

IEA Electricity Security Advisory Panel
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WORKING TOGETHER TO INTEGRATE POWER MARKETS

INTRODUCTORY INTERVENTION BY
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The Roles of Power Exchanges (PXs) in the European electricity spot markets

- Price is the ultimate referee.
 - The goal is that the price fairly represents the real power balance-sheet at a certain time in a defined area
- Providing reference prices in a transparent and neutral manner is the exchanges' task.
 - This task serves the public interest, i.e. final consumers
- Price results from order matching.
 - Order matching is the essential function of an exchange which is responsible and accountable for market management and price quality towards the market participants as well as the regulatory and supervision authorities
- The power exchanges have demonstrated their ability to work together and in partnership with the TSOs to deliver market coupling solutions.

Targets set by the European Union



2014 is an important year for the electricity market



2011

The Heads of State of Government recognized the importance of having an internal energy market in place and set a clear deadline for its completion by 2014

2012

Report "Making the Internal Energy Market work" published by the European Commission assessing the state of the internal energy market

June 2014

European Commission will report on the progress reached in completing the internal energy market

A tangible contribution towards 2014

(...)The internal market should be completed by 2014 so as to allow gas and electricity to flow freely. This requires in particular that in cooperation with ACER national regulators and transmission systems operators step up their work on **market coupling**(...)

CONCLUSIONS
EUROPEAN COUNCIL
4 FEBRUARY 2011

An integrated European energy market by 2014:

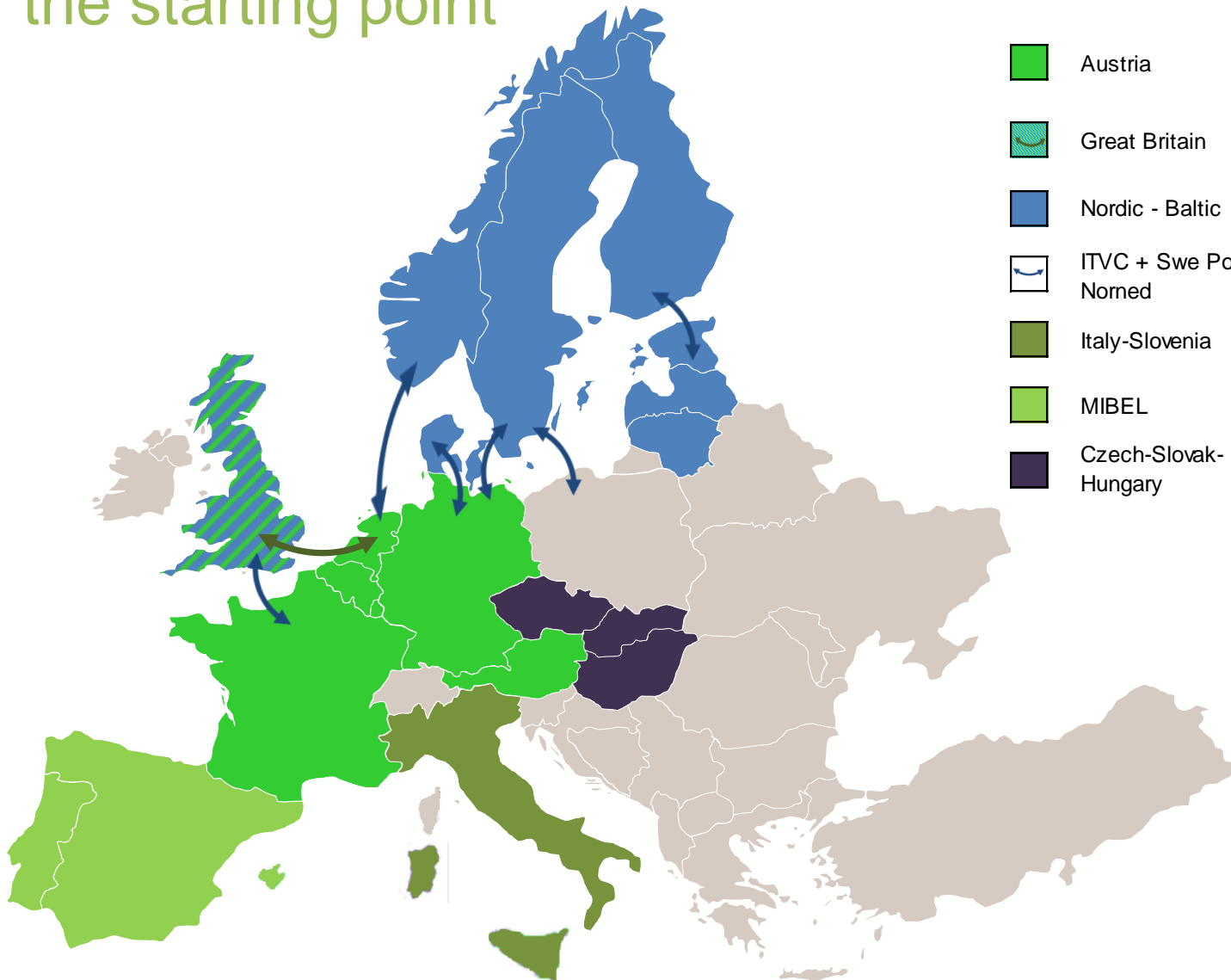
- Price Coupling of Regions (PCR)
- North West European integration (NWE) – South West European integration (SWE)

