

“Main developments in the electricity market till 2020”

Gunnar LUNDBERG

Chairman of the EURELECTRIC Markets Committee

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Major strategic issues for this decade

1. Preparing for the major RES paradigm shift by 2020
2. Building a carbon-neutral economy by 2050

RES paradigm shift: **key challenges** for the electricity market

- RES integration represents a huge challenge for the market:
 - **Electricity prices & balancing**: increase of price levels and volatility (wholesale/retail) and increase of balancing costs
 - **Grid development**: pressure on the system and increase in grid costs (network, ancillary services, distribution tariffs)
 - **RES policies**: RES generators are out of the market
 - **Generation investments**: a shift of conventional power capacity towards more peak load capacity -> lower levels of expected profitability raise concerns about future investment decisions and thus generation adequacy

RES paradigm shift: **current RES policies lack consistency**

- Current RES policies represent a symbiosis of two clearly different approaches:
 - regulatory approach based on subsidies (on national basis)
 - and market driven approach
- Example of a **vicious regulatory circle**:
 - RES policies put RES generation out of the market + Regulatory interventions to ensure back up capacity for RES ->
 - Creating profitability uncertainty for conventional peaking and back-up generation -> risks around ensuring generation adequacy ->
 - Introduction of capacity remuneration mechanisms to address generation adequacy
- **Conclusion: the old problem is being solved through creating a new problem -> room for the market is diminishing**

RES paradigm shift: market-based approach must be a primary choice

- **Increasing price fluctuations and volatility & increasing balancing and intraday prices**
 - > **Day ahead market coupling, cross-border intraday & balancing” to be in place on a harmonized basis in Europe to mitigate negative impact of RES**
 - > **Political acceptance of increasing price volatility (e.g. peak prices) is crucial to avoid distortions & re-regulation**
 - > **Providing long term price signals for new capacity is crucial to ensure investments**
- **Increasing total end user prices (i.e. Commodity/grid costs/RES subsidies)**
 - > **Clear linkage between the wholesale and retail markets to be established across the whole Europe**
 - > **Passing through price volatility to the end-customer is a main prerequisite for demand side response**

RES paradigm shift: grid development is urgent

- **Additional grid investments needed:**
 - needed to connect off-shore wind and do inland grid reinforcements
 - bring the energy to the centers of consumption
 - increase cross-border capacities to enhance market integration
 - Additional reserve requirements to cope with the variability of the wind
 - Additional distribution costs (e.g. bi-directional grid, smart metering)
- **Regulatory framework and European grid planning process to be in place urgently if we want to accommodate RES in an efficient way**
- **Projects with positive socio-economic welfare should be built!**

RES paradigm shift: RES generation need to be brought into the market

Support for renewable generation should only be through **specific and transparent market based mechanisms**, not through indirect subsidies that distort the market equilibrium

This means:

- Renewable generators should be **responsible for selling their own production in the market** (i.e. not via the TSO): just like all other generators
- Renewable generators should be required to **schedule, nominate and balance**: just like all other generators
- Renewable generators should offer **positive\negative bids and offers into balancing and reserve markets** rather than being pure “must run”: just like all other generators
- Support mechanisms should mainly take the form: “market price + premium/certificate value” rather than feed in tariffs

RES integration: **solving generation adequacy challenge**

- Capacity Remuneration Mechanisms should be considered as a **possible temporary solution** to ensure generation adequacy in case of:
 - Complete lack of demand participation in price setting
 - Lack of sufficient transmission capacity (especially interconnections)
 - Regulatory distortions (Price caps & regulated tariffs, direct impact on generation mix)
- Solutions for the future:
 - As a first step, energy-only markets must be allowed to function properly by removing regulatory distortions; Market integration is imminent
 - CRMs in “embryo” now in several MS: EC and ACER should set now some general principles / harmonisation requirements
 - Enabling demand to participate in spot price formation (less peak capacity demand & less need for back-up plants with **demand “following” the RES**)

. Building a carbon-neutral economy by 2050

Decarbonisation: outlook towards 2050

- **Key challenges:**
 - Decarbonisation burden falls mainly on the power industry
 - Carbon floor price initiatives in some MS contradicts the ETS principles
 - Lack of public acceptance of nuclear, CCS, etc put ETS at risk
 - No common understanding of the interaction between ETS and national RES subsidies and how they influence investment in carbon-neutral technology

Decarbonisation: outlook towards 2050

A carbon-neutral society by 2050 can be achieved if appropriate steps are taken:

- **Harmonised and inclusive emission trading mechanisms delivering a robust carbon price**
- **Integrated wholesale markets and a renewed and reinforced infrastructure grid**
- **Energy efficiency - integral component of a carbon-neutral future**
- **Phasing out of RES schemes by 2020 (when RES has become competitive) and in the meantime more harmonisation**
- **Genuine adherence to EU policies and objectives, and to national solutions developed in line with the European framework**
- **Stronger leadership for the European Commission in preserving a European market-based approach**

Thank you for your attention

A large version of the Eurelectric logo, featuring a green 'e' followed by 'urelectric' in blue, with 'ELECTRICITY FOR EUROPE' in green below it, separated by a green horizontal line.

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