

# **THE LAUNCH OF A TRADING PLATFORM**

*A story of success, a matter of life*

# **LE LANCEMENT D'UNE PLATEFORME DU COMMERCE**

*Une histoire de succes, un fait de vie*

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## **THE BEGINNING**

In the first years of the century, to build a spot market in South Eastern part of Europe before privatizing the assets should had made somebody smiling. This was happened in Romania. Looking to the UK electricity market, people were convinced that the golden rule of market liberalization was to begin with privatization. This time the Scandinavian presentations tried to warn, reminding their regional pattern: *"the privatization was not an issue"*.

Started in a rainy day, September 2000, with demand increasing from hour to hour, the emerging market provided by OPCOM, Romanian power market operator didn't provide great expectancies. But once it began, the Romanian electricity spot market adventure was never stopped. Looking to the first mechanisms provided by the initial Romanian wholesale electricity market commercial code, you can perceive them as primitives, rough, even not quite fair.

But even the primitives' wood paintings are having their pure, raw fascination. Despite or maybe grateful to the existing criticism, the market matured, preparing the critical mass to foster the changes in early 2005. The successful combination of mechanisms' change and market more opening ensured the chapter 14 closure as condition for Romania's EU accession.

## **THE WIND OF CHANGE**

European Commission and World Bank supported the new concepts implementation by surprisingly but efficiently shaking their hands. International consultancy based donors' loans, co-financing and grants induced brainstorming debates in the Romanian electricity field.

When working groups were discussing the mechanisms, others were calculating the liberalization impact by businesses and assets unbundling and electricity market every year more opening. The newcomers were more and more improving the wholesale market concentration on both sides. The middle of 2005 saw a dare but

welcomed official degree of the market opening as 83.5%. Just enough to push the regulated market down to 50%.

### **TO BE FREE TO PLAN THE GENERATION, TO BE RESPONSIBLE FOR REAL TIME IMBALANCES, TO BE RECOMPENSATED FOR BALANCE SUPPORTING**

For long time, the lack of penalties for imbalances between the day ahead schedules and the real time operation, combined with lack of specific rewards to support the system balance were raising the concerns regarding the effectiveness and fairness of rules. It was also combined with the lack of freedom in making programs after, not before trades' confirmation. The new rules of balancing offers, imbalances' penalization and self-scheduling were changing the framework: more freedom, more discipline and more commerce. Accepted or not, the new multi-market concept was growing Romanian roots in preparatory years 2003-2004. There were the years when also Western Europe calibrated balancing mechanisms and defined their rationales besides the spot and intra-day markets.

### **GIVE THEM THE REAL PRICE AND CHANGE THEIR MIND**

In an ongoing transition process that seems to become a never ending story, a culture of concerns, reluctance and disputes easily can raise. The real price of electricity may be a tale of mystery if the regulated prices stay too much in a market intending to become free. *"I want to know the God's thoughts...The rest are details."* said once upon a time Einstein. To know the real price of electricity was our aim. In a business oriented framework all other debates regarding forecasts, fuels' stocks, power plants' reliability, starts and stops had become details, a story with domestic problems. Never forgotten by market participants, always available to discuss them, we advise you to avoid if "power exchange" is written in your by-law. In a competitive framework, the price is driving decisions: to produce if the price is high or better stay and purchase if the price is low. The participants learned easily how to perform and the marketplace is achieving quickly its role.

### **A NEW MECHANISM ENABLING THE PRICE DISCOVERY**

No other mechanism to discover the real price is more reliable and even more illustrative for scholastic purposes than the matching between the aggregated curves of sales and purchases intentions expressed in day ahead in every power exchange in Europe.

Without regrets OPCOM marketplace erased the past by throwing tools and experiences, skills and memories through the largely open windows. Only the challenge culture was kept, as a guarantee to permanently focus on European acquis and best practices in European exchanges. It was helpful that, instead regretting death of the former mechanisms to remember OPCOM's old logo (ascending and descending curves intersection) as an aim to foster the implementation of a new concept: the two side auction. An equal role for sellers and buyers in expressing their willingness is a proof of fair competition.

