

Sofia, 23 February, 2010



Fourth annual SEE energy conference  
"The New Energy Strategy:  
Competitiveness,  
Sustainability, Efficiency"

## Role of the power exchanges in the markets' integration: how the South East Europe region may reach similar achievements to Central Western Europe in this respect

**OPCOM, the Romanian Power Market Operator**

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## AGENDA

### Power Exchanges...

- ... the entities closest positioned to the competitive market
- ... the best pricing mechanism to support the decision on investment
- ... and their ownership, legislation, regulation and so on...

### Electricity Market's Integration

- hindrances of the current markets' integration process
- centralization vs. de-centralization; what is the right way to bring the equilibrium ?
- the coupling saga
- CWE, CEE, SEE

### Thinking about wheel

### Conclusions

## Power Exchanges...

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## ... the closest positioned entity to the competitive market

The market is vital for competition, security of supply and sustainable development.

The services which only PXs can provide:

- Reliable price reference
- Trading facilitation on different term horizons in liquid PX products
- Efficient portfolio adjustment
- Counterparty risk undertaking
- Correct XB capacity allocating through adequate flows providing, thereby maximizing the capacity utilization

The challenges:

- Liquidity (bringing price consistency)
- Efficiency (appropriated products)
- Shortest way electricity becomes money (well tailored counterpart role).

The PXs support the players to daily discover the price and investors to foresee it on long term.

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## ...the best pricing mechanism to support the decision on investment

The recent ranking of technologies (Accenture study) contributing to additional/replacement capacity: big players (63% market share) investment plans

- Natural gas: 31.3 %;
- Coal, including lignite: 25.8 %;
- Nuclear: 20.9%;
- Renewable: 17% ;
- Traditional hydro: 4.4%;

### Immediate results:

- the gas remains the most important option
- role of renewable will triple due to big players focus
- nuclear will (however) decrease due to decommissioning (mainly in Germany)

### The main problems, generating costs:

- Gas pipe projects, including financing and pipes' feeding;
- Practicability of the abatement technologies including CCS;
- Management of the radioactive waste and related storage;
- Connection of renewable based generation to the network and the systems' stability.

### Prices' interdependencies:

- Gas market vs. carbon market;
- Carbon market vs. CCS technologies implementation, with NAP in background;
- Electricity price will include other prices.

**Conclusions:** Decision is at the cross-road of the electricity, fuels, CO2 allowances, green certificates, priced by PXs and cost of technologies;

**Conclusion after conclusions:** Time of the cheap electricity has passed.

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## ...and their ownership, legislation, regulation and so on...

- The PXs may have different ownership, diversified or not, public or private, being anchored in the national energy legislation and regulated by energy regulator or not being indicated by energy legislation and regulated by alternative bodies.
- The decisions of the EU Member States and of the countries being in accession process have been taken in order to transpose the provisions of the applicable directives and in compliance with the principle of subsidiarity.
- The establishment of the competitive electricity market was based, in each state, member or under accession, on the regulatory framework whose preparation, implementation and permanent monitoring was granted to the national regulatory authorities in the energy field.
- The operators and players were established alternatively by governmental or private initiative.
- It was the sovereign decision of each member state (or under accession) if the administering of the centralised electricity markets was granted through the legal framework to entities created for this purpose (Norway/ Sweden/ Finland/ Denmark, Spain, Italy, Czech Republic, Romania, Slovenia) or it was left as task for the private initiative (France, Germany, Austria).



| Year                     | Power Exchange               | Ownership   | Dominant governance                       | National legislation | Energy regulator     | Liquidity (% market share) December 2009 |
|--------------------------|------------------------------|-------------|---|----------------------|----------------------|--|
| 1998                     | OMEL                         | diversified | private                                   | √                    | √                    | 75.7                                     |
| 1995                     | Nord Pool                    | TSO         | mainly public (exclusive TSOs)            | √                    | √                    | 71.6                                     |
| January 2005             | GME                          | GSE (state) | public                                    | √                    | √                    | 65.3                                     |
| 1999                     | APX                          | TSO         | public (electricity & gas TSOs)           | √                    | √                    | 27.2                                     |
| 2001, EEX and LPX merged | EEX EPEX (Germany/ Austria-) | diversified | private                                   | √, (CO2)             | voluntary agreements | 25.6                                     |
| July 2001                | Powernext EPEX (France-)     | diversified | public/ private (HGT - the TSOs owns 52%) | -                    | -                    | 12.4                                     |
| August 2000              | OPCOM                        | TSO         | public                                    | √                    | √                    | 11.4                                     |
| January 2006             | Belpex                       | TSO+PXs     | Public (Powernext only 10%)               | √                    | √                    | 11                                       |
| June 2001                | EXAA                         | diversified | private                                   | -                    | -                    | 8.6                                      |

