

**Executive Exchange on
Coordinated Cross Border
Transmission of Electricity – an
Examination of the European Union**

September 22 – 26, 2008
Brussels, Belgium

OPCOM: alternative regional models



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Regional integration – towards internal electricity market

Implicit auctions vs. explicit auctions

Spot market integration in Europe

The regional market model: basic principles

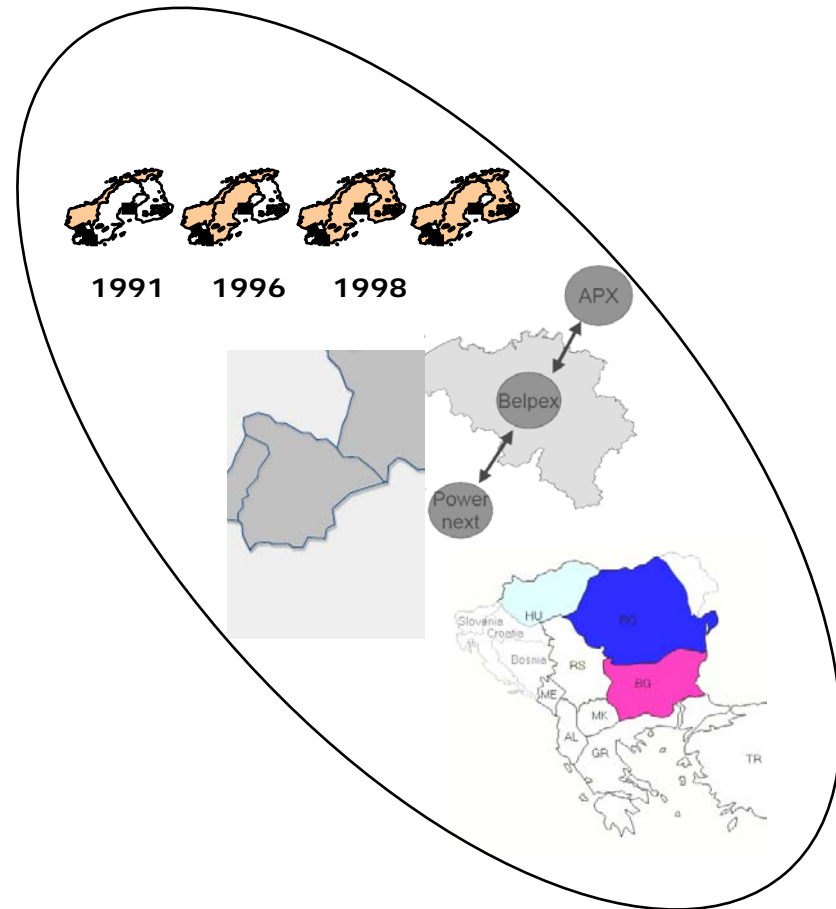
Transmission capacity allocation for DAM

