

# MARKET INTEGRATION AND A POSSIBLE WAY FORWARD FOR ALBANIA

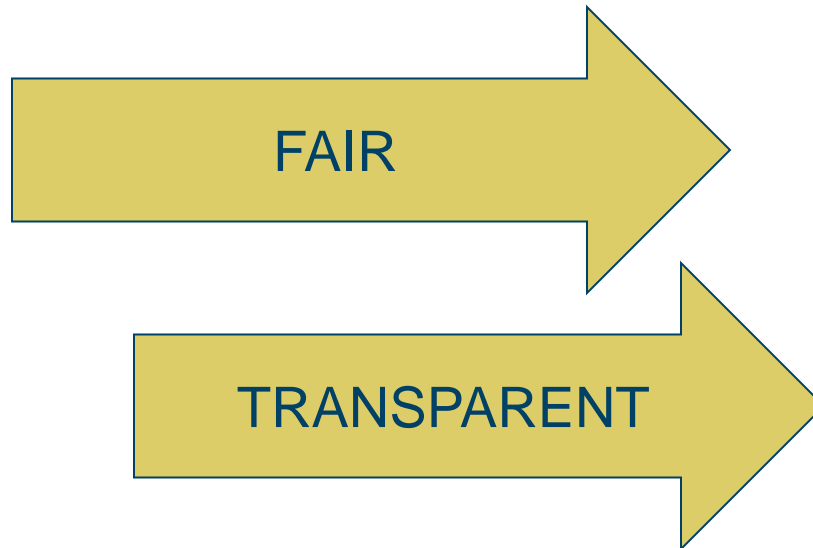
Tirana, February 1st 2012  
Claus Urbanke



**Statkraft**  
PURE ENERGY

# AN ATTRACTIVE MARKET DESIGN: WHICH FEATURES ARE MOST IMPORTANT?

1. PRICES
2. PRICES
3. PRICES



To the  
benefit of the  
TSO,  
generators,  
investors,  
traders, and  
ultimately  
consumers

# TRADING MARKET DESIGN: IT'S ALL ABOUT PRICES !

## Old, integrated structure



## Liberalised markets



- > Free and competitive (**say: well-regulated**) electricity markets will not give low nor high prices but the right price!
- > Reliable price signals are needed for:
  - Power plant dispatch and optimisation,
  - Load management,
  - Optimisation of cross-border flows,
  - Investments >> Security of Supply,
  - Risk Management

# PRICE MAP

\*Jan 25th 2012



- > Lack of systematic data for many countries in CEE/SEE
- > Anecdotal evidence, single data points
- > Germany seems to be used as reference market at times

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## SO HOW TO...

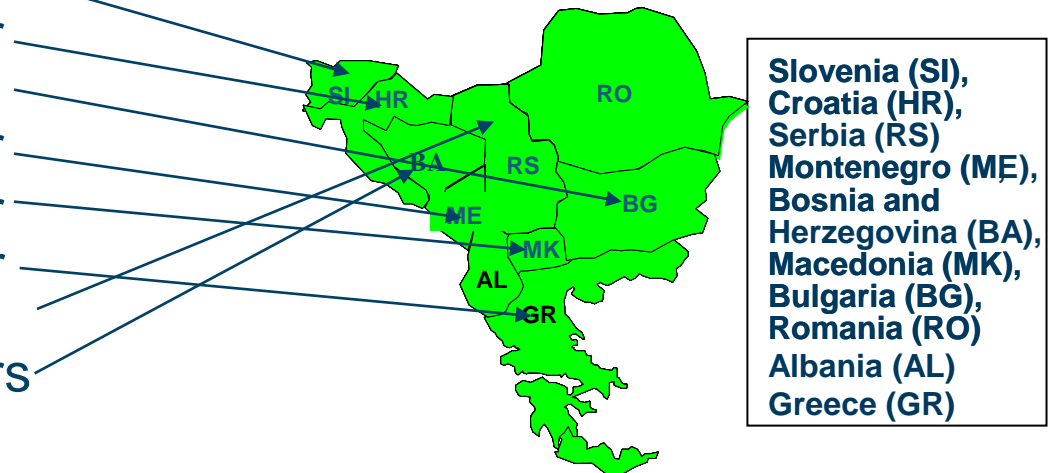
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- > ...evaluate an investment decision???
- > ...dispatch a flexible power station???
- > ...manage the commercial risks of a power station???
- > ...do proper financial reporting???
- > ...discuss with tax authorities on transfer pricing???
- > ...utilize cross-border capacity???
- > ...

# THE MARKET STRUCTURE IN SEE

Competitive markets normally require a high number of producers/consumers

- 1 major power producer
- 1 major power producer
- Single buyer (60%)
- 1 major power producer
- 1 major power producer
- 1 major power producer
- 1 power producers
- 3 major power producers

