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Title - The Effects of retail competition on Energy Markets Design: A Changing Landscape.

The opening to competition of retail energy markets fosters a deep change in the panorama of the energy sector, not only in the behavior of demand, which tend to become less passive and therefore less inelastic, but also in the wholesale markets. The latter, namely in systems with high penetration of renewables, are facing an increase in volatility of wholesale prices, along with increased uncertainty in peak to off-peak price spreads, which in turn call for a greater demand side flexibility (DSF). The increased use of DSF as a market tool, namely through dynamic pricing in retail market, may contribute to cost reductions (energy, balancing and grids) along the value chain of the electricity sector.

In another dimension, demand behavior, while inducing different commercial strategies at retail level, is also affecting investment decisions and options of traditional energy operators. The actions targeted to energy efficiency are something to be taken into account in the analysis of future investments in the generation and/or infrastructure levels. Market developments based in consumer behavior are one of the most complex to predict and determine. Thus, investment cycles in the energy sector – traditionally long - gradually begin to be shorter, also in response to this increased uncertainty in business modeling. Regulation is also submitted to pressure by these facts.