A temporary concern regarding the lack of suppliers' ability to forecast their needs had generated long debates asking for provisions envisaged to smooth transitional dummy actions' unpredictable effects.

But these concerns were proved as not substantiated and were removed by just the suppliers' promising reports revealing unexpected precision in making forecasts. An empirical expectation that *"to forecast more means to forecast better"* was not confirmed in this case. We were forced to accept that if a wholesale forecast is a matter of data gathering and mathematic issues mastering, for retailers it is a matter of only keeping in hand the relation with customers based contractual clauses. At least if we talk about non households. To grab the changing demand profiles is a fact of rhythm and care.

## AND THE SHOW HAS BEGUN

Once rules, IT platforms and procedures implemented, the show might begin. Or better not. It can be harmful consequences rising if something is missing or badly working. A market trial is always recommended. For six months, no more, no less, the actors repeated their speeches, entering in the characters' skins. The scenery also improved, the platforms were polished, and new decorations were rising.

When the gong was hit by the regulator and the curtain was raised the lights didn't stop as some malicious predicted.

In June 30<sup>th</sup>, the market operators' older or newer friends welcomed a new European trading platform launched and for the beginning a more than 10% quota captured by the spot market segment.

## TWO YEARS OPERATION. TIME OF STATISTICS.

After a transient period, when the spot market quota succeeded more than 10% this indicator decreased and stabilized like in a well controlled automatic system to almost 7% in 2005, 8%, in 2006 and 10% in 2007. This is ensuring to the Romanian spot market an honorable place in Europe, its quota representing more than each Eastern PXs quota, but less than the western ones.