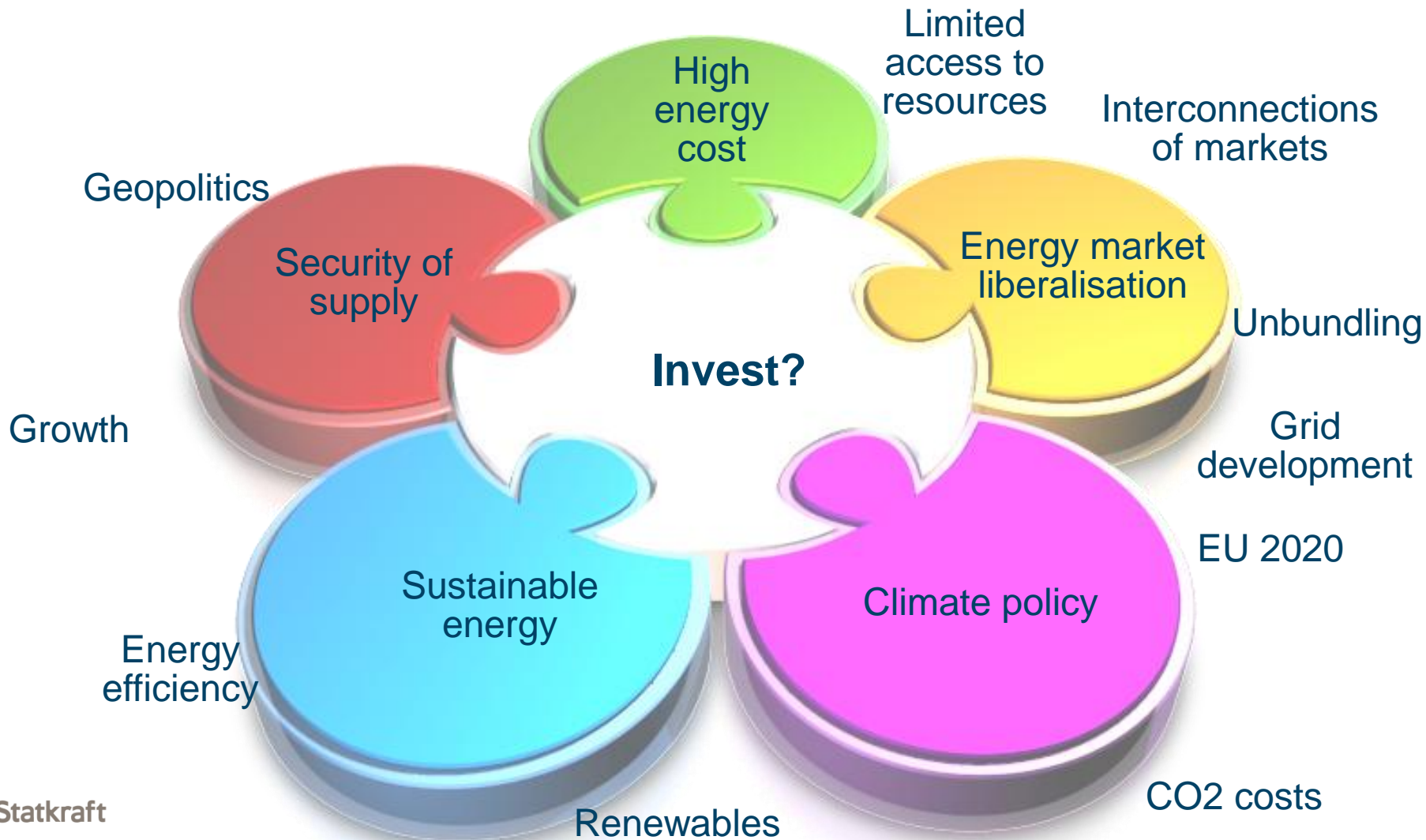


Many small national markets → competition can only arise through cross-border trading !

# THE MARKET STRUCTURE IN SEE

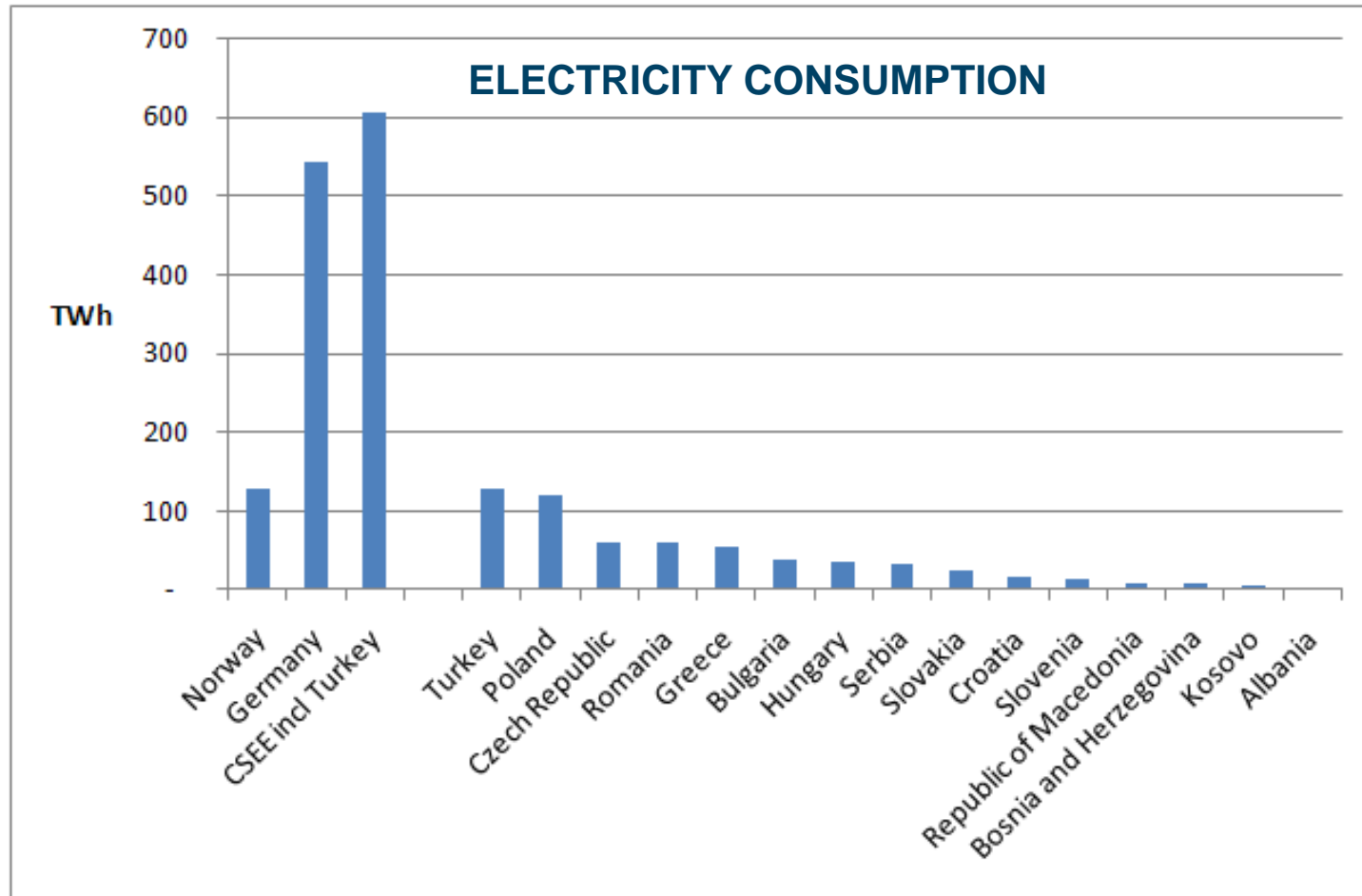


# NOT TOO MANY NATIONAL “DRIVERS”





# MARKET SIZES CALL FOR INTEGRATION



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# THE BENEFITS OF MARKET INTEGRATION

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- > “Normal” economic reasons: gains from trade
  - Increasingly important because of Renewables (for example: balancing out Romanian wind production)
- > Security of supply (brownouts in Albania, Greece?)
- > Enhanced competition: Legal and/or political obstacles to reducing concentration at national levels
- > Capital insensitivity is a natural barrier to entry → Trade can be the answer (especially small markets!)

## ...AND FROM A COMPANY PERSPECTIVE

- > Individual strengths can be utilized in more markets than at home
  - > Economies of scale
  - > Economies of scope
- ...especially for niche players!




