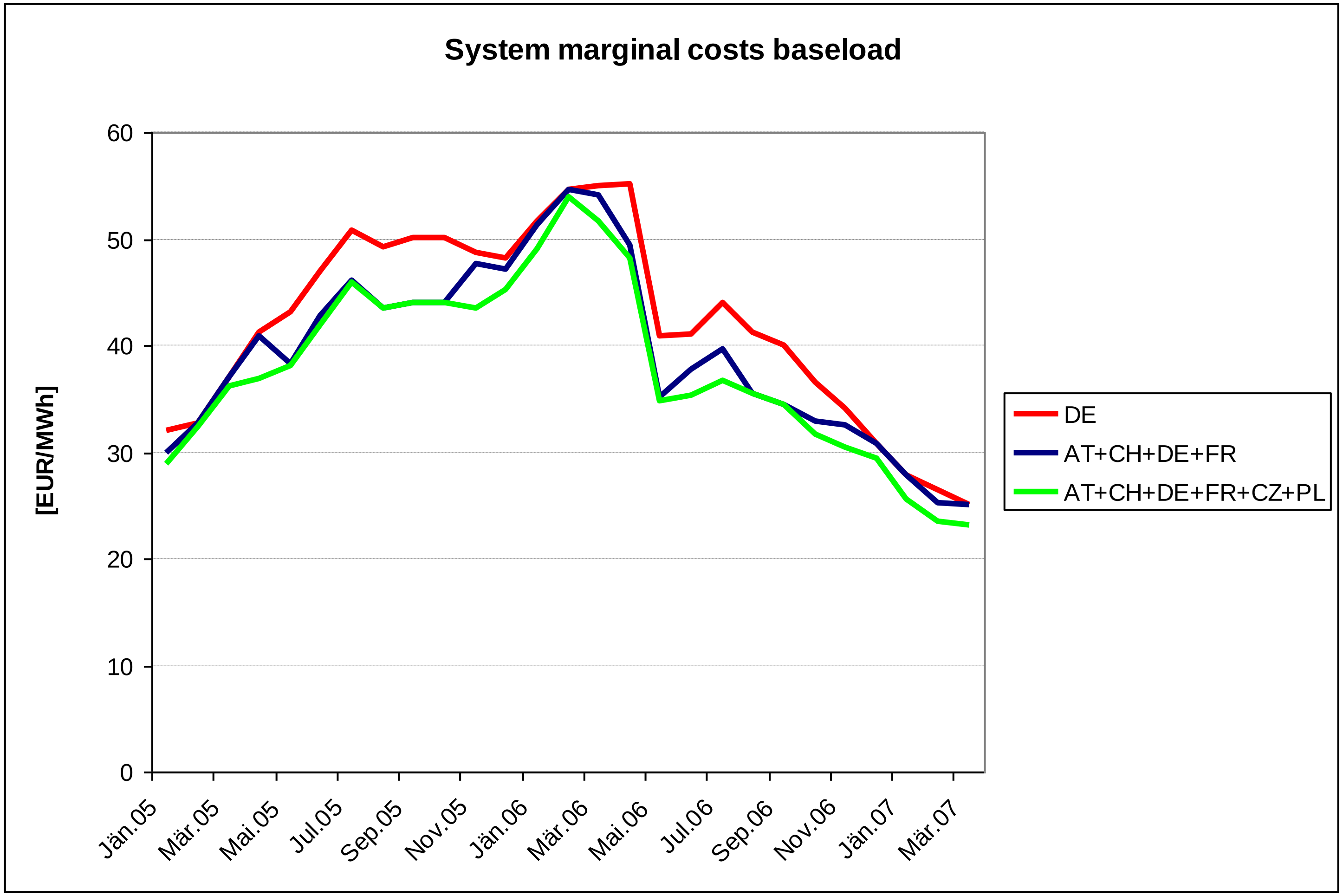