Further integration coming years to complete European power market integration

Power Exchanges



A patchwork of regionally more or less integrated markets was the starting point



REGIONAL IMPLICIT AUCTIONS

	CWE	Price Coupling
	Austria	1 AT PX price coupled to GE (no congestion)
	Great Britain	1 GB PX price coupled to NL via BritNed only
	Nordic - Baltic	Price Coupling
	ITVC + Swe Pol + Normed	Volume coupling CWE-Nordic & Poland-Nordic
	Italy-Slovenia	Price Coupling
	MIBEL	Price Coupling
	Czech-Slovak-Hungary	Price Coupling

European market coupling

- Market coupling is a closer connection of European power markets to improve the efficient use of energy across national borders.
- Close cooperation between Transmission System Operators (TSOs), Power Exchanges and National Regulators across Europe.
- Harmonizing IT systems across Europe. More than 50 different IT systems and 150 interfaces have been involved in these projects.
- The principles behind market coupling, allocation of transmission capacity simultaneously with the spot power price formation, was originally developed by Nord Pool Spot and has been successfully implemented in the Nordic market over the last 20 years

- **WHAT is PCR?** Price Coupling of Regions (PCR) is the initiative of seven European Power Exchanges to harmonise the European electricity markets
- **HOW is this done?** By developing a single price coupling algorithm to be used to calculate electricity prices across Europe

“From Morocco to Finland”

The target for the trading mechanism:

To calculate the electricity spot price, the reference price, covering all areas and regions, simultaneously allocating all the capacity on all cross border transmission lines from Morocco to Finland in one batch

North – Western Europe (NWE) coupled

■ North Western Europe (NWE)

Includes 13 Transmission System Operators and four Power Exchanges

Covers 75 % of all power consumption in Europe

Optimal usage of cross-border capacities

Harmonization of market rules



The Goal...