Alternatives in organizing the market operation

Needed agreements towards regional spot market development

Ownership

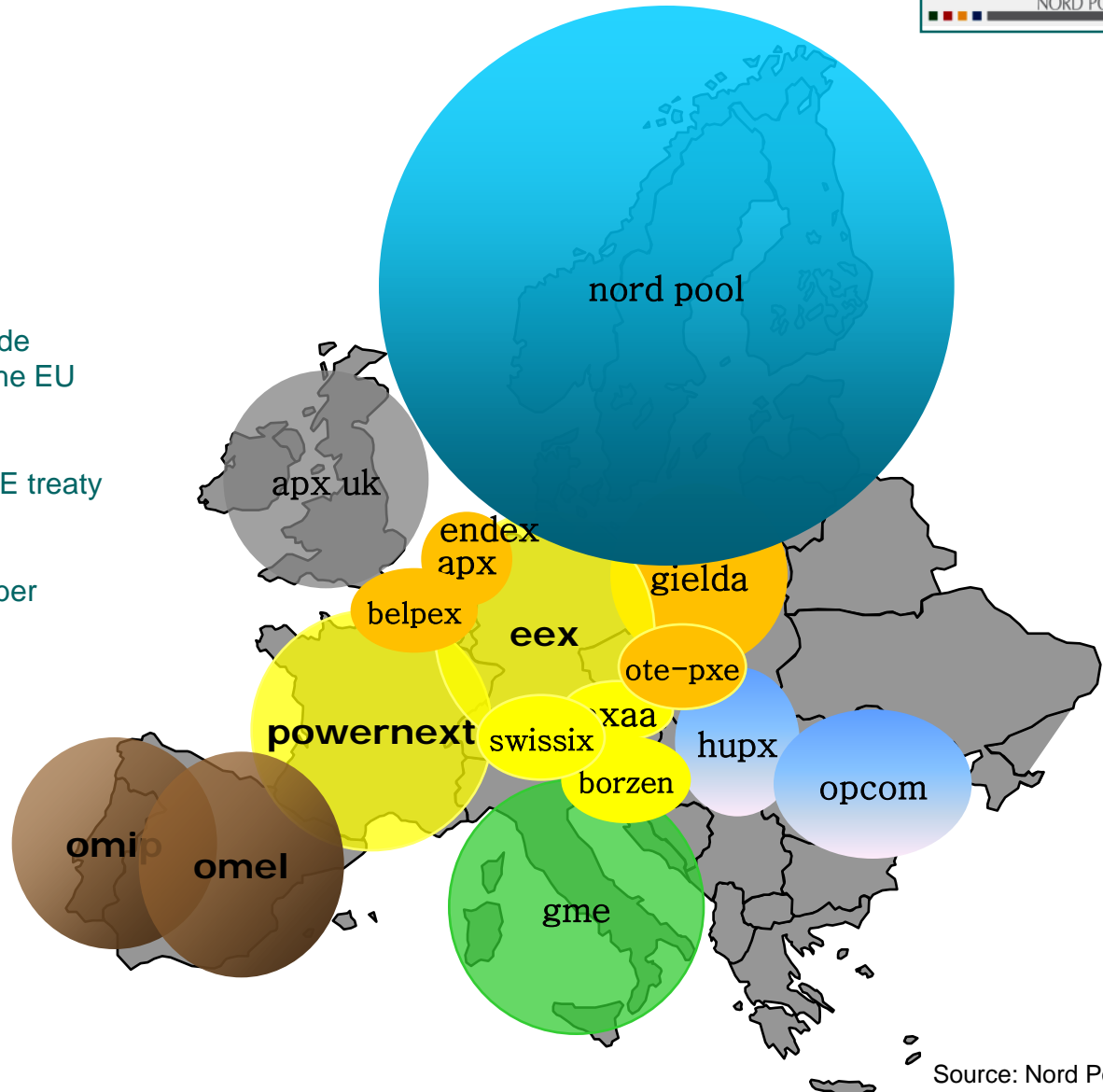
Development milestones



Regional integration – towards internal electricity market



- 18 PXs trading now or intending to trade physical and/or financial products in the EU perimeter (&EEA)
- One PX in the perimeter of the ECSEE treaty signatory countries
- OPCOM is EUROPEX & APEX member



Implicit vs. explicit auction (1)



- Both methods are market based and accepted by the (CE) 1228/03 Regulation
- In the European markets the majority of the interconnector congestions are resolved through explicit auctions or through hybrid allocation of capacity (explicit/implicit)
- Nordic market is the only market where whole capacity is allocated to the DAM.

The implicit auction advantages:

- The explicit auctions bring rights in long and mean term. The need to correlate the period and volume of bilateral contracts with the result of explicit auctions over different periods and borders ends sometime in under optimal results with impact on participants portfolio.
- The implicit auction includes the trades netting, optimally using the available capacity.
- The implicit auction always generates contractual flows in the direction of higher prices.

Implicit vs. explicit auction (2)



The utilisation of the capacity not used by the owners to wheel the contracts may be used by implicit auctions by implementing one of the principles:

“use it or loose it”

The power exchange can take over not used capacity with no compensation paid to the holder of the right and apply the capacity in implicit auction.

