

The IFIEC Long-Term Market Model

**Presentation at the first
Stakeholder Advisory Group Meeting
for the
Forward Markets Network Code
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Choice of market model will set the market structure for a long time

- Our proposal is a vision for the future
 - Focus on high level issues
 - Taking a basic choice at a crossroads
 - Details to be developed later
- There is no single, perfect solution
 - Gradual transition from the present situation
- The market structure should remain flexible
 - Market coupling is the first step
 - Need for further structural change

Current forward markets do not deliver solutions for industrial consumers

- Electro-intensive industries need access to long-term price visibility
 - Allocation of interconnection capacity does not support long-term contracting across borders
 - Most forward markets are illiquid
- IFIEC proposes an improved forward model
 - Enables cross-border contracting
 - Clear forward price signal
 - Competition and liquidity in a larger market area
 - Serving the hedging needs of the whole sector

The proposed Target Model as previously described does not improve competition

- Ultimate goal:
A common European electricity market
 - Generation mix that provides globally competitive power prices
 - The first step: borderless competition
- The proposed Target Model does not deliver
 - FTR Options have serious drawbacks
 - Making FTR Obligations a practical hedging option is not easy
 - Cascading of borders
 - Synchronising procurement and hedging operations

The IFIEC proposal promotes market integration and improves hedging opportunities

- First step: a forward market with a few large Market Areas
 - Examples: Nordic, Coupled markets on the continent
- Each Market Area has a single forward price
 - The forward price is linked to a spot index: Unconstrained Market Price (UMP)
 - UMP = Day-ahead price without grid bottlenecks
- Linking the forward to the day-ahead market
 - Physical transactions are paid the day-ahead (area) price
 - The forward hedge is linked to the UMP
 - The difference between UMP and day-ahead price is hedged by CfDs

The CfD option should be included and explored in the further process

- The CfD option is promising
 - Promotes competition
 - Improves market flexibility
 - Only slight changes to the market framework
 - EU wide procurement
- The CfD option should be explored further
 - Effects on forward liquidity
 - Ensuring availability and liquidity of CfDs
 - Requirements to and effects on the day-ahead market
 - Coexistence with FTR/PTR?
- The CfD option is already included in the ACER consultation