

# The importance of organized markets for trading in SEE



European Federation of Energy Traders

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## EFET Vision

We foresee sustainable energy markets throughout Europe,  
in which traders efficiently intermediate in the value chain  
on the basis of clear wholesale price signals,  
thereby optimizing supply and demand  
and enhancing security of supply,  
to the overall long-term benefit of the economy and of society.

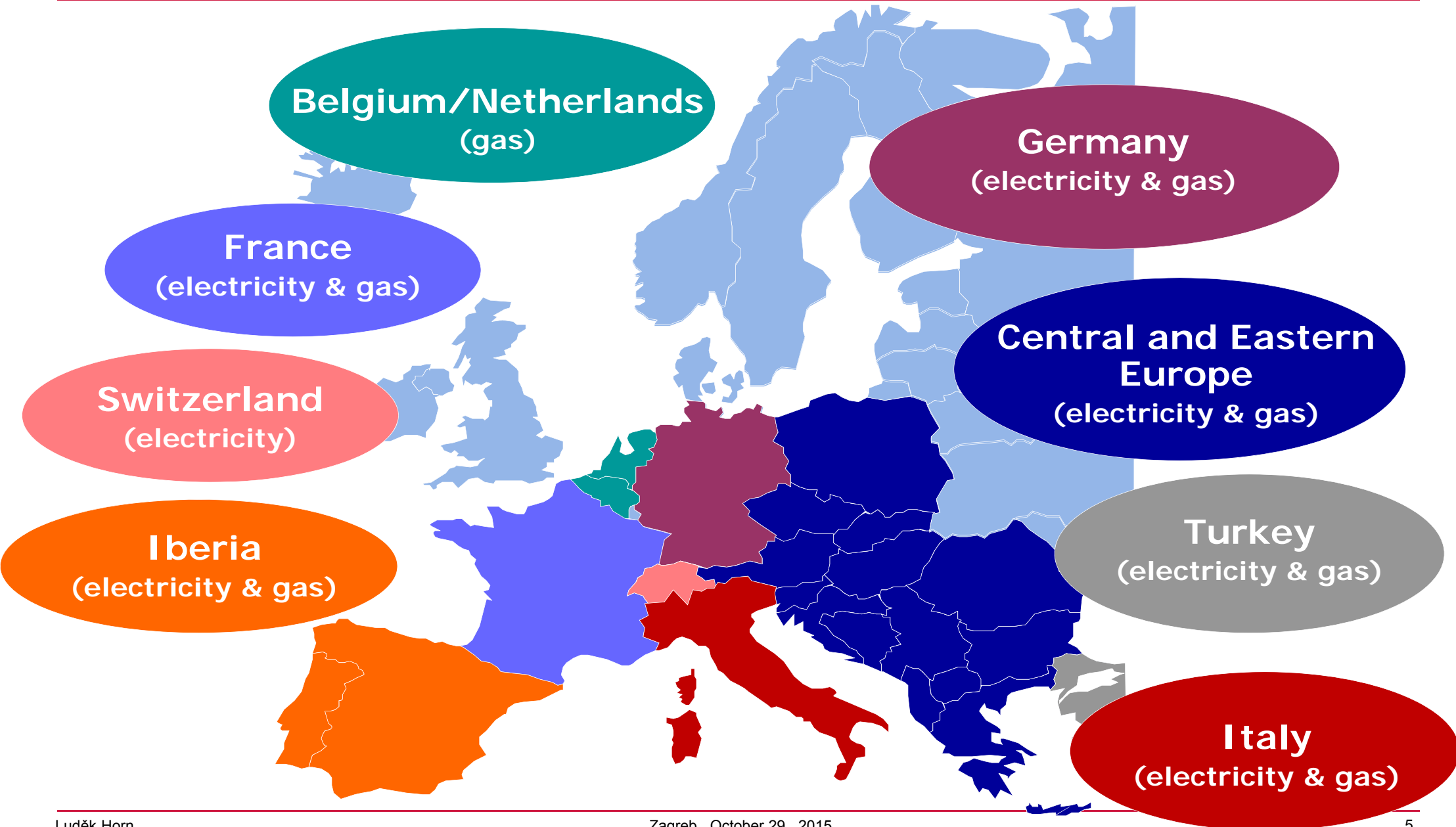
# EFET: A wide variety of Member Companies.....



