NEXT STEPS FOR THE EUROPEAN ELECTRICITY MARKET

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May 2015

THE CHALLENGE IS UNPRECEDENTED

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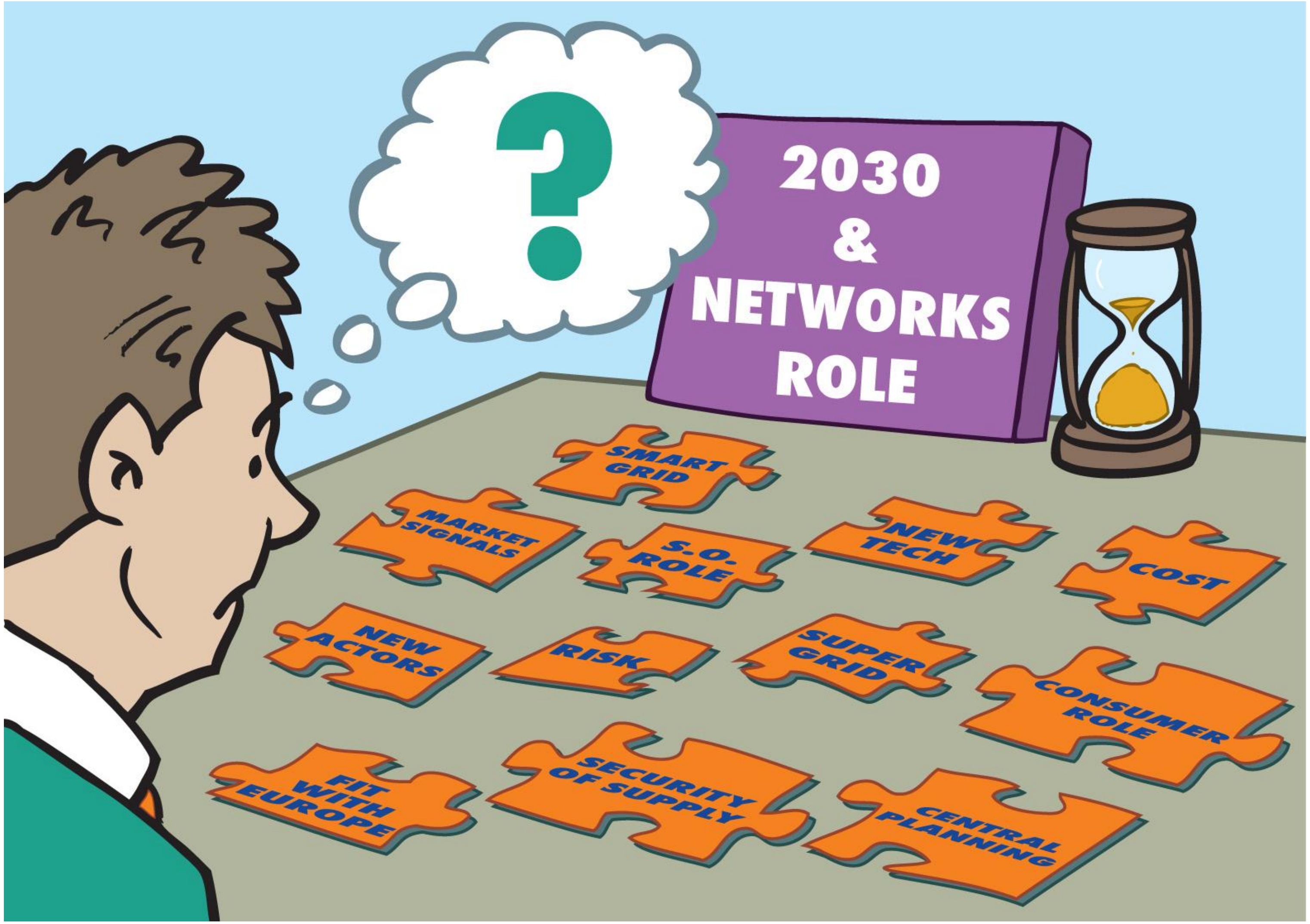
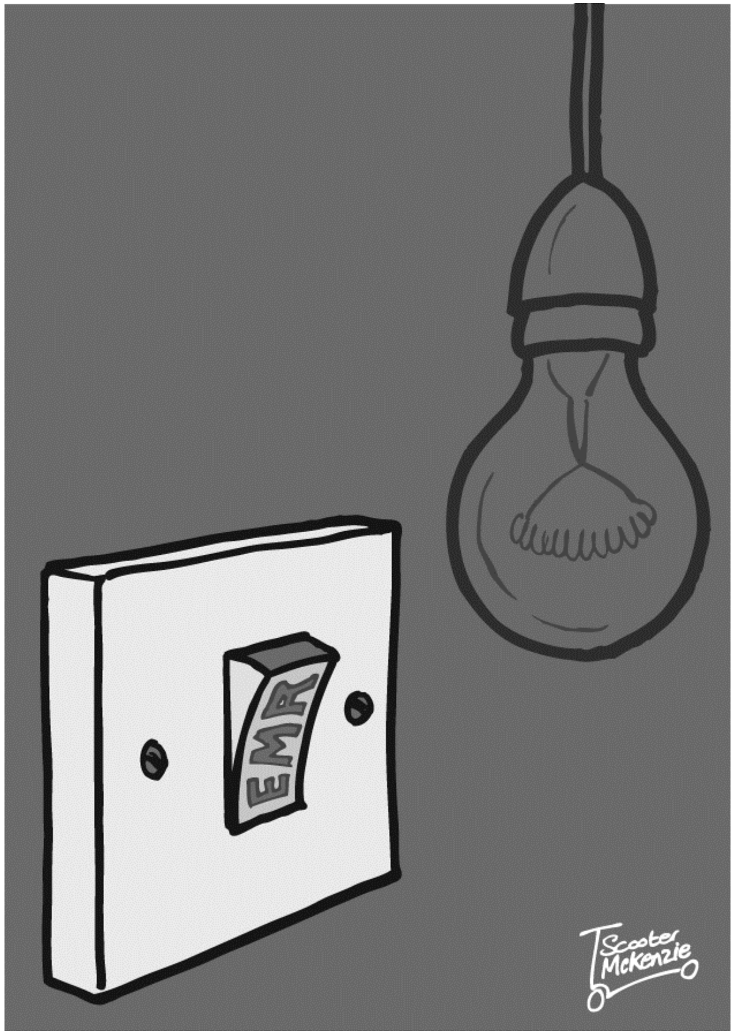


