Importance of transparency in price formation

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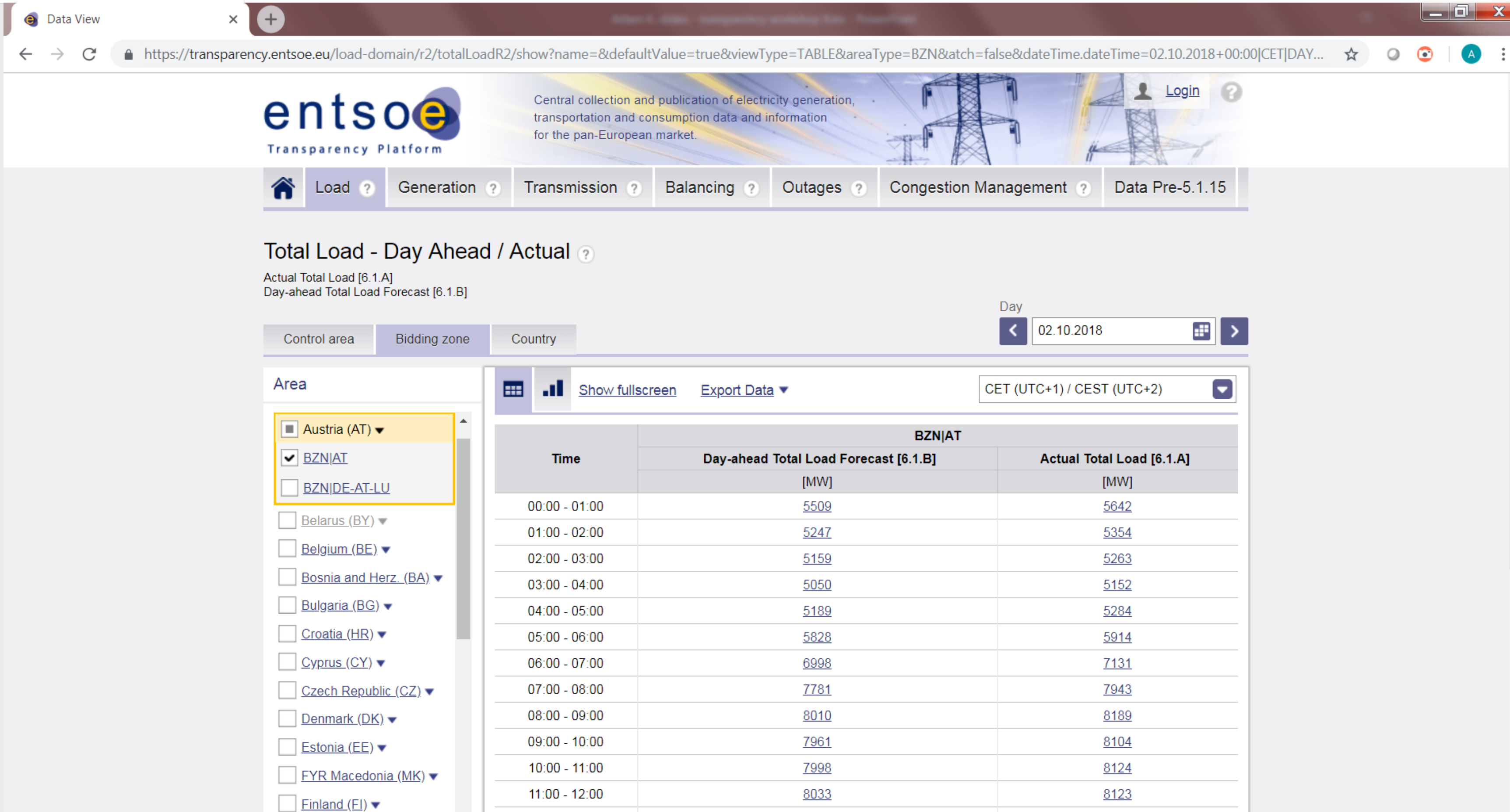
Content

