

Iberian wholesale market monitoring – cooperation of energy and financial regulators

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REMIT: implementation and compliance

E-Control, Vienna - May, 30th, 2012



Agenda

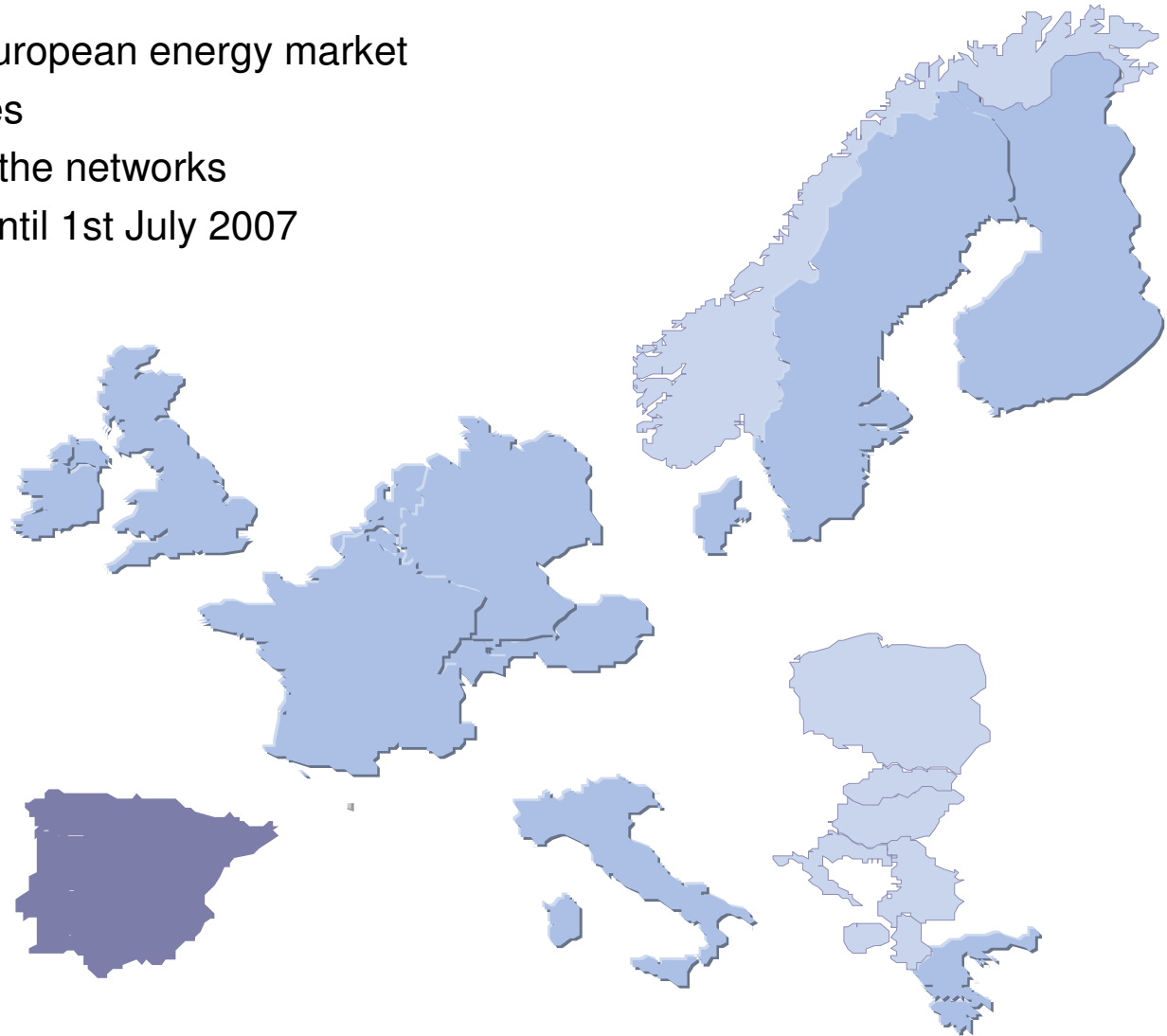
- 1. MIBEL and the European Energy Market**
- 2. The market model and cooperation arrangements**
- 3. MIBEL market monitoring**