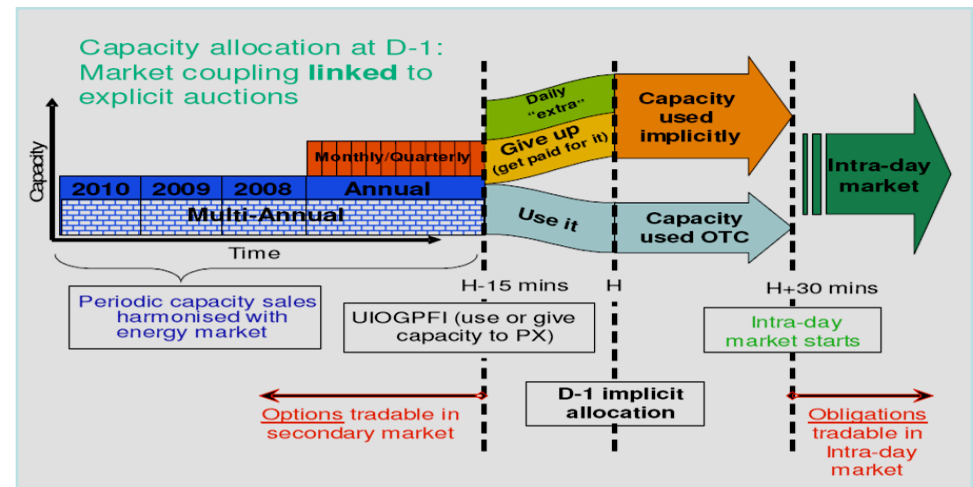
Or alternatively the combination of:

“use it or or sell it”

The holder of a transmission right can sell his rights in a secondary market until the nomination time. This can be not enough liquid.

“use it or get paid for it”

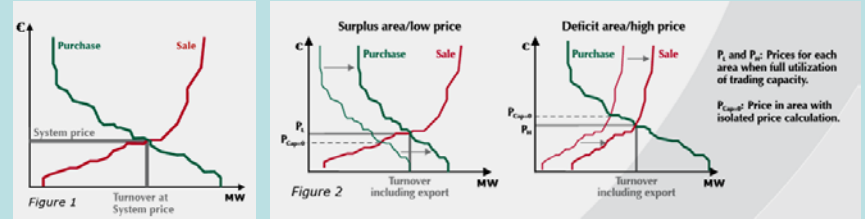
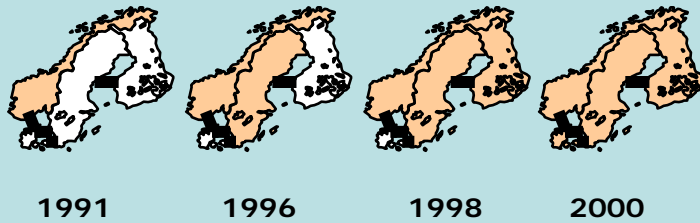
The power exchange can take over the capacity and use this in implicit auction. To the holder of the capacity is paid a share of the congestion rent in case the capacity rights were in direction towards a deficit area. If the direction of the rights is in the opposite direction there will be no payment.