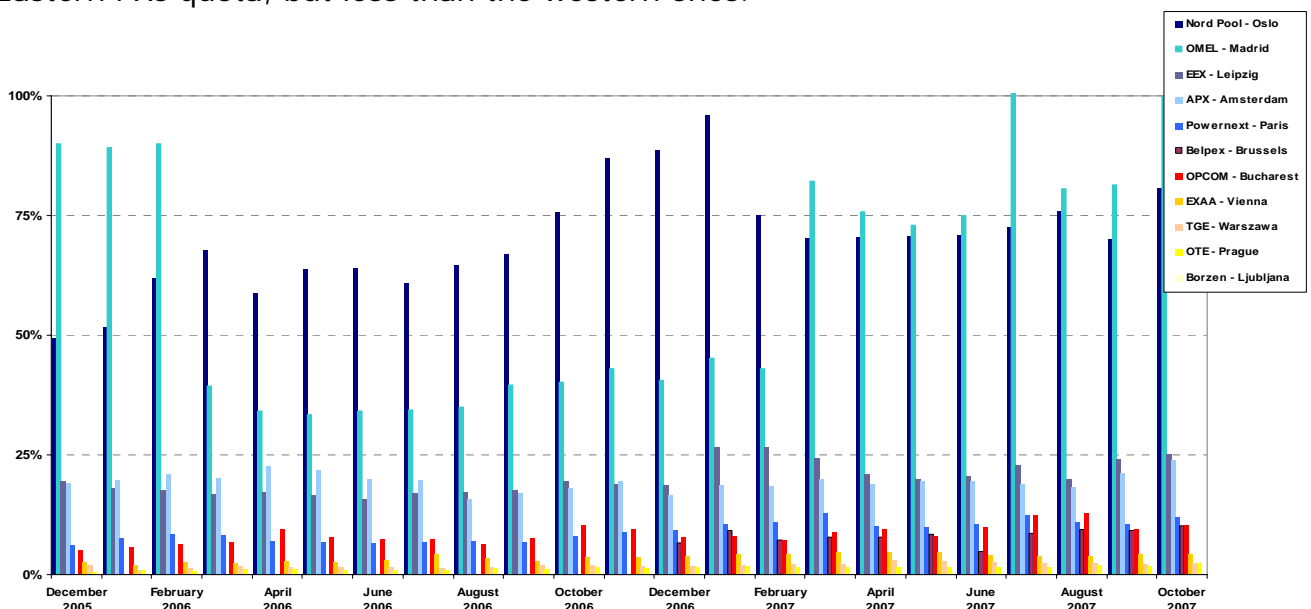


Fig.1. PX Quotas in Europe

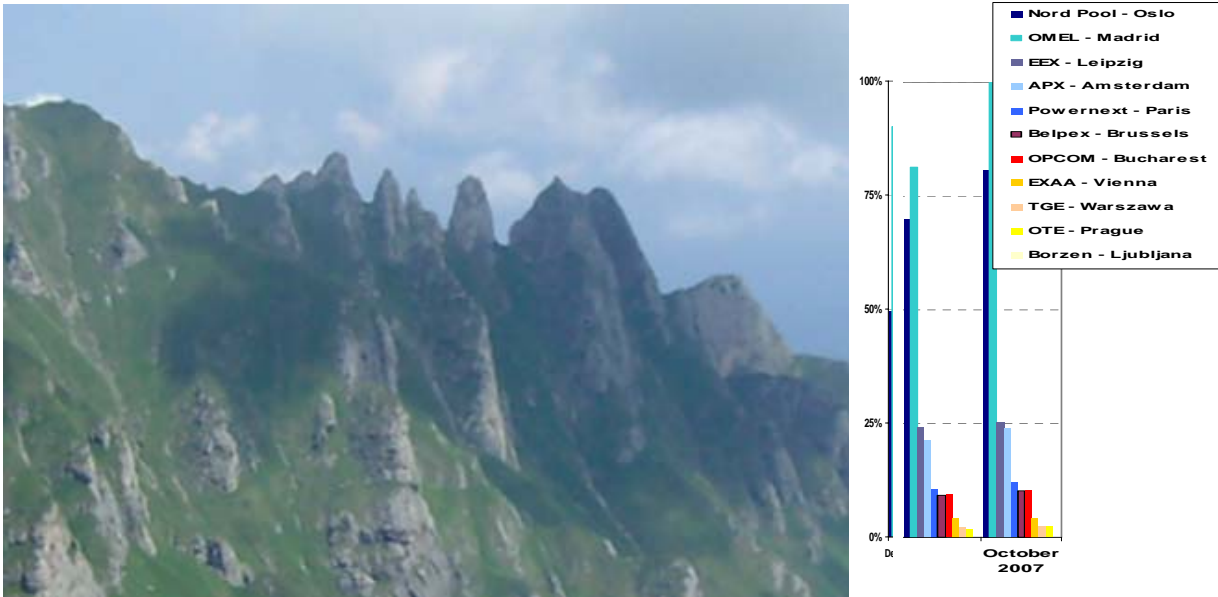


Figure 2. PX Quotas in Europe. Last two months detail.

A not so high volatility may be observed, enough to give to the price a consistency bringing trust in its reference role as incentive for future investments and financial market's underline. The liquidity given by the average of 582 MWh/h traded day ahead in the first 10 months of 2007 is the most relevant in East and is providing a promising starting point for regional intentions.