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The European Directives

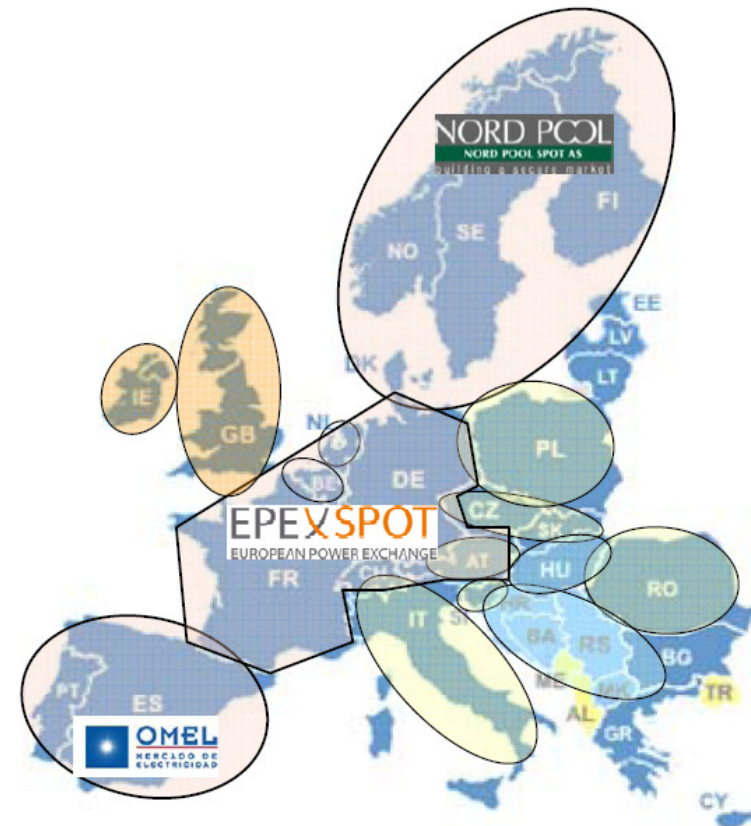
- Building a common European energy market
- Unbundling of activities
- Third-party access to the networks
- Full market opening until 1st July 2007



The Iberian electricity landscape

Regional integration as a global trend

- Trend of integration of national markets into regions
 - Through **market coupling**;
 - And/or **coordinated explicit auctions**;
 - **Single price** area
- **Several regions** already created or in the process to be created
 - But **different stages** of market development and market integration
 - **Iberia as one region**



