

“International Energy Agency In-depth Review of the EU energy and climate policies ”
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European Federation of Energy Traders

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.

“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

EFET



- Progress in European Gas Hub Development
- Achieving an EU Gas Target Model
- Implementing EU Gas Network Codes

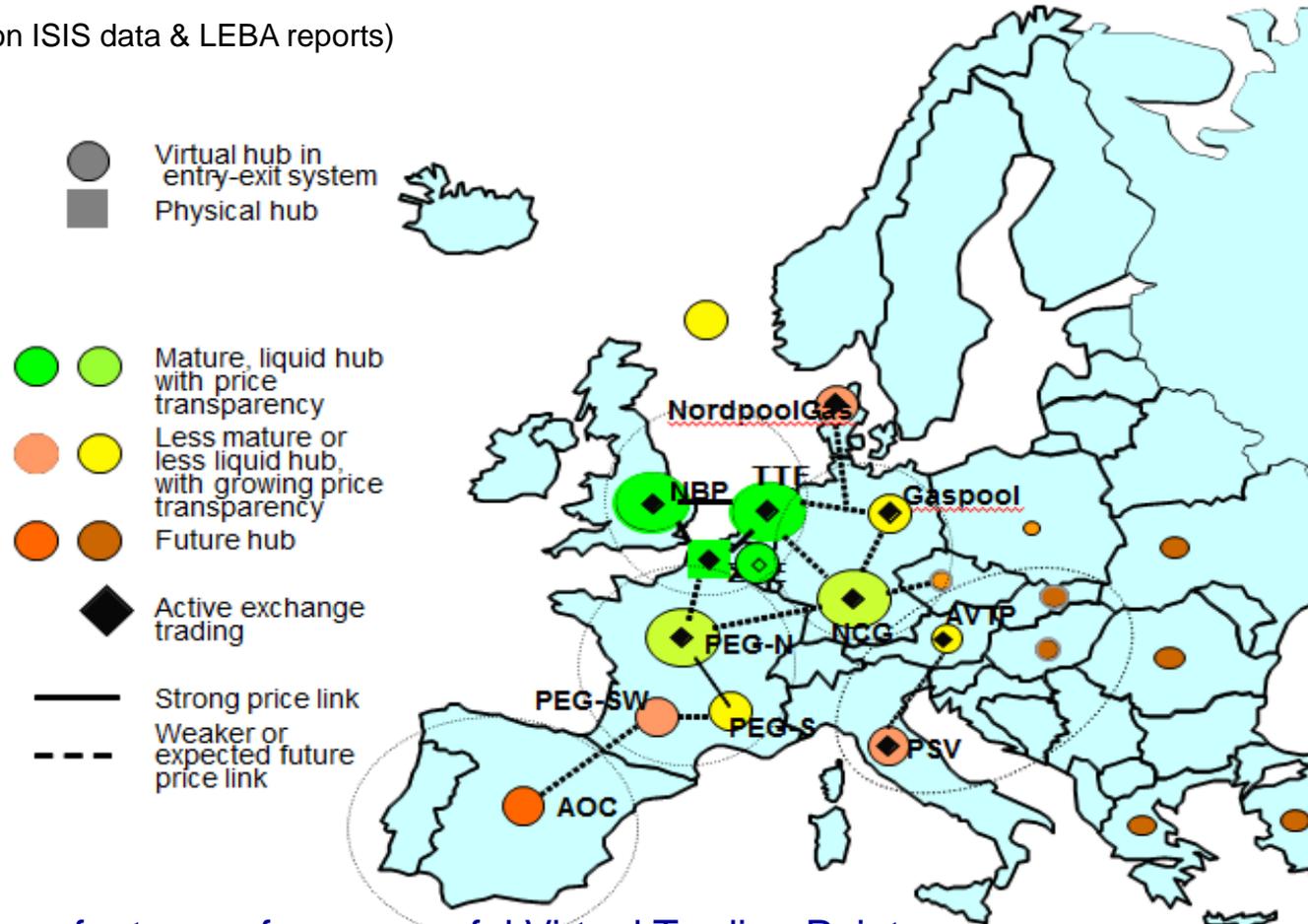


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Progress in European Gas Hub Development