# Electricity markets' integration

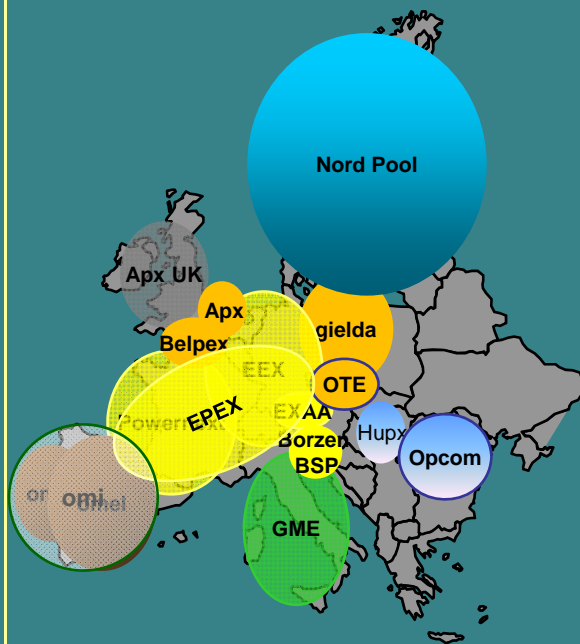
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## Hindrances of the current markets' integration process

Until now at least 7 sins of the cross – border trade and accordingly regarding market integration premises:

- Unclear legislation and limited competences before 3<sup>rd</sup> package
- Lack of harmonization, lack of trust, different interests, different resources
- Network model and market coupling methods' uncertainties
- Adverse initiatives and leaders' competition
- Divergences related governance matters
- Top down vs. bottom up initiatives
- Different gate closure hours



# Electricity markets' integration



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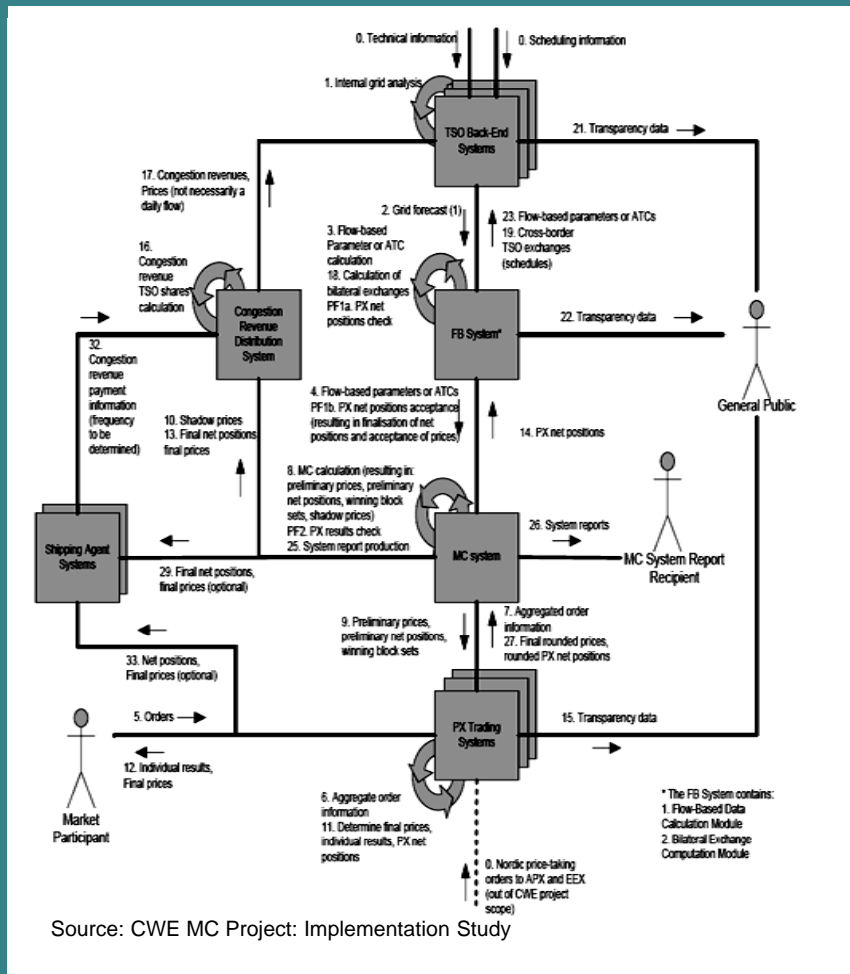
## Centralization vs. de-centralization. What's the right way to bring the equilibrium?