The Iberian electricity landscape

Regional integration and the Iberian market

PORTUGAL

6 M Consumers
Demand: 50 TWh
Peak Load: 9 210 MW
Installed Capacity: 16 731 MW

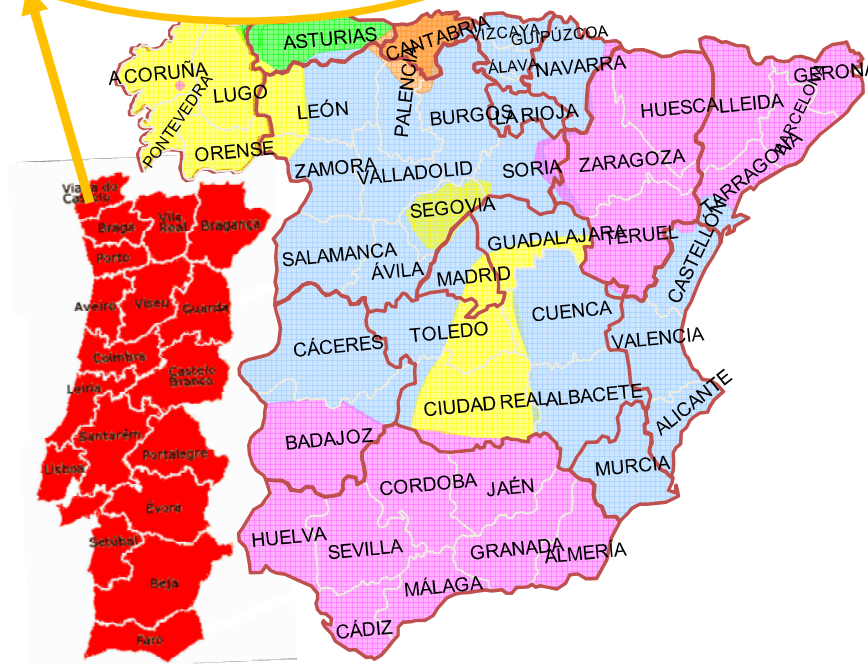
SPAIN

24 M Consumers
Demand: 264 TWh
Peak Load: 44 440 MW
Installed Capacity: 93 215 MW

MIBEL

30 M Consumers
Demand: 314 TWh
Peak Load: 53 650 MW
Installed Capacity: 109 946 MW

Single dominant
incumbent,
privatised as such



The Iberian electricity landscape

Regional integration and the Iberian market

Interconnection capacity

- Portugal to Spain
 - Peak: 1900 MW
 - Off-peak: 2000 MW

4,5% of peak load in Spain
- Spain to Portugal
 - Peak: 1900 MW
 - Off-peak: 1850 MW

20% of peak load in Portugal

In near future (by 2014), the interconnection capacity available between Portugal and Spain will be around **3 000 MW** (**32%** and **7%** of peak load in PT and SP, respectively)

(MARKET INTEGRATION)



Agenda

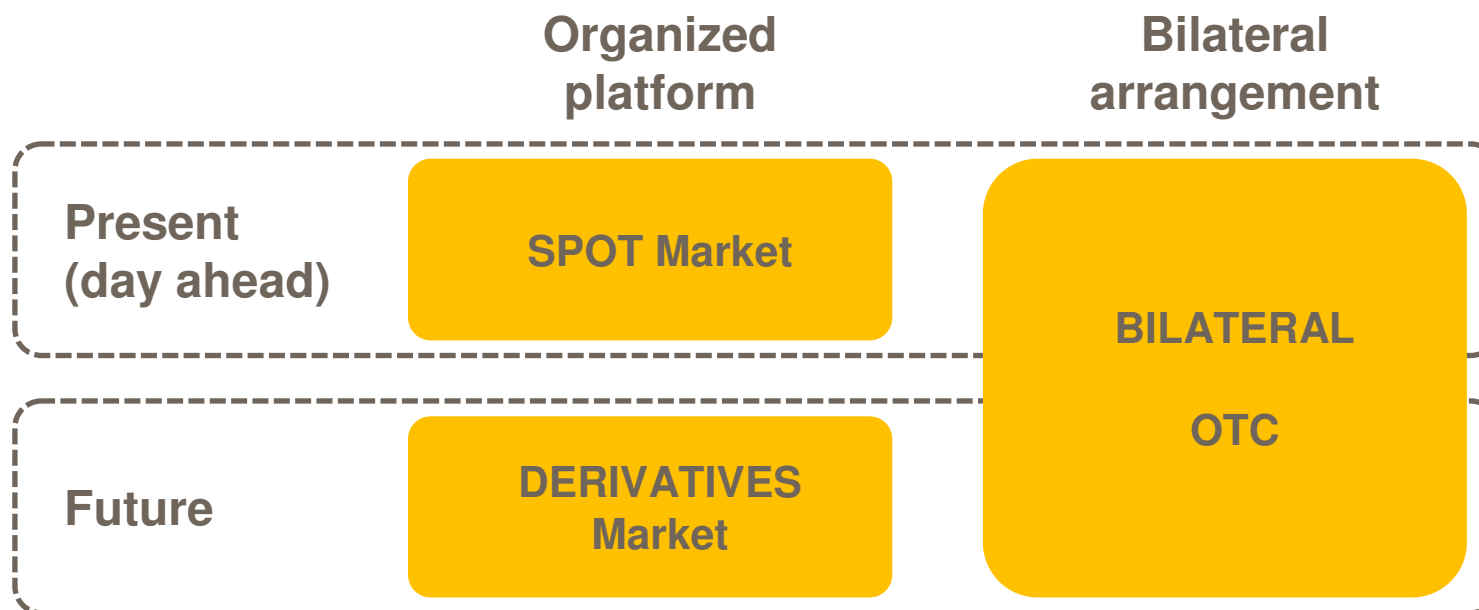
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The major milestones in the MIBEL development