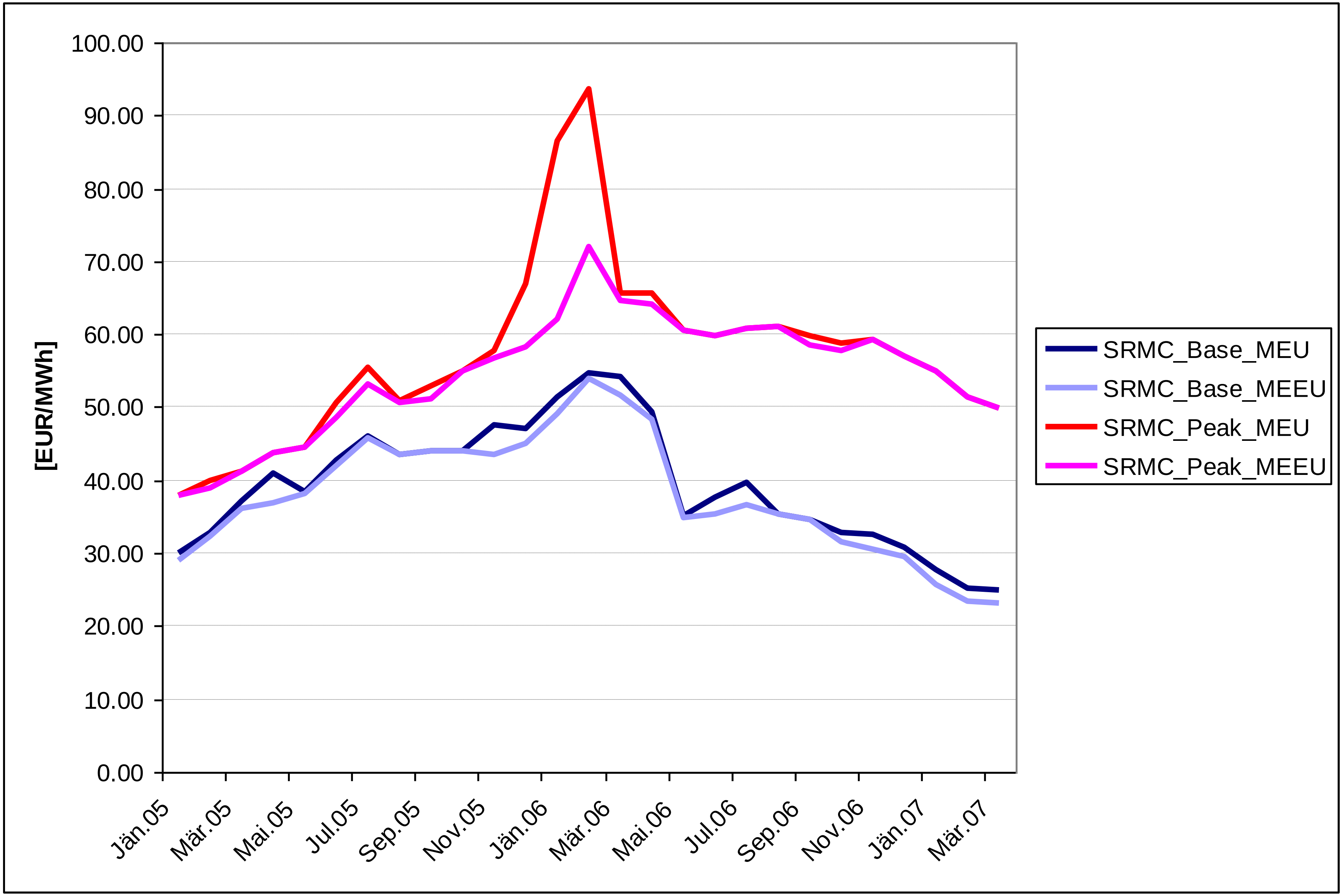