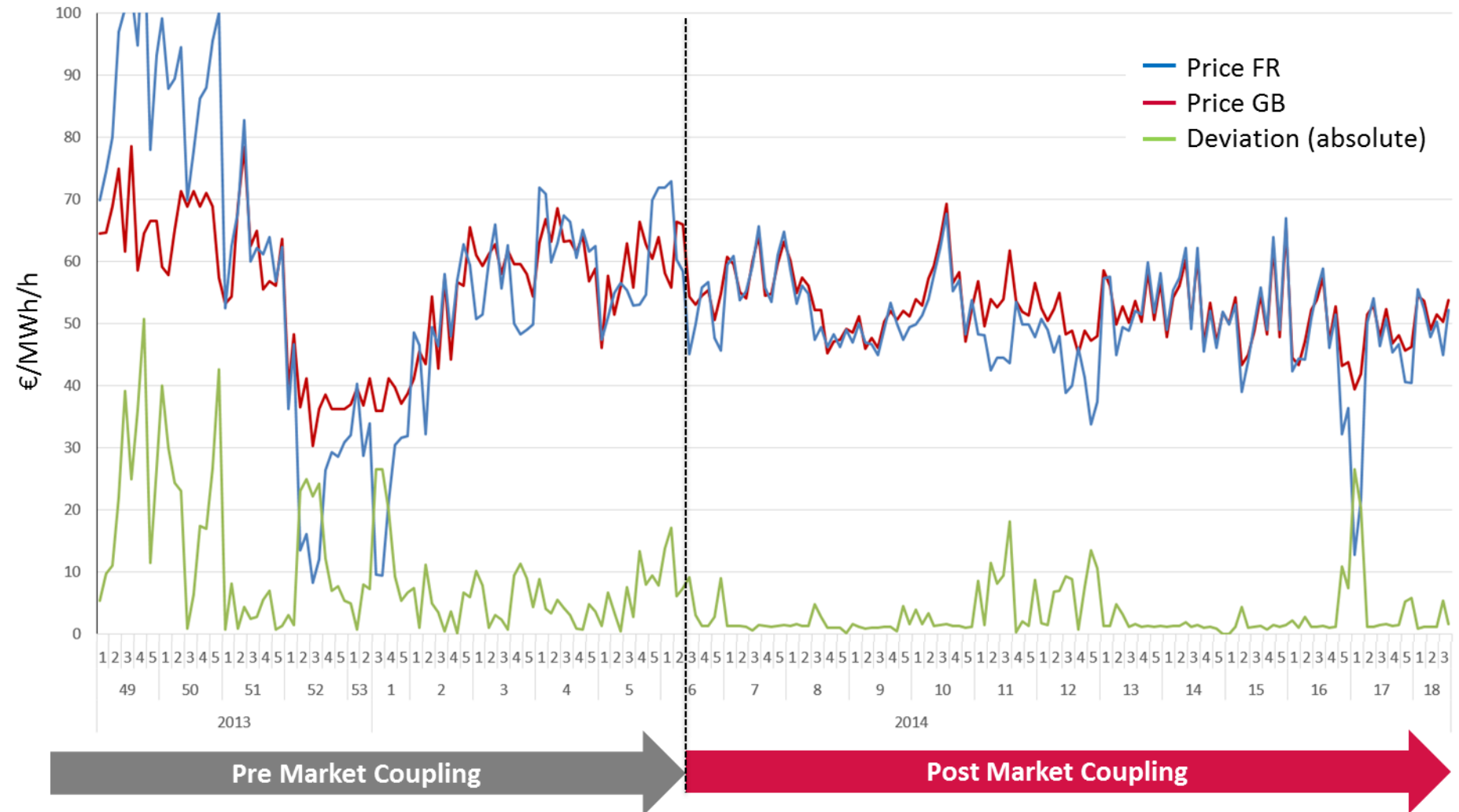


Benefits of European Price Coupling:

- The integrated European electricity market will be beneficial due to increased liquidity, efficiency and social welfare
- Guarantees the overall welfare and optimal use of interconnection capacities
- Removes unnecessary risks of trading short-term transmission capacity and energy separately
- All market participants benefit from cross-border capacity
- Encourages liquidity, transparency and efficiency in the power markets across Europe