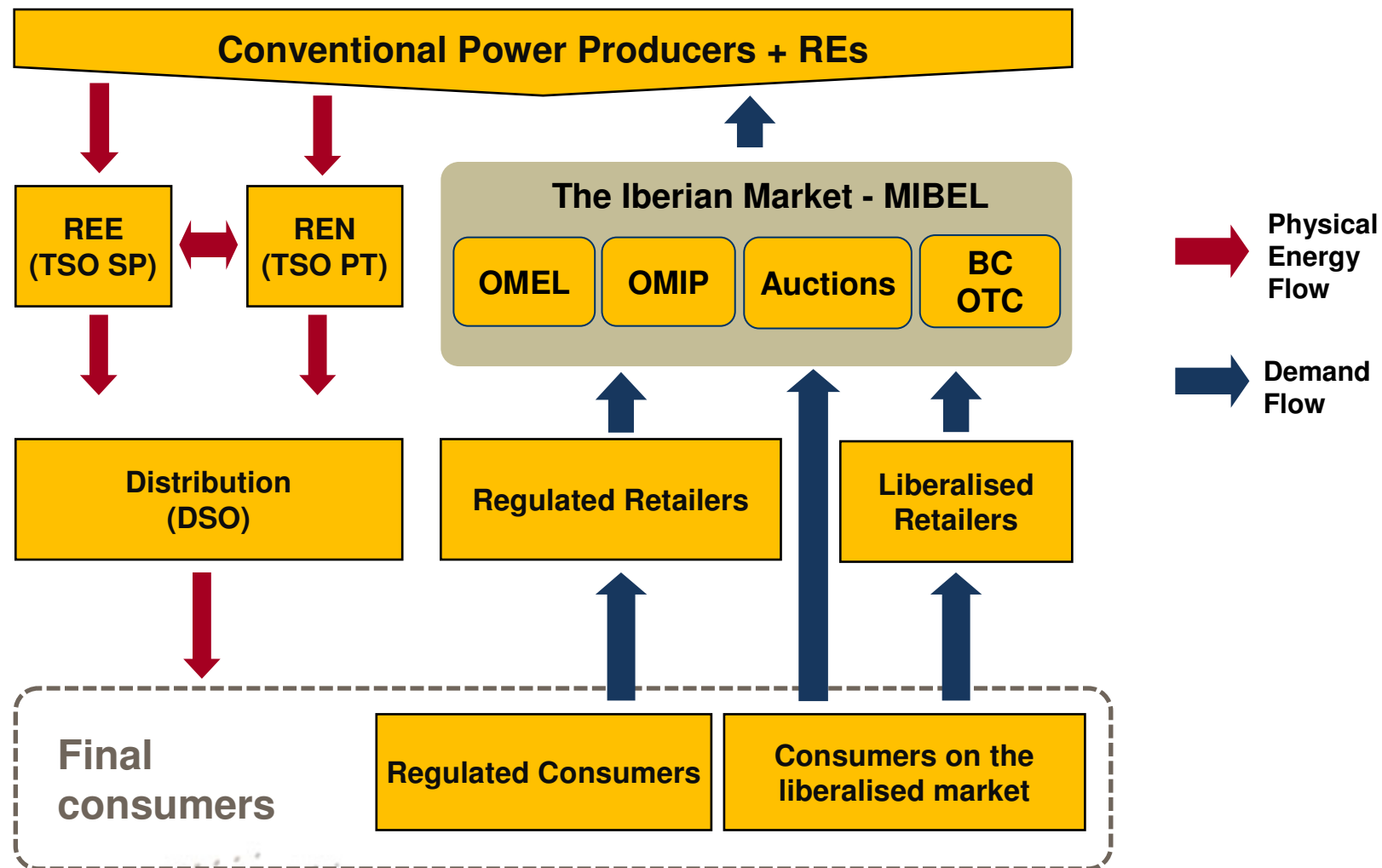
2001	Initial joint works to remove obstacles for market integration (MoU in Nov.2001)
2002	Regulator's proposal of MIBEL model (Mar.2002)
2004	International Agreement for MIBEL implementation (Santiago Agreement)
2006	MIBEL Derivatives Market starts its operation (Jun.2006)
2006	Portuguese-Spanish Summit set new impetus for MIBEL implementation (Nov.2006)
2007	MIBEL Spot Market fully operational for both countries, with market splitting mechanism (Jul.2007)
2009	First major MIBEL assessment report on MIBEL implementation, released by regulators (Nov.2009)