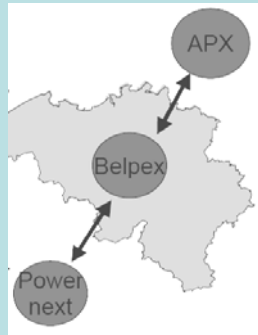
Spot markets integration in Europe

Intra-regional

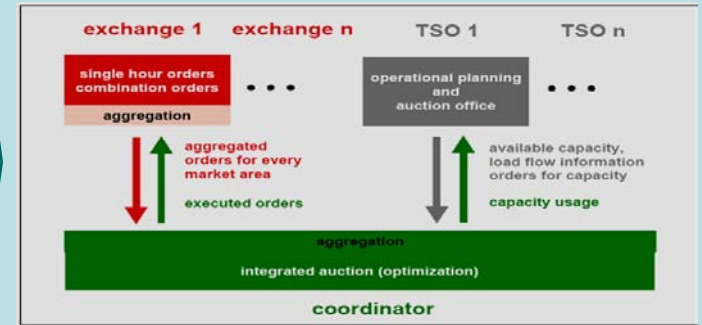
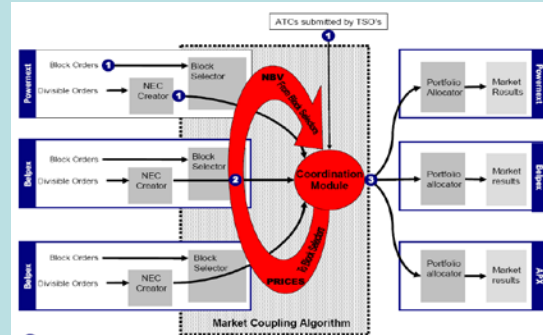
Market splitting



