



STRENGTHENING WHOLESALE MARKETS



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Founded in 2017 by:

ACIE: Asociación de Comercializadores Independientes de Energía / Association of Independent Retailers – SPAIN

AFIEG: Association Française Indépendante de l'Electricité et du Gaz / French independent association for electricity and gas – FRANCE

AIGET: Associazione Italiana di Grossisti di Energia e Trader / Italian Association of Energy Traders & Suppliers – ITALY

BNE: Bundesverband Neue Energiewirtschaft e.V. / Association of Energy Market Innovators – GERMANY

Oberoende Elhandlare / Independent Electricity Retailers – SWEDEN

EER position on wholesale markets

The ACER/CEER report on the Electricity Wholesale Markets published in October 2018 points at the necessity of strengthening wholesale markets. The report shows large differences between countries to handle cross-border capacity. The performance is considered adequate in the Nordic markets, while most of continental Europe is in a situation where cross-border trade is limited due to internal network congestions. The conclusion is that it is necessary to increase the cross-zonal capacity for trading throughout Europe if we shall achieve an integrated electricity market in Europe. The report shows also differences in liquidity between different markets.

In support of this assessment by ACER and CEER, EER considers the following points as crucial with regard to strengthening Europe's wholesale markets:

- Efficient and liquid wholesale markets both in the physical and in the financial electricity market (commodity derivatives) are essential to competition and price risk management in the energy markets.
- With efficient market coupling the power flow goes in the right direction according to price and with well-functioning financial markets on both sides of the borders, it is possible to hedge on both sides of the borders. However, there is a need to improve market coupling and increase cross-zonal capacity for trading throughout Europe.
- Wholesale physical and financial electricity markets liquidity is a building block of competition, since it is essential for non-integrated energy companies to operate on equal conditions as companies in vertically integrated groups. This also applies to generation companies which are expected to heavily invest in renewables to make the energy transition a reality.

- Complex rules on participation in markets (e.g. too complex financial market regulation, which also affects energy transactions) favor large players and prevent a level playing field. Market rules must be as simple as possible and take costs into account so that smaller market participants also have a fair chance to participate in the market.
- Competition on the generation side is a key factor in order to develop liquidity on the wholesale markets.

In recent years, we have seen increasing interest in Power Purchase Agreements (PPAs) as a tool to finance the development of renewable energies. With a PPA, typically it is understood that a corporate off-taker enters into a long term PPA (commonly with a term in excess of 10 to 15 years) with a renewable energy generator to take all of the energy generated by its plant (or portfolio of plants), commonly for a fixed price per kWh. EER considers the following points as crucial with regard to advancing the case of PPAs:

- Long-term PPAs should not be restricted or promoted with a socialization of risk.
- Retailers can operate in a PPA as off-taker for the electricity and resell it on a market basis.
- PPAs can be used for financing renewable energy without public subsidies. However, we need to be cautious to not have incumbents foreclose the market once again. In a few EU countries some of the large vertically integrated energy groups are increasingly returning to bilateral contracts with major customers, which in turn deteriorate liquidity in electricity term markets. An effective enforcement of competition rules are needed to ensure that market power is not abused.