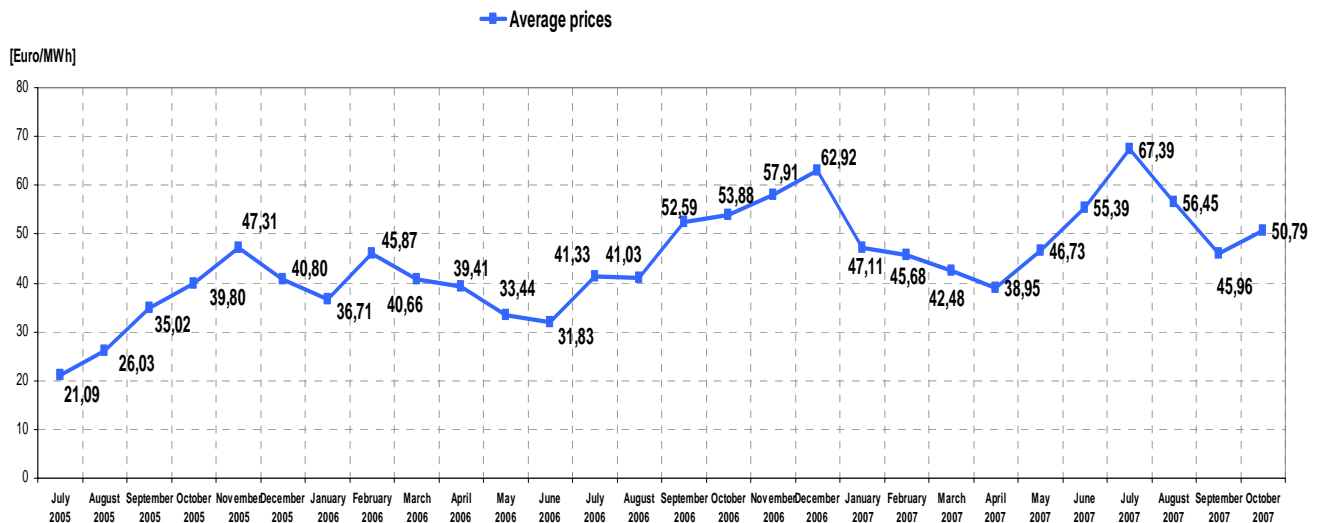


Fig.3. Price evolution

A similar behavior as spot market quota its concentration is having. After two months under the water's menace and due to the increasing participants' number beneficial influence, the HHI index went down under 1.000 value, the representative limit for not concentrated market.

Not only water excess disappearing but also participant number increasing as a market opening result, the concentration remained low in 2006 and 2007, even in the critical months: July, August. The number of active participants stabilized also at almost 50 from now 97 registered participants.

