Electricity Market Integration 2.0 in Central and South-East Europe: risks and opportunities

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2nd Central and South East European Energy Policy Forum

May 30, 2017. Budapest

Change in basic market design components

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Free choice of supplier	Customer empowerment
Unbindling of networks	~ Unchanged
RTPA	Unchanged
Free sale of electricity and entry into electricity generation	~ Unchanged
Retail price regulation limited to universal servive customers	Phase-out of regulated retail prices
Cross-border market integration	Continued: NCs; New: int. of balancing and reserve markets; ROCs; ACER
Supply security	SoS Regulation; security forecasts and planning; capacity mechanisms
Independent sector regulation	Increased authority of ACER over CB relevant issues

3 market design issues for today

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- Potential benefits of regional integration: markets and institutions
- Resource adequacy and cross-border capacity remuneration schemes: options and alternatives
- The future of regulated retail electricity prices in CSEE

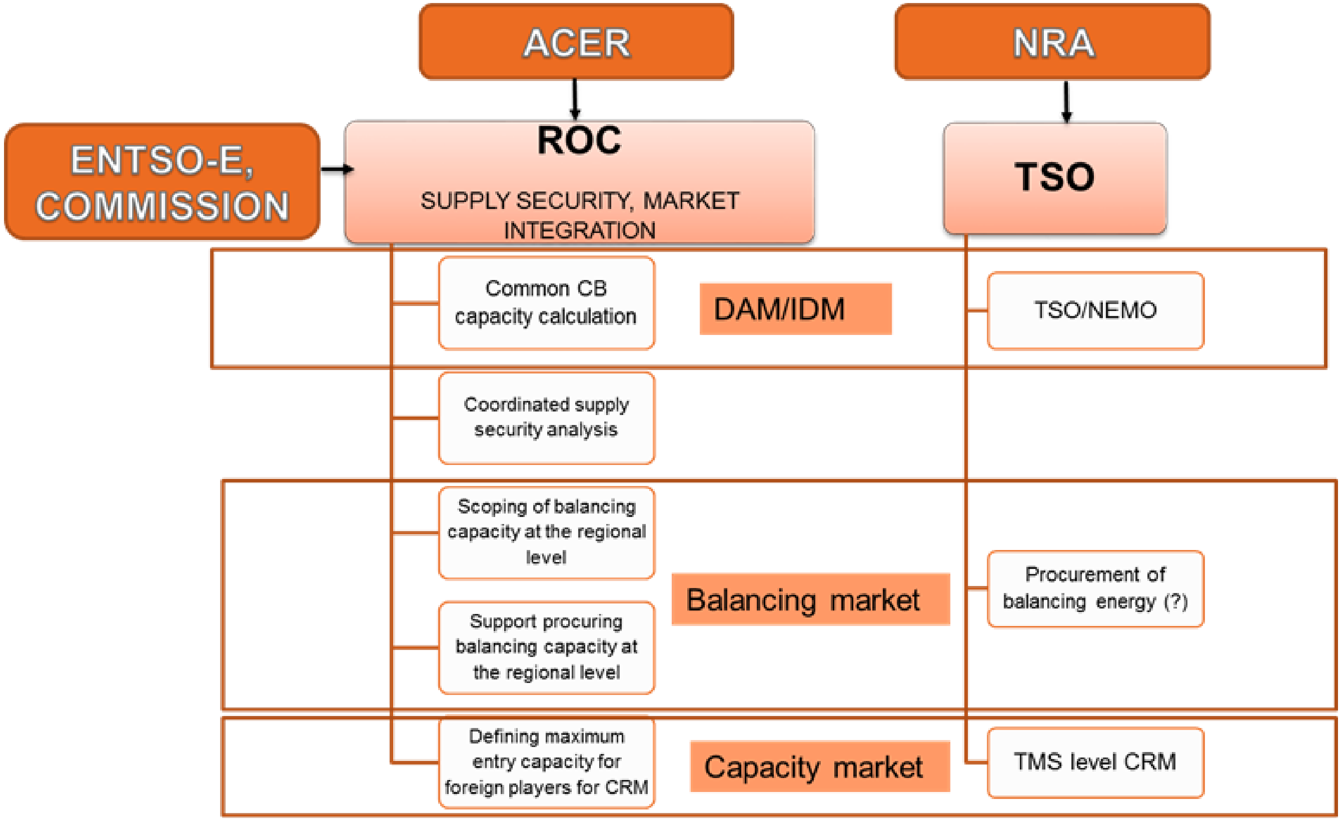
Loop flows and bidding zone reviews

			Impact on commercially available NTC	Impact of electricity wholesale price
Readily available measures	Topology measures		-	no
	Currently operating phase shifters		↑	yes
	Redispatch		-	no
	Countertrading		-	yes
	Virtual phase shifters		↑	yes
	NTC limitation	Ex-ante	↓	yes
		Ex-post	↓	yes
Future measures	Regulatory	Review of bidding zones	↑	yes
		Flow-based NTC allocation	↑	yes
	Infrastructural	New phase shifters	↑	yes
		New grid elements	↑	yes