... all committed to the European single energy market



# National/ Regional Task Forces



**EFET promotes and facilitates European energy trading in open, transparent, sustainable and liquid wholesale markets, unhindered by national borders or other undue obstacles.**

**Through better:**

- Market design
- Information transparency
- Standardized contracts
- Standardized data exchange
- Products and procedures
- Laws & regulation
- Taxation practices

# How to define „liquid wholesale market“ ?



**It is possible to buy or sell (reasonable) volume of electricity ( almost ) whenever**

- **on hourly spot market to balance short term**

Generators, suppliers and consumers as market participants can adjust their volume and price positions near real time

- **on forward/futures market to hedge positions**

All market participants are able to hedge their forward exposures as needed by trading forward/futures and options

# What are key benefits of „liquid wholesale market“ ?

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**Spot market** allows for optimization of generation asset and integration of renewables into the market (only other alternative is central dispatch of the monopoly generator)

**Forward/futures market** delivers robust price and investment signals (only other alternative is central planning economy)

New market participants face low barriers to entry

Market participants are not squeezed and security is assured



# Prerequisites of well functioning wholesale electricity market

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- minimized/abandoned price regulation
- organized market places (exchanges, brokers)
- reasonable amount of participants
- minimized blocking factors/obstacles on the market (public procurement law, licensing requirements)
- standardization (products, contracts, processes)
- transparency about the availability and use of underlying infrastructure
- well designed balancing market

# Changing role of Power Exchanges

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## **Originally:**

Balancing positions (sell generation surplus, compensate generation outages, fine-tune supply to end consumers )

## **But nowadays in RES era on top of that:**

Sell intermittent renewable generation to either consumers or to traditional generators.

## **And when Market Coupling is implemented:**

Power Exchanges become a direct exporter/importer of electricity on Day Ahead (and this traditional role of traders disappears...)

# Market Coupling changes roles

## Before MC

TSO allocates cross border capacity **to market participants** in Day-1, „for tomorrow“ in the explicit auction

Market participant based on allocated cross border capacity performs export or import (scheduling...)

**Market participants move power across borders**

„Explicit“ allocation of cross border capacities

## After MC

TSO allocates the same cross border capacity **to spot exchanges** in Day-1, „for tomorrow“

Spot exchanges based on bids and asks for electricity perform export or import (shipping...)