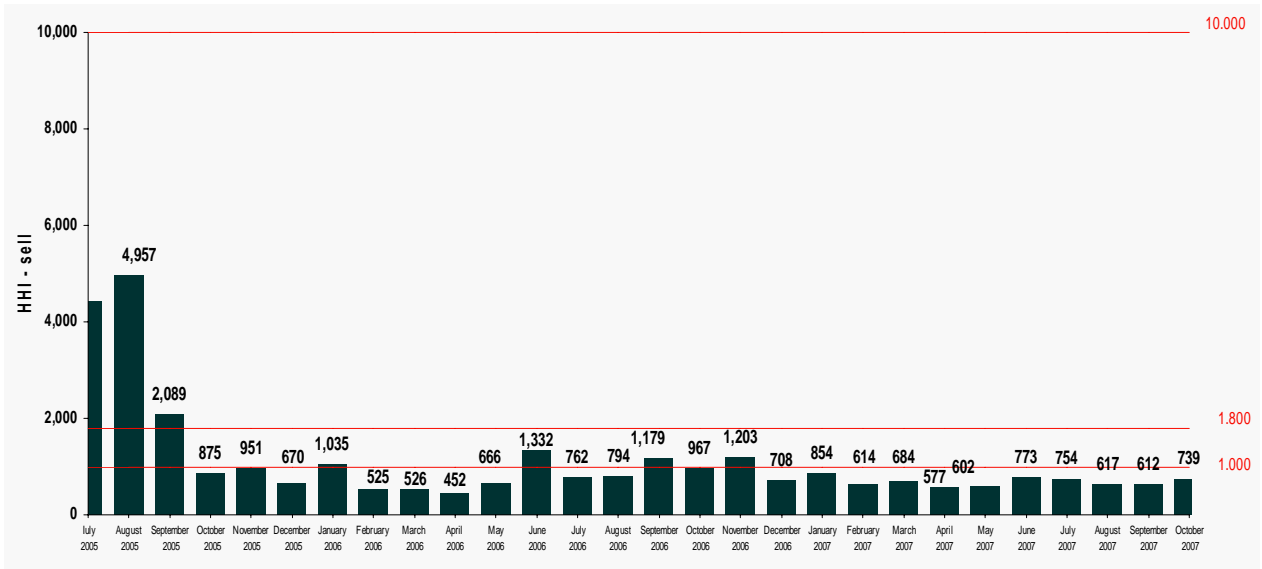


Fig.4. HHI for sales

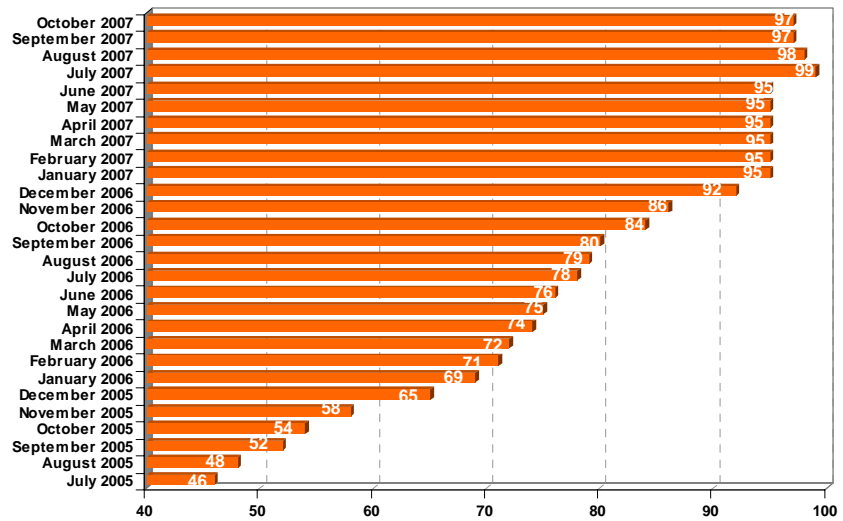
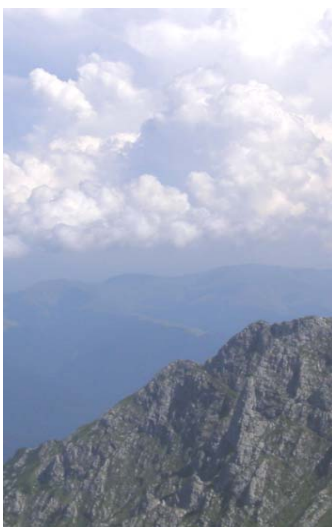


Fig.5. Number of registered participants.

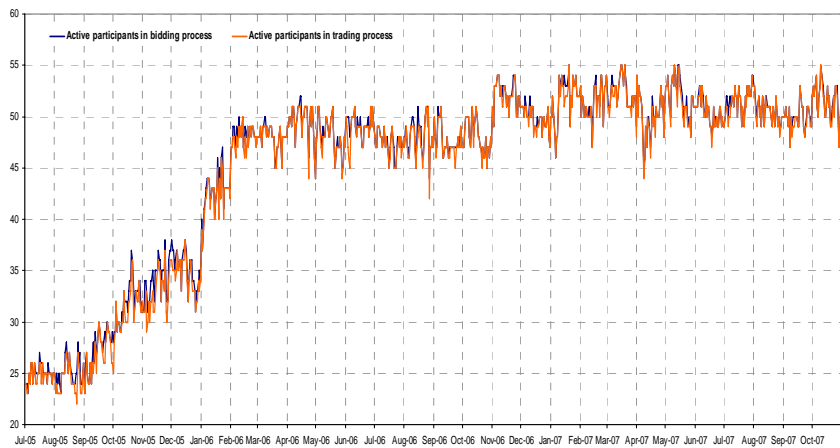


Fig.6. Number of the active participants.

The active participants' number had become stable the last one among other indicators, expected being to perform a new transition to another level when the market will achieve its full opening in the middle of 2007.