Market coupling



3-lateral: APX leading PX



5-lateral: coordination office

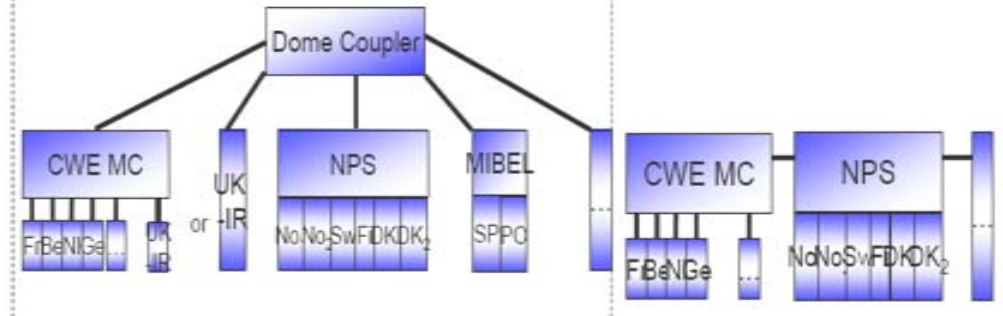
Inter-regional



Merge of the regions



Dome coupling

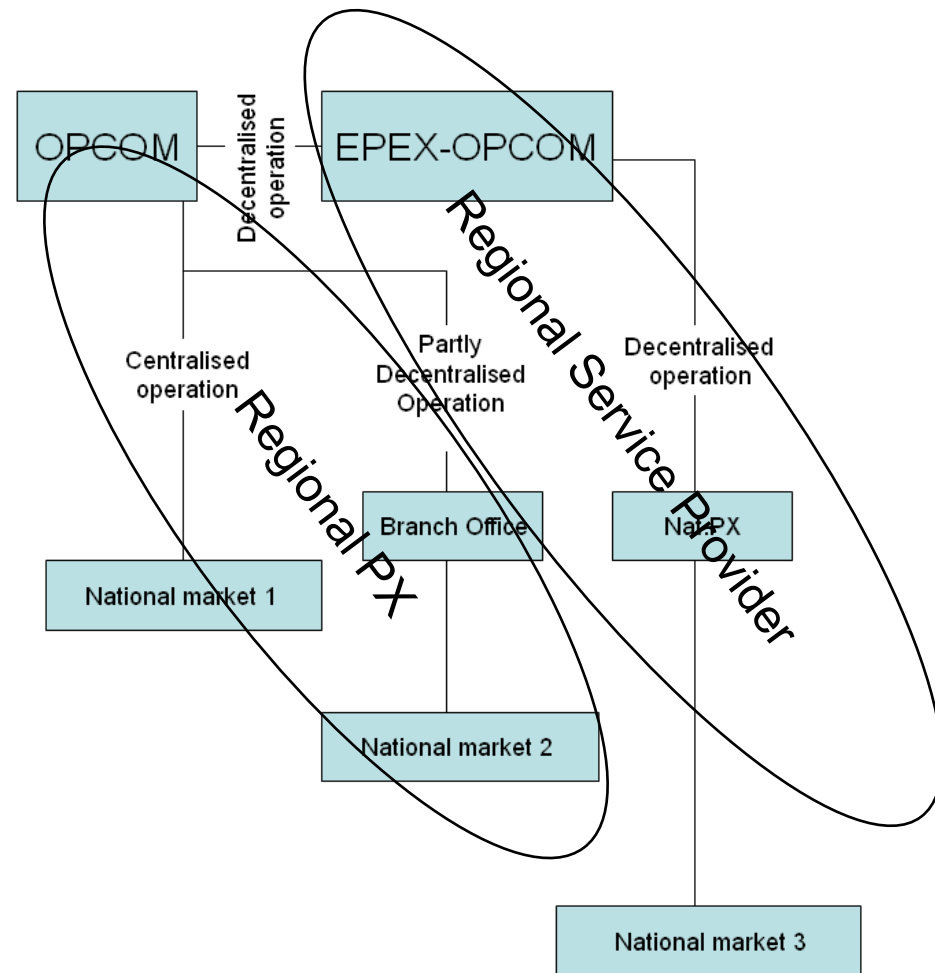
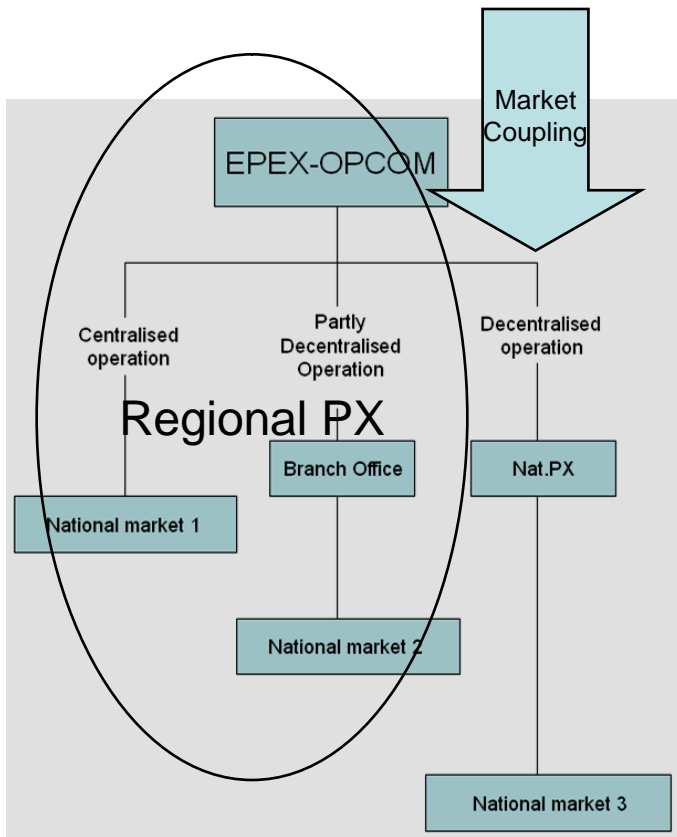


