Importance of transparency in price formation

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Content

- **ENTSO-E processes regarding transparency**
- **What makes the market more efficient?**
- **Is more information out in the public always better?**
- **Getting the price right**
  - Interests and risks in the market
- **A simplified example**
Central publication platform – ENTSO-E

- Transparency Regulatory
  - Details data to be published and when

- Transparency platform operated by ENTSO-E
  - The platform collects TSO's fundamental data related to generation, load, transmission and electricity balancing
  - TSOs collect the data from national data owners

- ENTSO-E Transparency Platform was launched on 5 January 2015 (platform existing on voluntary basis since 2011)

- ENTSO-E Manual of Procedures (MoP)
  - Details and format of submission – standardization
  - Technical inspirational requirements

- In addition to working groups within TSOs, ENTSO-E set up a group of users - ETUG
ENTSO-E transparency platform

[Image of the ENTSO-E transparency platform website]

Central collection and publication of electricity generation, transportation and consumption data and information for the pan-European market.

Total Load - Day Ahead / Actual

Day: 02.10.2018

Area

- Austria (AT)
- BZN
- BZN/DE-AT-LU
- Belarus (BY)
- Belgium (BE)
- Bosnia and Herzegovina (BA)
- Bulgaria (BG)
- Croatia (HR)
- Cyprus (CY)
- Czech Republic (CZ)
- Denmark (DK)
- Estonia (EE)
- FYR Macedonia (MK)
- Finland (FI)

Show fullscreen
Export Data

BZN/AT

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A market we aiming for ...
Efficient market and transparency

- Chicken and egg problem!
- It is rather a virtuous cycle

Transparency makes the market function more efficiently

Efficiently functioning market provides the relevant information to the market
Is more transparency better?

• Markets should not be flooded with information
• Only relevant information is important for market participants
  • Relevant = information that effects participants’ economic decisions and makes the market more efficient
• Too many irrelevant information can confuse the market … maybe even collusive actions!
• A balance is important
Getting the price right

- There is no high or low price
- There is a correct/market price or an incorrect price
  - The correct price refers to market outcome which reasonably reflects fundamentals in the market
- Market participants act in the market through their bids and offers:
  - Volume and price at which they are ready to buy and sell
    - Through this they reveal information about underlying fundamentals, such as costs and valuations or about their beliefs on the direction of the market
Different interests – different risks

- Participants in the market (in simple terms): Producers and consumers
  - Producers want to sell at a price as higher price as possible, while consumers wish for consumers dream to not materialize 😊
  - After a reality check, producers agree to produce/sell as long as their variable costs are covered … consumers understand that there is no free lunch

- Their risks are different
  - Producers have costs which they need to cover => long term contracts gas/fuel, etc.
  - Consumers don’t generally want to be tight on long term contracts
Intermediaries & Infrastructure

• Network operators – regulated

• Intermediaries (traders, suppliers) – specialize in risk-taking
  • Invest in models, forecasts, people, etc. to be able to manage market and credit risks
    • Key users of data
    • Act on both sides of the market and all timeframes

• Intermediaries (PX, brokers, central clearers) – provide platforms for trading and mitigate sometime mitigate the credit risk
  • But also market risk, by making prices (or closing prices) transparent
Example – bilateral trading

G1
100 MW
30EUR

G2
100 MW
35EUR

G3
100 MW
40EUR

Demand
200 MW

G1
100 MW
30EUR

G2
100 MW
45EUR

G3
100 MW
45EUR

Demand
200 MW
Example: normal conditions

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<thead>
<tr>
<th>G1</th>
<th>100 MW</th>
<th>30 EUR</th>
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<tbody>
<tr>
<td>G2</td>
<td>100 MW</td>
<td>35 EUR</td>
</tr>
<tr>
<td>G3</td>
<td>100 MW</td>
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</tbody>
</table>

100 MW

Demand 200 MW

Price 35 EUR
Example: interconnection outage (transparent)

- **G1**: 100 MW, 30 EUR
- **G2**: 50 MW, 35 EUR
- **G3**: 50 MW, 35 EUR

Demand: 200 MW, Price: 35 EUR

- **G1**: 100 MW, 30 EUR
- **G2**: 50 MW, 45 EUR
- **G3**: 50 MW, 45 EUR

Demand: 200 MW, Price: 45 EUR
Example: interconnection outage (non-transparent)

*G3 has the information before the market, say in D-2,3 … and keeps the plant running

*G2 plant is off
Conclusion

• Competitive market with freedom of choice

• Ensuring that operational data are available to all market participants at the same time
  • manage their risks appropriately and consumers are not charged the costs of unmanaged risks

• Operational decisions cannot be linked only to D-1 market
  • for cost efficient dynamic dispatch information should be made available well ahead (when available)
Thank you!

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