### ELECTRICITY PECULIARITIES (rather flow than commodity)

- The costly storage (pumping storage power plants, debatable profitability)
- Different price: forward vs. spot vs. intra-day vs. balancing/imbalance, peak vs. of-peak vs. baseload; generation capacity market and ancillary services; the electricity commodity: does it totally fungible?
- Contractual flows vs. physical flows;
- Transmission tariff: EU legislation vs. current practices; what's correct to be charged?
- Cross-border capacities auctions: how, when, how much.
- Energy and cross-border products can be similarly auctioned?

### CENTRALISATION VS. DE-CENTRALISATION. NOSTALGIA FOR CENTRALISED SYSTEMS. THE CORRECT PROPORTION.

- While continuous market opening is required, the benefits of total de-centralization is doubtful. However...
- Optimization: does it fully compatible with competition? Reactions to Flow – based method implementation in CEE.
- Optimization benefit: does it real? Conclusions of the flow – based MC experiment in CWE.
- Centralization as optimization: until where may we go?
- The TSO / PX role separation: the obvious benefit of CWE orientation.
- Institutional centralization vs. coordination: TSO (ENTSO-E, CAOs) and PXs (TLC, EPEX).



# Electricity markets' integration

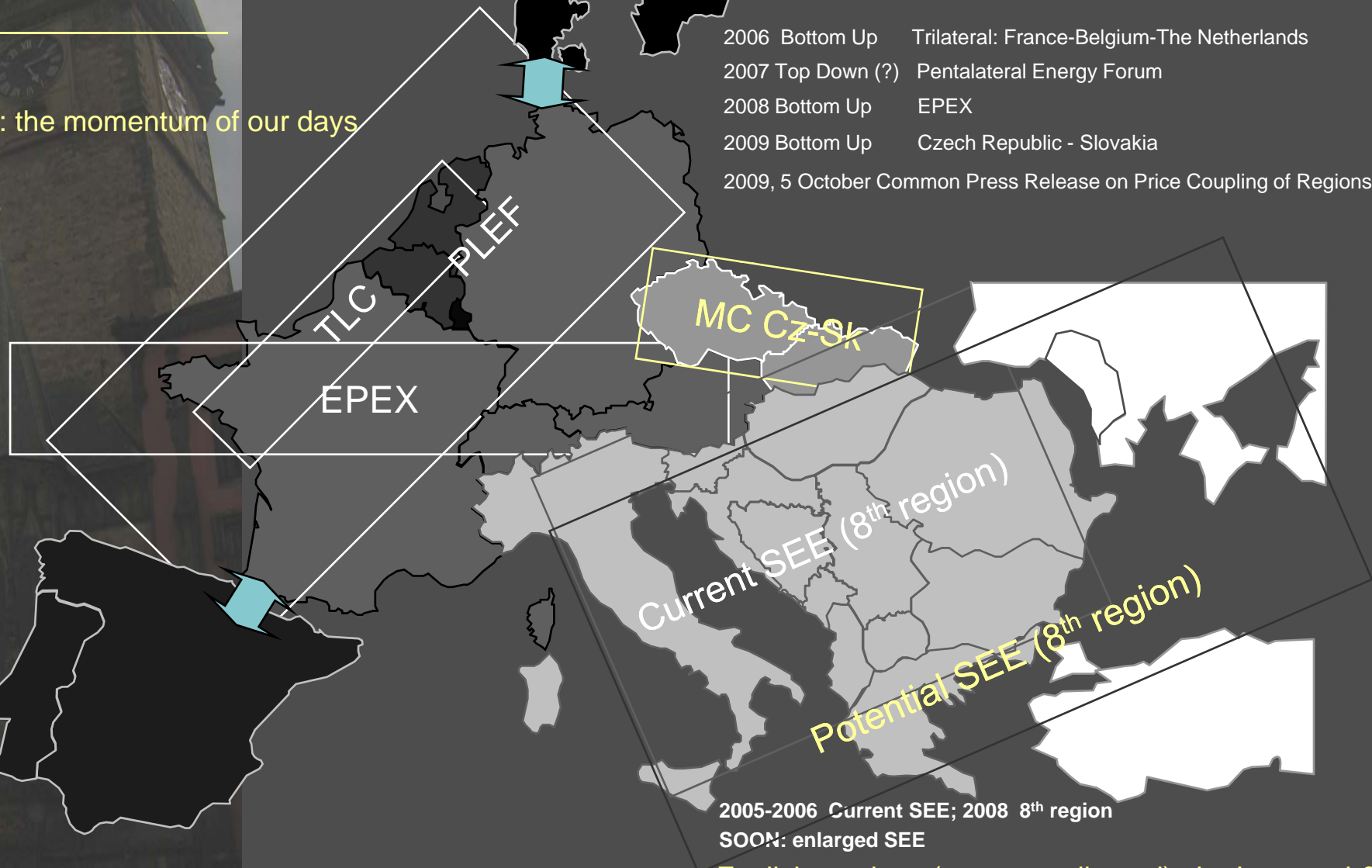
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## Market Coupling Saga