METHOD OF APPROACH:



SRMC MEU/MEEU



8. CONCLUSIONS

- General lack of competition: in generation and supply in every country and sub-market
- In wholesale markets: strong suspictions regarding exertion of market power in every sub-market

8. CONCLUSIONS

To bring about effective competition it is necessary to …

- **conduct European-wide correct unbundling to avoid market power over the grid**
- **to ensure prevailance of excess capacities resp. demand-side measures**
- **avoid further mergers and cartelisation, divest capacities, provide incentives for new generators?**
- **harmonise (transboundary) conditions for access to the grid;**
- **Enhance transparency;**

8. CONCLUSIONS

- **The absolute litmus test for the liberalised CE market will come when excess capacities in transmission and generation has disappeared;**

LESSONS LEARNED FROM THE AUSTRIAN POINT-OF-VIEW

- Austria is well-connected to CH, DE, CZ
- Austrian generators cannot influence the market prices in this market currently. Competition must be triggered on a superior level in Europe
- Decrease in plant capacity and increase in consumption led to the change from a net electricity exporter in the 1990s to a net import country in recent years.

FURTHER INFORMATION:

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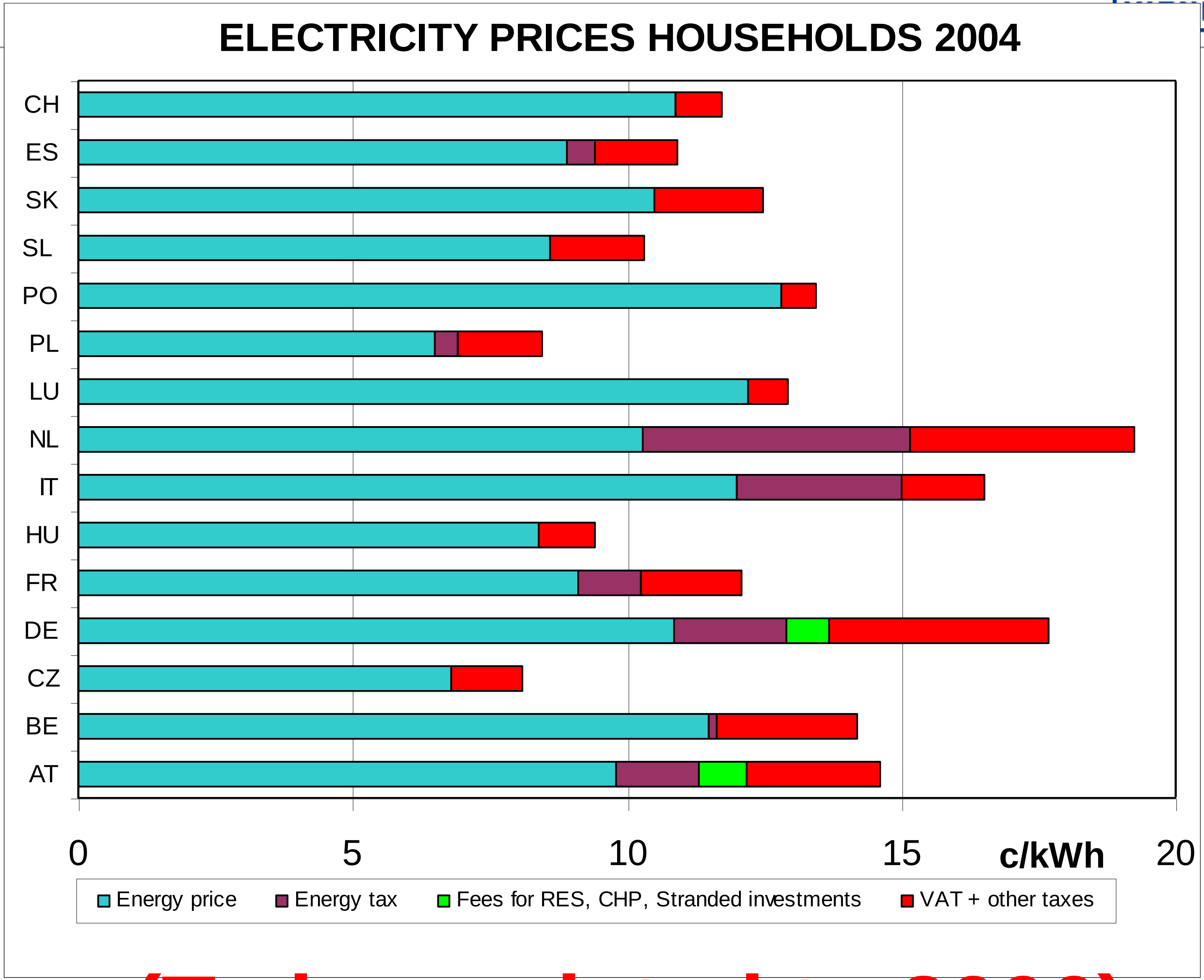
APPENDIX