**THE TASTE OF SUCCESS**

To not rest to much, to not forget the taste of success, to serve the market trends, OPCOM framework enriched late fall 2005 with two new other products as centralized markets: the green certificates and the bilateral contracts. Operating independent from electricity market, the green certificates market is providing incentives for the renewable based producers according to supplier's obligation to own a quota of certificates depending on consumption. A TGC based system is integrating in a flexible way diverse technologies rewarding, but it is still challenged by the lack of liquidity, being more an incentive than a permanent opportunity to trade.

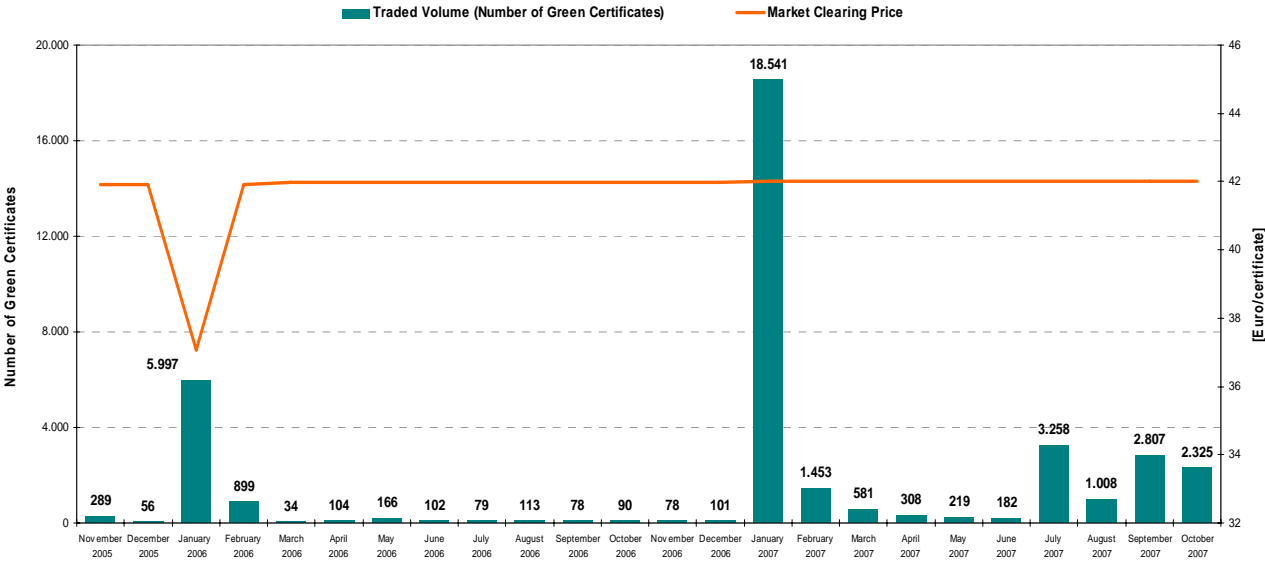


Fig.7. Green certificates market performance

It was a common aim of European Commission and World Bank strategy papers to foster the implementation of a contract exchange in order to ensure the transparency in bilateral contracts concluding. Good to be remembered that both entities are envisaging a phased approach in the region, beginning with bilateral contracts. Technical Group was established by marketplace and participants, the intentions being to evolve towards a more standardized package of products to market expectancies meet.