- 2006 Bottom Up Trilateral: France-Belgium-The Netherlands
- 2007 Top Down (?) Pentalateral Energy Forum
- 2008 Bottom Up EPEX
- 2009 Bottom Up Czech Republic - Slovakia
- 2009, 5 October Common Press Release on Price Coupling of Regions

MC: the momentum of our days



2005-2006 Current SEE; 2008 8th region  
SOON: enlarged SEE

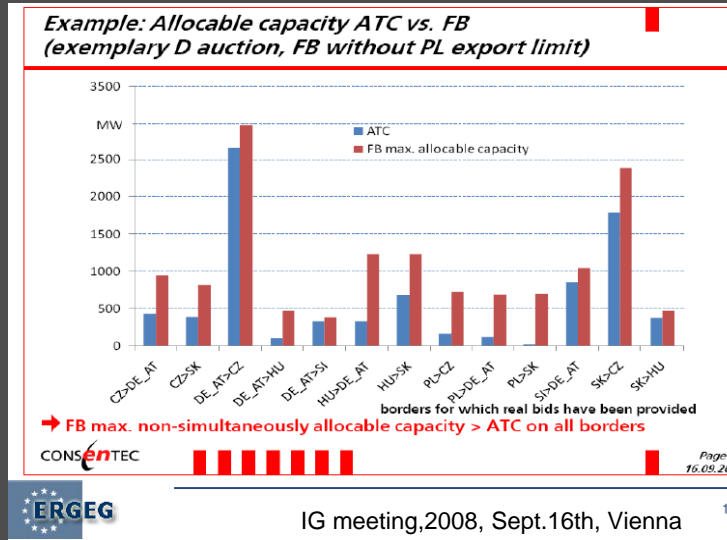
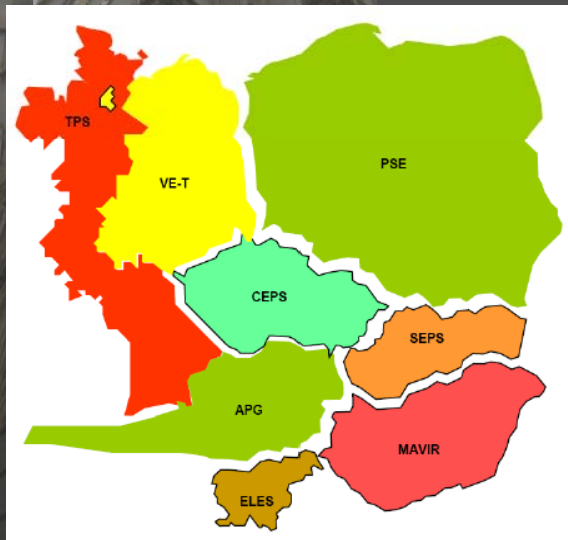
Explicit auctions (even coordinated); that's enough?



# Electricity markets' integration

While CWE looks congruent, in CEE the up to date achievements are contradictory

Foundation of the Common allocation office for Central East Europe (CAO) signed in 2008, 17 July by 8 TSOs



“Based on the findings related to the development and work of WGs (especially WG FBA) and CAO during the last months of year 2009, the preliminary main conclusion of the efficiency analysis is that the investigated solution yields **a very low level of cross-border capacities compared with the current NTC results.**”

IG meeting 2009, September 2<sup>nd</sup>, Vienna

Integration of the Czech and Slovak day-ahead markets in 2009, September 1<sup>st</sup>, not paying attention to the flow-based approach

CAO. “start with explicit allocation, move towards implicit ASAP (depends on presence of price signal)”

