

Athens Mini Forum

The role of the Market Operators in spot markets monitoring

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OPCOM



THE MEANING OF A SPOT MARKET

Through the spot market, with isolated exception, a small share of wholesale market is passing. Why to discuss, why so important, what is the role?

What a spot marketplace has to target in its activity in order to play the role that market is expecting from this entity?

THE REVENUE?

No, it's a problem for shareholders

THE SURVIVAL?

It is a result of other targets fulfillment

THE VOLUME?

Yes, to support the price consistency

THE PRICE?

Yes, a consistent price, to be used as reference

THE SYSTEM SECURITY?

Yes, the day ahead trading is balancing the system one day before, minimizing the balancing market volume

THE TRANSPARENCY?

Yes, to have trust. The people like to have trust. This is attracting traders and investors

CORRECT PARTICIPANTS' BEHAVIOR?

Yes, the people like to have equal chances: no abuse, no collusion, no insider trading



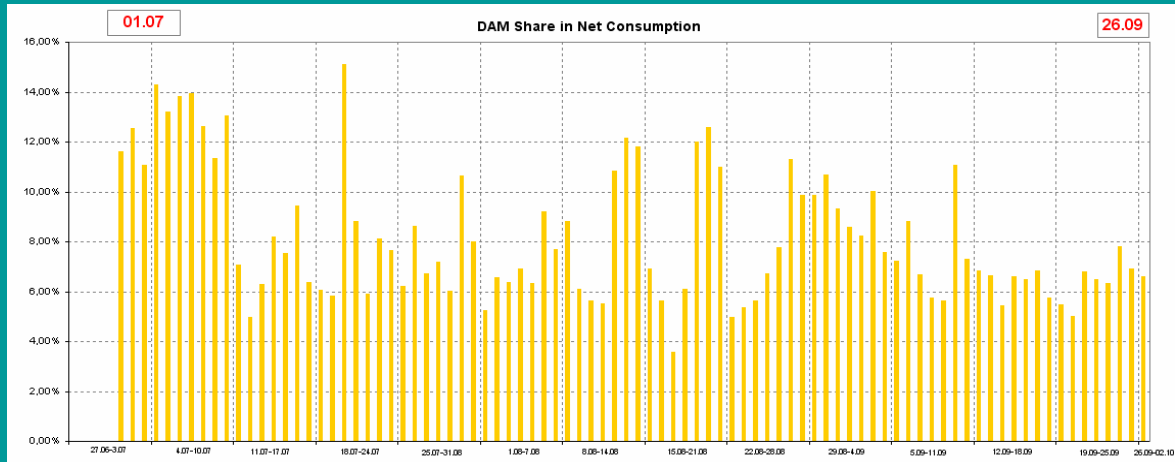
THE ROLE OF THE MARKET OPERATOR IN MARKET MONITORING

What a spot marketplace has to do regarding the monitoring process ?

target: *to contribute to improvement of the value or quality of identified key items:
volume, price, system security, transparency, participants behavior*

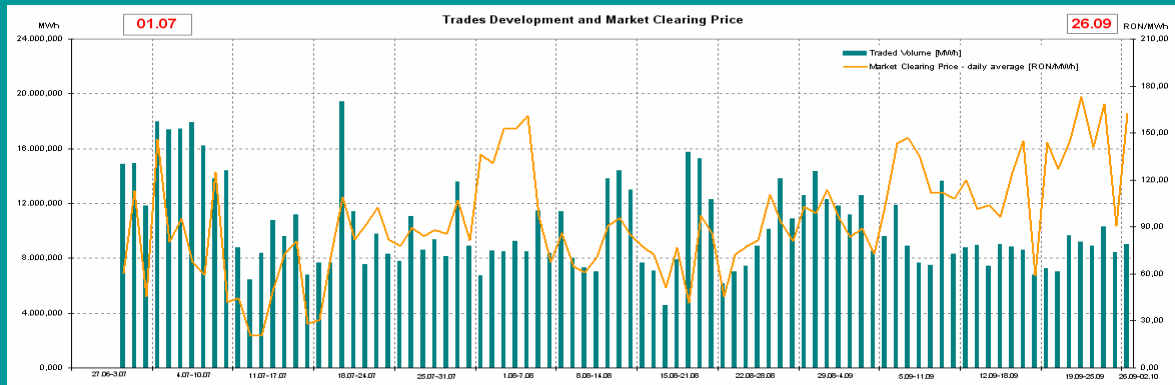
- TO LOOK INSIDE
• TO INVESTIGATE (IN, OUT)
• TO ASSESS
Market surveillance
- TO LOOK AROUND
Strategy and business development, but it is supposing events, facts, data monitoring
Benchmarking, studies, press are helping
Therefore, **MONITORING** again
- TO ENABLE AUTHORISED ENTITIES TO LOOK INSIDE
Reporting activity, supporting the upper level monitoring activity
- TO DISEMINATE DAILY NEUTRAL INFORMATION,
• TO PUBLISH THE RULES
Transparency, supporting market players and investors strategies, benchmarking activities, press information, large public education
- TO OFFER STATISTIC DATA
Service for the participants

MARKET SURVEILLANCE CASE: MAIN TOPICS OF THE ROMANIAN NEW SPOT MARKET



The Power Market, since July 1th, 2005:
17.5 % Regulated
83.5 % Competitive

52 DAM participants, signatories of Agreement, registered at OPCOM in September 15th, 2005, with daily average participation of 27



