



Workshop
on
**“Efficiency, Competition and Long Term Contracts
in Electricity Markets”**

Organized by LARSEN & the Loyola de Palacio Chair of the European University Institute
(Florence)

15-16 January 2009

Location: European University Institute, Florence

Conventional wisdom in electricity restructuring requires electricity generation to be horizontally de-integrated as well as separated from retailing and not committed in long term contracts with retailers or large consumers, for allowing entries and development of effective competition on wholesale and retail markets. Attachment to these principles was particularly reflected in the position of the European Commission and some regulation authorities. However consensus is evolving about this question for different reasons. Long term contracts and vertical integration are the most convenient way to maintain incentives to invest in all the technology mix. This converges with objectives of European and national energy and sustainable development policies in matter of supply security and reduction of carbon emissions.

From the perspective of retailers and large consumers, risks are more manageable if they could have long term contracts with relevant risk sharing in their portfolio of contracts. From the perspective of producers and financial investors, long term contracts with large wholesale buyers (fixed-price fixed-quantity contracts, option contracts) appear to be an efficient solution to give guarantee to invest in different technologies with specific capital intensity. It opens opportunity to joint investment in production assets with large consumers with guarantee of non-volatile price for their sourcing.

From the social efficiency perspective, long term contracts create opportunities for market players to diversify their generation investment between technologies and help to tend towards the optimal technology mix that is far to be realised on focusing investment on the CCGT as the most efficient technology in terms of risk management.

From the Competition Policy perspective, effect of contracts on competition in electricity markets is now a debated issue. Entries in generation appear easier if entrants could be helped by long term forward contracts, that makes market more contestable. Moreover theoretical approach of competition tends to show that forward contracts weaken the incentives of oligopolistic firms to exert market power on short term markets. Antitrust authority tends to view differently this issue and moderate their position, in particular to help the realisation of large investment.

Consensus is not so settled on whether generators should sell a major part of their production in spot on day-ahead market, or be committed in long term contracts with retailers and large consumers, or else be vertically integrated in or separated from electricity retailing for the advantages of the consumers. In a jurisdiction the regulator has forbidden a strategy of partial vertical integration to a retailer in order to let contract market to play widely. In the European level some long term contracts

with historic operators are considered as state aids while other contracts between dominant producers and suppliers are considered as foreclosure. But between antitrust authorities on the two sides of the Atlantic Ocean, competition policy principles appear to diverge. Moreover jurisprudence appears to evolve in the European Union as of sectoral specificities are taken into account by regulators. But, although some academic works suggest that antitrust regulators could consider to make forward contracts as a mean to reduce market power exercise on oligopolistic markets, time does not seem to be come that they induce generators to sell forward contracts to retailers up to a quantity floor by regulating their portfolio exposures. Anyway progress of economic analysis on specific competition in the electricity sector can shed light on the necessary evolution of competition policy.

The workshop will be a closed workshop of 40 attendants on invitation with participation of academics and professionals. It will be organised in three thematic sessions on one day and half: long term efficiency, imperfect competition and forward contracts, and LCT and competition policy issues.

Presentations will be discussed by high level experts and academics.