

Florence Forum

Multi Regional Day-Ahead Price Coupling

Towards Implementation of the PCG Target Model

December 10-11, 2009

Association of European Power Exchanges

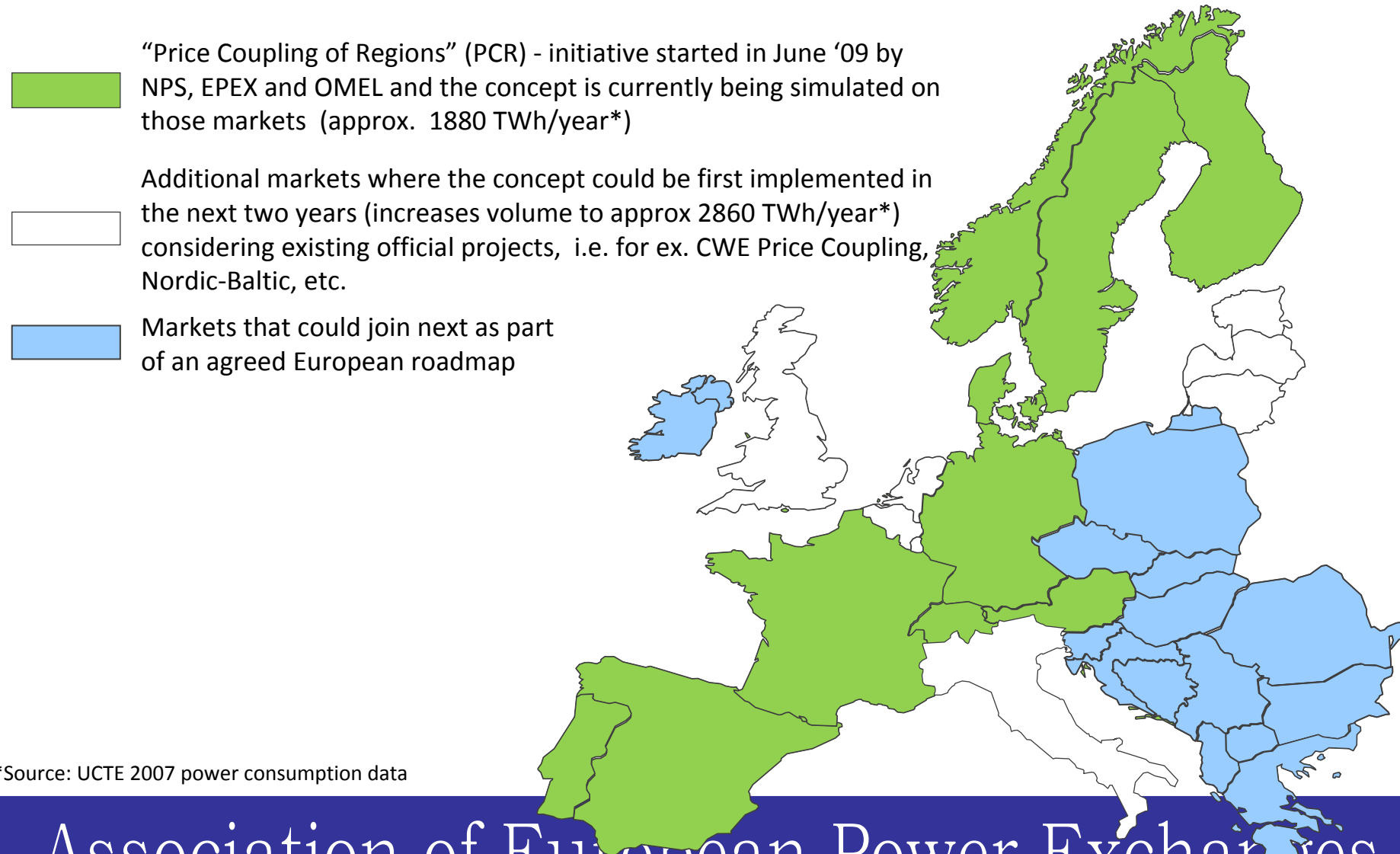
The Roles of Exchanges (PXs) in Multi Regional Price Coupling (I)

- 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
- Price results from order matching. Order matching is and shall remain 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
- Coordinated order matching is for the exchanges what coordinated capacity calculation is for the TSOs
 - When that is combined in a Price Coupling process, as for example NPS Nordic Elspot Market, TLC and MIBEL, it works very efficiently and builds trust largely due to the clearly separated PX and TSO roles in such a process
- Providing reference prices in a transparent and neutral manner is the exchanges' task. This task serves the public interest, i.e. final consumers

The Roles of Exchanges (PXs) in Multi Regional Price Coupling (II)

- Efficient capacity allocation via Market Coupling DA will throughout Europe facilitate price convergence whenever possible, and always clear price signals reflecting both the price of energy per Bid Area and capacity
- The preference for implicit auctions over explicit has been made possible thanks to liquid day-ahead exchanges. Market Coupling cross-border flows account for only a portion of the transactions on exchanges' (PX)
 - For example, in the Nordic and Iberian markets where 100 % of the NTC/ATC is used in the regional spot market, cross-border transactions and physical flows account respectively to only 12 % and 3 % of volumes traded on PX
 - Only 14 % of the PX's transactions across the CWE area are cross-border flows, according to 2007 data simulations
- Market integration can today progress quickly through multi-regional price coupling, building on existing infrastructures and regulatory frameworks with some degree of harmonization when technically needed

One Example of Cooperation of Power Exchanges on European Multi Regional Price Coupling Concept



*Source: UCTE 2007 power consumption data

The Roles of Exchanges (PXs) in Multi Regional Price Coupling (III)

- Likewise the Kirchhoff's law, price coupling could expand wherever day-ahead markets are mature enough
- At the same time, the necessary day-ahead exchanges can be established in other regions where there is a willingness to federate a community in order to develop enough liquidity and get prepared for market coupling with a rational approach in terms of trading systems and products
- Exchanges have a solid track record of cooperation with TSOs and between themselves. Market coupling requires a trustful relationship with TSOs and adequate governance, respectful of the fundamental roles and obligations of TSOs and Exchanges