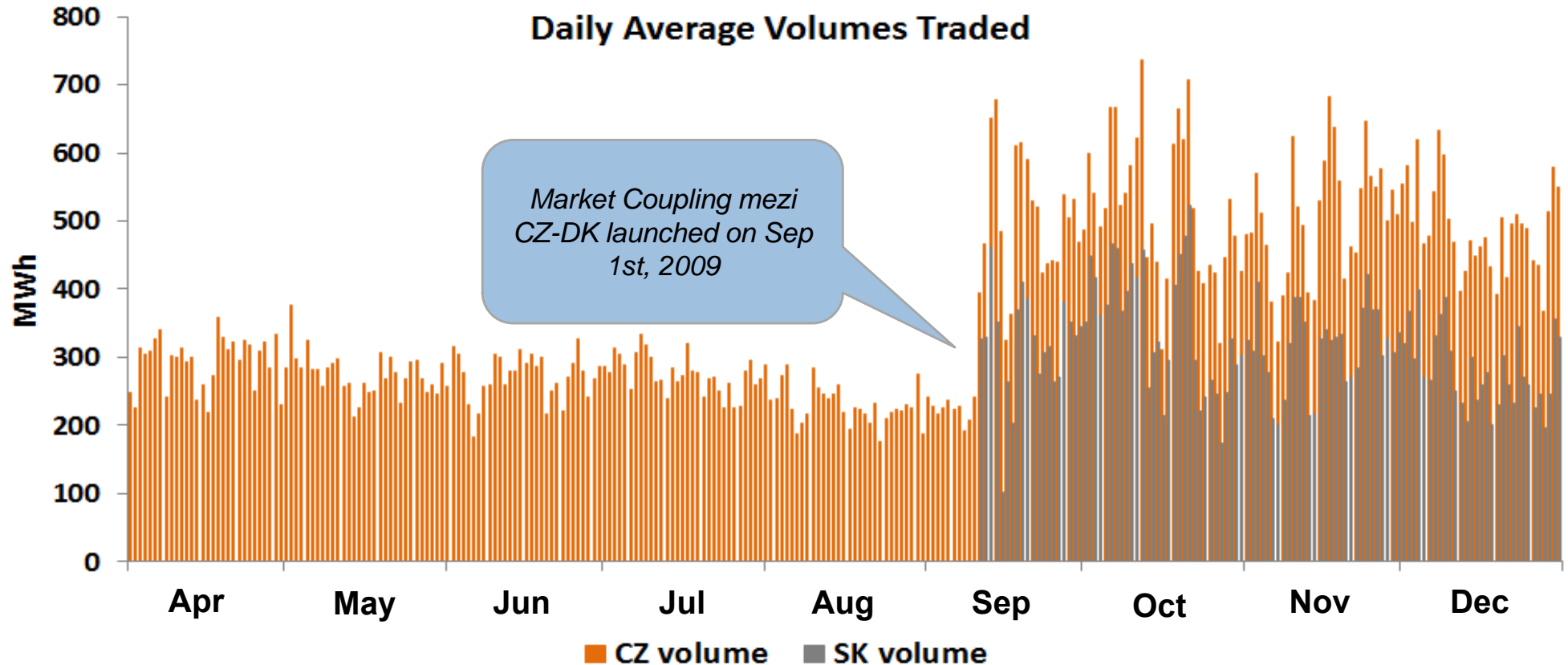
**Spot exchanges move power across borders**

„Implicit“ allocation of cross border capacities

Note: Market participants continue moving power cross border based on annual or monthly capacities

# Impact of MC on liquidity of Spot Market

## Example: CZ-SK Market Coupling



# Do not believe in Market Coupling Myths



**True or false: Market Coupling increases price of electricity.**

**False**, because Market Coupling does not come out of the blue – there is a cross border trading before market coupling. In case the cross border capacity is the same in both cases, the prices will be almost the same, just small change because of decreased price spread.

**True or false: Market Coupling means the same price in coupled markets.**

**False**, the same price in coupled markets is rather an exception than a rule. It happens usually when markets have similar power plant portfolio and/or very high cross border capacity.

**True or false: TSOs lose their income from cross border capacity auctions.**

**False**, TSOs' income is the spread between electricity prices and is approximately the same as income from explicit auctions, just slightly decreased because of the spread convergence.

# Market Coupling benefits

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EFET welcomes market coupling projects (despite the fact that market coupling detract cross border trading for traders).

## Benefits of Market Coupling

- Standardization /harmonization of markets
- Increase of liquidity of spot markets
- Decrease of the price volatility
- Good motivation to establish the spot exchange
- Decrease of operational risk for traders when exporting/importing
- Better utilization of the cross border capacity

# Critical success factors of any Power Exchange project

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- commitment of the founder
- strong support of major market players
- support of authorities
- acceptance of de-facto standards  
(standard products, currency, clearing functionality, central counterparty, market making)

## Critical success factor of Market Coupling project:

Strong and common commitment of **Power Exchange + TSO + Regulatory Authority** in each participating country

# How to increase liquidity?

= **how to attract more players** (incl. foreign players) ?

= **how to encourage market participants to sell/buy energy via exchanges or electronic OTC brokers?**

- **minimize administrative obstacles** (trading license)
- **minimize cost of trading** (scheduling fee, license fee)
- **remove regulatory uncertainties** (excise tax or VAT régime, customs procedures, unjustified „export/import“ fees)
- **allow to adjust schedules as close as possible to the hour of operation** (intra-day market, spot market, D-1 or intraday cross border nomination)
- **maximize cross border capacities**



# Is Power Exchange necessary for well functioning wholesale electricity market?

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- **organized spot market is a absolute must**
- **effective forward market ( exchange or OTC ) has to be in place as well**

From trader´s point of view the only difference between forward market on Power Exchange and electronic OTC broker is clearing functionality of PX