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# THE EU TARGET MODEL FOR MARKET INTEGRATION


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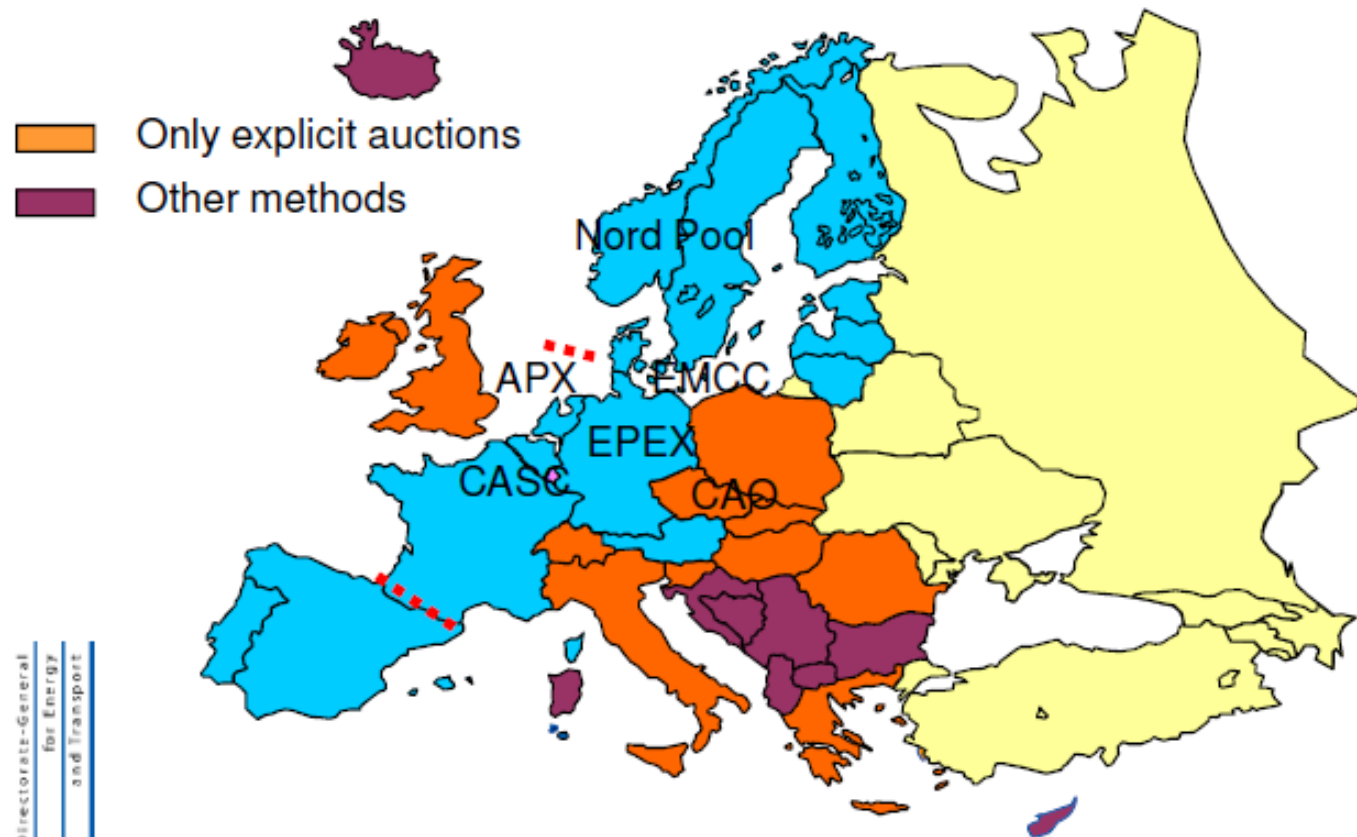
- > ENTSO-E, EC, ERGEG/ACER
- > The Target model, which covers forward, day-ahead, intra-day and balancing markets, as well as the calculation of cross border capacity, provides a goal for pan-European harmonisation to be implemented by 2015.

# DAY AHEAD MARKETS -- 2010


 Implicit auctions


 Only explicit auctions


 Other methods

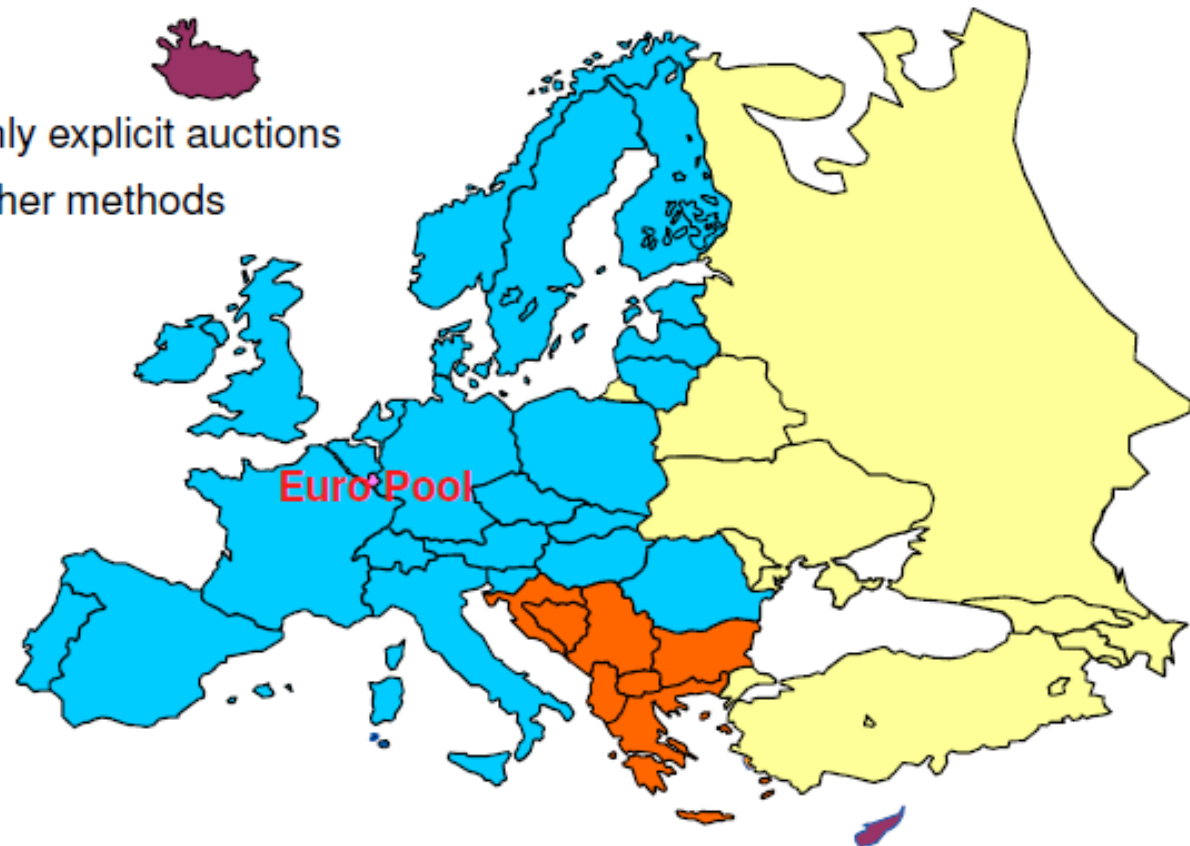


# DAY AHEAD MARKETS -- 2015

 Implicit auctions

 Only explicit auctions

 Other methods



Directorat-General  
for Energy  
and Transport

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# WHAT IS CROSS-BORDER TRADING??

