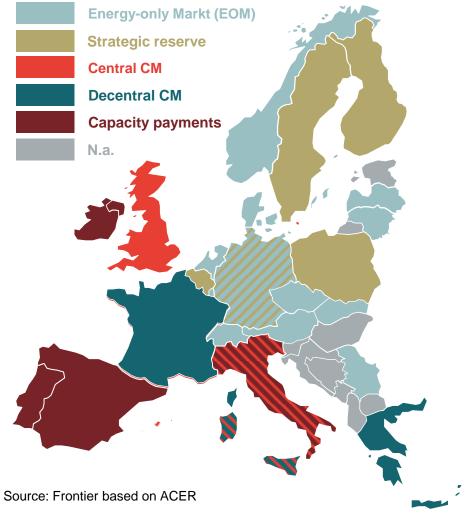


## An electricity market design at last?

Vienna Forum on European Energy Law

15 April 2016

# National capacity remuneration mechanisms (CRM) risks undermining the common market



... the EU uses State Aid legislation to reign in

#### Two EU processes exploring electricity market design

#### **Sector Inquiery** "Blueprint" process DG Ener **DG** Comp Leading Identify need for and define Stakeholder Compliance check with common principles for all and aim State Aid Law MS Need for a CRM Adequacy Framework Material point Proportionality of CRM Design of CRM under review Non-discrimination of CRM International Participation Report without direct legal implications **Formal** Legal Initiative (Directive, Outcome Regulation, Code?) Separately can investigate individual Member states Draft report and **Timeline** Proposal by end 2016 consultation Mid April 2016

#### Some emerging thinking

Common Interest Need Appropriateness Incentive Proportionality

Avoid distortion to competition

# Adequacy assessment

- Need to show need for CRM through adequacy assessment
- EU-wide common approach to assessment?
- Common modelling for assessment?
- National choice of level of adequacy?

#### **National CRM**

- Focus on cause of adequacy issue
- Exploit reform of energy-only market (e.g. balancing arrangements) first
- Competitive design (auction or "certificate" system)
- Non-discrimination (between technologies, players ...)

# Cross-Border Participation

- Interconnectors or generators?
- Proof of interconnector (IC) availability?
- Derating of IC capacity?
- Transitional exemptions (for pragmatic reasons)

#### Need to identify cause ...

Focus of CRM debate

Potential causes

Evolving market environment

Political intervention

For example:

low energy demand For example:

 Extensive renewable support

Symptoms / Implications

Power plants currently not profitable

Design options

No actions needed

"Stranded cost" compensation?

EOM (design) failure

- Externalities/SoS as nonexclusive good?
- Prohibitive price risks?
- Missing money by regulation?
- Inconsistencies between national CRMs?

Generation adequacy at risk

Amendment of the EOM design

Introduction of a CRM?

... to find the appropriate remedy

## Designs may serve different purposes

- Can be transitional
- Partial insurance

**Centrality** of the capacity mechanism

Energy **not** (directly) offered in Strategic energy Reserve market Scope of the included capacity Addresses public good issue System-wide centralised Decentralised Energy Dec. obligation + capacity market still performance Auction (e.g. PJM) (e.g. central offered in obligation auction or reliability energy options) market

capacity traded on
decentralised market
(no administrative rule how cost
is passed to consumers)

capacity traded in centrally organised auction (and capacity price passed on through an administrative levy)

# ... in addition there should be a common interest in harmonised approaches!

A patchwork of national designs each of which is individually State Aid compliant, may still lead to an incoherent system

The EC will try to deal with this through the "Blueprint" process

## A possible straw man for future governance

This straw man is not intended as a recommendation, but merely as a focal point for discussion

Adequacy assessment

**National CRM** 

Cross-Border **Participation** 

EC/DG Ener (e.g. EC Regulation)

Requires common criteria and analytical framework for EU wide assessment

Defines **few Blueprint models** that MS may adopt depending on issue CRM aims to address

EC/DG Comp

Reviews and approves State Aid compliant models proposed by MS

How much discretion for DG Comp once blueprint (as a sort of "block exemption") in place? May apporve transitional arrangements

**ACER** 

Reviews and approves framework of analysis (before they can become binding)

[Further duties and rights tbd]

Role of ACER unclear as long as approval process rests on State Aid principles

Member States

Set national adequacy targets based in relation to common criteria

May **propose and notify** CRM incl x-border particip.

**Demonstrate** adequacy concern and how this is resolved by proposed CRM

**ENTSO-E** 

Contributes to development of common criteria, and analytical framework

There is a wider discussion around the appropriate role and independence of ENTSO-E

... let us discuss it

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