- *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*

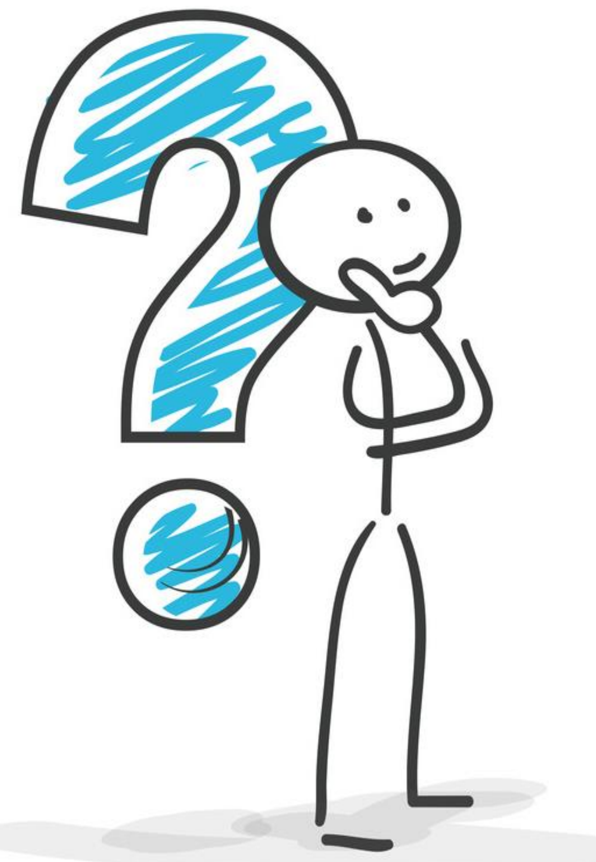
Central publication platform – ENTSO-E

- Transparency Regulation
  - 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 requirements
- In addition to working groups within TSOs, ENTSO-E set up a group of users - ETUG

ENTSO-E transparency platform



A market we aiming for ...



Secure

Competitive

Sustainable

Market

Grid

Level playing field for all market particpants.

