IEA Electricity Security Advisory Panel

Scarcity and Flexibility pricing,

Price spikes: the traders perspectives

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Are we facing more price spikes?

- Simple question but complex answer(s) -> see following slides
- Medium / Long Term market dynamics play an important role,
- No evidence of immediate increase in Europe as of today (photo)
Understanding price spikes: what cause(s)?

In order to detect potential trends, let’s trace potential causes:

- System Adequacy issues due to insufficient reliable generation?
- Insufficient flexibility in the system? (either supply or demand side)
- Higher correlation factors between high demand / low generation?
- “Inefficient” price spikes caused by inadequate market design / reduced coupling or operational constraints? (including negative spikes)
- Correlated or systemic failures in a complex environment?

- Price spikes = useful signals on potential trends or inefficiencies
- Price spikes = ex-post indicators on already developed situations
Common answers to multiple situations

In order to mitigate price spikes, a variety of measures are possible:

- In a liberalised market, **roles and responsibilities** of stakeholders should be well defined, with a key role on TSOs (see next slides)

- **Transparency** plays a key role in market developments and in price formation / market reactivity / reduction of risk premiums

- **Open and flexible markets** needed: ensure that market design and operational rules do not exclude assets / resources from relieving system & network tensions
Key role of TSOs in mitigation measures

- TSOs to define the largest possible “security perimeter” in which markets can safely operate: coordinated capacity calculation and common grid models with neighbouring TSOs.

- TSOs to run security analysis, including for extreme scenarii and to publish the results, as useful ex-ante signals.

- TSOs operational coordination centres providing value added visibility / operational tools for coordinated system / network management (taking the most of existing network infrastructures + risk management).

- If necessary, implementation of Capacity Mechanisms as complementary “insurance” on reliability standards.
Key role of Regulators & Market Participants

- NRAs market monitoring to ensure well functioning markets
- NRAs requesting improvements of market Rules, larger coupling flexible access to network infrastructures in all timeframes
- Supranational regulator in charge of cross border analysis and compatibility / overall efficiency of different markets
- Market participants setting up efficient processes for optimising all available assets and pricing their value, even under tight market situations, i.e. when facing scarcity risk & potential imbalance risks
- Incentives on Market participants to balance their positions
Key elements of Market Design

- Consistent facilitation of trading by TSOs and Power Exchanges (including across borders) and grid access in intraday timeframe
- Further harmonisation of national balancing regimes across borders and of reserve products procurement terms & timetables
- Review of dispatch / grid access privileges of RES-E generators
- Expose RES-E generators to balancing regime & intraday market
- Wider participation of consumers & aggregators in markets
- Greater tolerance of regulators & policymakers for volatility in wholesale power prices to allow development of flexibility market (i.e. complementary revenue stream for peaking plants)
Thanks for your attention

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