

MESC

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**Free formation of prices,  
market suspensions and  
the E&R NC**

# EFET

**SO YOU CAN RELY ON THE MARKET**



**European Federation of Energy Traders**

## **ELECTRICITY MARKET DESIGN Operating Reserve Demand Curves Across Multiple Regions**

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## ELECTRICITY MARKET

## The Last Should Be First

**All energy delivery takes place in the real-time market. Market participants will anticipate and make forward decisions based on expectations about real-time prices.**

- **Real-Time Prices:** In a market where participants have discretion, the most important prices are those in real-time. “Despite the fact that quantities traded in the balancing markets are generally small, the prevailing balancing prices, or real-time prices, may have a strong impact on prices in the wholesale electricity markets. ... No generator would want to sell on the wholesale market at a price lower than the expected real-time price, and no consumer would want to buy on the wholesale market at a price higher than the expected real-time price. As a consequence, any distortions in the real-time prices may filter through to the wholesale electricity prices.” (Cervigni & Perekhodtsev, 2013)
- **Day-Ahead Prices:** Commitment decisions made day-ahead will be affected by the design of dayahead pricing rules, but the energy component of day-ahead prices will be dominated by expectations about real-time prices.
- **Forward Prices:** Forward prices will look ahead to the real-time and day-ahead markets. Although forward prices are developed in advance, the last prices in real-time will drive the system.
- **Getting the Prices Right:** The last should be first. The most important focus should be on the models for real-time prices. Only after everything that can be done has been done, would it make sense to focus on out-of-market payments and forward market rules.

# So, what needs to be done?

- Proper setting of imbalance prices
  - To be tackled in implementation of Balancing Code
- Ensure that imbalance settlement prices reflect VoLL in times of physical scarcity
  - Can still be tackled in E&R Code !
- Allow for back-propagation of such prices in forward markets, i.e.
  - Enforcing anti-trust provisions and monitoring market abuse in a way that does not create barriers to the free formation of prices
  - Requiring clarification by ACER, NRAs and Competition Authorities

**Only then can scarcity and surplus prices materialise and energy markets work properly.**

# Example of amendment suggestion to the E&R Code

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- Rules for the suspension of market activities in Art. 35/36 have been strengthened to limit market suspensions
- But Art. 39 on the settlement principles remains weak
- EFET a.o. recommends that Art. 39.3 detailing the settlement rules foresees that the rules “**ensure that the imbalance price reflects the value of the actions taken by the TSO to maintain and restore the system**”

# Thanks for your attention

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