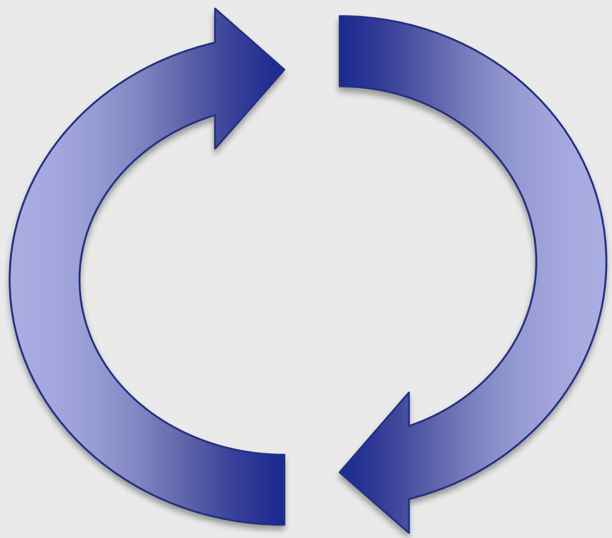
Commodity

Information

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

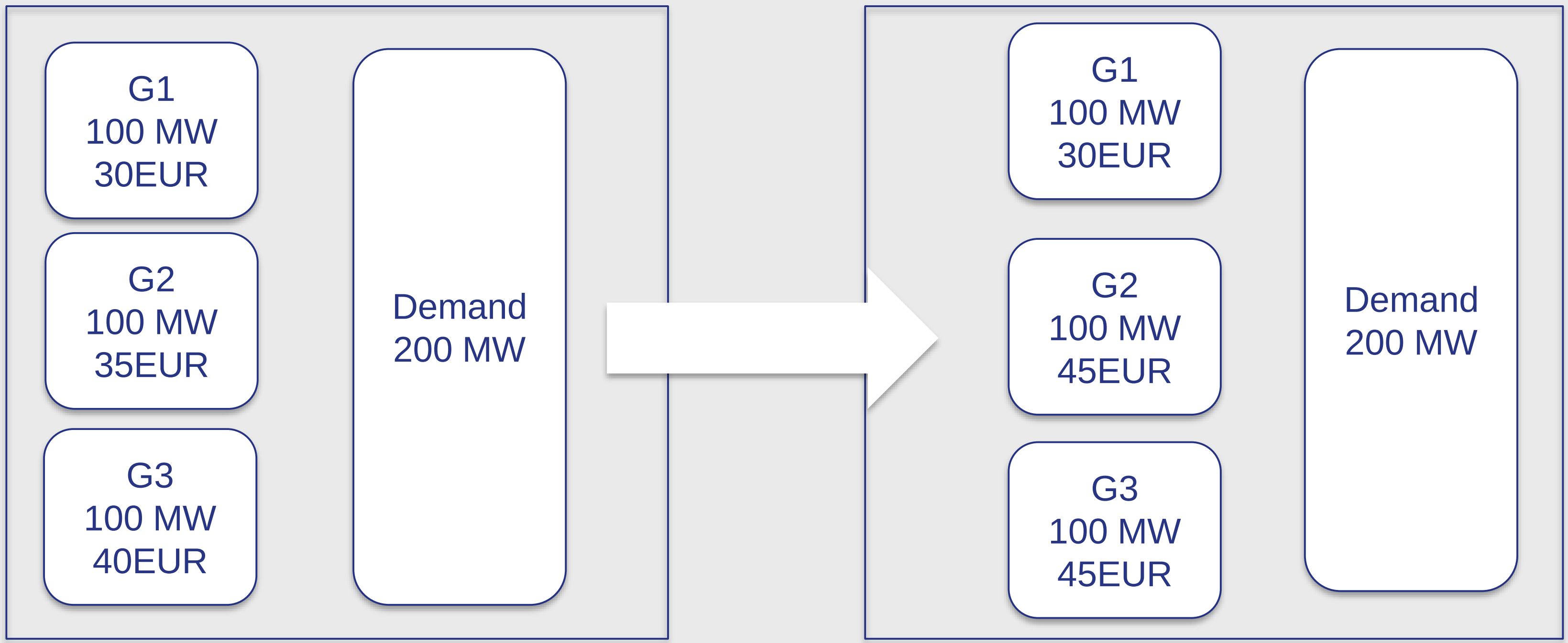
Different interests – different risks

- 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