- Hidden congestions to become explicit
- Bidding zone review: likely 6-7 EUR/MWh wholesale price increase in Austria with spill-over to other CSEE markets

Regional Security Coordinators vs Regional Operation Centers (ROC)

- Bottom up (NCs + RSCs), or
- ROCs?



Market integration questions

- Can the benefits of a top-down approach to balancing capacity market integration (by ROCs) compared to the present gradual bottom-up approach of balancing energy markets integration (RSCs) out-weight the additional risks and costs of such an approach?

- Who in the region will be the potential winners and losers of such a shift in market integration policy?

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Tight generation margin in the rest of CSEE

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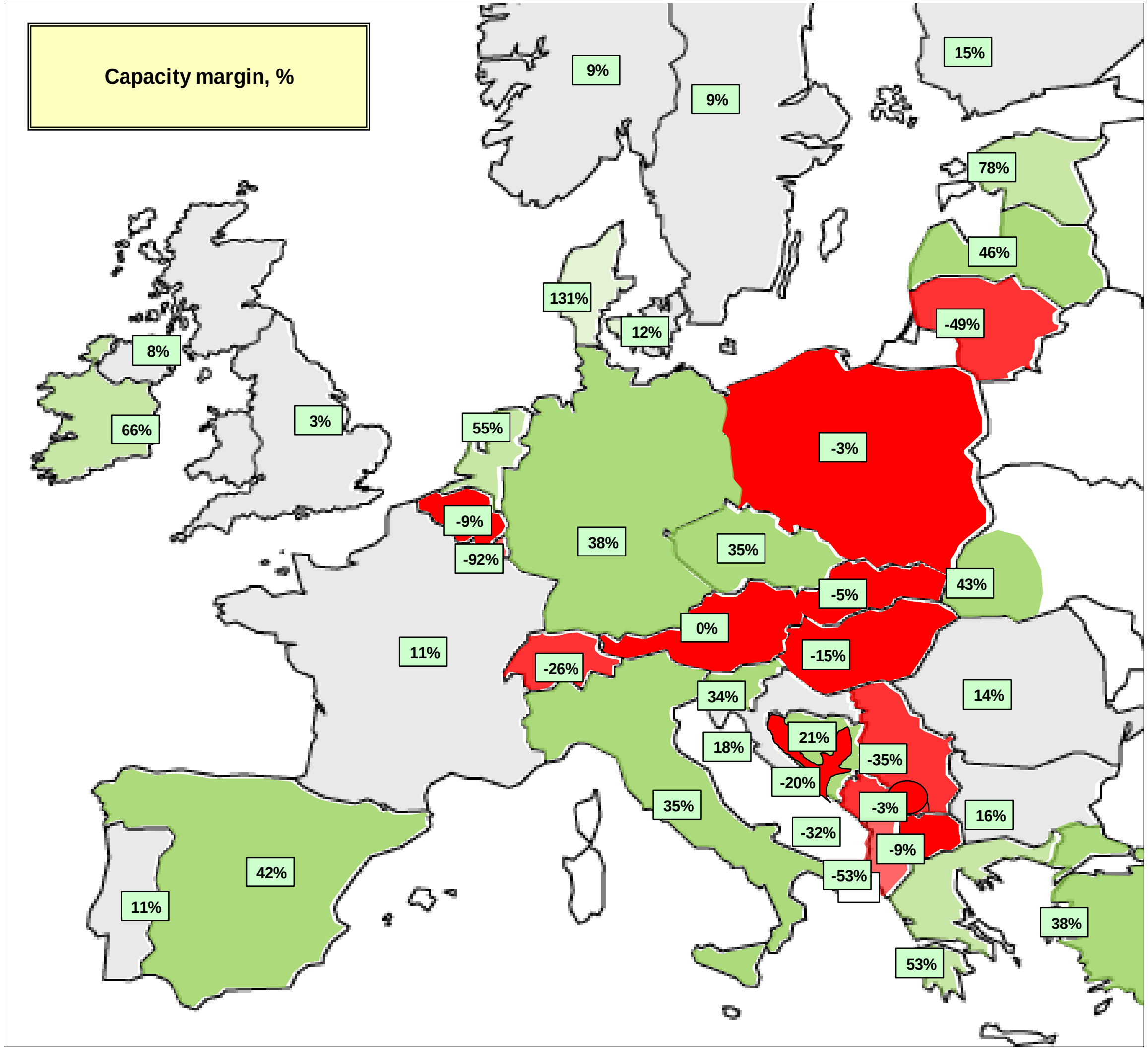
Capacity margin in the ENTSO-E



