

The importance of free formation of prices in the Spanish electricity market



EFET statement – 22 February 2018

Introduction

The European Federation of Energy Traders (EFET¹) would like to emphasise the importance of the free formation of prices in the wholesale electricity markets, with particular focus on the Spanish market. We voice concerns regarding the project of a Royal Decree regulating the procedure for the closure of power plants in Spain: according to the draft Decree, the authorisation to close a plant could be granted only when this does not produce 'unfavorable effects' on electricity prices as well as it does not threaten the security of supply, the competition in the electricity market and is in compliance with the energy and climate objectives.

As we aim to explain below, EFET is worried that the proposed measure could produce exactly the opposite effects, that is to say endanger competition via a market exit barrier and distort the formation of electricity prices. In fact, the proposal - justified under the aim of preventing 'unfavorable' consequences for electricity prices and for consumers- risks instead to constitute a regulatory intervention aimed at artificially suppressing prices signaling scarcity or surplus.

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Our view² is that the best way to get maximum welfare benefits out of the market is to ensure that prices can reflect the true value of scarcity during times of system stress and high demand for power; similarly, in situations of oversupply when energy is in abundance, prices should be allowed to reflect the value of displacing that generation. Only undistorted prices give an accurate signal for dispatch and for investment/divestment. With an increasing share of intermittent renewable electricity generation in the European and in the Spanish energy mix, only accurate price signals allow market participants to identify the need and timing of investments in more flexible technologies, storage solutions and demand-side management, alongside more traditional investment in generation capacity.

By introducing regulatory limitations aimed at artificially alter the natural supply/demand equilibrium, such as the ones proposed in the draft Spanish Royal Decree, market functioning and efficiency would

¹ The European Federation of Energy Traders (EFET) promotes and facilitates European energy trading in open, transparent and liquid wholesale markets, unhindered by national borders or other undue obstacles. EFET currently represents more than 100 energy trading companies, active in over 27 European countries. For more information: www.efet.org

² For more information, see also our discussion paper "[The importance of free formation of prices in the European wholesale electricity market](#)"

be severely weakened. We would like to reassure decision-makers that a potential increase in price volatility and the occurrence of price spikes, which is the natural reflection of the energy mix chosen by the energy and climate strategy of each country, should not be a matter of worry: natural volatility of the markets does not automatically lead to higher risks for the system or higher prices for end consumers, as appropriate hedging instruments are already available. In this respect, future/forward products and hedging tools such as options already offer the possibility to limit the impact on end-consumer bills of price spikes occurring in short-term markets.

Conclusions

We call on the Spanish Ministry to reconsider the draft provisions and to avoid introducing measures likely to distort demand and supply signals and the formation of prices in the electricity market. We support the arguments included in the opinion³ of Spanish National Regulatory Authority CNMC in this respect: the level of competition in the market depends on the freedom of entry and exit and for competition to be fostered, it is essential that there are no unnecessary, disproportionate or unjustified obstacles.

³ https://www.cnmec.es/sites/default/files/1906335_9.pdf