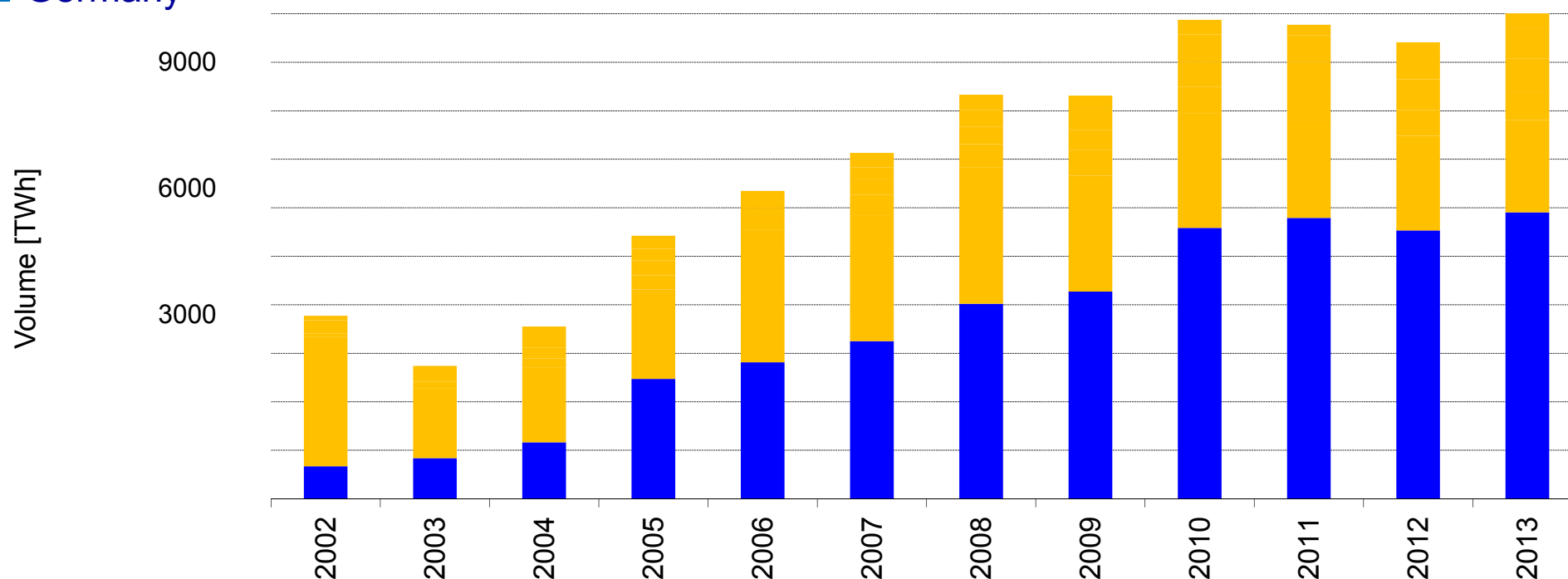
OTC trading is important element in the market  
(healthy competition to exchanges, flexible, cost effective)

# Continental European markets remain liquid in spite of the economic downturn since 2008



- Increasing trading volumes until 2010
- Range-bound trading volumes from 2011 - 2013