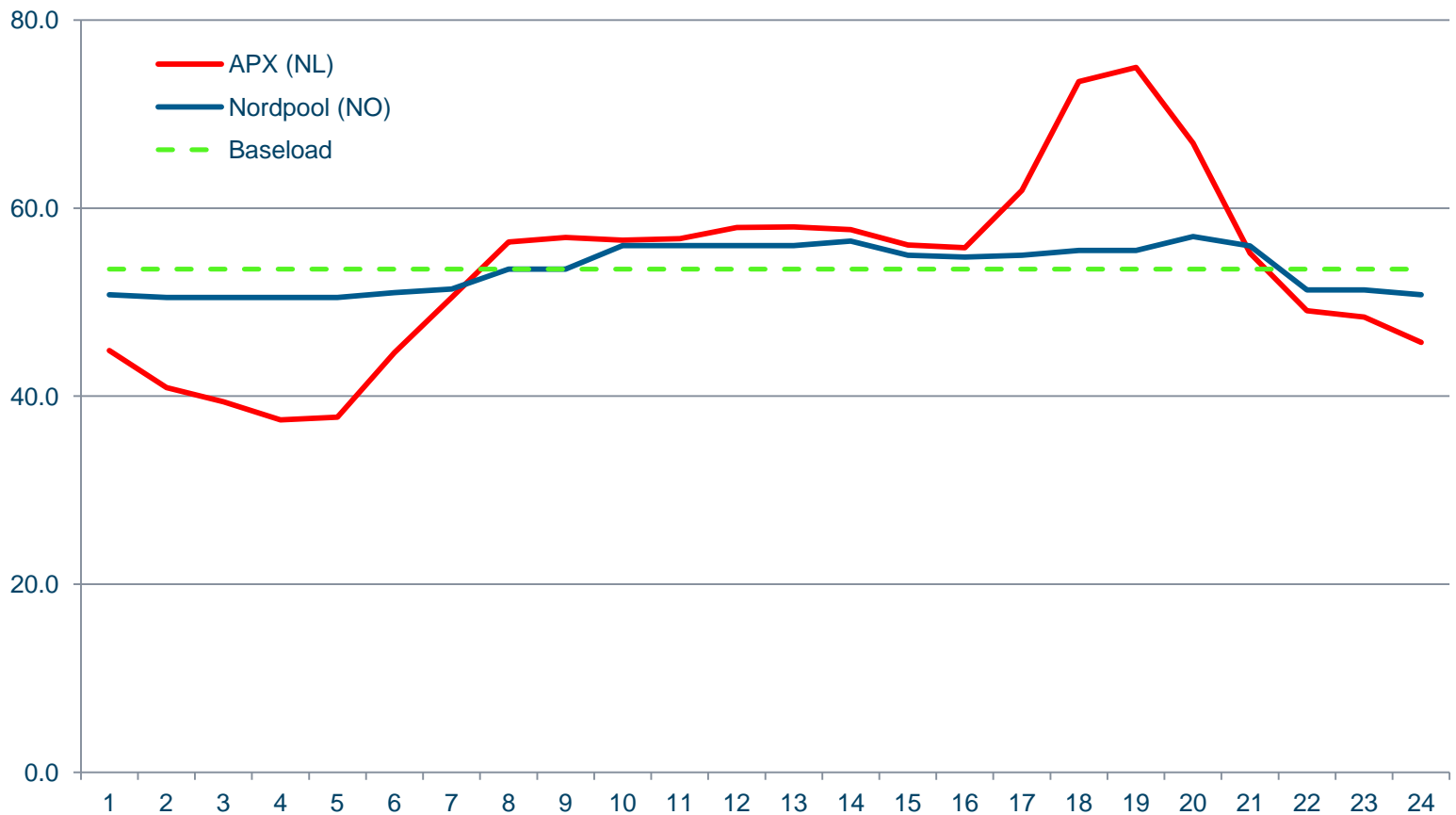
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## Every X-border trade consists of 3 deals:

- > Acquire capacity on a border in direction A to B (1)
- > Optimize the flows on the acquired capacity:
  - Sell in B (at high price) (2)
  - Buy in A (at low price) (3)

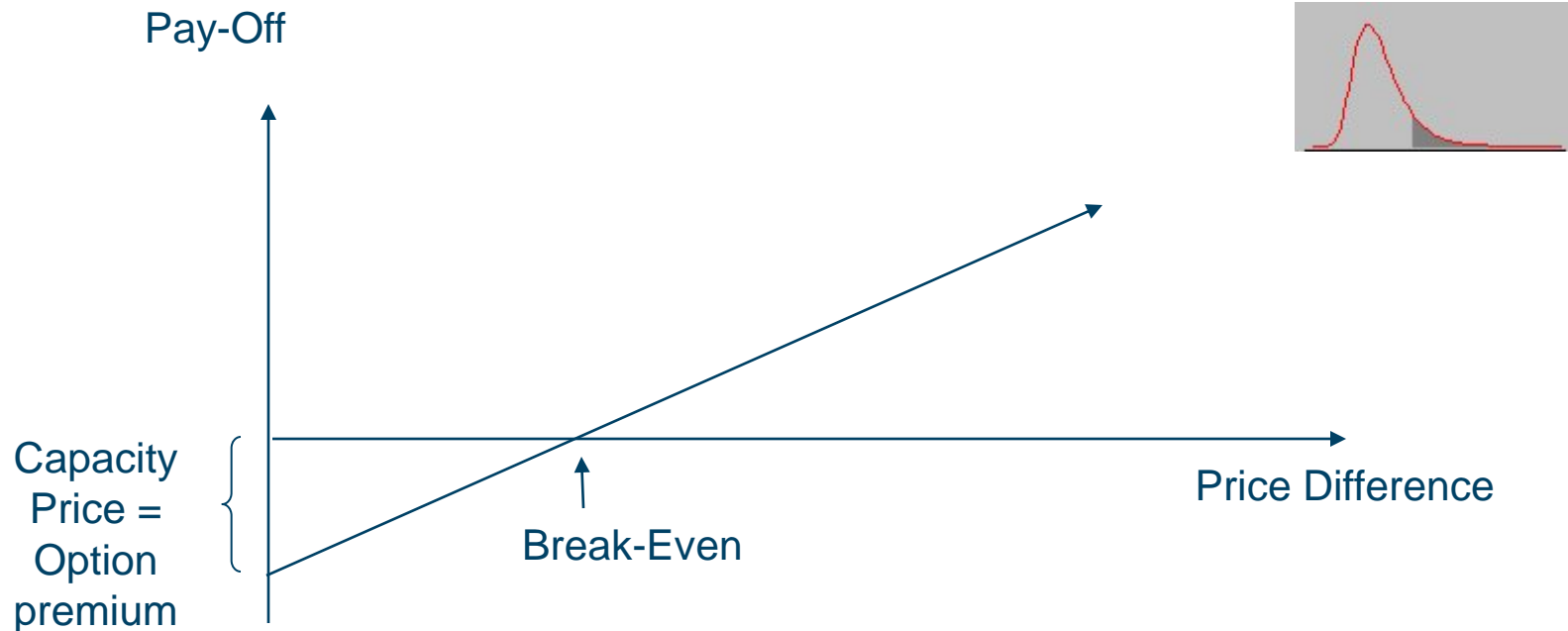
# WHY WE DO CROSS-BORDER TRADING: FUNDAMENTAL PRICE DIFFERENCES

**Baseload: EUR 53,50**





# CROSSBORDER CAPACITY VALUATION



- > Hourly price prognosis for both sides of the border
- > What is the expected volatility? What is the spike risk?