Basic features of the market model

- But **how** does **Supply meet Demand**?
 - **Bilaterally**
 - Trough an **organized platform**
 - For the **present**
 - For the **future**

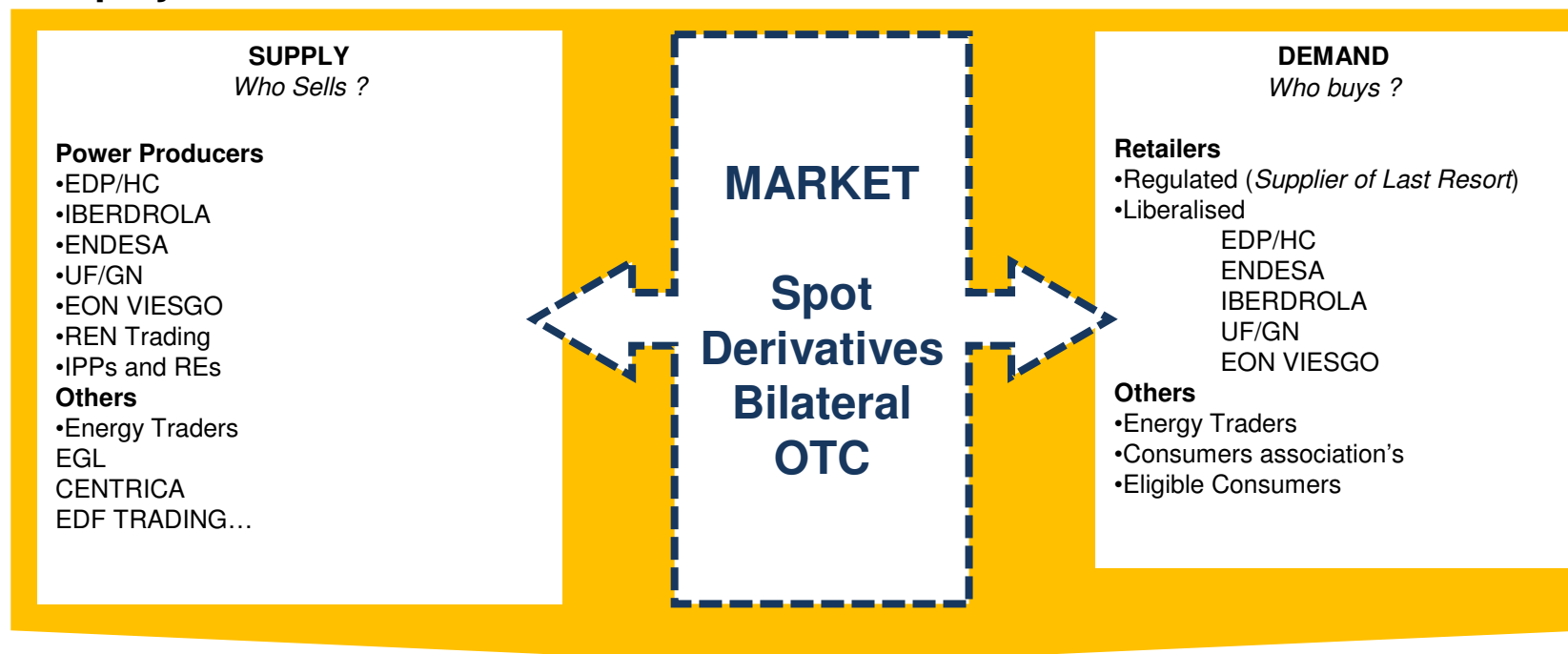


Basic features of the market model



Basic features of the market model

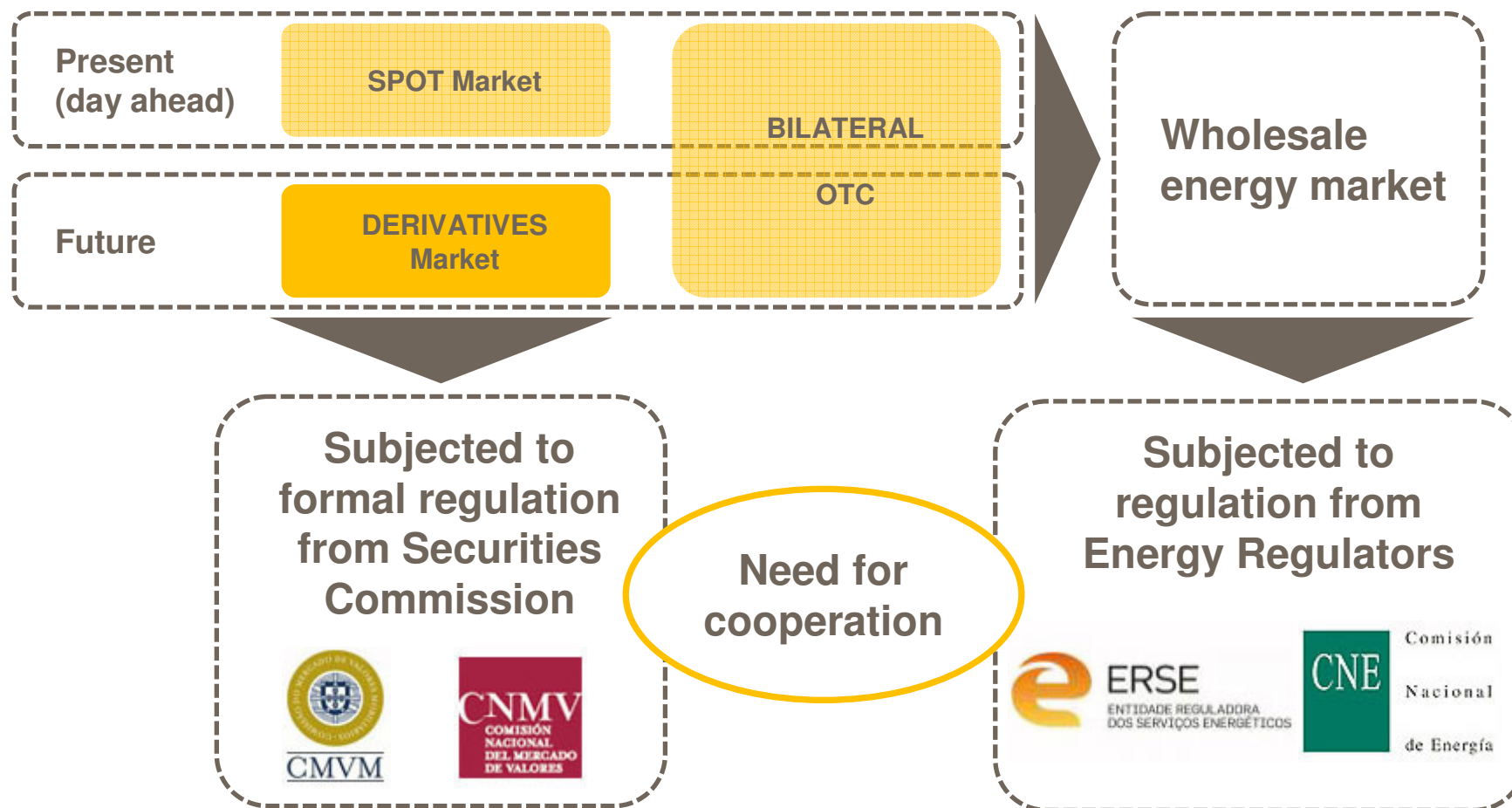
The players



MIBEL

Aggregated Curves of Supply / Demand of Electricity
Market Splitting – Physical interconnection capacity restrictions

The need for cooperative mechanisms



The setup of institutional arrangements

2004

International Agreement for MIBEL implementation
(Santiago Agreement)

Set up of the Council of Iberian Regulators (MIBEL CR)

Securities
Commissions



Energy
Regulators

The setup of institutional arrangements

Set up of the Council of Iberian Regulators (MIBEL CR)

Competences

Formal mechanisms to exchange information between all regulators

Joint decisions on market rules, irrespective of formal jurisdiction

Joint assessment of market conditions, both from energy regulators and securities commissions views