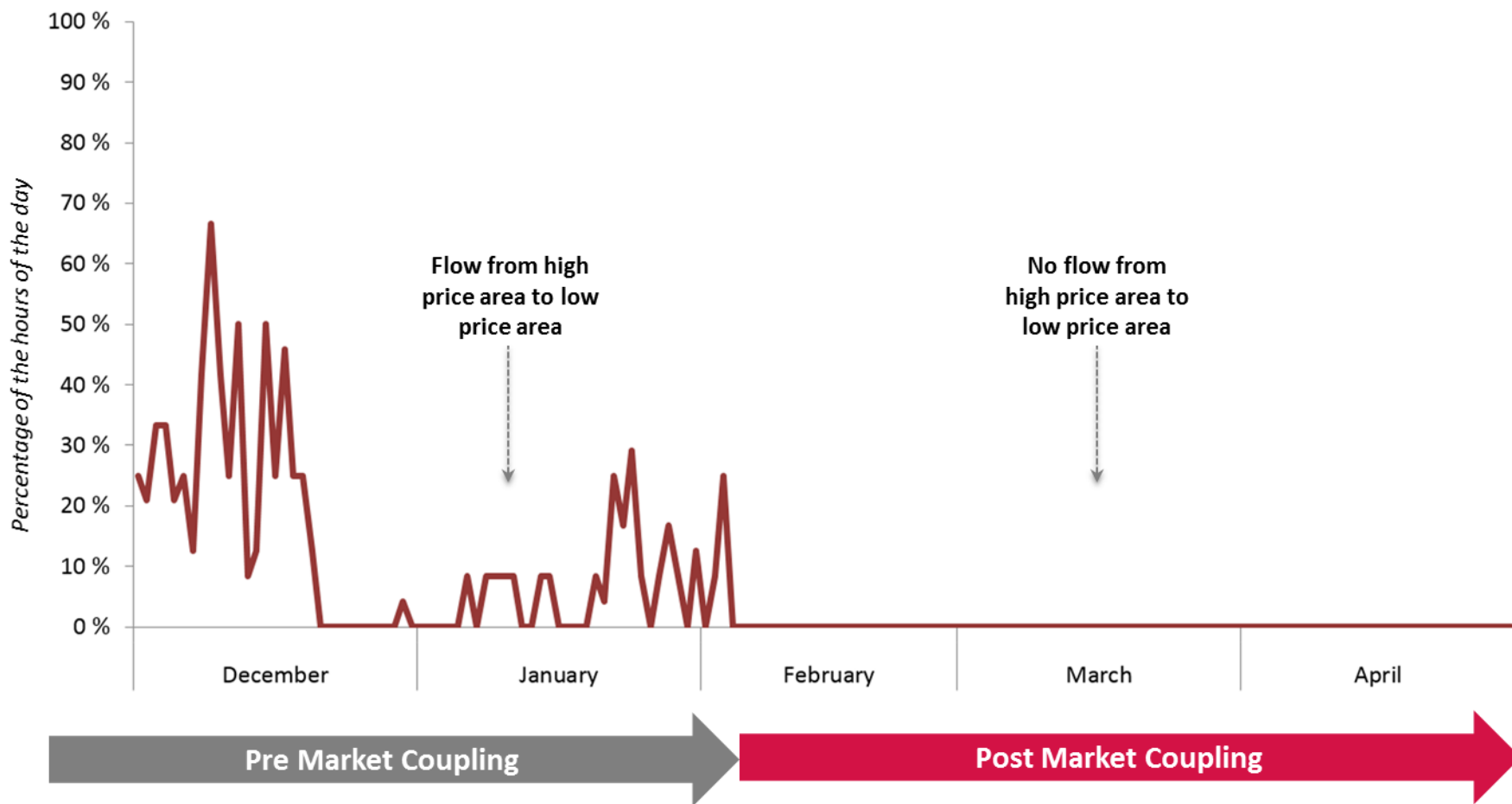


Prices GB and FR (weekdays hours 07:00-09:00) - smaller deviations in the morning peak





Market Coupling flows (e.g. GB-FR via IFA interconnector) – always from low to high price areas



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