

PRESS RELEASE

CNMC initiates a study on the level of competition in the electricity generation market in Spain

Madrid, September 29th 2015. – The CNMC (Spanish Competition and Markets Authority) has initiated a study on the level of competition in the electricity generation market in Spain.

The CNMC permanently monitors the degree of competition in the different markets of the Spanish economy. In this regard, a series of obstacles to effective competition in the electricity generation market in Spain were detected preliminarily.

The foundations of the liberalisation process of the electricity sector were laid down in 1997. Since then the activities of generating and marketing electricity are liberalised. However, a fully competitive operation in the electricity generation market has not yet been attained and certain inefficiencies have been identified.

The activity of electricity generation is experiencing important regulatory, structural and technological changes, which will likely have a great impact on the functioning of the market. Therefore, it is necessary to analyse the electricity generation market to guarantee a competitive and efficient functioning of the market, and that technological and financial advances reach the end consumer.

The preliminary analysis of the functioning of the electricity generation market has shown a series of aspects which could be distorting competition and undermining the functioning of the market.

The study will aim to determine the degree of concentration in the electricity generation market and its possible implications in terms of competition, as well as the formation of prices in the forward market and in the pool. In particular, it will clarify whether certain operators hold market power capable of altering the normal functioning of the market.

Among the companies with market power in the field of generating electricity are those that have strategic assets (plant location, access to hydroelectric resources, access to fuel, transportation restrictions or inherited contractual rights) which give them a competitive advantage and are not replicable. This allows them to make extra profits but, due to the lack of replicability, it does not entail the entry of new operators.

On the other hand, market power can also be manifested in the so-called procedure for the resolution of technical restrictions, as this is confined

exclusively to the geographical area concerned by such restrictions and only the power stations in that area can participate in their resolution. Companies participating in the procedure may receive a higher price than the one they obtain in the daily market, meaning they will have an additional incentive to withdraw capacity and devote it to the procedure for the resolution of technical restrictions.

The study will also cover the design of capacity payments to, if considered suitable, propose regulatory alternatives aimed at ensuring the security of supply in an efficient way and in accordance with the EU regulatory framework.

Moreover, the study will analyse those matters related to payment for renewable energies, incentives for the use of Spanish coal, the regulation of self-consumption and the development of the possibility for generation centres to hibernate and its implications on the effective functioning of the market.

By virtue of what is established in section one of article 5 of Law 3/2013 of 4 June, on the creation of Spanish Competition and Markets Authority, the CNMC's duties include the promotion of effective competition in the markets through, among other measures, the performance of studies and investigations in the field of competition, as well as general reports on economic sectors that include proposals for liberalisation, deregulation or regulatory modification.