The Dangers of Shared Order books in Power Spot Markets
What your favourite streaming show and Shared Order Books have in common (8 May 2023)

The current EU Commission proposal for an Electricity Market Design reform advocates to extend the concept of mandatory Shared Order Books (SOB) for Nominated Electricity Market Operators (NEMOs) to all markets within the Day-Ahead and Intraday horizon (new art. 7, 2019/943 EU Regulation). Today, Single Day-Ahead and Intraday Markets are based on the **clear principle that power exchanges only share order books when cross-border capacity can be expected to be both available and allocated simultaneously (CACM 1222/2015)**. So, the matching of orders and the allocation of capacity happens at the same time. Since cross-border capacity can be considered a natural monopoly, even an intrusive measure like the sharing of order books among power exchanges/NEMOs, is economically justified **only in these very specific circumstances**.

The European Power Exchange (EPEX SPOT) stresses the **need of clear boundary definitions to distinguish the markets regulated under the CACM Regulation from other market segments, to avoid detrimental effects on European wholesale energy markets, such as capacity, Guarantees of Origins and flexibility markets**. In no other set-up or industry exchanges (be it commodity or financial exchanges) are requested to share order books at all times, as it seriously hinders competition and instead introduces elements of socialisation and free-riding.

What are the detrimental effects of undue and limitless sharing of liquidity/order books?

- It **discourages innovation** and forces competition to revolve exclusively around pricing. Instead of gaining market shares through innovative and tailor-made solutions or products for market participants and end-consumers, NEMOs will only try to benefit from competitors' resources, investment efforts and successful innovation. While failed innovations will remain at the expense of the first-mover, successful ones will be free-ridden and their benefits socialised. In this framework, no NEMO is willing to innovate. First innovators are discouraged from investing in future developments, to the ultimate detriment of electricity consumers.
- It **hinders the quick development of solutions** to deal with national power market characteristics. This is particularly needed in developing markets (e.g., flexibility, capacity). Treating them all under the CACM framework will lead to delays, loss of opportunities and diluted goals.
- It will **discriminate NEMOs and destroy the level-playing field with bilateral OTC markets and other trading platforms** active in certain power trading segments without a NEMO licence, who will not have to share their liquidity with competitors and will be enabled to protect their innovations and benefit from them.
- It **causes a single point of failure** as a possible diversity of systems for short-term electricity markets, which can work as potential back-up solutions, is prevented from being developed.

Are there legal concerns?

Yes, the Commission's proposal infringes several legal principles and fundamental rights of the European Union. This notably includes the principle of subsidiarity, the principle of proportionality and the fundamental freedom to conduct a business!

Can the extension of SOB be justified by the aim to strengthen the level-playing field for NEMOs?

No, several years after accomplishing full competition between NEMOs, market shares prove that the existence of local markets without SOB has no impact on the position of NEMOs in coupled markets!

Is the concept of SOB a useful tool to foster competition for the sake of end-consumers? – an analogy

What would this mean for streaming platforms and viewers?
Let's imagine that EU authorities force streaming platforms to merge their content: These would have to offer each other's content on their respective platforms. At first, this new EU regulation would be welcomed by all customers. Indeed, for the same price, users would get a broader offering.
However, streaming providers would have no incentives anymore to innovate and invest to improve the quality of their platforms, the range of their content catalogues, the attractiveness of their subscription prices, develop their own productions, etc. Such lack of innovation incentive will adversely impact not only competition between platforms – via loss of rivalry and of dynamic competition – but also the diversity and quality of users' experience. Having dreamed to access to the full range of movies and TV shows at low cost, time for disenchantment would come fast for end-consumers, with very poor final choices and no new content. Streaming platforms would be lead to a race to the bottom, and would stop investing to enrich their services and offer. Indeed, why invest in a new show if competitors benefit from it?