

The importance of free price formation and a right design for Spanish wholesale electricity market

In view of damaging interference with the normal operation of the wholesale electricity market in Spain in December, **the European Federation of Energy Traders (EFET)**¹ reiterates the need for all governments and regulators to observe certain basic principles underpinning the Internal Energy Market:

- **Free competition and phase-out of regulated consumer electricity prices:** EFET supports the European Commission's call for the implementation of competitive mechanisms in an open, transparent and sustainable electricity market, free from political or regulatory intervention to set prices (except in specific residential end user cases e.g. for reasons of fuel poverty or social hardship). In this regard, EFET encourages the Spanish regulatory authority to keep on strengthening its supervisory function in an independent way.

- **The wholesale market as the basis of clear wholesale price signals:** The Spanish Government and regulator should work towards a reform of the Spanish wholesale electricity market design with a view to improving market depth and liquidity.

- **Convergence towards the Target Model for an EU wholesale electricity market:** EFET encourages the Spanish Government to make sure that the new procurement procedures will be consistent with the principles of the Internal Energy Market, removing uncertainties on the price resulting from the wholesale market and avoiding any price interventions.

- **Regulatory stability:** EFET strongly believes that a stable and predictable regulatory framework is a prerequisite for a well-functioning market. Regulators should ensure fair competition on the market by being able to investigate market activities in an accurate manner. We stress that regulatory uncertainty, such as the sudden CESUR auction cancellation, will inevitably discourage market participation. It will also lead to additional regulatory risk incorporated in prices and in the end picked up by end consumers.

On 28 December 2013, the Spanish Government issued a decree establishing the price for the energy supply contracts subject to voluntary pricing for small individual consumer (PVPC) in the first quarter of 2014. At the same time, the Government announced the launch of a new procurement model that will be effective for the second quarter of 2014. The regulated price, based on the historical quotes of Q1 2014 in the Iberian Power Futures Market (OMIP), is far from the registered wholesale market prices.

This is the last of a series of interventions on the Spanish wholesale power market which began with the non-validation of the results of the CESUR auction held on 19 December 2013 for the first time in the history of the CESUR auctions. Such intervention caused significant distortions to the trading activity of a number of firms operating regularly on the Spanish market and applying best risk management practices.

For further information, please contact:

Irina Nikolova, *EFET Policy and Communication Associate*
E-mail: I.Nikolova@efet.org, Tel: +32 (0) 2 737 11 02

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