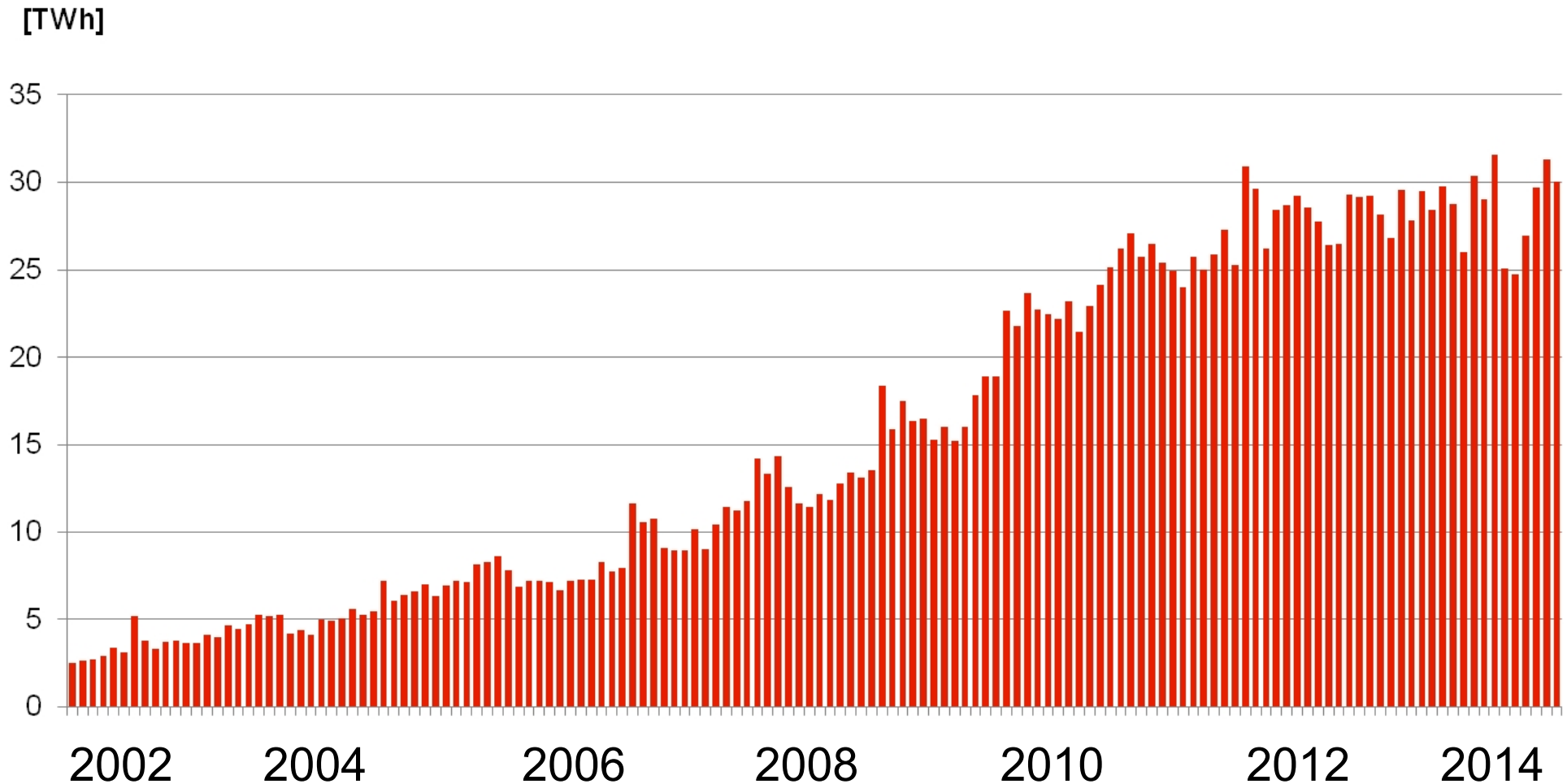
- Rest of Continental Europe
- Germany



Source: RWE Supply & Trading

\* Figures are based on quantifiable trading volumes from exchanges and electronic OTC platforms. Bilateral or „voice“ OTC trades are not considered.