Polish black-out

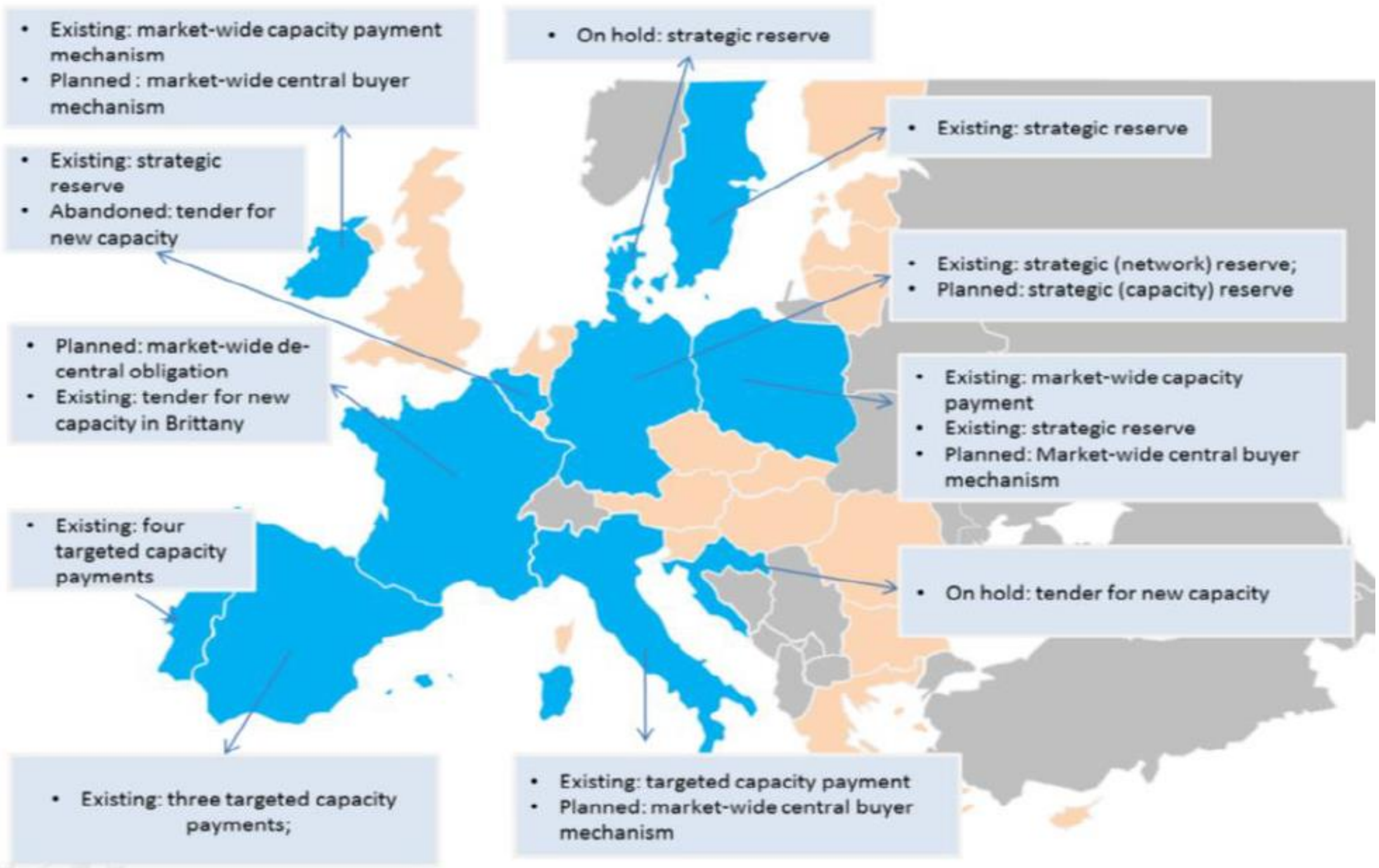
2017 January

Suffering CCGTs in Hungary

Increasing concern over the sufficiency of investment incentives for new conventional generation.