Governance

Rotating presidency by all 4 members

Council of Regulators (CRp) and Technical Committee (TC)

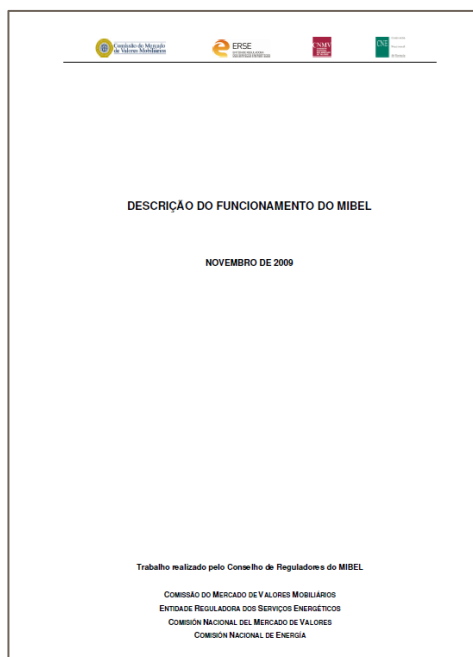
CRp meet every 6 months and take formal decisions

TC meet whenever needed to prepare the work and the specific issues

The result of the arrangements

2009

First major MIBEL assessment report on MIBEL implementation, released by regulators (Nov.2009)



Formal document from the CR MIBEL, stressing some important developments needed to improve iberian market integration

- **Joint preparation of the document**
- **Emphasis on both the energy regulators and securities commissions views**
- **Formal proposals for further political developments**

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Market monitoring under MIBEL

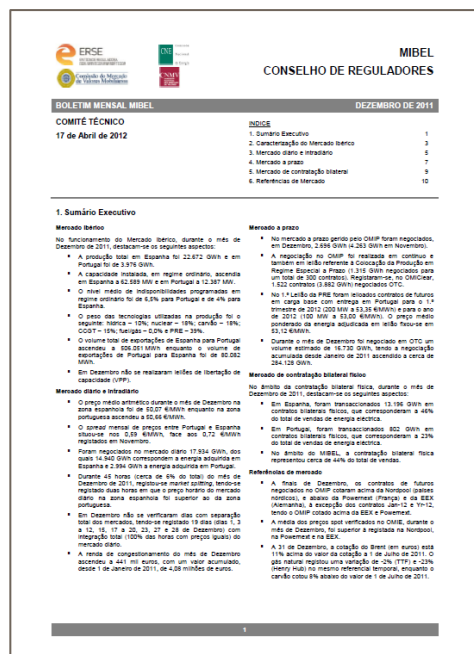
Two countries and one market

- Market integration and market splitting mechanism requires **joint expertise** from all national authorities
 - **Market players' focus** is no longer national but structural conditions are not yet fully harmonized
 - Increasing **product sophistication** (financial products, OTC, price hedging) requires **cooperation** with financial market regulators
 - Contribution to **structural arrangements (harmonization) and monitoring market results**



Cooperation in practice

Joint assessment of market conditions, both from energy regulators' and securities commissions' viewpoints



Joint monthly report, publicly available

- All 4 members involved in the preparation
 - Spot and physical markets
 - Derivatives markets
 - Fundamentals

• Available in the MIBEL website (www.mibel.com), in PT and SP

- Report as result of continuous exchange of information and cooperation between regulators

Market monitoring under MIBEL

Wholesale market supervision

- It takes a **lot of data** and requires building knowledge upon it
 - Need **systematic** approach
 - Need **information technologies**
- Information **asymmetry**
 - Market players have more information than supervision authorities
 - The behavioral approach poses some challenges to supervision authorities
 - Understand the market players strategies and their interaction
 - Collect evidence on market misconduct
- **Some market strategies** which conflict with competitive and transparent market functioning:
 - **Capacity withdrawal**
 - **Pricing above variable costs**
 - **Aggressive pricing** to prevent new entrants