# Monthly volumes on EEX/ EPEX Spot 2002-14

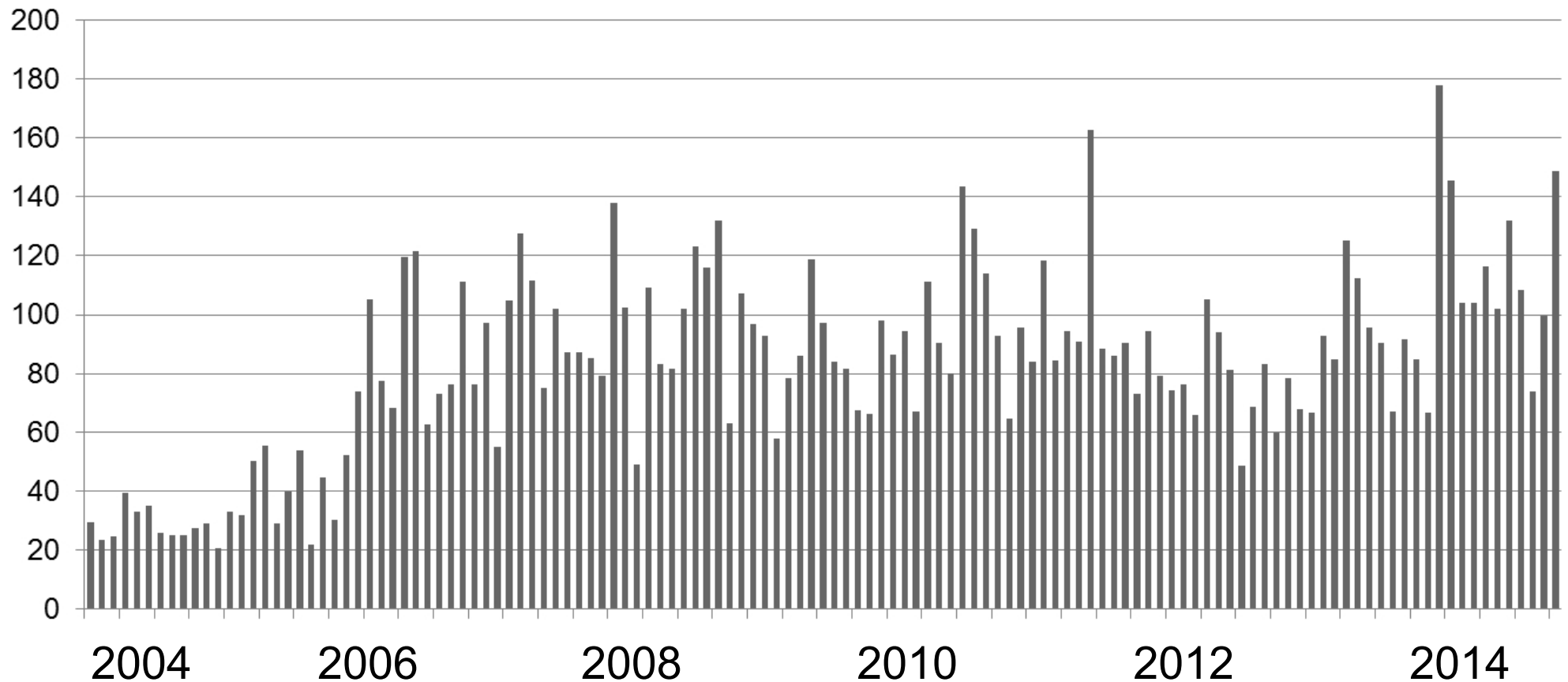


All price areas, but greatest volumes in Germany

# Monthly volumes traded on EEX futures and options 2004 - 14



in TWh



# **A well-functioning market underpins security of supply and appropriate investments**

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- In spite of declining wholesale prices in Europe since 2008, investment in generation capacity and the high voltage grid has remained sufficient to avoid all but the rarest blackouts or brownouts
- Investments in conventional generation and merchant interconnections only happen when trust is established in the transparency, fairness and liquidity of the market

# Few memorable blackouts in Europe since 2000

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- Blackout on **28 September 2003** affected Italy and parts of Switzerland

An unnoticed weekend nighttime overloading of a very high voltage dual line on the Swiss power system caused overloading in the direction of the Italian border

- Blackout on **4 November 2006** affected parts of Western Europe

Fault originated from Northern Germany in the control area of E.ON Netz  
One high voltage line had to be switched off to let a ship pass underneath and led to an overloading of other lines