Liquid gas market in NW Europe,
slow progress elsewhere

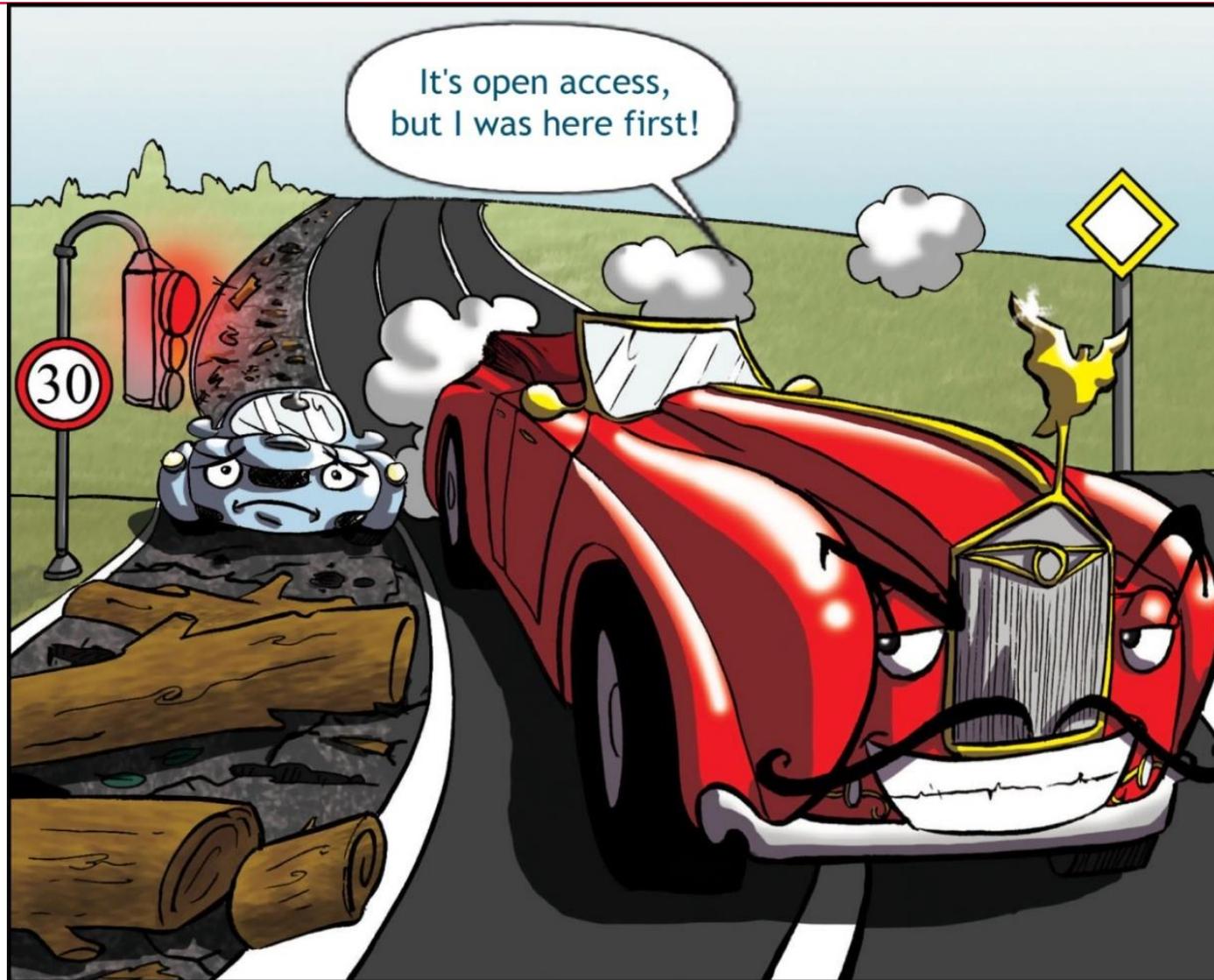
(Assessment based on ISIS data & LEBA reports)



See EFET Guide on features of a successful Virtual Trading Point
<http://www.efet.org/EnergyMarkets/Gas-Position-Papers/2005-today>