EXISTING DELIVERY MECHANISMS ARE NOT FIT FOR PURPOSE

TRUST IS FALLING, WHICH INCREASES POLICY RISK

ARE THE ALTERNATIVE SOLUTIONS ROBUST?



CAN WE REBUILD TRUST IN THE MARKETS?

IMPROVEMENT POINT: INCENTIVISE FLEXIBLE CAPABILITY

Find the most efficient way of facilitating European decarbonisation goals through incentives for all market participants based on 'market' values, with 'simultaneous' optimisation across locations and timeframes

National arrangements

Electricity market participants (in some markets) do not place 'true' value on having access to flexible capability

Need tools to allow buyers and sellers of flexibility to better manage price and volume risks in low-carbon future

1 **Balance responsibility and full marginal balancing pricing***

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2 **Facilitate trading of energy options**

No market-based mechanisms to allocate cross-zonal capacity between use of for energy and use for flexibility

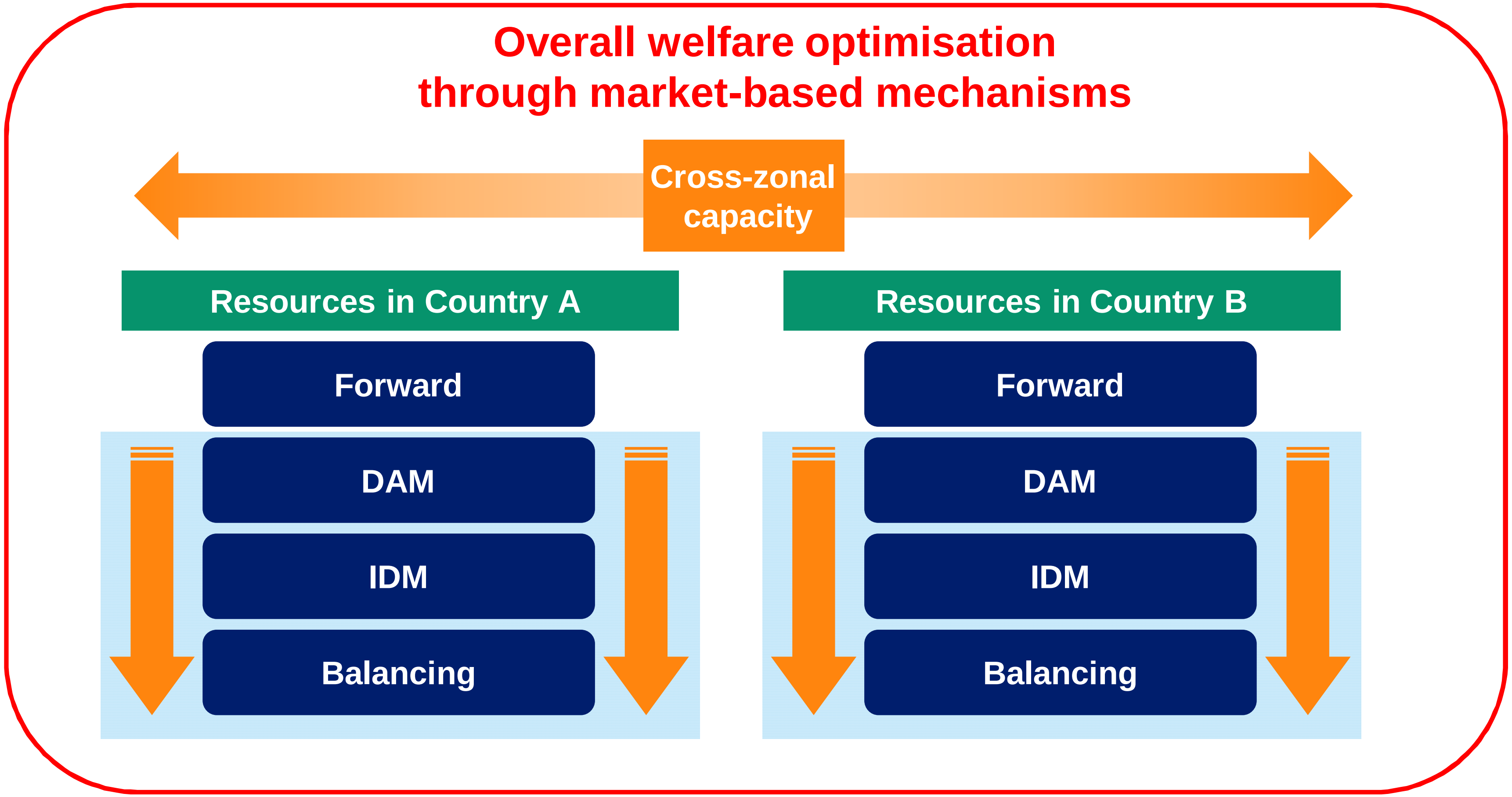
3 **Cross-border trading of energy options**

* Long-run marginal pricing, not just short-run marginal pricing, to include scarcity value, and / or marginal allocation of reserve holding fees

For further details see www.tiunyurl.com/poyryflexibility

INFRASTRUCTURE SHOULD SUPPORT FLEXIBILITY

Existing application of cross border capacity prioritises day ahead over intraday



A COORDINATED APPROACH TO CRMs COULD BE BENEFICIAL

<u>*Decentralised reliability options*</u> could help deliver the vision of integrated, well-functioning electricity markets without distorting trade

- A CRM should:
  - be adaptable enough to meet national needs
  - not cause distortions between markets
  - not require any country to adopt a CRM
  - limit the impact of future policy risk
- CRMs should not stand in the way of creating ‘smarter’ electricity markets with a more active role from the demand side

If a common CRM blueprint were adopted, what characteristics would it need?

Could it be applied in some countries and not others without distortions?

For detail see www.poyry.co.uk/news/DRO

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