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Press release from Houmoller Consulting ApS
Designing The Single European Electricity Market

The crash of Nord Pool Spot's re-calculation of the spot prices for Monday 5 August 2013 has triggered a discussion of the future design of The Single European Electricity Market.

For obvious reasons, the discussion has in this case focused on spot trading and market coupling.

As described in Houmoller Consulting's press release from 5 August 2013: the Nordic spot chaos for Monday 5 August could have been avoided. It would only have required Nord Pool Spot in the settlement of the spot trading had used the fully reliable spot prices calculated by European Market Coupling Company (EMCC).

The first crash of Nord Pool Spot's re-calculation of the spot prices happened when the exchange was trying to re-calculate the spot prices for 1 December 2009. This was only a few weeks after the re-launch of the German-Danish market coupling. The crash was severe for Eastern Denmark, where the re-calculated spot prices were completely off for some hours.

For 1 December 2009, in Eastern Denmark, the loss inflicted on buyers of electricity was EUR 223 000. There would have been no losses, if EMCC's spot prices had been used.

After this event, it was suggested the spot exchanges at least should use EMCC's prices as the fall-back option, when their re-calculations of the spot prices crashed. This meant the spot exchanges should be able to automatically take in EMCC's prices and use them in the settlement of spot trading.

However, unfortunately the spot exchanges seem very focused on keeping EMCC's spot prices out of the public eye – not matter the costs for the market players. Hence, the proposal was rejected by the spot exchanges.

Consequently, also for all the subsequent crashes of the spot exchanges' re-calculations, severe losses were inflicted on market players and societies, as

wrong spot prices were used in the settlement of the spot trading – and in the settlement of financial electricity contracts[1].

The future European price coupling

As the future European market coupling system, the spot exchanges have been promoting PCR (Price Coupling Regions).

However, please note that the spot exchanges with PCR are spending millions of euro trying to re-invent the wheel. As the TSOs are financing PCR, the money is paid by grid users in Northern Europe (ie, by captive customers).

The PCR project is redundant, as we have a ready-made price coupling: simply by using EMCC's spot prices in the settlement of the spot trading, Northern Europe will have an efficient and well-functioning price coupling at very low cost.

Further we'll have a European spot price calculation, which has proven to be very reliable.

This reliable and cost-efficient price coupling option contrasts with PCR. The PCR project has so far been extremely costly – and it's aiming at using price calculation software with no proven reliability.

Unfortunately, the spot exchanges become monopolies, when you introduce market coupling[2]. For want of competition, only firm regulation can stop the losses. However, Europe lacks a clear legal foundation for the regulation.

This lack of a clear, multinational legal regulation framework is the basic problem: it has allowed losses and redundant projects to proliferate.

The solution is simple, though: for The Single European Electricity Market, we need to establish the rule of law.

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Anders Plejdrup Houmøller

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[1] Please refer to the PowerPoint presentation *Market coupling and spot price calculation*. At www.houmollerconsulting.dk, you can download the presentation from the sub-page Facts and findings.

[2] Please refer to the PowerPoint presentation *Market coupling makes real competition betw. spot exchanges unfeasible*. At www.houmollerconsulting.dk, you can download the presentation from the sub-page Facts and findings.