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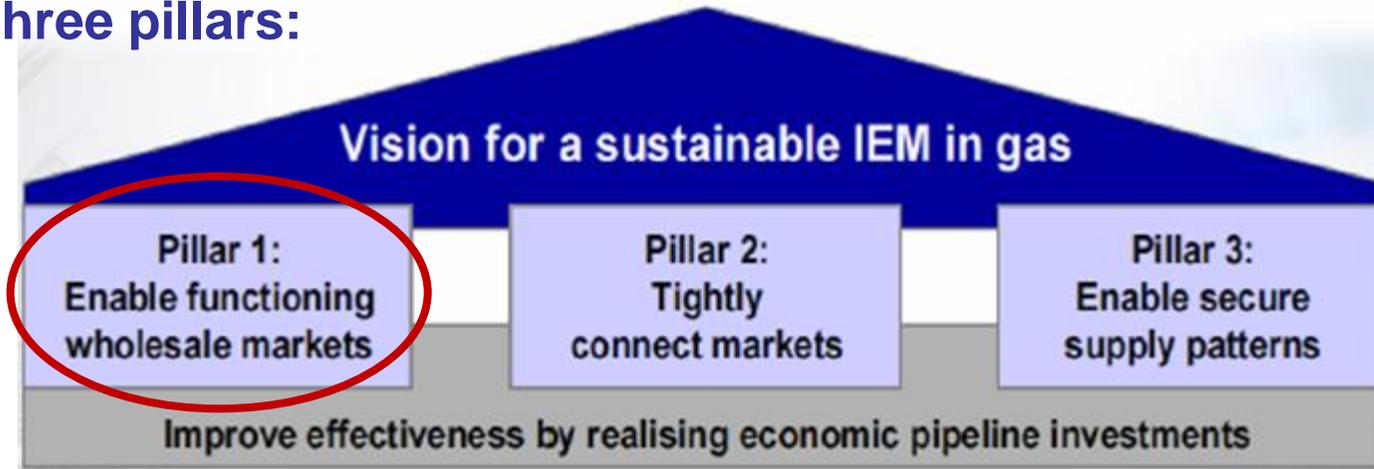
Access across Europe is starting to be addressed



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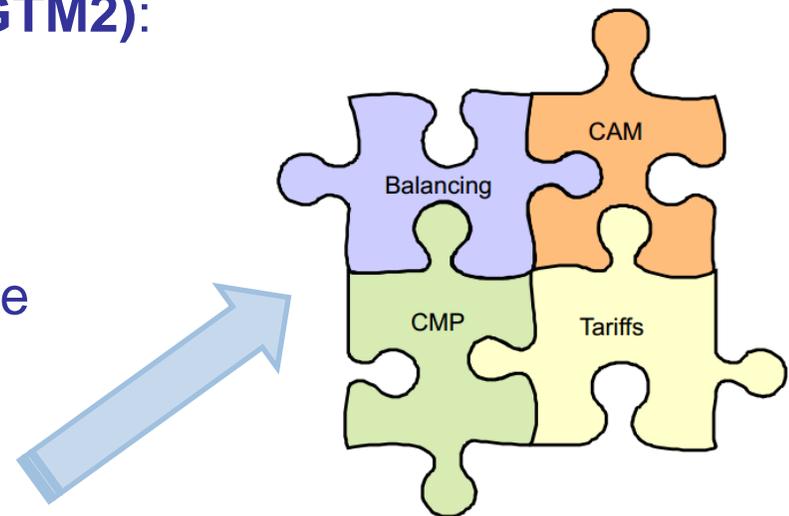
Achieving an EU Gas Target Model (GTM)