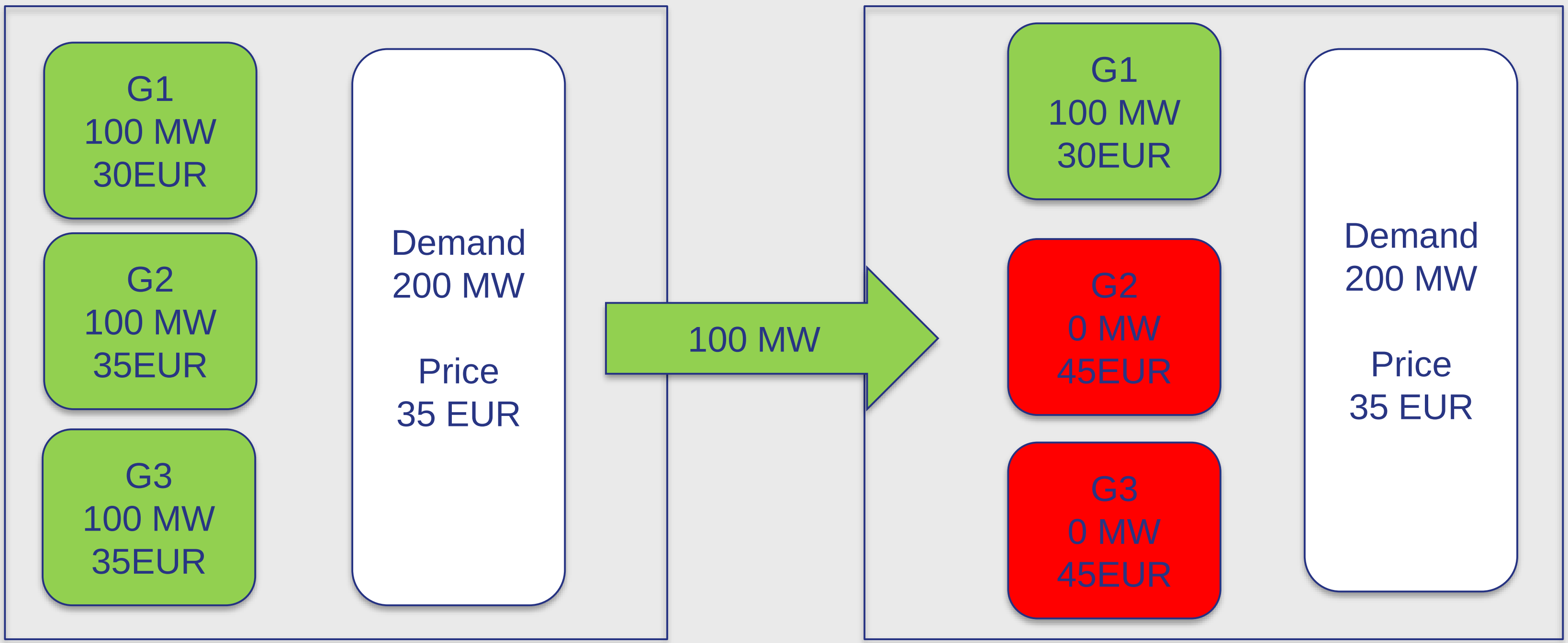
Intermediaries & Infrastructure

- 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

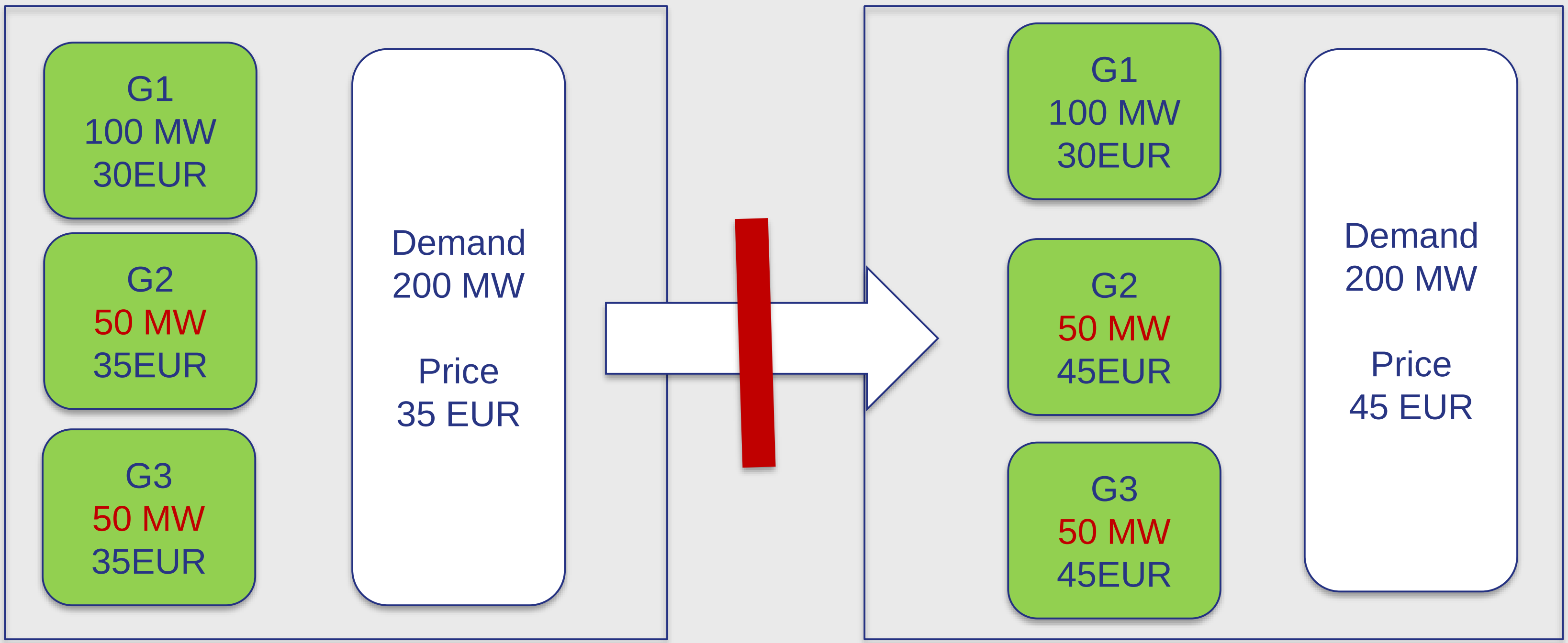
Example – bilateral trading