SIMER – ERSE Information System for Market Analysis

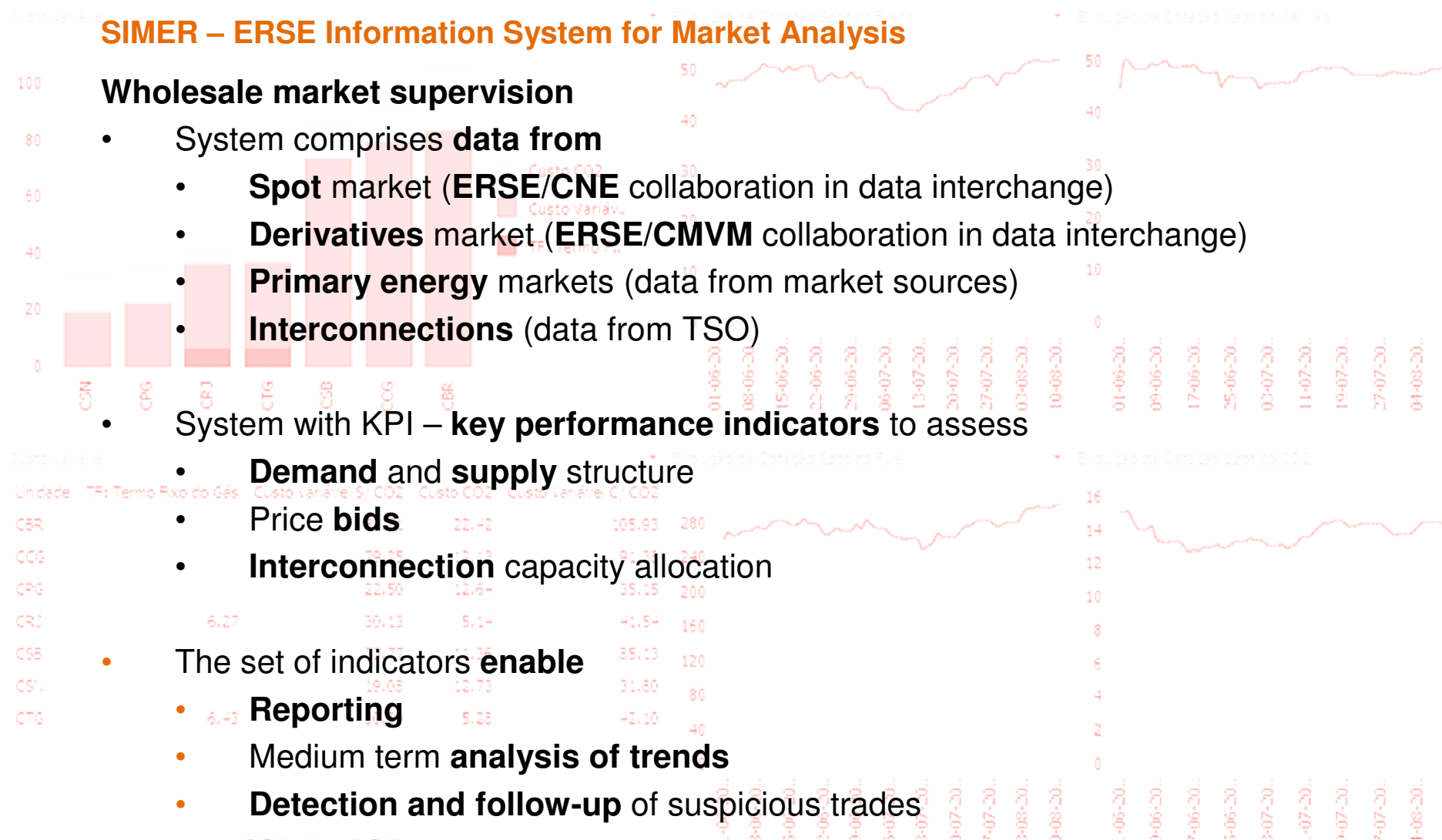
Wholesale market supervision

- System comprises data from
 - Spot market (ERSE/CNE collaboration in data interchange)
 - Derivatives market (ERSE/CMVM collaboration in data interchange)
 - Primary energy markets (data from market sources)
 - Interconnections (data from TSO)

- System with KPI – key performance indicators to assess

- Demand and supply structure
- Price bids
- Interconnection capacity allocation

- The set of indicators enable
 - Reporting
 - Medium term analysis of trends
 - Detection and follow-up of suspicious trades



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