

CR MIBEL public consultation to the wholesale market participants about possible measures to improve the liquidity of MIBEL forward markets

The present public consultation is carried out as a result of the analysis by the MIBEL Board of Regulators (CR MIBEL), within the scope of the “Comparative Study of MIBEL Prices (Spot and Forward) with other European Markets and their Relationship with the Internal Energy Market” (ahead known as “the Price Study”). This study, published in July 2019¹, intended to be the basis of a proposal for possible measures that could contribute to the better functioning and development of MIBEL.

The purpose of this public consultation is to know the opinion of the market participants of the MIBEL’s wholesale market, as well as other relevant stakeholders, in relation to the various actions that can be made on certain aspects that, according to the Price Study, have an influence in the market functioning and, in particular, in the liquidity of forward contracts.

The participation in this public consultation of the MIBEL Board of Regulators must respect the following requirements:

- All responses received up to the end of **January 29, 2021** are considered;
- Responses should preferably be sent in an editable electronic format², to the email address consultasmibel@mibel.com, identifying in the subject field the text "*Consulta MIBEL - Proposta de medidas para melhorar a liquidez dos mercados a prazo do MIBEL*".

For reasons of transparency, the MIBEL Board of Regulators publishes all contributions received under this consultation, unless expressly mentioned its opposition in the response to the consultation. In the event that a partial reservation to the content of the response is identified, it should be clearly identified the part of the content that is not subject to publication.

1. Market liquidity

The Price Study draws a series of conclusions, which include the significant reduction in liquidity in forward market whose underlying is the Spanish electricity price, in comparison with the French and German electricity prices. This affects the evolution of the risk premium for products delivered in Spain, higher than that recorded in the negotiation of equivalent contracts delivered in Germany or France, as well as the

¹ https://www.mibel.com/wp-content/uploads/2019/07/20190705SE_EN.pdf

² The CR MIBEL undertakes to receive and consider valid responses by physical mail, provided that they are sent to the address of one of the entities that are part of the MIBEL Board of Regulators and provided that they present a stamp or confirmation of dispatch no later than 26 January 2021.

participation of market participants in the aforementioned forward market and, therefore, in the volumes traded.

Given the above, the following questions are raised:

- i. Do you consider more necessary the injection of liquidity into the forward market on the buy or sell side?
- ii. In your opinion, the bilateral physical contracting carried out mainly by vertically integrated groups, reduces liquidity in the forward market or not?

2. Intervention of market makers in contracts

At CT MIBEL meetings held with MIBEL market participants, was mentioned that one of the measures that would boost the forward market and contribute to an even more correct price formation of the MIBEL's forward contracts, would be the existence of market makers in more contracts, in particular the long-term contracts.

Given the above, in relation to the MIBEL forward market, the following questions are raised:

- i. How relevant do you consider the role of market makers in more long-term products?
- ii. Do you think that the existence of more market makers would boost the forward market in a very relevant, moderate or not very relevant way?
- iii. What are the maturities in which the existence of a market maker would be more relevant?
- iv. Do you identify a specific type of market participant that should act as a market maker?
- v. What benefits should be associated with the market maker activity?
- vi. Do you think that the remuneration of the market maker activity would have to vary according to the market participant profile to act as market maker?
- vii. If so, do you think that market makers should be required to have a minimum volume of trading?

3. Auctions for Vertically Integrated Groups

The Price Study shows that one of the factors that has negatively impacted the liquidity of the forward market is the lack of incentive for the participation of vertically integrated groups in these same markets since they already have a natural hedge of the day-ahead price risk.

To promote greater transparency, competition and liquidity in MIBEL's forward markets:

- i. Do you believe that it would be appropriate to establish a forward auction mechanism such as Virtual Power Plants, in which vertically integrated groups established the energy sales?
- ii. If so, in what forward period should the contracts be auctioned?
- iii. The auctioned products settlement should be physical or financial?