# OUR TRADING FLOOR IN DÜSSELDORF



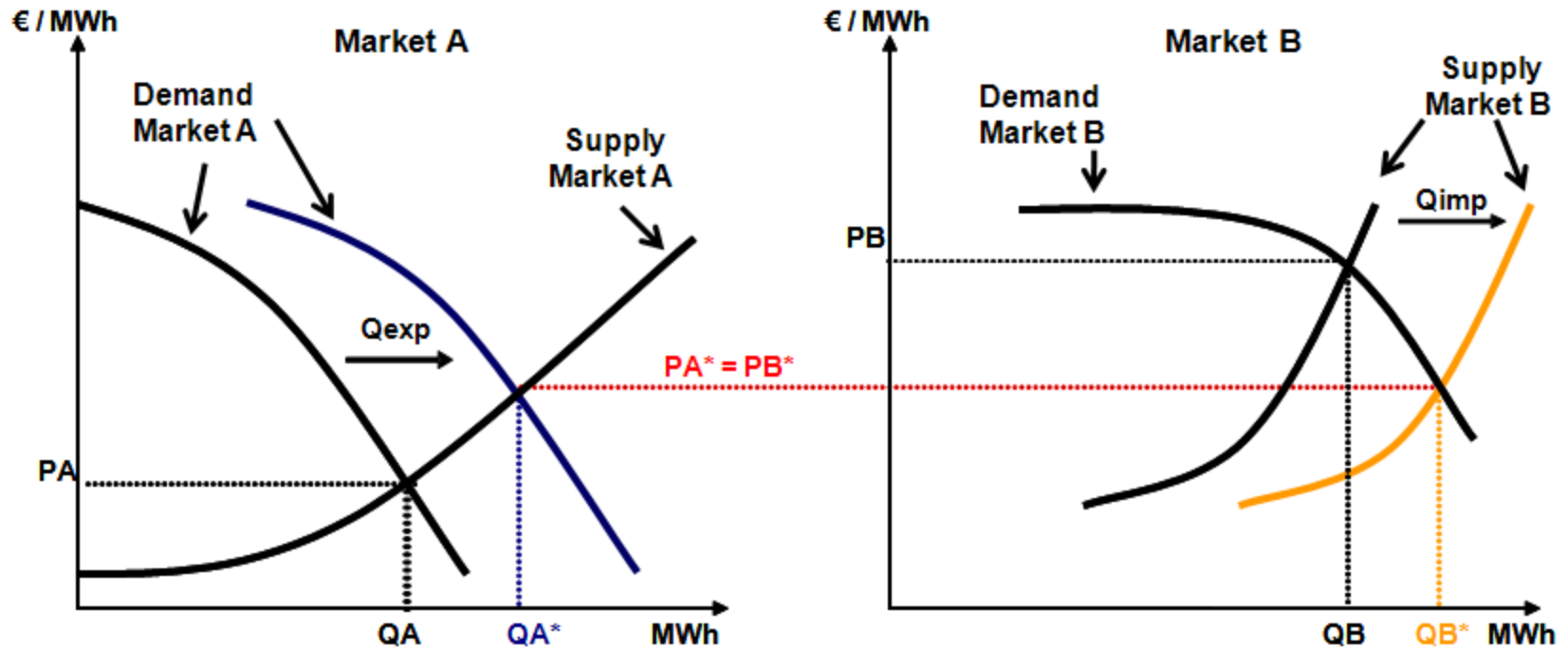
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## MARKET COUPLING

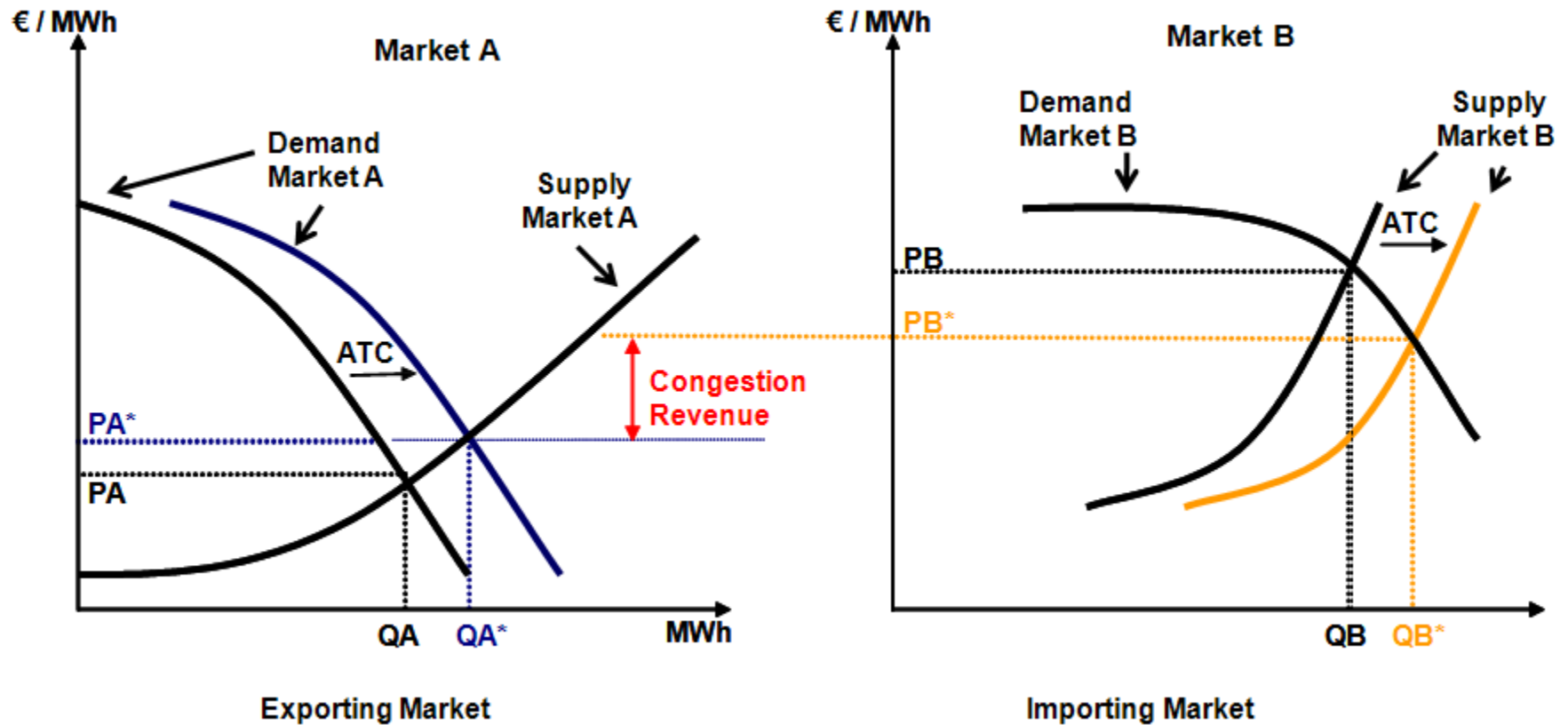
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- > A central agency (power exchange) allocates interregional transmission capacity based on availability and electricity bids and offers
- > Market coupling replaces auctioning which sometimes leads to inefficiencies

