Conventional Sources of Energy
Electricity & Gas

Market Regulation Principles

1. Creation of Market
2. Security of Supply
3. Cross-Border Access
Conventional Sources of Energy – Electricity & Gas

Creation of Market

Natural Monopoly?

Wholesale Market

Production → Transmission

Consumption ← Distribution
Natural Monopoly
Elements

Transmission and Distribution

1. Asymmetry of Information
2. Cross-subsidy – tariffs / unit prices
3. Economy of parallel networks
4. Environmental / economic cost of non-utility investment
Natural Monopoly Solution

Distinguish transmission and supply (tariff and unit cost)

Transparency of tariff composition (cost based + reasonable return on investment)

Accounts transparency

In preference, ownership unbundling. When not feasible, legal unbundling
Security of Supply

Are market incentives enough?
Usually in growing market.
In stable market, perhaps not?

• Investment lifetimes prolonged
• Generation reaches commodity level
• Opportunistic entry
• Cost of capital and opportunity cost
Cross-border trade

More than just letting markets exist!
Active integration requires active intervention to harmonisation of secondary market standards

1. Market design
2. Standards / Interoperability
3. Commercial conditions