The EU energy market

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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 optimising supply and demand and enhancing security of supply, to the overall long-term benefit of the economy and of society.
IEA Energy Policy Review
Actively improving the wholesale energy market

“The EFET mission involves improving conditions for energy trading in Europe and fostering the development of an open, liquid and transparent European wholesale energy market”

Through better:

- Information transparency
- Data exchange
- Products and procedures
- Laws
- Regulation
- Taxation
- European Contracts
- Organised market

- Advocacy for liberalised markets
- Promotion of energy trading in Europe
- Standardisation of contracts
IEA Energy Policy Review
A wide variety of EFET Member Companies ...
IEA Energy Policy Review

... all committed to the development of energy trading
Summary – Gas Section

- Progress in European Gas Hub Development
- Achieving an EU Gas Target Model
- Implementing EU Gas Network Codes
IEA Energy Policy Review

Progress in European Gas Hub Development

Liquid gas market in NW Europe,
slow progress elsewhere

(Assessment based on ISIS data & LEBA reports)

See EFET Guide on features of a successful Virtual Trading Point
IEA Energy Policy Review
Access across Europe is starting to be addressed

It's open access, but I was here first!
IEA Energy Policy Review
Achieving an EU Gas Target Model (GTM)

- GTM1 three pillars:

- New issues for Gas Target Model review (GTM2):
  - Interaction of gas and power markets
  - EU-wide regulatory and political oversight
  - Investment signals and use of infrastructure
  - Retail competition
  - Consistency of EU Gas Network Codes
Gas networks should have entry/exit systems that each give direct access to a single Virtual Trading Point (VTP).

TSOs should provide real-time information on all aspects of their regulated infrastructure.

TSOs should make all entry/exit capacity available to market participants using consistent processes and consistent capacity contracts.

Underlying terms and conditions should enable market participants to have a single bundled capacity contract.

Market participants should have the right to make re-nominations at short notice to enable a rapid commercial response.
Congestion management processes should converge on a single approach.

The way pipeline tariffs are set should ensure that the short-term and long-term markets are efficient and sustainable.

Interoperability and data exchange for the whole gas grid by all TSOs should, from a system user’s perspective, be as if the whole EU gas transmission network were operated by a single TSO.

Essential transitional arrangements need to be correctly identified, managed sensibly and phased out.
Conclusion – EU Gas Market

- Need more focus on establishing gas trading throughout Europe
- EU Gas Network Codes should help, if they are written to meet the needs of market participants and are implemented consistently
- Dangers of over-regulation and national fragmentation
- Policy must ensure that gas is not unduly squeezed out
Summary - Electricity

- The electricity Target Model: achievements and setbacks
- The integration of renewable energy into the market
- The danger of short-term, national-oriented policies for the future of the Internal Energy Market
Over the last decade, the wholesale electricity market has seen significant improvements:

- unbundling of TSO activities favouring new market entrants
- gradual disappearance of import/export fees
- early implementation projects improving market conditions (CWE market coupling)

Many elements are still behind schedule or working against the Target Model:

- regulatory uncertainty threatening liquidity on most markets in Europe
- negative impact of steadily growing out-of-the-market RES-E flows (Third Package vs. RES directive)
- conflicting EU vs. national policies (RES-E support schemes, capacity remuneration mechanisms)
- disappointing outcome of the Network Codes drafting process (forward timeframe, balancing)
The impact of RES operating aid on the IEM

- **RES investors** want to avoid risk and uncertainty.
- **Passes on risks to TSOs**
- **Feed in tariffs**
- **Passes risk on to consumers**
- **Various exemptions**
- **Passes on investment risks to consumers**
- **Pushes risks to “non-privileged consumers”**
- **Reduced market liquidity**
- **Capacity mechanism**
- **Passes on risk to non RES generation**
- **Priority dispatch**
- **Passes risk on to consumers**
IEA Energy Policy Review
The integration of renewables into the market

- **Principles:**
  - **Commercial dispatch** can increase value and reduce required support
  - Allowing **RES output to be moderated** would increase its value (i.e. it would not have to run at a negative price)
  - Removing artificial downside makes **RES capacity tradable in forward markets:**
    - more wholesale liquidity
    - easier for RES to get off-take contracts
    - price transparency

- **Steps:**
  - Gradual **phase-out of subsidies**
  - In the meantime, **EU targets** – not national – for 2030 and convergence of support schemes
  - RES to be sold into the market by producers: “**priority dispatch**” becomes a commercial decision
  - RES producers become **balance responsible** (like other generators)
  - **No cross-border restrictions** on trade in RES generation
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The dangers of capacity mechanisms for the IEM

- **Risk:** wide diversity of incompatible schemes distorting the IEM

Source: Eurelecric & EFET
IEA Energy Policy Review
Ensuring the compatibility of capacity mechanisms with the IEM

- The introduction of capacity remuneration mechanisms must be **preceded by a thorough analysis of the need for such interventions**

- EFET criteria to assess market compatibility of capacity mechanisms:

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<thead>
<tr>
<th>Enhancement of adequacy and reliability</th>
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<tr>
<td>Avoid distortion of MWh and retail market</td>
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<td>Clear transition\phasing out of price signal when adequacy is met</td>
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<td>Focused far into the future beyond liquid curve</td>
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<td>Active demand side\consumer</td>
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<td>Non-discriminatory by technology or nationality</td>
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<tr>
<td>Decentralised decision making</td>
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<td>Market based mechanism</td>
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<td>Suitable for EU\regional application</td>
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*cf. EFET Discussion Paper, February 2013*
Conclusion – EU Electricity Market

- **Patchwork approaches** in capacity mechanisms, RES support schemes, for the implementation of network codes and the delineation of bidding zones **threaten the effectiveness of the internal energy market:**
  - possible distortion of price signals in the energy (MWh) market (forward, DA and ID) will **negatively affect market liquidity**
  - dilution of MWh price signals could also **damage incentives to invest** in reliable and flexible power generation means (vicious circle)

- Non market-based, purely national approaches are **more expensive** and will lead to **political resistance** from consumers (e.g. in Germany)

**OBJECTIVES:**
- use the IEM to its full extent
- avoid unnecessary interventions
- minimise distortions to the wholesale and retail markets
European Federation of Energy Traders

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