

25 years of the electricity market, the pride of the entire energy sector in Spain

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2023 is a special year

This year is a special one for those who work at the Market Operator and for all those who have contributed to making OMIE a leading company in the Iberian and European energy sector. In 2023, we are celebrating the 25th anniversary of the creation of the wholesale electricity market in Spain and, with it, 25 years of hard work to accommodate the market's organization to the profound changes that the European energy sector has experienced during this time.

Over these twenty-five years, we have been at the service of our agents and shareholders to make OMIE a leading company in the EU in managing energy markets, as well as promoting the adaptation of our markets to the process of decarbonizing the European energy sector.

It seems like yesterday when the market started (1998)

It seems like it was only yesterday that what was then the European Community adopted the first directive on common rules for the internal market in electricity and set the goal of making that internal market a reality. In 1996, the European institutions took the first step to introduce competition in the electricity industry as a means to improve the competitiveness of the European energy sector, strengthen the security of supply, and cautiously begin to take care of the environment.

Naturally, the Government of Spain endorsed the objectives of the aforementioned directive, and in its transposition through Law 54/1997 on the Electricity Sector, it

created the figure of the Electricity Market Operator as a fundamental piece in the economic management of the electricity system and the process of liberalizing the electricity market.

Liberalization then began with the introduction of competition in electric power generation on the supply side, and on the demand side, with the creation of the figure of the retailer and with the right of major consumers to participate in the market directly. All other consumers were gradually added to those major consumers until everyone was granted the right to choose their electricity supplier in January 2003.

Successive rules brought shape to the new figure of the market operator. The regulations organized and regulated the electricity production market, providing the Market Operator with the functions needed for managing the day-ahead and intraday markets.

It was in this context that it was established that the Market Operator would receive the bids for the purchase and sale of electricity from agents, carry out the market matching according to a marginal system, and communicate the results to agents, as well as to the system operator so that they could carry out the necessary scheduling. The scheme was completed by establishing the conditions for the market operator to settle collections and payments according to the results obtained and to publicly report those results. In short, the market operator had to ensure transparent, non-discriminatory operation of the process of the purchase/sale of electricity in Spain.

Thus, since January 1, 1998, the Spanish electricity market operating company (Compañía Operadora del Mercado Español de Electricidad, OMEL) began to manage the system of purchase and sale bids for electric energy and price formation in the day-ahead and intraday electric energy markets. This task has been thoroughly completed by the market operator during these 25 years.

At that time, the figure of the market operator existed only in Nordic countries (NORDPOOL) and in the United Kingdom, though it soon spread to the rest of the Member States, as was the case with POWERNEXT (later EPEXSPOT) in Central Europe, GME in Italy, APX in the United Kingdom/The Netherlands (now EPEXSPOT), BELPEX in Belgium, OTE in the Czech Republic, and so on.

The Iberian electricity market, a pioneering experience in the EU

The Portuguese Republic and the Kingdom of Spain aimed to go further in the integration of wholesale markets in Spain and Portugal with respect to the minimum requirements set by the European Directive of 1996, so work began on signing a collaboration protocol between the two countries to establish the bases for the creation of an Iberian Electricity Market (MIBEL).

After a long negotiation phase, the Santiago International Agreement was signed on October 1, 2004, containing the conditions of the future Iberian Electricity Market (MIBEL). The signing of this agreement made it possible to position MIBEL as one of the most significant regional integration projects in the European Union.

However, it was not until July 2006 that MIBEL started its forward market (currently managed by OMIP), and a year later, on July 1, 2007, when the spot market for all of Spain and Portugal started.

The current structure of the Iberian Market Operator (OMI) was later defined by the same Santiago Agreement with the new wording agreed on by both governments in 2008 in Braga. Thus, in that same year, the work began that led to the creation of OMIE in 2010 as a day-ahead market and intraday market management company in Spain and Portugal.

In accordance with the aforementioned treaty, OMIP SGMR was also created as the manager of the electricity derivatives market, as was OMIClear as a Central Counterparty Clearing House.

A European market

The success of MIBEL and that of other regional integration experiences in the EU encouraged regulators to promote regional cooperation between markets as an effective means to achieve greater integration of the wholesale electricity market in the EU.

This way, OMIE, NORDPOOL, and EPEXSPOT launched the Price-Coupling of Regions (PCR) initiative, which, among others, involved the implementation of a common algorithm for matching supply and demand of the day-ahead market in all price areas.

With the help of European regulators and the European Commission, this initiative was extended to transmission system operators (TSOs), and in 2014 the Multi-Regional Coupling (MRC) began operating in MIBEL, Central Europe, and the Nordic countries. Of course, the 2009 legislative package on the internal energy market had already incorporated market integration as one of its priorities, but the experience gained by market operators with the PCR prompted the creation of a detailed regulation to extend the MRC to the EU as a whole.

This is how the first European regulation on market coupling was developed; through a directive by the European Commission, it imposed the obligation to designate at least one operator to perform the functions of coupling with neighboring countries on Member States, among others. Thus, in 2015, OMIE was appointed Nominated Electricity Market Operator (NEMO) for Spain and Portugal.

Finally, the integration of the single coupling of the day-ahead market in the EU was completed in June 2021.

This same integration process was promoted for the intraday market to bring market liquidity closer to real-time and thus facilitate greater participation of renewable energies and demand management in the markets. Thus, in June 2018, Europe's continuous market on the intraday horizon began operation in MIBEL, Central Europe, and Nordic countries, and in November 2022, its geographical reach across the EU was complete.