EREGG presentation, 1<sup>st</sup> meeting CWE CEE RI 24 June 2009

This time, in paralel, E-Control & HEO have funding a study for regional PX in CEE. Workshop February 2009





**SEE Countries have to take wise decisions for a long way. Hopefully the wheel seems to be discovered in Nordic and CWE regions. The risk is to reinvent the wheel or to not use it.**



- **GENERATION.** Keep the assets in one hand or many, either public or private, but unleash the commodity for the market not wasting it but ensuring that generators receive real price; it helps generators for investment and avoid further distortion of market price.  
Provide public auctions for state owned incumbents against too low price (state aid) and VPP for private consolidated companies to defend competition (mitigate market power) and allow new entries.  
**Question:** who plays role of DG COMP within the 8<sup>th</sup> region?
- **REGULATED PRICES.** Think carefully on the balance between competitive segment and regulated segment as proportion of volumes and costs. Respond to ERGEG 2007 position paper by providing the road map for regulated prices removal and move on.
- **MARKETS.** Set up efficient markets for each contracting term horizon (forward, DAM, intra-day, balancing, ancillary services) according to the current and/or envisaged best practices.
- **PX.** Bust the myth of difficulty in setting up the PX; there are only two issues which PX can not outsource: responsibility towards market participants (membership agreement) and responsibility towards regulator (license conditions).
- **COUPLING.** Choose price market coupling according Florence Forum decision and stay on ATC at least until CWE will decide. Think twice on the size of the bidding areas: not mandatory to be national: see Germany-Austria one zone under EPEX administration. The integration approaches have to balance between regional and internal markets.

## CONCLUSIONS

- PXs support **long term security of supply** by ensuring price signal for efficient investment in due time as well as **short term security of supply** by efficiently balancing the generation and demand;

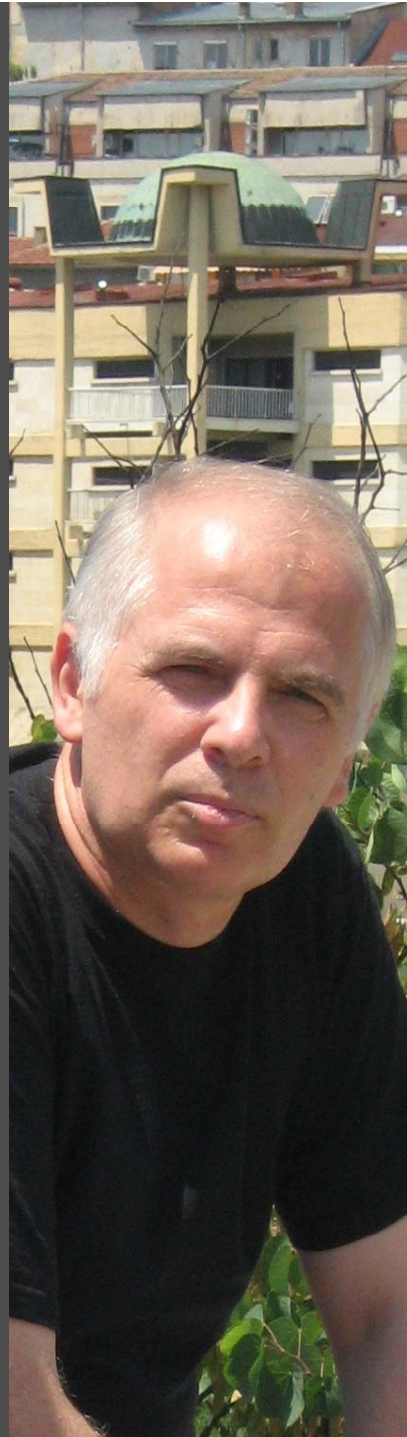
**LONG TERM:** PXs help investment by putting price on electricity, gas and carbon;

**SHORT TERM:** Neutral framework to meet offer and demand provided by PXs helps market to select efficient generation and discourage waste on demand side; also they guarantee that money come FAST.

- Romanian spot market liquidity acquired through individual evolution was equalized by coupled spot markets Czech Republic - Slovakia in only three months after start of MC in 1<sup>st</sup> September 2009.
- SEE countries have the needed resources to do and enough incentives to decide the remodeling of their markets, to speed mandatory changes and to improve integration mechanisms towards connection to the European internal market.

**All in all, according to our market experience we encourage national spot markets set-up in SEE which bring similar value in these wholesale markets, eventually paving the way for markets' coupling.**





*Thank You for your attention !*

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