# COUPLING WITHOUT CONGESTION



# COUPLING WITH CONGESTION



# THE ROAD TO INTEGRATION IN EUROPE

--> 1993: NordPool as the 1<sup>st</sup> multi-country spot market



--> 2006: Trilateral market coupling F-BE-NL

--> 2007: Iberian spot market



--> September 2008: Market coupling on the German Danish border

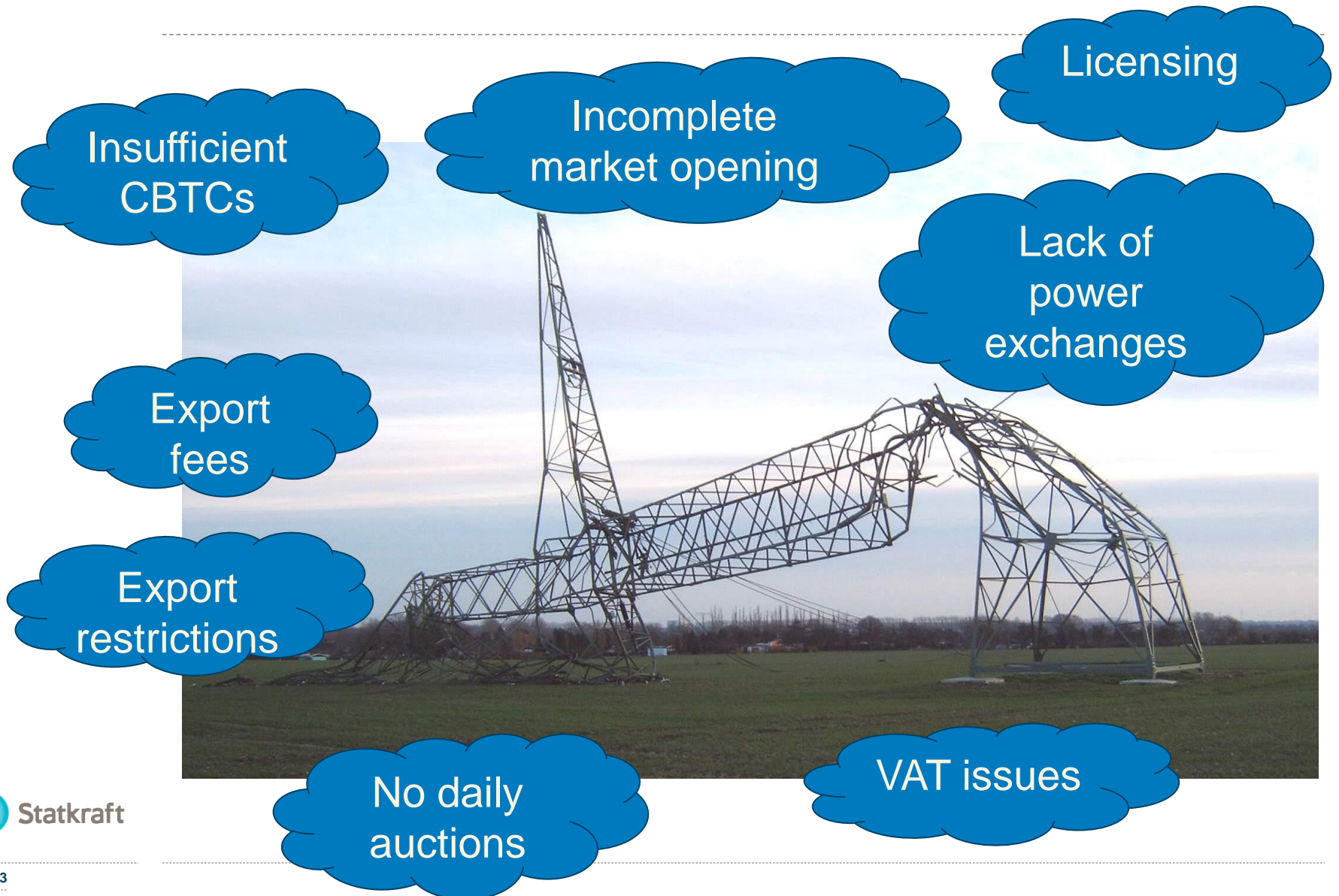
--> November 2010: CWE Market Coupling France, Germany and BeNeLux, Denmark, Sweden

--> Apr 2011: BritNed

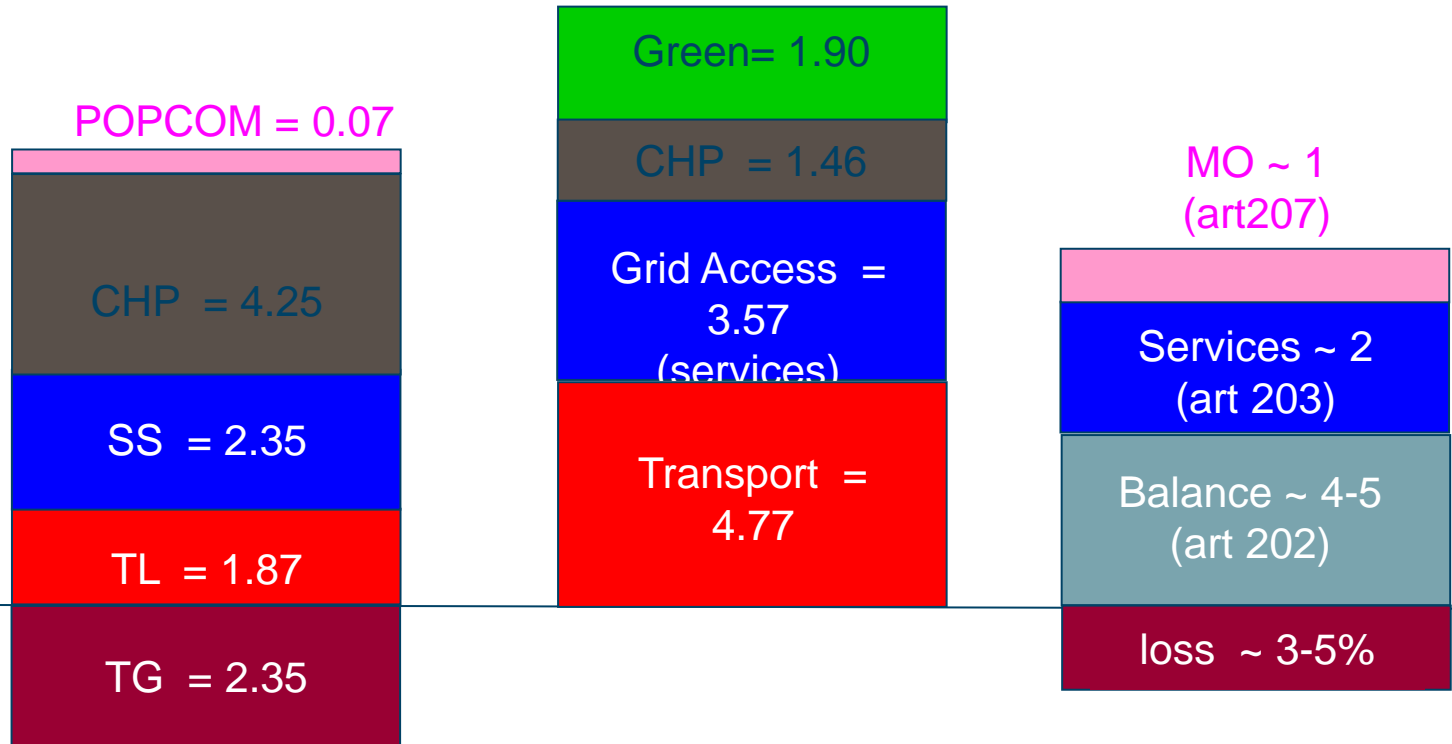
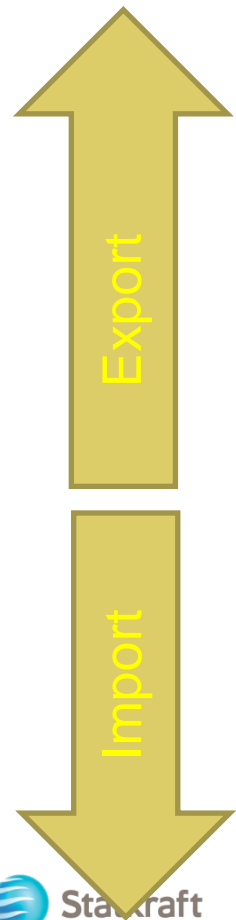