Explicit auction

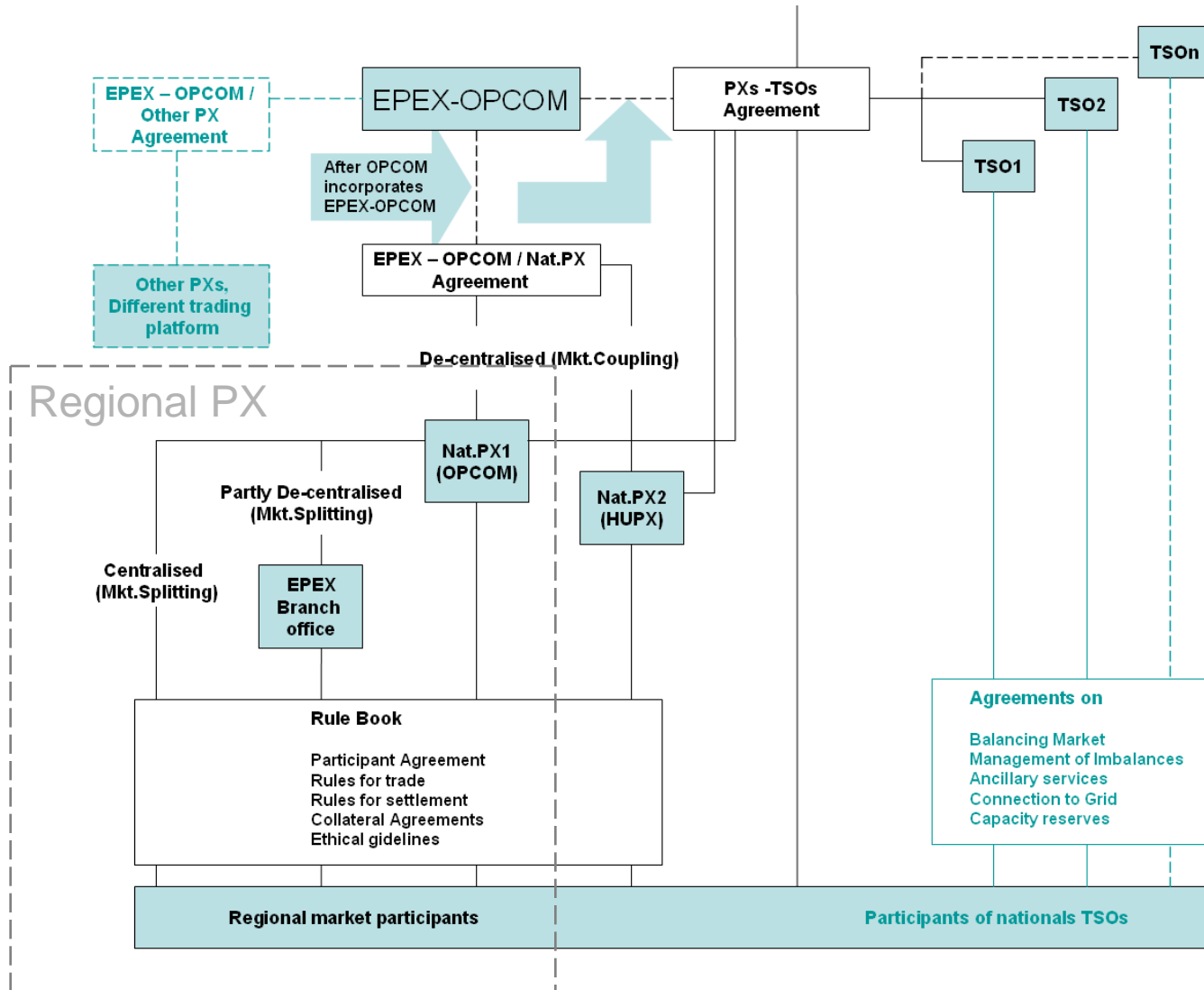
Alternatives in organizing the market operation



The evolution from the concept of “integration through the regional PX” (left) to the concept of “integration through the services offered by a regional supplier (right) with different alternatives as implementation”