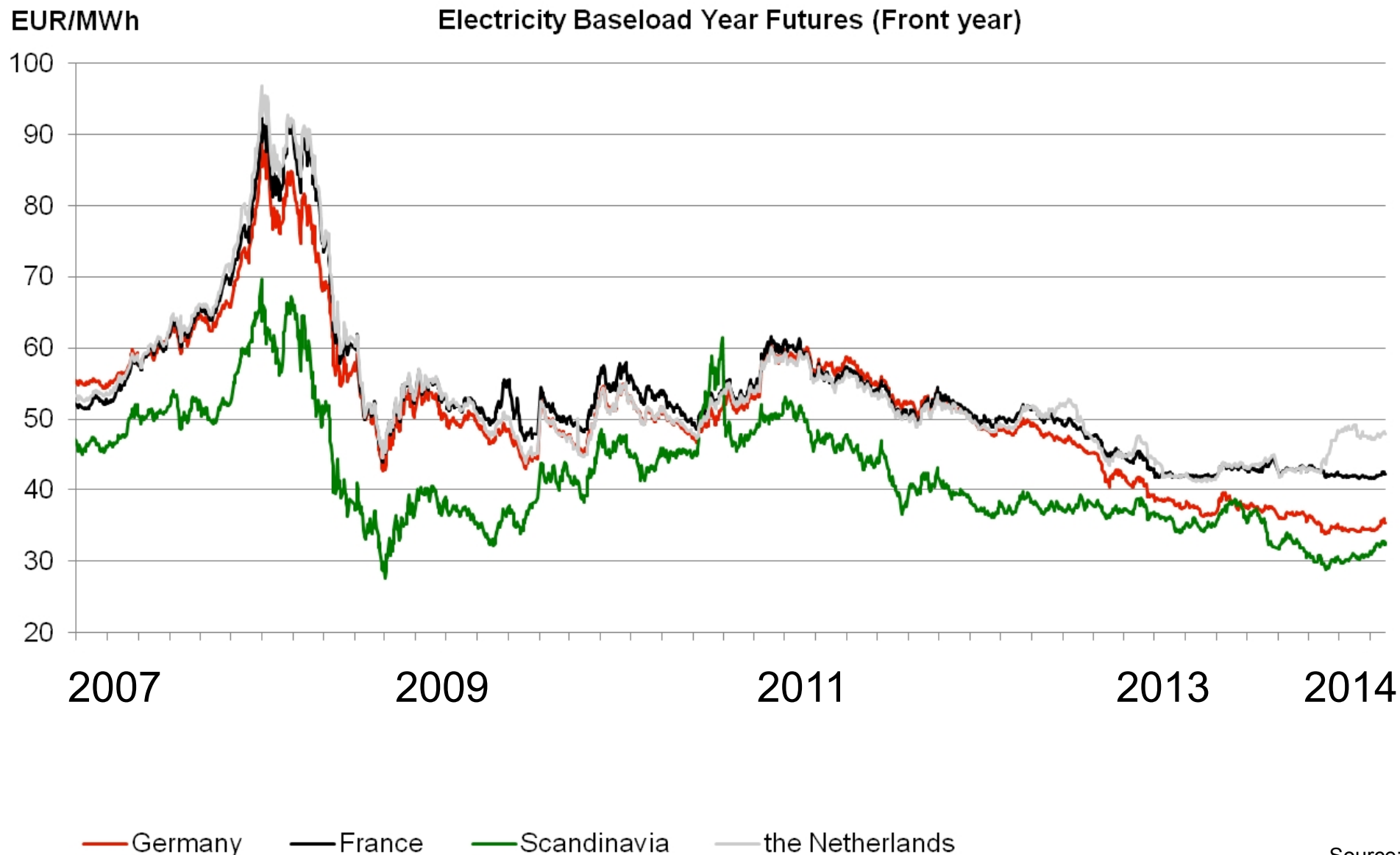
# Electricity sector liberalisation in Europe has tended to make wholesale electricity cheaper

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- Liberalisation from 1997 till 2004 resulted in significantly **declining wholesale power prices in real terms**
- Restrictions on carbon dioxide emissions and an economic boom drove costs up from 2005 till 2008
- **Substantial RES-E generation capacity** and reduced demand renewed downward pressure on wholesale prices from 2009
- Markets now especially exhibit a compression of the spread between peak-load and base-load prices
- If wholesale power prices do start to rise again, the impact on consumers will be limited by proportions of **grid tariffs, RES-E related charges and taxes** making up the final retail price

# Forward power prices have been decreasing



Source: EEX



## The European wholesale electricity market 1999 - 2014

- An open market has not led to blackouts or any insecurity
- A liquid wholesale electricity market delivers benefits
- Wholesale prices are not responsible for rising customer bills

# Thanks for your attention

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