## ...BUT MANY OBSTACLES REMAIN



# IMPORT AND EXPORT FEES IN EUR/MWh



**ROMANIA:**

Import fee ~ 2.30  
Export fee ~ 9.00



**Bulgaria:**

Import fee - none  
Export fee = 11.70



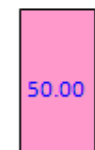
**Greece:**

Import fee ~ 3-5%  
Export fee ~ 5-14

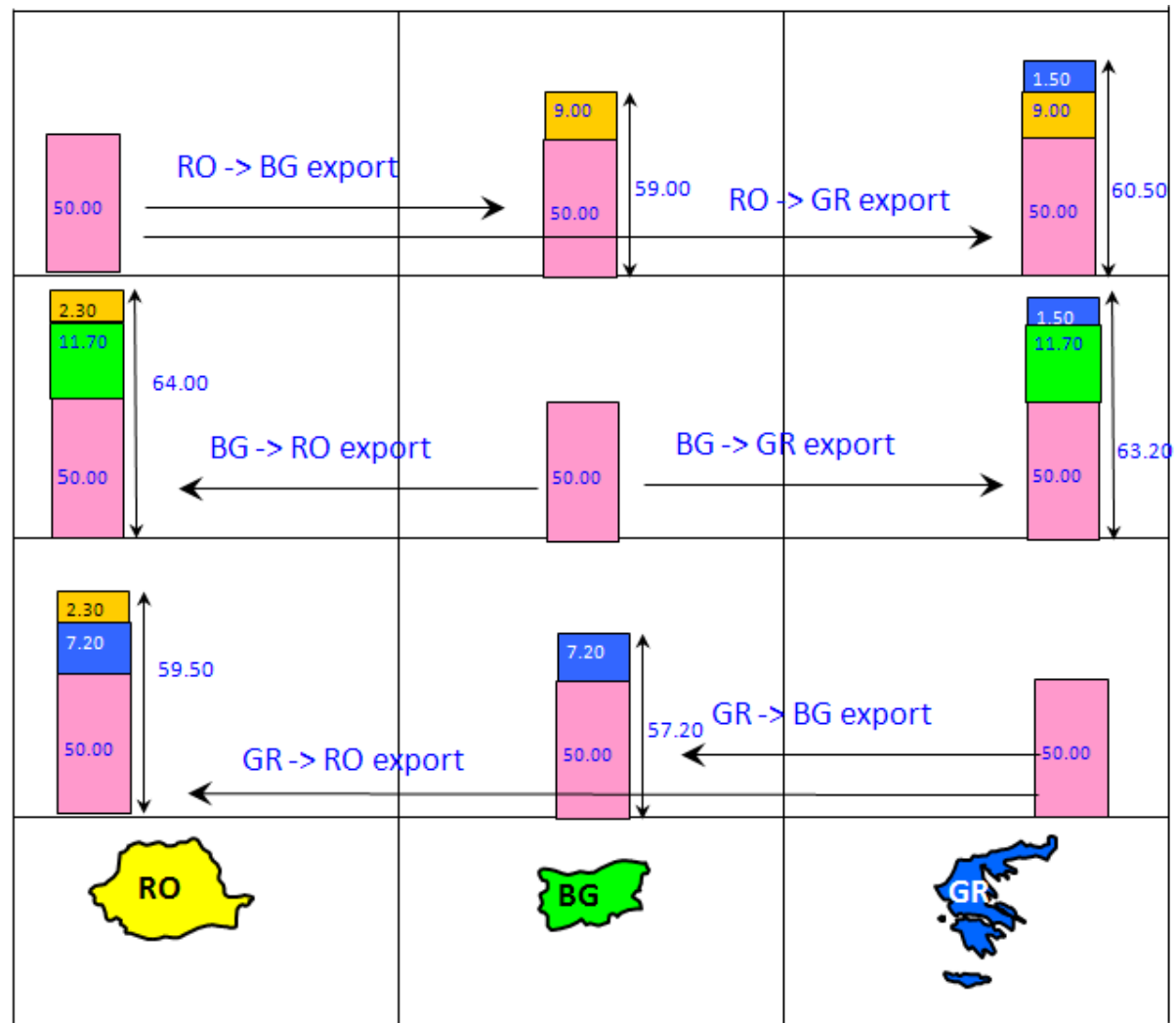


# DISTURBING EFFECT ON MARKET PRICES

Illustration



Cost  
50EUR/MWh



# MARKET ENTRY BARRIER: TRADING LICENSE

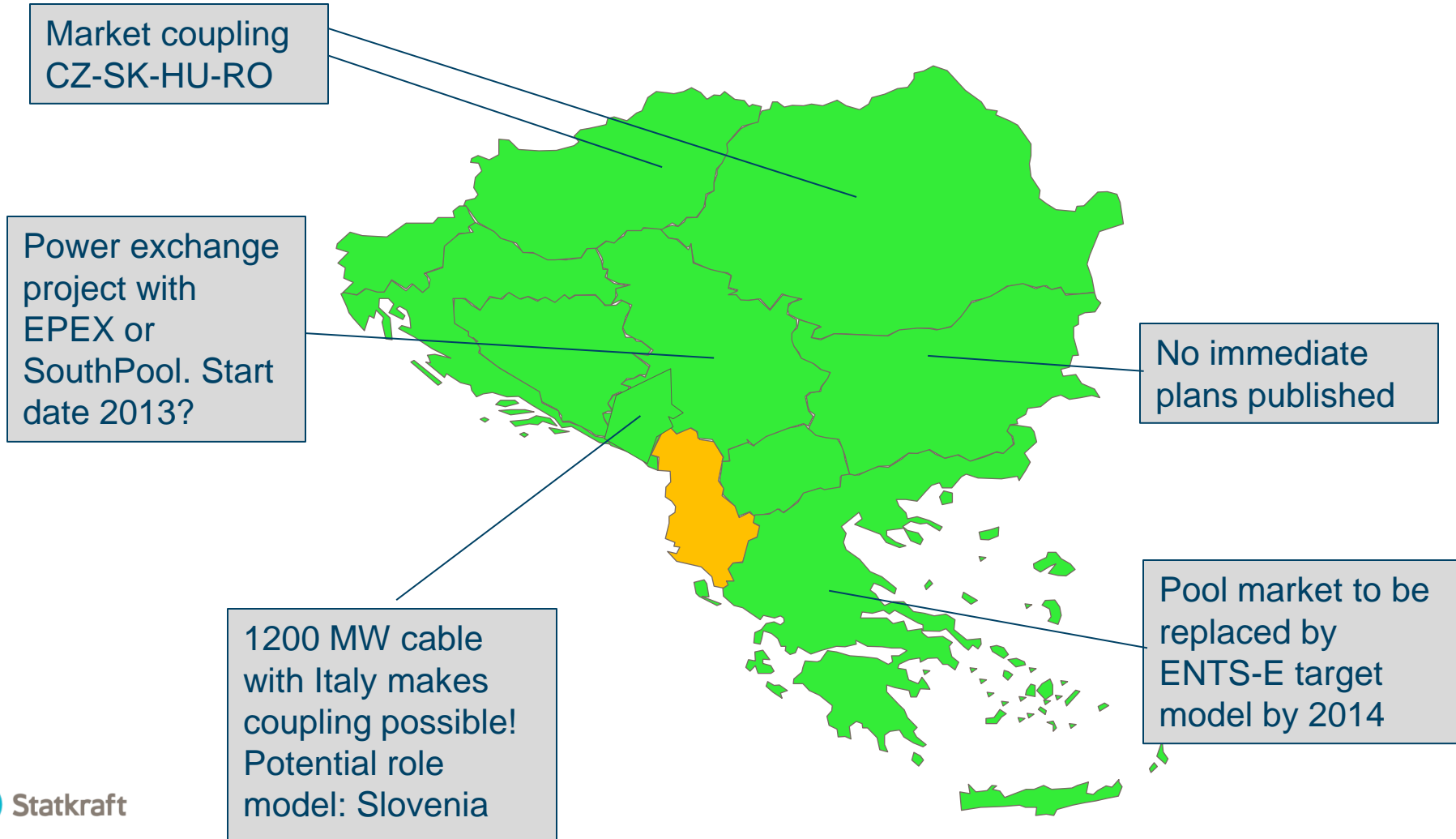
## DISADVANTAGES

- > Local company needs extra bookkeeping
- > ...needs to be capitalized
- > ...needs to have its own set of counterparty frame agreements
- > ...needs to solve internal pricing and tax issues
- > ...might run into VAT problems

## BENEFITS

- > Enforcement of law against foreign companies ????
- > Control over trading activities ????
- > Security of supply ????

# WHAT'S HAPPENING AROUND ALBANIA??



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# A POSSIBLE WAY FORWARD FOR ALBANIA

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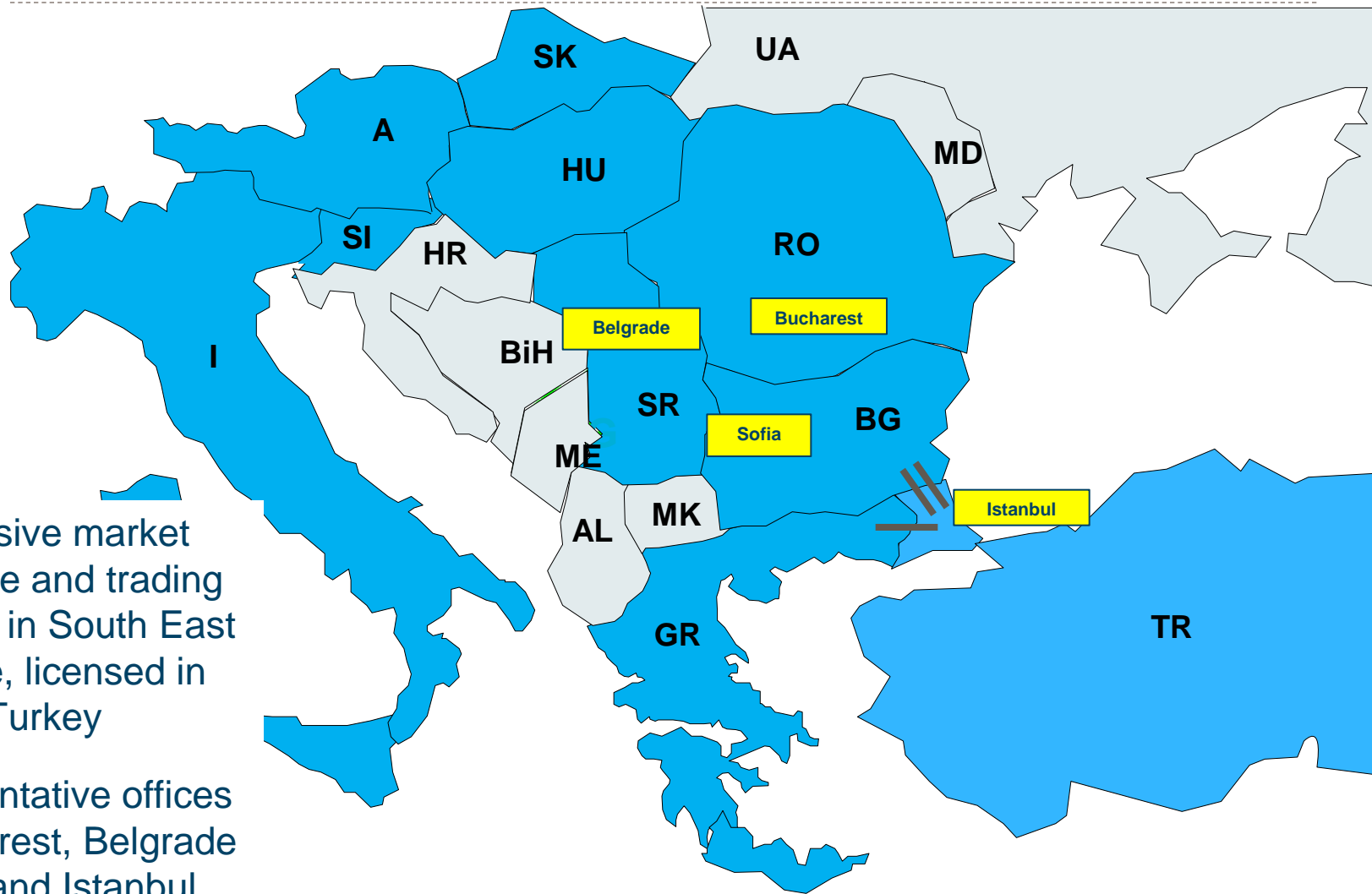
- > All commercially available cross-border capacity needs to be allocated in a market based way: Yearly, monthly, daily, intraday
- > There is a need to establish an hourly spot market. Albania is a too small market to function on its own. Albania needs to couple with neighboring market(s)
- > A balancing market needs to be established
- > A forward market will develop based on a functioning spot and balancing market

# PURE ENERGY

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# TRADING PRESENCE IN SOUTH EAST EUROPE



→ Extensive market coverage and trading activities in South East Europe, licensed in Turkey

→ Representative offices in Bucharest, Belgrade Sofia and Istanbul

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# WHERE REGULATION AFFECTS PRICES

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## --> MARKET STRUCTURE AND COMPETITION

- Cross-Border Trading
- Power exchanges / Market Coupling

## --> PRICE DISTORTING FACTORS

- Regulated tariffs
- Import and Export Fees
- Long-term legacy contracts

## --> LICENSING

- Barrier to market entry

## --> TRANSPARENCY

- Supply side: Outages, Maintenance planning
- Demand side: Load data