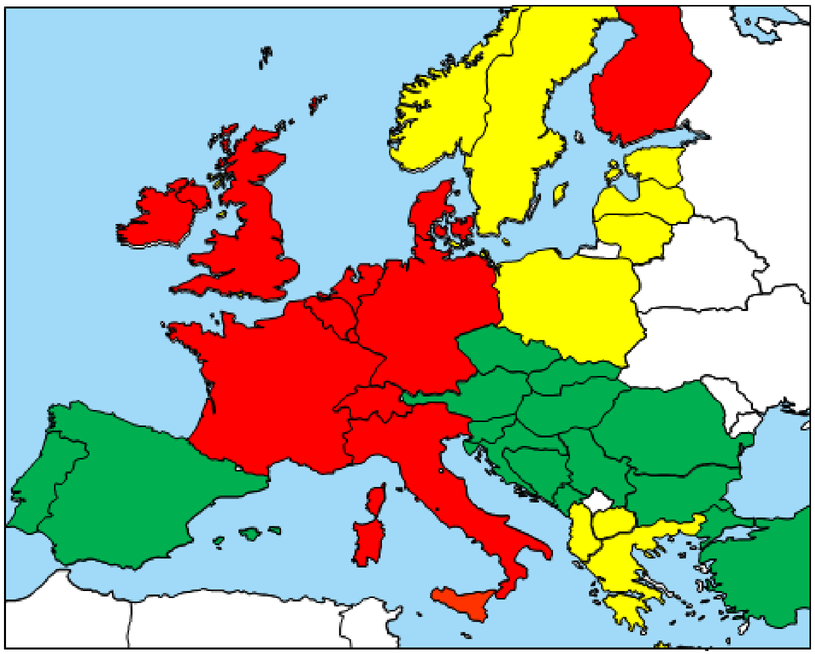
Source: REKK EEMM model estimations

CRMs in the EU

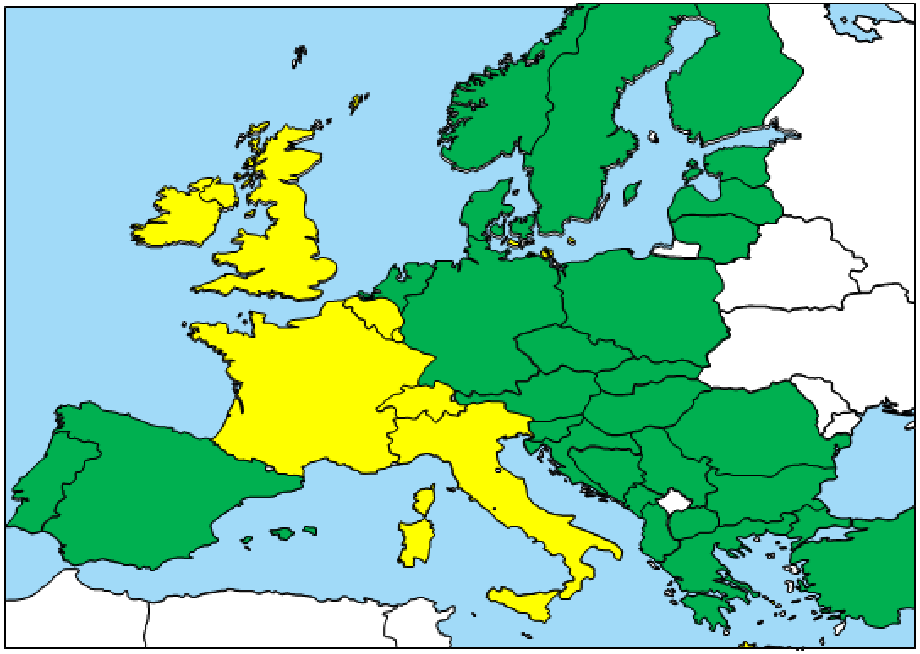


ENTSO-E, mid-term adequacy forecast report, 2016

2025, without reserves



2025, with reserves



Green: LOLE < 1 hour / year
Yellow: 1 < LOLE < 10 hour / year
Red: LOLE > 10 hour / year

CSEE: no mid-term resource adequacy risk

Importance of nuclear phase out and interconnectivity

Concern

- Can strong interconnectivity in the region supporting resource adequacy counterbalance the effects of weak generation investment incentives due partly to
  - moderate RES-E ambitions
  - CRMs introduced in other regions
  - gas market distortions and
  - coal phase-out policies

and leave national governments with limited or no control over local electricity supply security?

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The right battle to fight?

- Still more than 10 member states with regulated retail electricity tariffs for households – why to scrap this option?
- Contradictory reports by ACER on the effectiveness of competition in the household sector
- Sharp contrast between industrial vs household customers' behaviour – real gains of liberalization at large customers
- Focus perhaps to put on effective wholesale competition – then gains are simple to pass through to the household level

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Thank you for your attention!

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