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

Source: Frontier based on ACER

… the EU uses State Aid legislation to reign in
Two EU processes exploring electricity market design

**Sector Inquiry**

- DG Comp
- Compliance check with State Aid Law

**Blueprint process**

- DG Ener
- Identify need for and define common principles for all MS

**Leading Stakeholder and aim**

- Material point under review
  - Need for a CRM
  - Proportionality of CRM
  - Non-discrimination of CRM

- Formal Outcome
  - Report without direct legal implications
  - Separately can investigate individual Member states

- Timeline
  - Draft report and consultation Mid April 2016

- Legal Initiative (Directive, Regulation, Code?)
- Design of CRM
- International Participation

- Proposal by end 2016
Some emerging thinking

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 …)

Avoid distortion to competition

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

Common Interest Need

Appropriateness

- Incentive
- Proportionality

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Avoid distortion to competition

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Avoid distortion to competition
Need to identify cause …

<table>
<thead>
<tr>
<th>Potential causes</th>
<th>Symptoms / Implications</th>
<th>Design options</th>
</tr>
</thead>
<tbody>
<tr>
<td>Evolving market environment</td>
<td>Power plants currently not profitable</td>
<td>No actions needed</td>
</tr>
<tr>
<td>Externalities/SoS as non-exclusive good?</td>
<td>Extensive renewable support</td>
<td>“Stranded cost” compensation?</td>
</tr>
<tr>
<td>Prohibitive price risks?</td>
<td>Missing money by regulation?</td>
<td>Amendment of the EOM design</td>
</tr>
<tr>
<td>Inconsistencies between national CRMs?</td>
<td>Generation adequacy at risk</td>
<td>Introduction of a CRM?</td>
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… to find the appropriate remedy
Designs may serve different purposes

Centrality of the capacity mechanism

- Can be transitional
- Partial insurance

Energy not (directly) offered in energy market

Energy still offered in energy market

Scope of the included capacity

System-wide centralised capacity market (e.g. central auction or reliability options)

Strategic Reserve

Addresses public good issue

Decentralised performance obligation

Dec. obligation + Auction (e.g. PJM)

Decentralised market

(capacity traded on decentralised market

(no administrative rule how cost is passed to consumers)

Centralised auction

(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

<table>
<thead>
<tr>
<th><strong>Adequacy assessment</strong></th>
<th><strong>National CRM</strong></th>
<th><strong>Cross-Border Participation</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Requires <strong>common criteria</strong> and <strong>analytical framework</strong> for EU wide assessment</td>
<td>Defines <strong>few Blueprint models</strong> that MS may adopt depending on issue CRM aims to address</td>
<td>How much discretion for DG Comp once blueprint (as a sort of “block exemption”) in place?</td>
</tr>
<tr>
<td>EC/DG Ener (e.g. EC Regulation)</td>
<td>Reviews and approves <strong>State Aid</strong> compliant models proposed by MS</td>
<td>Role of ACER unclear as long as approval process rests on State Aid principles</td>
</tr>
<tr>
<td>EC/DG Comp</td>
<td>May apporve <strong>transitional arrangements</strong></td>
<td></td>
</tr>
<tr>
<td>ACER</td>
<td>Reviews and approves <strong>framework of analysis</strong> (before they can become binding)</td>
<td>[Further duties and rights tbd]</td>
</tr>
<tr>
<td>Member States</td>
<td>Set <strong>national adequacy targets</strong> based in relation to common criteria</td>
<td>May <strong>propose and notify</strong> CRM incl x-border particip. <strong>Demonstrate</strong> adequacy concern and how this is resolved by proposed CRM</td>
</tr>
<tr>
<td>ENTSO-E</td>
<td>Contributes to development of <strong>common criteria</strong>, and <strong>analytical framework</strong></td>
<td>There is a wider discussion around the appropriate role and independence of ENTSO-E</td>
</tr>
</tbody>
</table>

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

... let us discuss it
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