This intraday market at the European level, also called Single Intraday Coupling (SIDC), provides agents more flexibility so they can modify their market position up to an hour before real-time, minimizing their possible mismatches and costs. This is the case with wind power generation, which participates very actively in correcting its programs in the last hour of negotiation before delivering energy to minimize deviations.

For all the above, we must emphasize that the accumulated experience in managing the electricity market allowed OMEL to promote the creation of MIBGAS, the Iberian gas market, in 2015; it currently participates in 33% of its capital shares. However, the relationship with MIBGAS goes far beyond that of a mere shareholder; they work together closely in the orderly management of the spot and forward gas market.

The market works

In its 25 years, the coupling of wholesale electricity markets has established itself as the most tangible result of the internal electricity market in the EU. The market has worked and is working, reflecting the realities that have impacted the macro-economy and international markets at all times. Over these twenty-five years, we have formed prices publicly and transparently, giving price signals to all agents so that they can efficiently manage their energy and make decisions with the right information.

The market has provided the right investment signals in Spain and Portugal to diversify generation technologies, guarantee our supply, reduce energy dependence from abroad, and help our countries meet CO2 emissions reduction targets.

During these 25 years, our market has returned prices in line with other European markets, while our level of volatility has been less than that of other markets.

The OMI Group

This review shows a success story. This story has been possible thanks to the creation of a business group where both representatives of the energy sector (40% of the shareholders) and other sectors, particularly the financial sector (60% of the shareholders), are involved as stakeholders.

Indeed, since the origin of the electricity market in 1997, the legislator's decision was to design an entity that was separate and independent from the operation of the electricity system and owned by private entities, even if the nature of its function would make it a regulated remuneration company.

The collaboration of all these shareholders, many of whom are represented on the Board of Directors, has allowed the electricity market to carry out its role with an immediate knowledge of the economic reality of the Iberian Peninsula, the concerns of the electricity sector for which it provides its services, and the real economy. On the other hand, this has meant that the governance model has been developed to meet the highest standards of good governance and ongoing sustainability, emphasizing aspects such as talent retention, the relationship with the society where we carry out our activity, and innovation, which is critical in a sector in the process of transition and change. OMIE is part of the United Nations Global Compact, and it firmly manifests its commitment to the future.

The shareholding structure was completed with a Committee of Market Agents that once again brings us closer to those who participate in the market every day and with whom we share a constant relationship that goes beyond that of a service provider; we share new developments and initiatives linked to the change of operating rules with them, and, in short, this becomes a key environment to ensure the excellence of our activity.

The proper functioning of this activity is undoubtedly of general interest; therefore, it is carried out in close collaboration with both the CNMC and the Ministry for the Ecological Transition and the Demographic Challenge, as well as with the corresponding authorities of Portugal, ERSE, and the Ministry of Environment and the Energy Transition.

Today, we are talking about the energy transition and digital transition, and we can say that the operation of electricity markets, both spot and forward, is an example of both priorities. Of course, we actively collaborate in the energy transition and decarbonization process, contributing our experience to all these new realities which we must integrate into our daily work. The massive presence of renewable energy bids and the new

flexibility services required by the model are just a few examples; all this is possible thanks to technology, which has become our most valuable tool when offering solutions.

As a company, our assets are the talent and commitment of the 100 people who operate the day-ahead, intraday by sessions, and continuous markets, settle all associated costs, and ensure transparent economic management of the electricity production activity and, of course, the technology at the service of our purposes.

That market, which was initially Spanish, evolved into an Iberian market; today, it is European above all else, and it has been a benchmark for the modernization of our energy sector. With that same dedication, we hope to continue in this way on the exciting path of the energy transition that is before us.

Looking to the future

In February 2022, Russia invaded Ukraine, and this war in Europe is being harshly reflected in a European economy where the gas supply was heavily dependent on Russian gas. The supply shock we are facing has resulted in an increase in prices and levels of volatility never before seen in the electricity markets. Even in these extreme circumstances, with the most serious energy stress in the last 25 years, the market has been the “thermometer” that has anticipated the most critical moments, correctly conveying information to all agents so that they could adapt their production and demand to the new reality.

In this so-called polycrisis, neither Covid-19 nor the war in Europe has made us renounce decarbonization as an opportunity for our economies.

We are in a key moment for the energy transition process, a process with which OMIE fully identifies. The decarbonization process is already irreversible, and the electrification of our economy plays an essential role for Europe in achieving the decarbonization goals set for 2030 and 2050.

In collaboration with the European and Iberian regulators, we are continuing to work on adapting our markets to the needs of new actors and resources. The future

implementation of the quarter-hourly product in our day-ahead and intraday markets, the development and implementation of the new pan-European intraday auctions, the new financial derivatives products and services, the promotion of local markets, and the design of new models to accommodate the increasingly numerous decentralized resources are just a few of the examples of the intense activity we carry out to keep our companies at the forefront of this process.

In this context, the war in Europe and its impact on commodity prices has triggered a debate on the validity of the electricity market's design in the EU. Undoubtedly, these 25 years serve as good illustrations that the market is evolving and that it must adapt to the needs of the agents that operate in it; however, the electricity market cannot renounce the principle of freedom of movement in the EU, which is also celebrating its 30th anniversary in 2023.

The challenge before us is a major one, but the experience gained over these years encourages us to renew our determination to maintain excellence in the service we provide to the energy sector and society at large.

We are starting 2023 with this vision, and in the coming months, we will be sharing the reflections of major actors in the energy sector, both nationally and internationally, on the development and future evolution of the electricity market with all of you.

Of course, we will stay in touch through the different events we have scheduled to commemorate 25 years of the market in Spain. See you soon.