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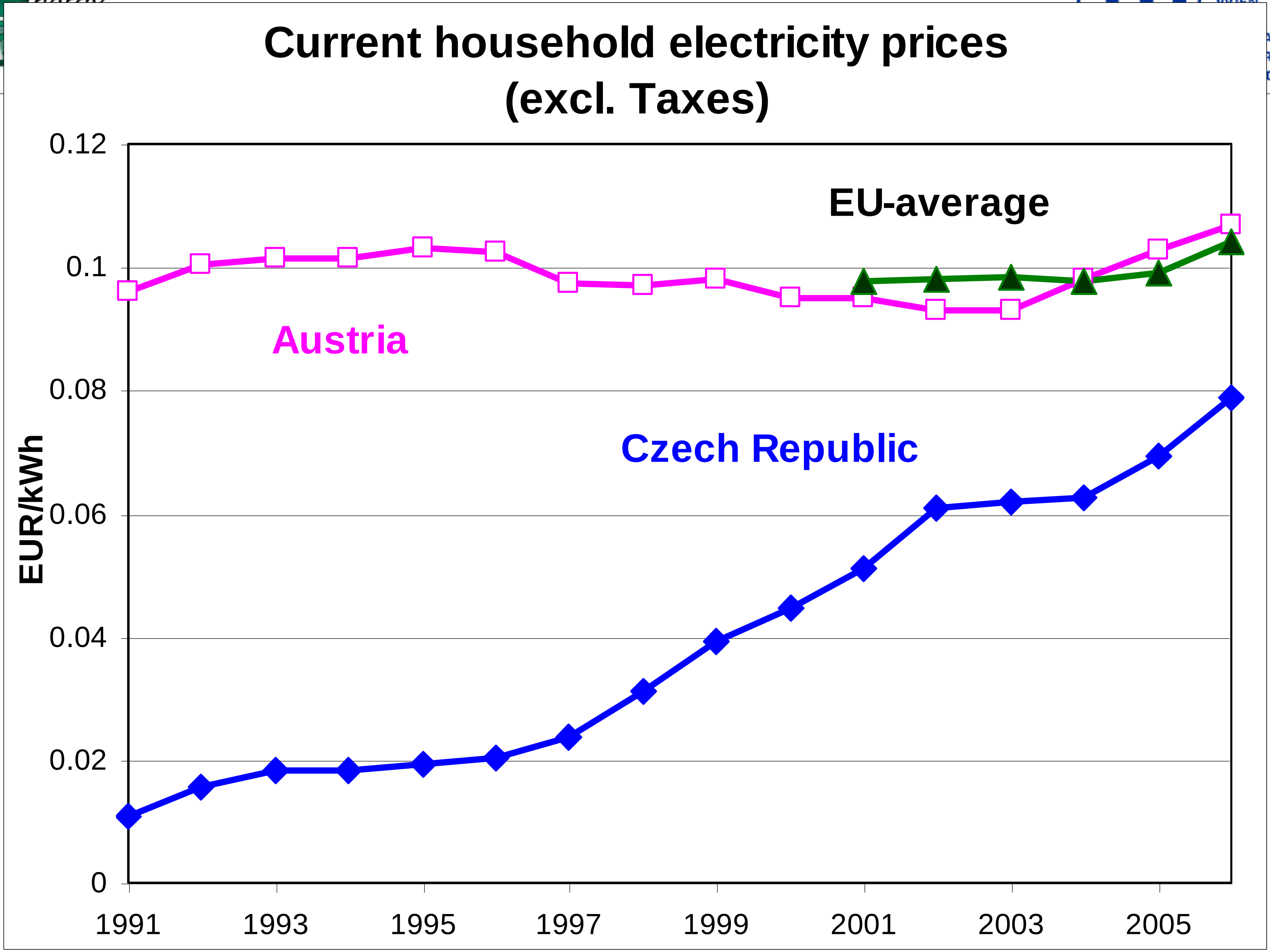
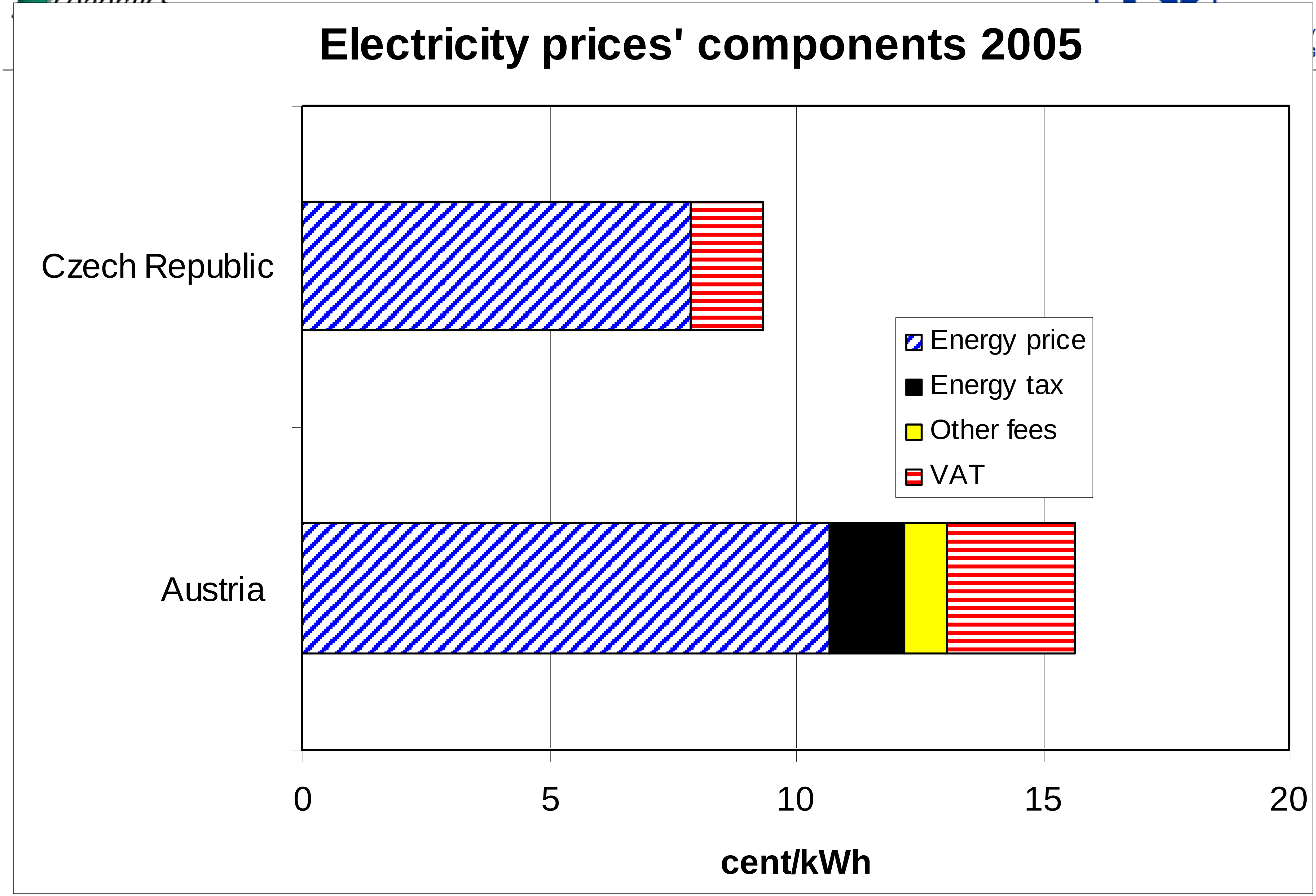


