
Market Coupling: Opportunities and problems

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REGULATORY AUTHORITY FOR ENERGY

New Environment

■ Global/ European Environment

- ❑ Energy sector revolution: new fuels, -shale gas, RES - are changing the environment rapidly
- ❑ Large scale changes on the global energy balance,
- ❑ RES penetration and supporting schemes: market space is getting thinner,
- ❑ Consumer sets the price: request for affordable prices, improving the competitiveness of economies

■ Conditions in Greece

- ❑ Remaining Structural problems undermine development of sustainable completion.
- ❑ Financial status unstable
- ❑ Extreme liquidity problem, energy companies lacks banking support
- ❑ Demand side in trouble, large scale consumers are facing viability problems
- ❑ Limited market visibility

3rd Package –main objectives

- Strengthen in a substantial way the overall framework for a competitive internal energy market, develop a common market design for all member states, the “Target Model”, in order to achieve market coupling
- Facilitate cross border trade in energy, regional cooperation and investment
- Separate effectively production and supply from transmission networks (unbundling)
- Ensure the effectiveness and independence of National Regulatory Authorities (NRAs)
- Achieve greater market transparency on network operation and supply
- Increase solidarity among the EU MS,
- Promote consumer rights and their protection, in particular for vulnerable customers.
- Organize the cooperation at the EU level of NRAs (the ACER), and of electricity and gas TSOs (ENTSO-E and ENTSO-G)

Aim of the 3d package

- Allow efficient cooperation between TSO and develop common market rules for all member states
 - Make efficient use of installed or future infrastructure of electricity and natural gas Systems
 - Provide the necessary market size to allow the development of supplementary markets (reserves, ancillary services), providing unbundled energy, capacity or reserve products. Allow investment decisions to be taken on a sound financial ground, attract private equity, enhancing security of supply

Target Model

According to target model provisions four level of transactions are foreseen:

1. Day Ahead market: Coupling of markets, uniform pricing.
2. Intraday Markets – regional markets
3. Balancing Markets – operated by the TSO
4. Forward markets, based on the cross border trading activity.

Market Organization-1

- Economic Markets run by Market Operator/Exchange
 - Forwards Market
 - Day Ahead market
 - Intra Day market
- Technical Markets run TSO
 - Balancing Market
 - Ancillary Services market

The role of TSO is of great importance, he is responsible to transform economic offers to unit commitment orders, he has to act unbiased.

Market Organization -2

- The economics of the electricity markets have changed:
 - Separate markets of its of separate products are required (energy, capacity, availability, reserves, etc), in order the real value of these products to be revealed.
 - Electricity is not a bundled product any more

Problems & Opportunities -1

- Coupling of markets

- Volume coupling

- Price Coupling

- Implicit auctions on the interconnectors

- Common platform/ algorithm

In theory these arrangements provide increased efficiency, and common market conditions

Problems & Opportunities -2

In real terms a number of significant problems occur:

- Different tax regime between coupled markets
- Different mix of fuels/ cost of energy
- Different level of competition
- Different level and structure of retail tariffs

Coupling is efficient only when commercial transfers from one market to the other are bidirectional. When this is not achieved we have “winners” and “losers”.

- Market reforms in Greece are necessary in order to limit the possibilities to be on the “losers” side.

RAE's proposals

Aim of the proposals

- Remove regulatory distortions, improve market signaling
- Allow third party access to lignite and hydro resource, through VVP auctions or based on the French NOME scheme.
- Create some opportunities for retail competition, allow bilateral transactions, promote the development of risk management tools
- Prepare market rules to meet Target Model requirements
- Set the regulatory framework on which PPC privatization plans will be evaluated

Reasoning

- **Privatization not only for the cash result but also for market development**
- **Short –medium term objective: Transfer the benefit of lignite and hydro rents (if any) to end customers, avoid a windfall effect to the market**
- **Gradual adjustment of the local economy to progressive change of fuel mix, invest in energy efficiency, develop liquid gas market and gas supply options**
 - A forward curve of lignite and hydro energy will be auctioned on a cost based / benchmarked price. The auctioned energy can only be used in the retail market. The scheme is designed in a way that all participants achieve a similar fuel mix in their portfolio and have equal opportunities in the retail market.
 - The scheme in the short/medium term can allow the implementation of the Target Model and provide time for the implementation of longer term schemes, like drawing rights or selling of plants. At the same time, allows the retail market to adjust to new level of tariffs, gradually move from average to marginal pricing.

Thank you

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