PRESS RELEASE
29 October 2020

Removing barriers to efficient price formation and market entry in European electricity markets

The European Federation of Energy Traders (EFET)[1] welcomes the future ACER study on efficient price formation and ease of access to and participation in the European electricity markets. While the functioning of electricity markets in Europe has generally improved over the years, much remains to be done on price formation and market access in order to attain the Electricity Target Model. We are pleased to provide our input[2] and help DNV GL develop a model for ACER to identify the gaps between the Target Model and the existing practices at European and national levels.

With an increasing share of intermittent power generation in the European energy mix, precise price signals are needed more than ever to ensure the reactivity of market participants' bidding and dispatch decisions to rapidly changing demand and supply conditions. The development of extra peaking generation units, storage solutions (including power-to-X assets), demand-side management, and other types of flexible assets and services may only materialise if electricity prices accurately reflect the true value of energy – including all its fluctuations – and if economic actors do not face undue barriers to enter electricity markets. Accurate price signals will allow market participants to identify the nature and timing of such investments alongside more traditional investment in generation and transmission capacity.

Yet, barriers to efficient price formation remain across most of the Member States. These barriers include:

- Poorly designed imbalance prices with added artificial components that blur the true value of energy in real time;
- Restrictions to cross-zonal trading, most importantly to the availability of cross-zonal transmission capacity;
- Illiquid markets, in particular forward and intraday markets;
- Regulatory price limits (caps and floors on offer/bid and clearing prices);
- Out-of-the market remuneration schemes, such as capacity remuneration mechanisms and national support schemes for renewables.

In our consultation response we reiterate the need for ensuring full integration of mature renewable energy technologies into Europe's well-functioning, liquid and efficient wholesale electricity market, in all timeframes, as well for fostering harmonisation of balancing products and arrangements across bidding zones, and effective competition in the retail sector.

---

[1] The European Federation of Energy Traders (EFET) promotes competition, transparency and open access in the European energy sector. We build trust in power and gas markets across Europe, so that they may underpin a sustainable and secure energy supply and enable the transition to a carbon neutral economy. We currently represent more than 100 energy trading companies, active in over 27 European countries. For more information: www.efet.org.

[2] See EFET response to ACER consultation on barriers to efficient price formation and easy participation in European electricity markets here: https://efet.org/Files/Documents/Downloads/EFET%20response%20to%20ACER%20consultation%20on%20barriers%20to%20price%20formation%20and%20participation.pdf

We also provide multiple examples of the existing barriers to market entry and participation in the European electricity markets:

- Barriers to local trading (i.e. unnecessary burdens placed on market participants, such as licensing or local entity obligations);
- Lack of transparency and availability of relevant information facilitating market entry and participation in all market timeframes;
- Discrimination against cross-border transactions in favour of trading within national boundaries (import/export bans, obligations to bid in local platform);
- Regulatory price limits (caps and floors on offer/bid and clearing prices);
- Illiquid markets, in particular forward and intraday markets.

We look forward to continuing our dialogue with the European and national policy makers and regulators to help them better identify and remove barriers to efficient price formation and market entry in European electricity markets.