French electricity liberalization and the European context

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The French Electricity market situation

- The European directive 96/92/CE aims at the promotion of an European wide Electricity market and not only at the liberalization of 15 markets.
- An ex ante specialized regulation is necessary to counter balance the natural oligopolistic trends of the energy sector.
- Hitting this target supposes:
  - creating a fair competition between the suppliers,
  - ensuring the efficiency and the independence of networks operators in order to allow a large sharing of productivity improvements coming from the supplying competition.
- These are the pragmatic criteria used by the CRE to assess the progress in the directive implementation rather than using pure legal criteria.
Clear rules of the game

- Partial but effective eligibility in full accordance with the current directive in order to open 170 TWh to competition (4e competitive market in Europe by its volume)
- RTE: a TSO remaining legally integrated into EDF but independently managed under a strict control of a specialised regulator
- A regulated TPA:
  * Tariffs for network use prepared by the regulator without reference to the previous EDF integrated tariffs (post stamp at the connexion point)
  * Monitoring of the respect of the network users rights by the TSO and DSOs (supervision of the content of access agreements, settlement of the disputes by the regulator)
Clear rules of the game

- Accounting unbundling (between generation including supply, transmission and distribution) enforced and independently audited.
- Technical mechanisms set up to promote effective competition (European level tendering by RTE to buy energy compensating grid losses, creation of balancing responsible entities, implementation of a balancing market since April 2003,...)
- An active wholesale market:
  - Full freedom for electricity resale (confirmed by the law of January 2003),
  - Power Exchange operated by Powernext since Nov 2001 (Mainly for the day ahead market).
Clear rules of the game

- 6000 MW of VPP (virtual power plants) auctioned by EDF on a period of 5 years under the monitoring of the EC and of the national regulator (one of the remedies for the EnBW case):
  - VPP = Right to call energy at a price fixed by contract:
    - base (8 euros/MWh)
    - peak (26 or 23 euros/MWh)
  - Auctions on the VPP prices (euros/MW/month)
Tangible results
(Data end 2002)

- EDF remains a dominating supplier but more than 50 firms (generators, suppliers or traders) are active on the French electricity market and supply:
  - more than 300 over 1300 eligible consumers (~16% energy supplied on this market in 2002),
  - 87% transmission loss compensating energy bought by RTE in 2002,
  - 2002 Wholesale market > 80 TWh (national consumption ~ 430 TWh),
  - Powernext (French PX): 2.5 TWh traded by 24 members in 2002.
- generation firms: CNR, SNET et SHEM (~20 TWh) are independent from EDF et linked to 2 major European competitors.
Variety of the newcomers activities

\((\text{GWh})\) Evolution of buys and sales of EDF competitors

- Injections (buys)
- Withdrawals (sales)
- Export
- Losses
- Blocks sites
- Sales sites
- Import
- VPP
- Generation
- Wholesale
- Powernext
Short term evolutions

- Reduction of hindrances for cross border trade
- Improvement of quoted products by Powernext (« futures ») and access for end users
- Lowering of eligibility thresholds:
  - All non domestic users 1st July 2004 (3.5 millions users)
  - All users including domestic 1st July 2007 (30 millions users)
Relationship with the European situation

- Major concerns should be:
  - the creation, as an intermediate step, of regional integrated markets with some characteristics:
    - Being as complete as possible
    - Using a consistent set of grid use tariffs
    - Including a comprehensive framework for demand side participation
    - Including a consistent infrastructure capacity improvement program
    - Taking into account the existing market powers
Relationship with the European situation

- Major concerns should also be:
  - establishing a comprehensive investment framework on the generation side
  - enforce a true independence of network operators for transmission and distribution under the control of a specialised regulator acting ex ante
  - establishing non competition distortive frameworks for renewable energy to avoid deterioration of the efficiency of the electrical system
Regional markets

Some common rules to be enforced:

• effective (behavioural and not only legal) unbundling of TSOs,
• effective possibility for any supplier to supply any eligible consumer under fair market and grid access rules,
• rules relating to bilateral contracts, day ahead and infra day nominations,
• rules relating to balancing, congestion management, and system services in order to increase the transmission capacity without safety deterioration.
• framework for demand side participation (interruptible loads)
Regional markets

Subjects to debate with the EC and others:

- Infrastructure reinforcement and financing including the possible role of merchant interconnectors,
- Market power issues taking into account the interaction between grid structure and oligopolistic structure of generation
- Generation adequacy and the way to send signals to investors (Where and how much?)
- Avoidance of subsidizing renewable energy and preference for the enforcement of green certificates markets not to distort competition
Conclusion

To summarize the electricity liberalisation process in France and in Europe there are at least three main challenges:

- not deteriorate the efficiency of the electrical system,
- find a suitable allocation of the potential benefits of competition in generation to all stakeholders,
- give the appropriate incentives for medium and long term capacity investment in generation and transmission.