- 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



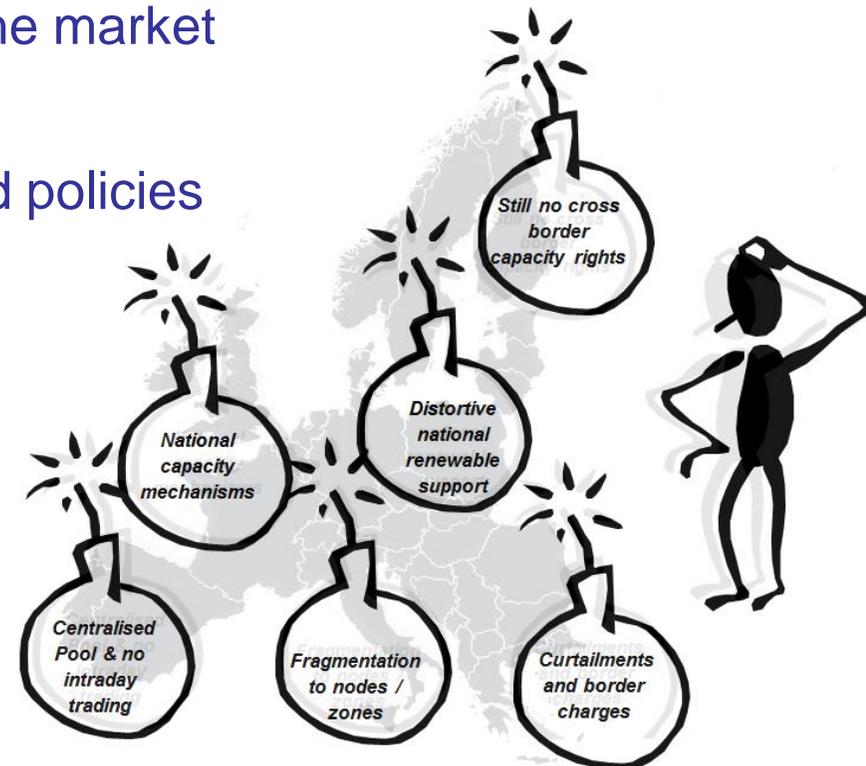
- Gas networks should have entry/exit systems that each give **direct access to a single Virtual Trading Point (VTP)**.
- TSOs should provide **real-time information** on all aspects of their regulated infrastructure.
- TSOs should make all entry/exit capacity available to market participants using **consistent 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 converged 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.

