

IEA Electricity Security Advisory Panel

Scarcity and Flexibility pricing,

Price spikes: the traders perspectives



European Federation of Energy Traders

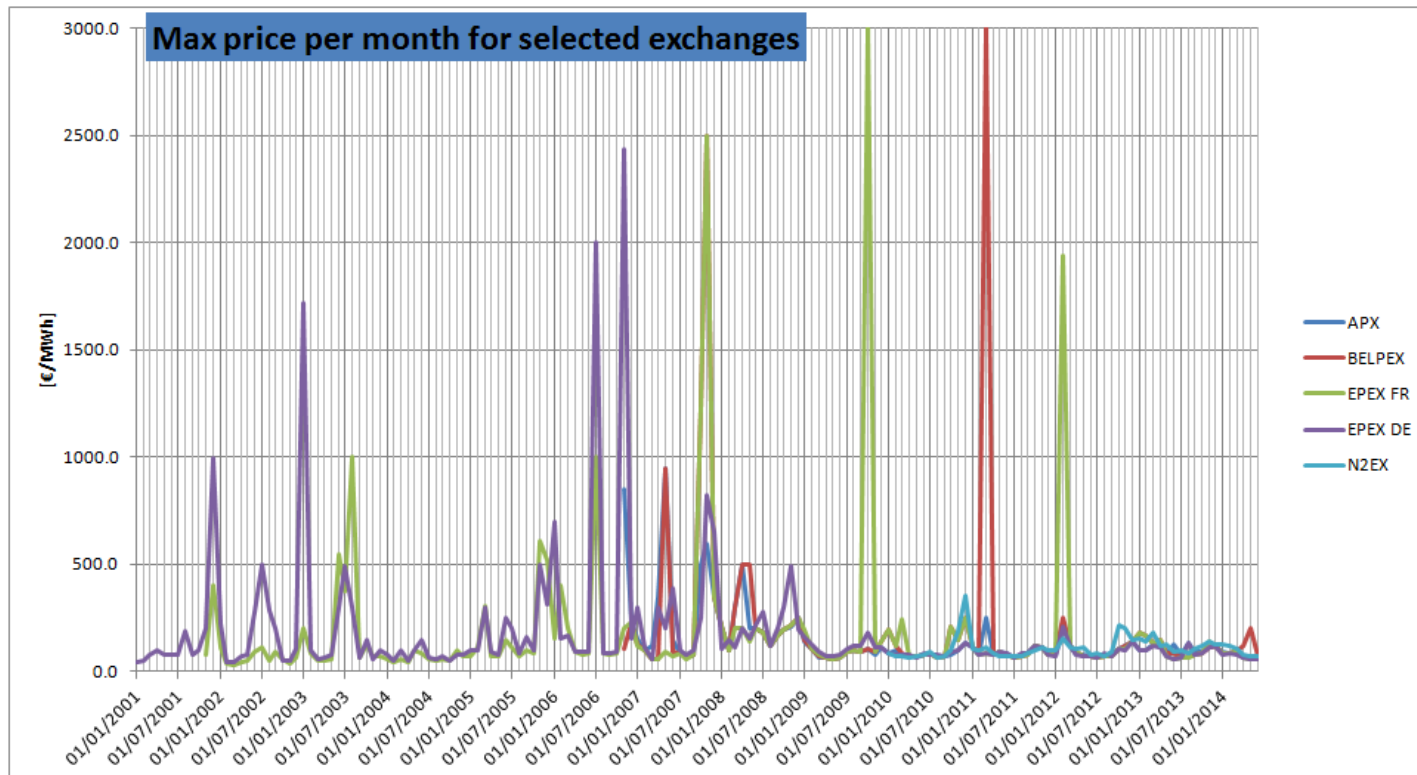
Paris, 02/07/2014

Nicolas Barbannaud



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)?



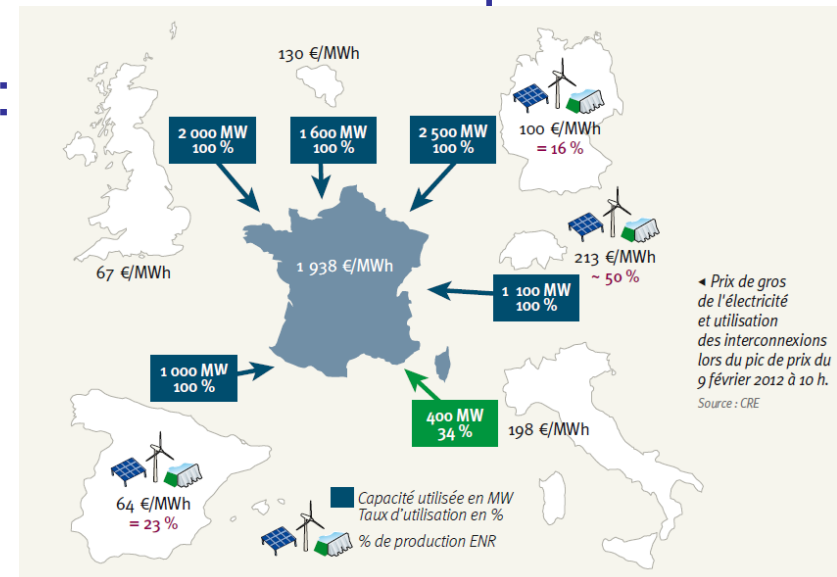
In order to detect potential trends, let's trace potential causes...:

- ➔ 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

- ⇒ 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



European Federation of Energy Traders

**Amstelveenseweg 998
1081 JS Amsterdam**

**Tel: +31 (0)20 5207970
Email: secretariat@efet.org
www.efet.org**