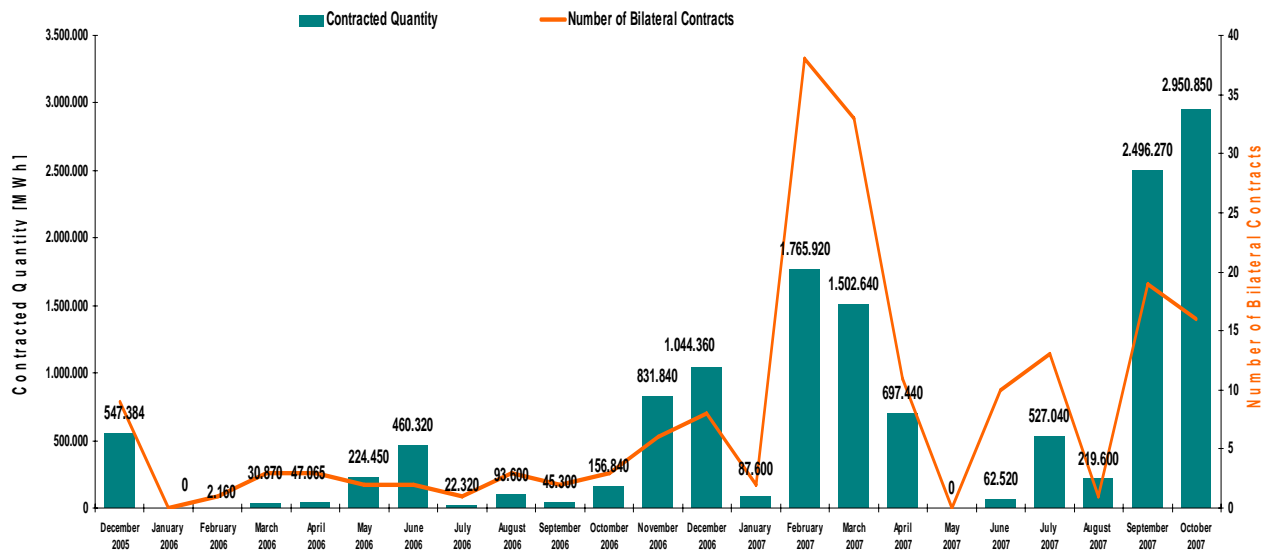


Fig.8. Centralised Bilateral contract market.

## BUILDING CAREFULLY AN ATTRACTIVE PROPOSAL FOR SURROUNDING COUNTRIES

The general performance's numbers looks good, the national framework ensuring enough liquidity to be self sustainable. But just this self sustainability is recommending the Romanian spot market as strong enough for a care and balanced approach of the regional dimension.

The development of the SEE electricity market can be characterized with the following remarks:

- Several independent countries aim operate together to establish a wholesale electricity market not limited by their national borders.
- There is political consensus to form a common wholesale market to optimize the use of the total power resources in the region, consensus evolving from the two memoranda stage to the legally binding Treaty signing.
- A regional regulatory framework is in the process of being established including binding procedures incorporated in legal agreements and guidelines for both system operations and for market operation in the region.
- There is a common understanding that development of a regional market is a stepwise process where regional harmonization is made on issues required to form a common wholesale market and where local methodologies based on national experiences and traditions are accepted to the extent it do not interfere with the overall objectives.

The regional power exchange based OPCOM structure will have as objectives: to increase the electricity trade in South East Europe, by providing a reliable counterpart in the process of the trades' settlement. Regarding the electricity systems in the region, the regional power exchange will also support the improvement of their reliability in short term and also their long term adequacy. It

will be possible to achieve these aims by putting the systems in balance in short term utilising efficiently the existing resources through implicit auctions which will provide consistent price signals for long term investment.

The basis for a consistent spot price setting for the whole region is the existing liquidity of the Romanian day ahead market, improved by allowing the participation of regional market players in equal positions, by transparent and non-discriminatory market conditions providing.

The regional entity will implement day-ahead, implicit auctions as market-based method to simultaneously accommodate trade of the electricity commodity and available interconnection capacity. The market place will undertake the counterparty role for electricity trading. In a day-ahead, two-sided, closed auction the regional power exchange will establish hourly prices and volumes based on bids from participants and allocated cross-border capacity. The so called implicit auction will coexist with the explicit auctions under the umbrella of the regulators guidelines and TSOs agreements.

The proposed entity and market products will support the implementation of the electricity market in SEE as an aim of the Energy Community Treaty, based on a decentralised organization and an open ownership.