- 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



- 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

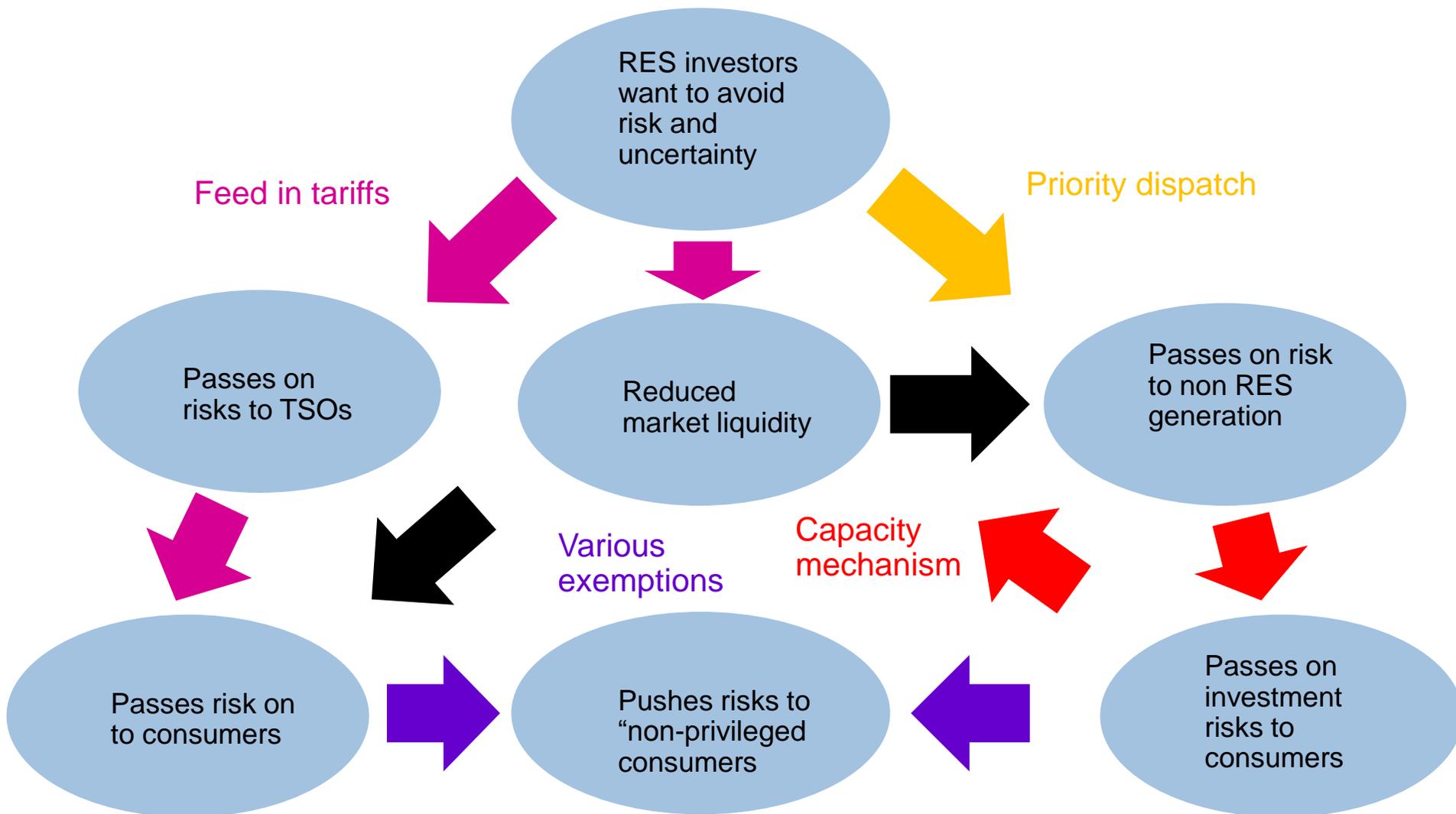


- Over the last decade, the wholesale electricity market has seen significant improvements:
 - unbundling of TSO activities favouring new market entrants
 - gradual disappearance of import/export fees
 - early implementation projects improving market conditions (CWE market coupling)

- 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)

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The impact of RES operating aid on the IEM



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The integration of renewables into the market

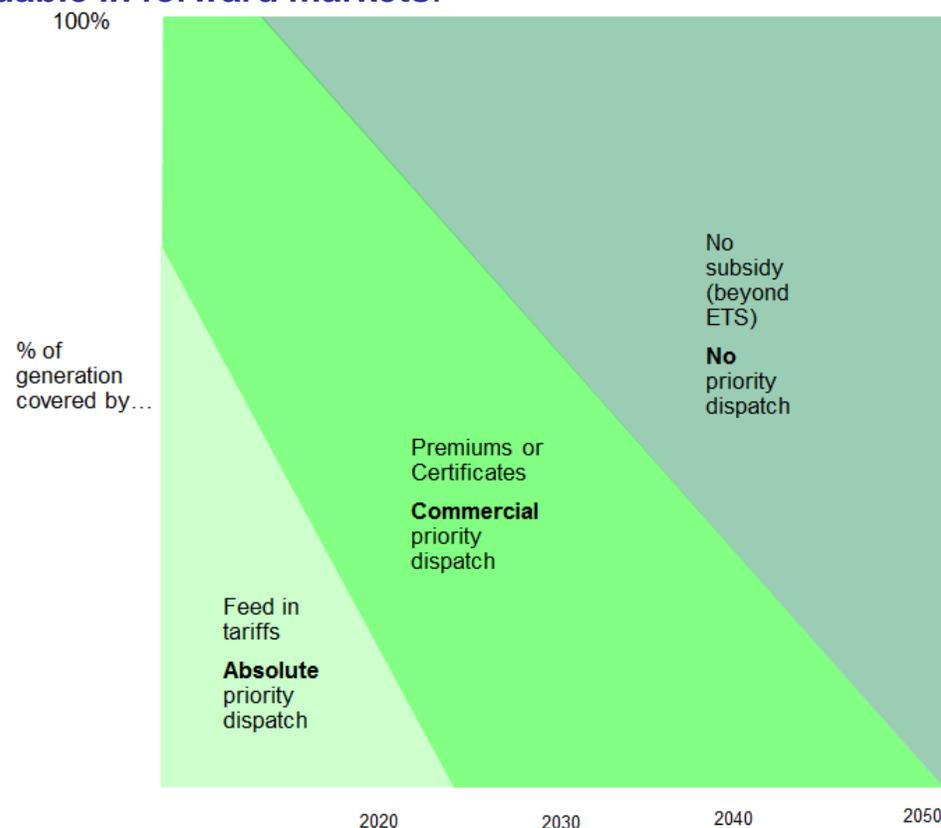


Principles:

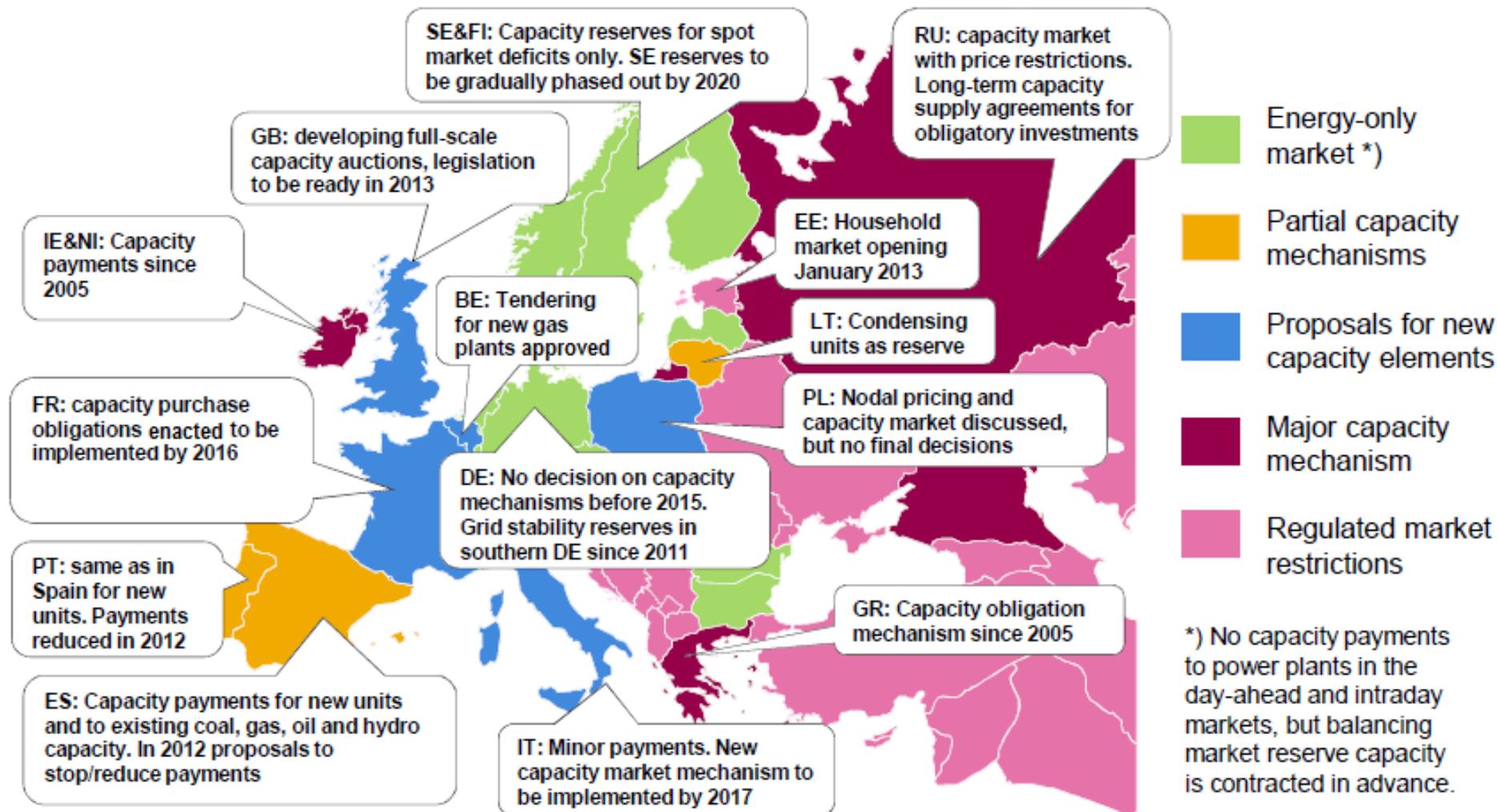
- **Commercial dispatch** can increase value and reduce required support
- Allowing **RES output to be moderated** would increase its value (i.e. it would not have to run at a negative price)
- Removing artificial downside makes **RES capacity tradable in forward markets**:
 - more wholesale liquidity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



- Risk: wide diversity of incompatible schemes distorting 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:

| |
|-------------------------------------------------------------------|
| Enhancement of adequacy and reliability |
| Avoid distortion of MWh and retail market |
| Clear transition\phasing out of price signal when adequacy is met |
| Focused far into the future beyond liquid curve |
| Active demand side\consumer |
| Non-discriminatory by technology or nationality |
| Decentralised decision making |
| Market based mechanism |
| Suitable for EU\regional application |

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



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