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***Panel: "ELECTRICITY AND NATURAL GAS MARKETS:
HOW MUCH REGULATION NEEDS LIBERALISATION?"***

Regulation of power exchanges

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Outline

1. What could/should be regulated about power exchanges ?
2. Who could/should regulate power exchanges?
3. Conclusions

Should PXs be regulated?

- Power exchanges becoming a more “monopolistic” activity...
 - But regulation is not necessarily the best solution
- Regulated vs. Market solutions depend on:
 - Imperfect regulation vs. imperfect competition?
 - Regulatory choice vs. market innovation?
 - Market innovation vs. need of harmonization?
 - Externalities vs. transaction costs?
- What should/could be regulated?

3.1 Regulating access to PXs?

- In principle, is not necessary to regulate the access fee to power exchanges
 - Actually alternatives to bypass PX
 - At national level: OTC markets and other alternatives (e.g. Threat of market participants, new PX, balancing market etc.)
 - At regional/EU level: only a part of cross-border capacity is sold in Day-ahead markets
 - Small in overall picture (cost of regulation > benefits)
 - Risk of “immature” market intervention
- Maybe in the future... when PXs will face less competition (more concentrated volume on PX or with FTRs linked with day-ahead prices)

3.2 Regulating Market Design and harmonisation of PXs?

- Old (but still necessary) market design questions
 - Types of products to be offered (linear, complex, blocs)?
 - Which time schedules and algorithms?
 - Which optimal size of a PX (merger across borders)?
 - Should PXs be integrated with TSOs?
 - Any reference governance and ownership of PX?

3.3 Regulating coordination of PXs?

Not all levels & types of coordination have the same outcome and “change of costs”

Allocation mechanism for interconnector capacity	Explicit auctions	Implicit auctions		
		Market coupling		Market splitting
Coordination between Power Exchanges	No coordination	Volume coupling	Price coupling	Single Regional Exchange
Implementation	Most borders	DK – D (Dome or open market coupling)	F – B - NL (Trilateral Market Coupling - TLC)	Nordic and S – P (MIBEL)
Efficient use interconnectors	0	0/(+?)	+++	+++
Market design harmonization	0	+	++	+++

3. Sum up: What should/could be regulated?

- 3.1 Access to power exchanges (and cross-border capacities)?
 - at the moment monitoring is enough
- 3.2 Harmonisation & Market design?
 - Yes, need for smart “regulation”
- 3.3 Coordination between PXs?
 - Yes, need for smart “regulation”

NEXT STEP:

- Who could/should bring smart regulation to PXs?

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4. Who should/could regulate PXs?

- At national level?
 - Ex ante regulation (looking at PX rules ex ante)
 - Financial regulatory authority
 - Energy regulator
 - Ex post regulation (looking at PX behavior ex post)
 - Competition authority

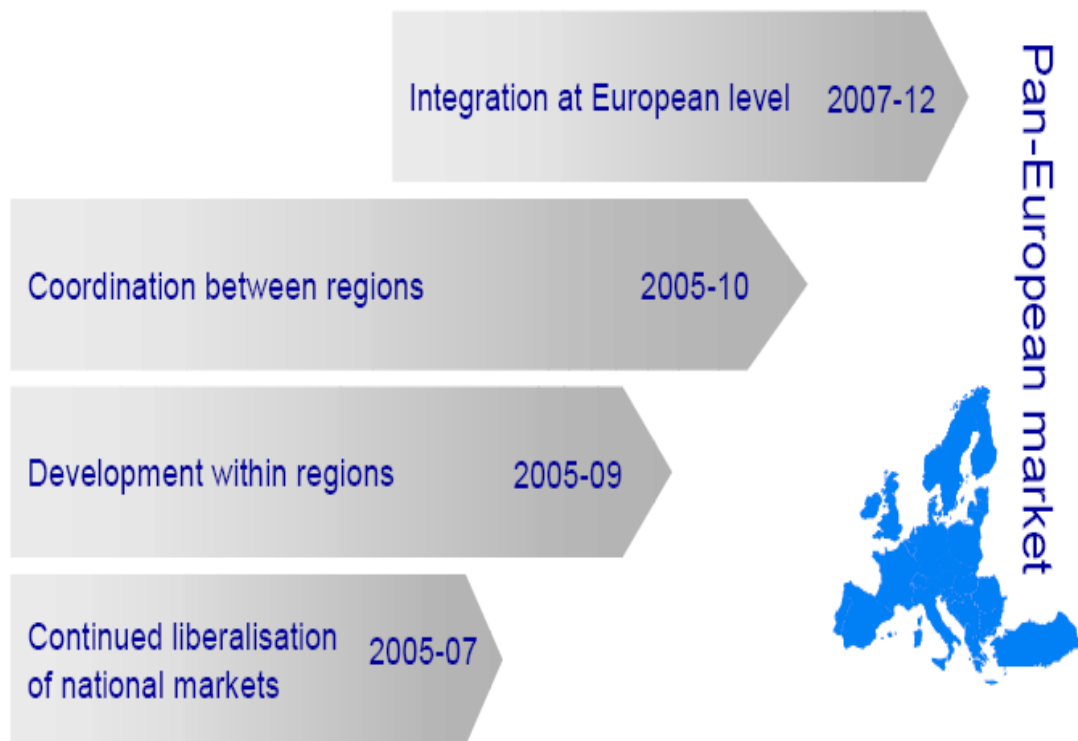
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I won't conclude: it's open debate!



Road Map to a European Electricity Market: parallel approach



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