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CRE publishes its first monitoring report on the functioning of the French wholesale markets for electricity and gas

CRE has examined the functioning of the wholesale markets for electricity and gas for the year 2007. The report discloses the results of a first set of analyses, as well as the next actions to be conducted in order to explain some observed behaviour.

On the basis of analyses led on the electricity market, CRE observes that nuclear generation was marginal during 15% of the hours in 2007. Hydraulic generation was marginal during 25% of the hours, coal generation during 25% to 30% of the hours and oil generation during less than 2% of the hours in 2007. Finally, prices on the border markets were of high importance on the French prices which they determined during 20% to 25% of the hours of the year.


On an efficient market, the price is driven by the marginal power plant among all those which contribute to satisfy the demand. Therefore the wholesale price formation is conditioned by the frequency of marginality of each generation sector and by the associated valuation of production.

On the day-ahead market, when nuclear or hydraulic generation was marginal, the day-ahead price reflected the associated valuation which was decided by EDF. The level of this valuation was generally higher than the marginal generation cost of these plants. As a matter of fact, a producer, even market dominant, may legitimately seek to optimise its income, provided that there is no abuse of a dominant position or any price manipulation. Consequently, at this stage, the relevance of the valuation method for nuclear and hydraulic generation on the wholesale market is still to be checked.

CRE has also demonstrated that generation transparency, even if it gradually increased, still needs to be improved at this stage. Published information on availability forecasts of power generation facilities were insufficient.

Finally, CRE has established that the limited development of competition on the retail market and the implementation of the transitional regulated tariff for balancing markets (TaRTAM) have curbed the increase of the wholesale electricity market's activity.

Considering these findings, CRE will carry out audits on the valuation methods used by EDF for its nuclear and hydraulic generation. Based on a public consultation, CRE will also formulate recommendations on generation transparency.



On the gas wholesale market, CRE observes that the activity on the wholesale market has grown all along 2007 but remained focused on short-term trading. In particular, little public information was available on the market because most of the deals were concluded without intermediary.

Moreover, CRE notes that the supplying conditions of suppliers who are not former incumbents in Europe were not satisfactory. These suppliers had to acquire most of their gas on the French market.

In order to improve the transparency of the gas wholesale market, CRE will publish aggregated and anonymous information on the bilateral market according to information on volumes that will be collected from market participants.

Settled on 24 March 2000, the French Energy Regulatory Commission (CRE) is an independent authority. CRE supports an efficient functioning of the electricity and natural gas markets, to the advantage of final consumers. CRE ensures the absence of any discrimination, cross subsidy or obstacle to competition

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ANNEX

The functioning of the wholesale markets

Contracts concluded on the wholesale markets for electricity and gas correspond to several delivery periods:

- on the short-term market, the delivery period lasts between 2 days and several years;
- on the day-ahead market, the delivery takes place the day after the conclusion of the contract;
- on the intraday market, delivery takes place a few hours after the conclusion of the contract.

Such contracts can be concluded over the counter (OTC) or on an exchange platform.

CRE's wholesale markets monitoring duties

French law of 07.12.2006 enacts that the French Energy Regulatory Commission (CRE) "monitors, for electricity and natural gas, transactions between suppliers, traders, and generators, transactions realised on organised markets and cross-border transactions. It checks that suppliers, traders and generators' offers are consistent with their technical and economic constraints."

Marginality of generation plants

On an efficient wholesale electricity market, all producers optimise the use of their generation plants by, whenever it is economically justified, buying or selling energy on the market. Demand satisfaction is consequently guaranteed all the time through the solicitation of the less costly generation plants (such classification is commonly named "merit order").

As a consequence, the market price is, in principle, close to the generation cost of the last plant which is necessary to satisfy the demand; such plant is called marginal plant.

The observed average market price during a specific period is therefore linked to:

- on the one hand, the frequency for each plant to be marginal during a specific period of time (such frequency is named a marginality rate or marginality),
- on the other hand, the marginal generation cost for each plant.

The energy available on interconnected markets, which can be included in the merit order of a country, may determine the national price during specific hours.