Capacity Markets and Balancing in the EU context

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What happens when…?

EMR: An unstoppable force?

- High degree of planned investment
- National focus on security of supply
- Ambivalence about role of traded (MWh) market (e.g. regulated PPAs)

European internal electricity market: An immovable object?

- Efficient cross border traded market
- Cost savings through sharing of generation resources
- Market coupling based on the energy (MWh) market a central feature
## The key market network codes and their objectives

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<th>2013</th>
<th>2014</th>
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<td><strong>CACM</strong></td>
<td>Day ahead market coupling and single EU intraday platform</td>
<td>Amount of capacity, single allocation platform, firmness regime</td>
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<td><strong>Forward capacity allocation</strong></td>
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<td>Definition of forward products. Sharing and exchange of reserve across border.</td>
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<td><strong>Load frequency control</strong></td>
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<td>Single EU Pool of balancing energy. Common imbalance settlement rules.</td>
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<td><strong>Electricity Balancing</strong></td>
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Aiming to achieve the target model
Objectives for the Balancing Code

Framework Guidelines
THE PROPOSED ROADMAP

3 YEARS
Balancing energy from RR

5 YEARS at the latest
Balancing energy from FRR

7 YEARS at the latest
Balancing energy from FRR & RR

SECURITY:
Unless a CBA demonstrates that it is not positive

- Possible « margins » for TSOs
- Possible regional approach

Coordination between TSOs
to activate FRR and reduce costs

- No margin for TSOs
- European-wide

Presentation of Draft FG on Electricity Balancing, 29.5.2012
What we are up against: the complicated map of policy objectives
Interventions have significant knock on effects on the rest of the matrix
Central tasks of market mechanisms

> Formation of prices so that supply and demand balance

> Allocation of fixed and variable costs

> Organisation of risk management activity, forward trading and the maintenance of spare capacity and storage possibilities

> Provision of incentives for efficient investment decisions
National CRMs will affect investment decisions

- Energy delivered model: new investment preferred
  => NEW INVESTMENT

- Availability model: new = existing
  => MAINTAIN EXISTING

- No capacity mechanism
  => CLOSURE
National CRMs will affect dispatch decisions, especially at times of high demand / system stress

=> “MUST RUN GENERATION”
PRICE LOW AT STRESSED PERIOD

Energy delivered model: new investment preferred

Outflows

=> HIGH PRICES:
BUT LOWER THAN NEEDED TO GIVE CAPACITY SIGNAL

No capacity mechanism

=> EXCESS GENERATION MEANS LOWER MWH PRICES

Availability model: new = existing
GB proposed mechanism could have up to four “price” signals (£/MWh) at peak\stressed periods

> The actual energy price

> Implied benefit from triad reduction

> Avoided energy delivered penalties if not generating at the “stressed periods”

> Recovery of capacity payments on the basis of peak demand of retail portfolio
Conclusions

> The EU is already starting to look closely at national CRM proposals

  ▪ internal market reasons
  ▪ from the state aid perspective
  ▪ non-tariff barriers?
  ▪ to ensure consumers are not overcharged

> This does not mean that they will be blocked, but some changes or conditions are probable

> There may be guidelines\guidance to encourage more harmonisation