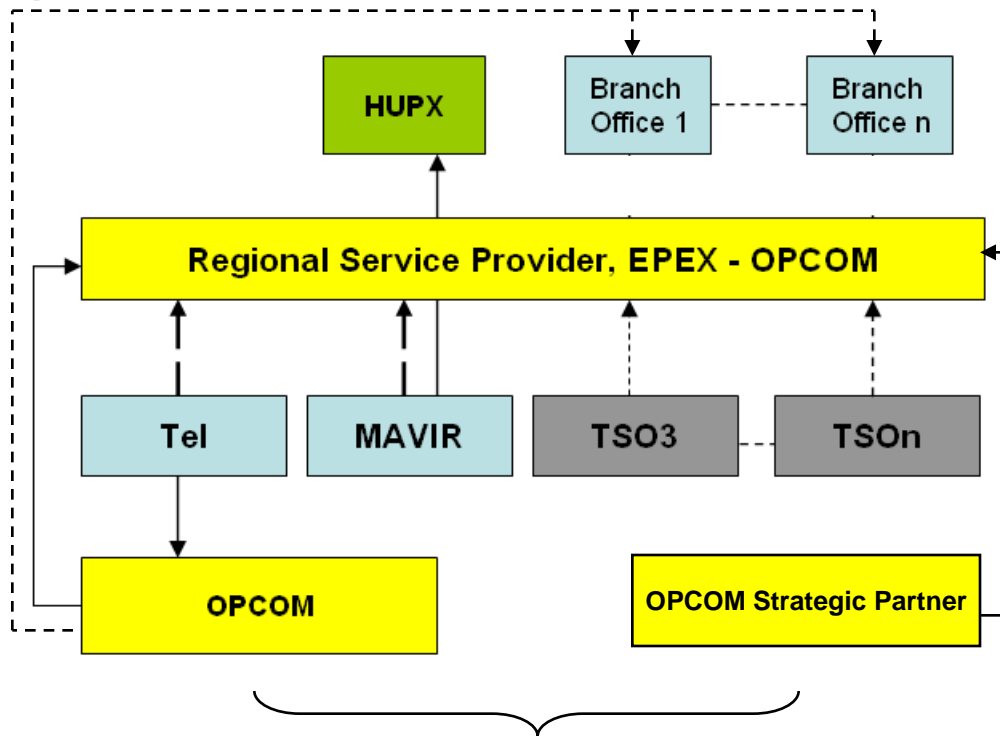
Needed agreements to develop regional spot market



Envisaged Governance



Regional PX



Regional Service Provider's Initiator shareholders

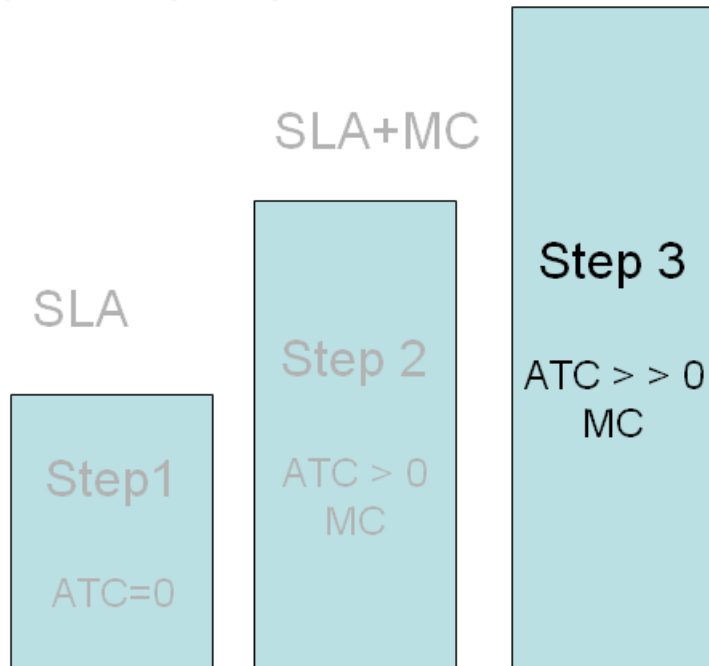
The development milestones



national / regional: national / regional markets development

institutional: services to the partners / participants

CO+MC



Stage 1

A stable and liquid central entity (OPCOM), provides trading services and technical assistance to a country which intends to create its own spot market, thereby developing a national power exchange. The opportunity of the common using of a trading system ensures the interest of rules' harmonisation, preparing the fulfilment of a necessary condition for the future markets coupling.

Stage 2

After a period of independent operation, without cross border capacity allocation through implicit auctions, the two markets are coupled, each of them remaining counterpart for the trades in the national price zone. The prices become convergent based on the cross border flows.

Stage 3

The scepticism towards the market and the prices levelling effects begins to get out, both countries realising the functionality of a common market. Common experience opens the door for future merge of exchanges.



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Thank You for attention !



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