

EFET publishes Discussion Paper on free formation of wholesale electricity prices

The European Federation of Energy Traders (EFET) has published a Discussion Paper on the importance of free formation of prices in the European wholesale electricity market, with the aim of drawing attention to market prices as key signals. This is crucial for the cost efficiency of dispatch decisions, the market integration of intermittent power generation and for attracting the right investments.

In our paper we emphasize that **only undistorted prices give an accurate signal for dispatch on the one hand, and for investment and divestment on the other hand.**

We insist that to this end energy prices should be allowed to reflect the true value of scarcity during times of system stress and high demand for power. Similarly, when energy is in “abundance” and demand is low prices should be allowed to reflect the value of displacing that generation, and even reach a negative level.

The truly free formation of prices remains an unattained objective in all EU Member States. To reach this objective, EFET believes that the following matters ought to be tackled:

- Ensuring the equal treatment of all types of participant in the wholesale market
- Removing artificial price caps and floors
- Ensuring that cross-border transactions do not suffer discriminatory grid access treatment compared with transactions occurring within a bidding zone
- Improving transparency of information about the availability and use of generation and transmission assets
- Removing regulatory and transmission management interventions in the

- operation of the market aimed at masking scarcity price signals
- Ensuring TSOs procure operating reserve through the use of market based mechanisms
 - Clarifying the rules governing concomitant scarcity situations in neighbouring Member States
 - Clarifying the rules governing market suspensions
 - Enforcement of anti-trust rules and supervision of the integrity of the market in ways which do not discourage wide participation and liquidity.

These matters all require attention from national policymakers and regulators. But several of them can be addressed also in the framework of the current EU legislative programme or as part of market design reforms under consideration by the Commission. EFET will disseminate the Discussion Paper at the Electricity Regulatory Forum to be held in Florence next week and we look forward to fruitful debate with other participants.

The Discussion Paper is published on our website: <http://bit.ly/1Ye9A0H>.

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