Current household electricity prices
(excl. Taxes)
EUR/kWh
0.12
0.1
0.08
0.06
0.04
0.02
0
1991
1993
1995
1997
1999
2001
2003
2005
EU-average
Austria
Czech Republic


Electricity prices' components 2005
Czech Republic
Austria
Energy price
Energy tax
Other fees
VAT
0
5
10
15
20
cent/kWh

Energy Economics Group

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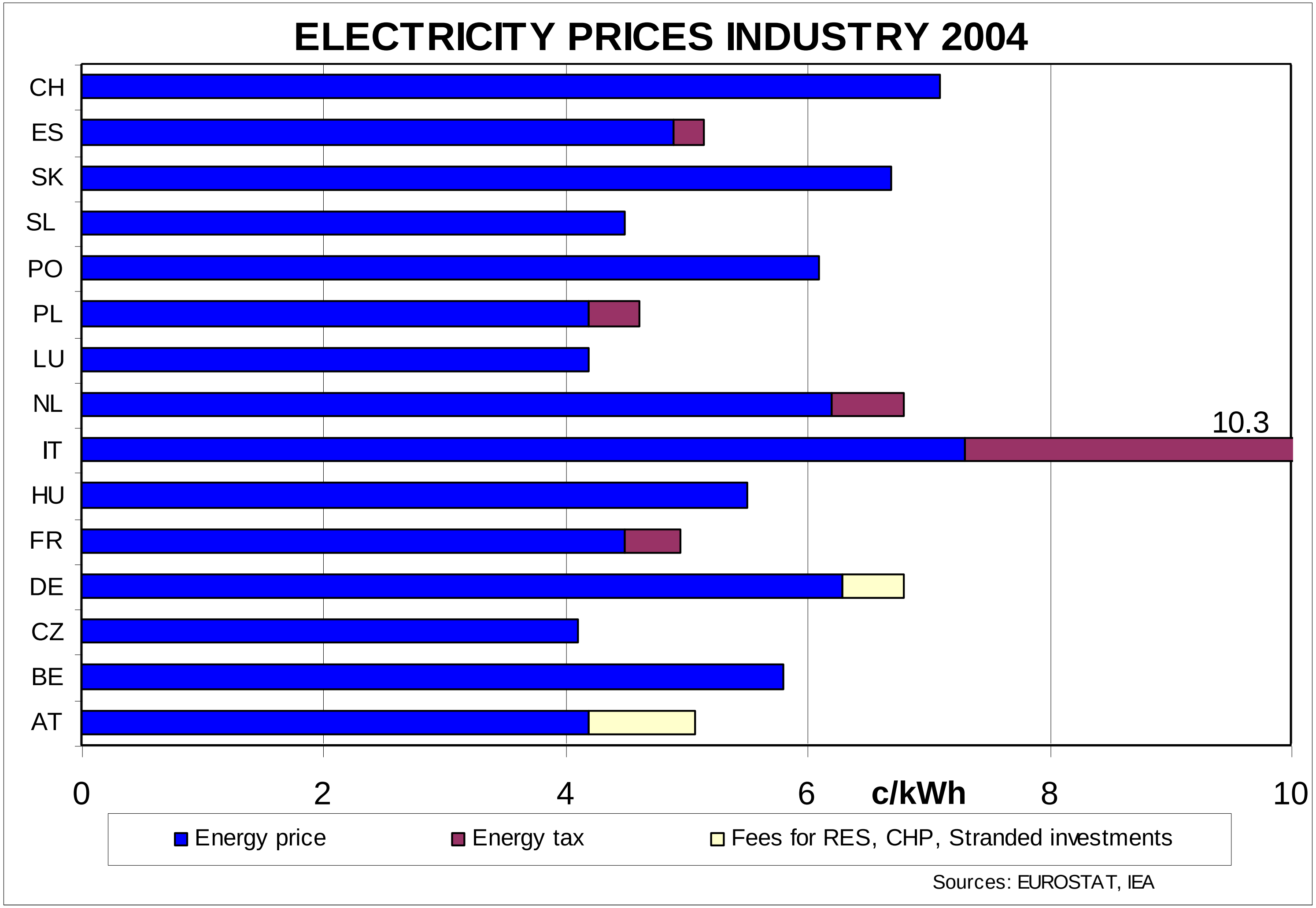

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Network issues / Cross-border trade