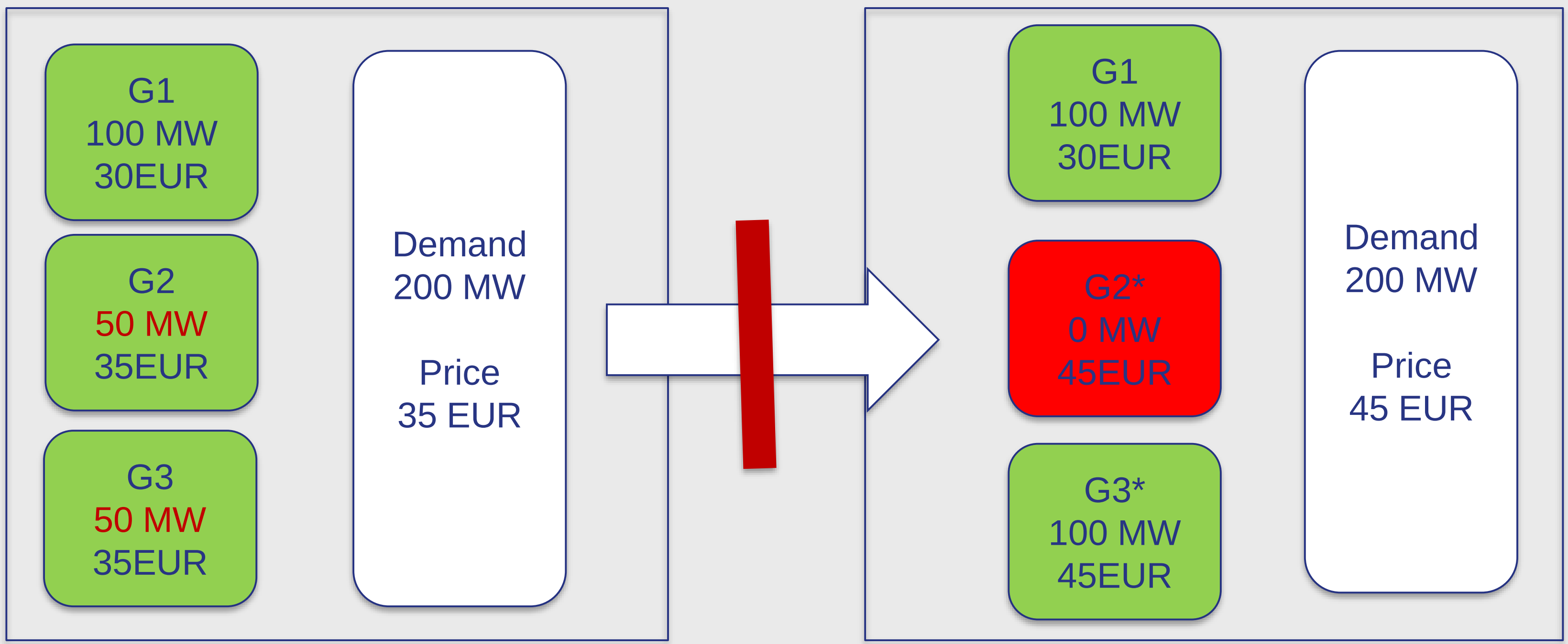
Example: normal conditions



Example: interconnection outage (transparent)



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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