CEPS Task Force on Reforming the Market Design of EU Electricity Markets
http://www.ceps.eu/taskforce/Reforming-Market-Design

Notes of 1st meeting

Next meetings

- 22 January 2015
- 12 March 2015

The contents of this document reflect the general tone and direction of the discussions within the Task Force meeting but do not necessarily represent a full common position agreed by all the participants, nor do they necessarily represent the views of the institutions to which the participants belong.

1 General remarks

- Electricity is becoming more important in final energy consumption.
- There is a risk that existing markets are myopic, which may result not only into inefficient investment but also in inefficient decommissioning decisions.
- It is crucial to define where public intervention is needed to organise markets and whether this intervention is needed at national or at EU level. This step has to be taken before reforming existing markets or designing new markets.¹
- The energy transition may require to set up markets for new products. For any eventual new product, it is important to explore who would be the counterparty, i.e. who is the buyer and who is the seller of such a product.²

2 On remuneration models

- Several representatives of power producers stated that basing investment decisions solely on wholesale energy markets is a risky activity, as these do not necessarily remunerate full costs. This is seen as a major issue, because (i) the power sector is a capital-intensive sector and (ii) the energy transition requires renewing a substantial part of the power production fleet.
- Representatives from the electricity consumption side added that a market is place where supply and demand meet. The role of consumers is often neglected in the market design process. Market design discussions too often end up discussing capacity markets.
- Long-term contracts are welcome by base-load consumers. However, uncertainty on regulatory risks prevents producers offering contracts with a duration of more than a

¹ A practical example is the responsibility for ensuring a certain level of supply security. Depending on whether this is a responsibility at national, regional or EU level has a significant impact on designing the “right” market to meet the target level of supply security.
² Load following and ramping reserves were mentioned as an example. The same considerations should also be applied to capacity markets.
few years. For a longer duration, no agreement on a price can be found that suits both power producers and consumers. In the Task Force report, various risk sharing possibilities should be explored that might facilitate concluding new long-term contracts (see below).

- Grid operators pointed out that the target model has not been fully implemented yet. The implementation should be speeded up. This also applies to the market integration of renewables. Additional instruments should be implemented with caution.
- Some power producers mentioned auctions covering all fixed costs as a possible solution to the investment problem. This implies introducing a single buyer. Others opted for a better forward market based on reliability options.
- There was no agreement on a suitable remuneration model. In the Task Force report, the various models proposed should be compared based on a given set of criteria (see below).
- Most parties emphasised that any additional instrument should not remunerate stranded investments.

3 On overcapacity

- Several participants argued that EU power markets are currently out of equilibrium. Some participants outright diagnosed a failed market given the fact that we are confronted with structural overcapacity. This overcapacity is a result of (i) suboptimal investments in renewables and gas and (ii) a declining demand.
  1. A smooth way out of overcapacity is needed to revitalise the wholesale market, back to a price level which can remunerate investments.
  2. Provided that the EU ETS will not be able to send decommissioning signals for carbon-intensive production plants, it could be extended by an additional instrument such as EPS.³
- Other participants stated that a reformed CO₂ market is a major pillar of the future EU power sector, together with a sound capacity market and a revitalised wholesale energy market.

4 Task Force report

- Proposed structure
  1. Shared analysis (i.e. analytical section on what is wrong and why as well as what we want to achieve)
  2. Challenges (i.e. why there is no simple solution, especially pointing out distributional effects)
  3. Inventory of solutions
- Proposed objective: “to arrive at a carbon-free electricity sector at lowest possible costs and allow industrial consumers to survive in international competition”
- Chapter 1 should analyse and distinguish various sources of failures, e.g. regulatory and market failures.

³ Emission performance standards.
• Chapter 1 should analyse the need for public intervention under various circumstances (e.g. national/regional/EU responsibility for generation adequacy)
• Chapter 3 should explore various risk sharing possibilities that might facilitate concluding new long-term contracts directly between consumers and producers.
• Chapter 3 should compare the various remuneration models proposed, especially regarding the following points:
  1. What is the product?
  2. Who is the buyer/seller of the product?
  3. Who holds which risks?
  4. What needs to be done at national level, what can be done at EU level?

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