4. Specific mechanisms designed for renewables

In Spain, the approach followed consists of a new competitive tendering mechanism for renewable energy projects, foreseen in the draft law on climate change and energy transition, as well as in Royal Decree-Law 23/2020, of 23 June, which approves measures in the energy area and in other areas for economic reactivation. In this context, Royal Decree 960/2020, of 3 November, which regulates the economic regime for renewable energy electricity generation, articulates a new Economic Regime for Renewable Energies (REER), whose attribution will be through an auction mechanism. On the other hand, the draft Royal Decree that regulates the status of electro-intensive consumers, establishes a term contractual objective of at least 10% of their annual consumption, providing for guarantee conditions (hedging of operations) in situations of a contract with a renewable generator. This guarantee is given through the *Fondo Español de Reserva para Garantías de Electointensivas Entidades (FERGEI)* created by Title III of *Royal Decree 24/2020*, of 26 June, on social measures for job recovery and protection of independent work and the competitiveness of the industrial sector.

In Portugal, the *Decreto-Lei* no. 172/2006, of August 23, in its current wording (*Decreto-Lei* no. 76/2019, of June 3), provided the existence of a competitive tendering procedure to promote electricity production technologies from renewable energy sources, opening also the possibility of installing storage, and ensuring a compensation payment to the national electricity system (SEN) that will revert to the general economic interest costs (CIEG) and with this, results a benefit for consumers. This competitive tendering procedure ensures access to the network infrastructures by renewable production installations, in which the promoters are responsible for the connection charges to the grid (RESP).

- i. Do you consider beneficial, as a complementary approach to the capacity auctions foreseen in Spanish and Portuguese regulations, a competitive energy mechanism, aimed at more mature technologies³, with renewable generation in the supply side along with other market participants' demand?
- ii. If the answer to the previous question is affirmative please specify:
 - a. What are the maturities for products to be implemented? (5, 7, 10 years or other maturities)?

³ In this context, it corresponds to the technologies that, as a result of their evolution, present a cost structure capable of competing in the market with other technologies already more developed.

- b. Should those contracts be physically or financially settled?
- c. In the energy mechanism, do you consider necessary that guarantees of origin (GdO) are linked to the respective energy, with allocations to the tenderers? Or could the products be traded autonomously from the GdOs?

5. Smaller agents participation in the forward market

Considering that:

- not all the market participants in the electricity sector have the legal, technical and operational requirements necessary to directly access the forward market and the respective MIBEL's Central Counterparties;
- or due to their small size, they cannot be admitted as participants in the forward market or because the volume they intend to hedge risk does not correspond to the definition of standardized contracts,

The CR MIBEL considers that the existence of more financial entities and/or liquidity aggregators would allow the access and participation of more market participants in the MIBEL's forward market and consequently, would increase the liquidity in the market.

Given the above, in relation to the MIBEL forward market, the following questions are raised:

- i. How could the participation of smaller market participants (suppliers, producers or consumers) in the forward markets be encouraged or simplified?
- ii. Do you consider necessary, for example, to launch contracts with smaller dimension or with other profiles?
- iii. Do you consider the creation of the figure of an independent aggregator relevant to encourage the participation of smaller market participants?
- iv. How could the figure of an independent aggregator be operationalized in the forward market?
- v. What mechanisms could be created to attract the participation of more financial institutions in the forward market in order to encourage the participation of smaller market participants?

6. Training courses and seminars about forward markets

The knowledge about the functioning of financial markets, with its advantages and risks, makes it necessary to promote financial literacy, in particular, for those potential participants of a non-financial nature who directly or indirectly arrange their participation in the forward markets.

Given the above, the following questions are raised:



- Do you consider necessary to carry out specific training courses and seminars about forward markets (operation, goal, available contracts, risks, etc.)?
- What are the biggest doubts related to the forward contracts or the participation of financial entities in the referred markets?