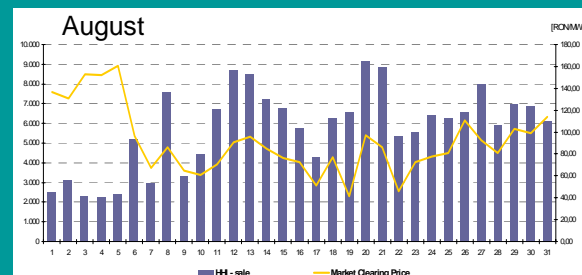
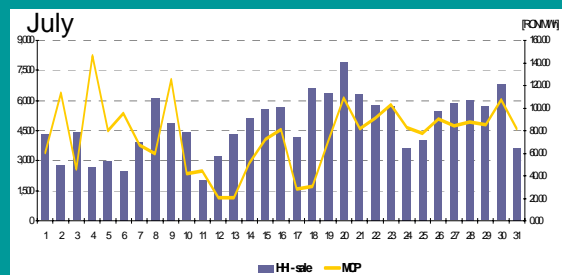
The DAM market first 11 weeks results:
8.16% market share (av.430 MWh/h)
Average price: 26 Euro/MWh

Market Data publication principles:

All data aggregated, not exposing one single participant situation.

Data on maintenance schedule are individual

Information available at the same time to all





MARKET SURVEILLANCE CASE :

MARKET SURVEILLANCE IN OPCOM

LEGAL SUPPORT

Commercial Code of the Wholesale Electricity Market:

Organization & Mission

“.....will be organized within distinct department, based on procedures approved by Regulatory Authority and it will be focused on the surveillance of electricity trading activities within the centralized markets administered by OPCOM.”

Requirements

- To monitor the market operation
- To monitor if the parties comply with commercial code, other rules and procedures and to identify possible breach or anti-competitive behavior
- To inform the Authority about inadequate operation of the centralized market
- If the case will be:
 - proposals to modify regulations
 - proposals to penalize participants
- To report on regular basis about: events in operation, reasons of increasing/decreasing of market clearing price
- To monthly assess the DAM functioning and the DAM participants' behavior
- To report to CEO about issues that could influence the effectiveness, compliance, integrity and confidence in market surveillance performance, also DAM efficiency and competitiveness.

OPERATION & RESOURCES

Independently of other departments, reporting to CEO and Regulatory Authority
3 employees, minimum 1 person in operative surveillance

TASKS

Data and Information reporting on regular basis
Benchmarking data managing
Indicators values calculation, trends and consequences monitoring
Assessment of administrated market performance, participants' behavior monitoring

SUBJECT FOR MONITORING

Historical biddings: patterns in similar conditions
Bidding behavior's influence upon prices
Concentration and possible effects
Physical and economic withhold
Usage of market model features in connection with daily market opportunities

PUBLIC INFORMATION

OPCOM web-site as vector

PRE TRADE

Price scale, Maintenance plans (through TSO web-site link)
Hourly allowed priority generation volume as aggregated form

POST TRADE

Hourly aggregated matching curves
Hourly traded volumes and related market clearing prices
Hourly priority generation traded on DAM

THE CHALLENGE OF SPOT MARKETS ENLARGEMENT IN THE REGION

Enough room for two cooperating PXs in the region

Successful, established spot markets: the most powerful driving force in markets development

Lack of evident benefits will not be replaced by political decisions

Lack of political decision will jeopardize the pace of process;

Lack of cooperation and agreements with and between the TSO's and the Regulatory Authorities will transform the projects into a "simple computer game".



Current OPCOM voluntary markets:

*zonal based trading system,
financial market system being implemented,
settlement services,
organization in place*

- Supported by national stakeholders.
- Encouraged by existing and potential market participants.
- Sponsored by regional donors.
- Advised by experienced international consultants.

Basis

- World Bank approach: phased development
- Nord Pool historical evolution as extending trading area from pair of countries to all Scandinavian area
- ECSEE real framework: PXs and TSOs ongoing projects
- Joint ETSO – EuroPEX developments and EuroPEX issued documents
- European mini fora conclusions
- Other European PX's experience in making steps towards IEM
- Certain liquidity brought by large Romanian electricity market and important DAM share succeeded in present

Proposal

- Phased development from national PX to cluster, passing from neighboring countries approach stage, market splitting as reliable congestion management method. Similar evolution of Borzen will support envisaged market coupling when a critical mass of traders from each sub-region will be in place. Borzen and OPCOM can equally but specifically focus on SEE area connection with the neighboring countries of the region (Austria, Italy and Greece, Hungary, Moldova, Turkey or Ukraine).
- The incipient national market operators can play a role within internal framework based on a decentralized organization;
- An ownership structure intending to bring trust, neutrality and transparency;
- Regional stakeholders can participate in design performance based on trading simulator;
- Started as bilateral market, the emerging SEE regional market will initially introduce the explicit auctions as bilateral trading support. The phased approach will enable a soft landing of implicit auctions.



THE CHALLENGE OF SPOT MARKETS ENLARGEMENT IN THE REGION

Monitoring: a normal coordinate

- **PXs to monitor the process in order to identify opportunities and limits**
- **Are the data from benchmarking enough?**
- **Possibly not all values are reliable.**
- **What flows and what prices have to be expected?**
- **PXs to monitor the legal issues in the region countries: some solutions can be identified as unaffordable by legal framework**
- **The payments: a problem?**
- **The collaterals posting: another problem?**
- **PXs to provide equal training for potential participants: the rules have to be equally known and opportunities understood.**
- **PXs to provide maximum transparency allowing to participants to assess the benefits.**



Market power, the regional integration will mitigate?

Market abuse? Look for participants influencing the spot market price to have benefits in another one. But the different market prices are linked? What influence of different

balancing rules upon spot market? The competition is possible?

How much disclosure of information? How deep to investigate?

Different regulators, the same opinion?

The recommendation of ETSO regarding transparency (outages, maintenance plans) will be followed and the data will be disclosed in due time?