Electricity Market Integration 2.0 in Central and South East Europe

Cross-border capacity remuneration schemes
Case of Bulgaria

Budapest, May 30, 2017
1. ACER annual report pursuant to Article 11 of the Regulation EC 713/2009 on the results of monitoring and barriers to the completion of the IEM, published on 30 July 2013


Gaps in the current Target market model

1. Interface with Decarbonisation policies: EU ETS and RES integration
2. Short term price Signals
3. Investment framework to ensure security of supply
4. Locational signals to coordinate network, generation

CRMs and internal market for electricity
Gaps in the current Target market model

Inefficient interface
Weak prices are not effective to drive carbon emission abatement

Policies to promote RES have come with number of negative side effects
- Distortion of merit order list due to RES support schemes (e.g. negative prices)
- Lack of control of volumes
- Stranded costs

Interface with Decarbonisation policies: EU ETS and RES integration
Gaps in the current Target market model

The current short term price signals do not convey the proper scarcity value of operation flexibility in many countries. Energy only markets should be able to provide the price signals necessary to trigger the investments provided wholesale prices allow fixed costs to be recovered. The value of short term operating flexibility is typically captured through intraday and ancillary services markets. Short term electricity prices do not send the right signals.
The current market framework does not send adequate long term investment signals

Need for capacity mechanism, but …..many risks:

CM may strengthen market power if they do not allow new or alternative providers to enter the market.

Over-procurement of capacities
Over-compensation of the capacity providers
Increase energy costs for consumers

Investment framework to ensure security of supply
A number of recent national reforms were introduced in the past years to guarantee security of supply, but they are not harmonized.

The EC worried that there is a risk for distorting competition. Such uncoordinated mechanisms could undermine further integration of European electricity markets.

The Sector inquiry contributed to the Commission’s Energy Union strategy in particular by supporting the development of a legislative proposal for a new electricity market design in the EU.
Gaps in the current Target market model

Locational signals are missing to coordinate network, centralized and decentralized generation.

Only few markets within EU have locational signals, (e.g. zonal prices or locational transmission charges).

Network investments are primarily driven by RES Generation.

According to ENTSO-E TYNDP 2014 80% of the proposed network investment in the next decade across Europe linked to RES integration (over €150 billion).
1. Electricity markets with increasing shares of RES will not be able to deliver sufficient capacity to meet electricity demand at all time periods in the future – uncertainties, RES support schemes distort price signals, unpredictable scarcity periods.

2. CRMs provide additional stimulus to investors and ensure that sufficient amount of capacity will be available and in many MSs such CRMs were introduced.

3. On the other hand, CRMs impose additional costs to energy consumers and could not be treated separately from the integrated market design.
CRMs and internal market for electricity

Capacity Remuneration Mechanism

- **Volume based**
  - Targeted
    - foresee payments to selected categories of capacity providers only
  - Strategic reserve
- **Price based**
  - Market wide
    - Open to participation from all categories of capacity providers
    - Capacity obligations
    - Capacity auctions
    - Reliability option
    - Capacity payment
CRM and internal market for electricity

All categories may be designed in many different variants:

✓ Different kinds of capacity and demand side participation

✓ How the eligibility to provide capacity is determined?

✓ How far in the future obligations are contracted?

✓ How the level of adequate capacity is determined?

✓ How availability is documented and certified

✓ How the payment is determined? (administratively, by the auction, by the market). How the costs are allocated?

✓ The Rules for operation and activation of the capacity
CRMs in Europe

- **United Kingdom**: 2014 implementation of capacity market with centralized auction
- **Ireland**: Market for Reliability Options, implementation in 2017
- **France**: Implementation of capacity obligation on Suppliers. Started in 2016 for 2017 delivery
- **Belgium**: Strategic Reserve
  - Considering Capacity market
- **Poland**: Strategic Reserve
  - Implementing Capacity market
- **Germany**: Strategic Reserve
- **Spain**: Discussions on auctions of capacity
- **Italy**: Market for Reliability Options expected for 2017-2018c
The amount of the Strategic reserve is determined by the Minister of Energy.

The amount is set to 400 MW in the period from April to September and 600 MW in the period from October to March.

The capacity is contracted via auctions for a period from several months up to one Year.

The procedure is transparent.
The following documents are published on the web-site of ESO:

Register of the qualified participants
Rules for Tender organization
Invitation to the Bidders
Tender Documentation
Results from the tender
Protocol's from the tender committee
CRM in Bulgaria

Costs for 2016 (Strategic reserve) EUR

- Capacity Strategic Reserve: 24,770,002 EUR
- Activated Energy from Strategic reserve: 9,674,297 EUR
CRM in Bulgaria

Costs for 2017 (January-March)

EUR

- Capacity Strategic Reserve: 4,646,140 EUR
- Activated Energy from Strategic reserve: 20,950,766 EUR
The amendments in the Energy legislation (CEP) aim to harmonize Rules for Assessment of Resource Adequacy at Regional and EU level and introduce competition between investors from different MSs.
Proposed amendments to Electricity Regulation, Article 21

Capacity mechanisms (CMs) shall be open to direct participation of capacity providers located in another MS provided there is a network connection.

MS shall not restrict capacity which is located in their territory from participating in CMs of other MS.
New Regulations for CM (CEP)-2

Proposed amendments to Electricity Regulation, Article 21

CMs cannot create unnecessary market distortions or limit cross-border trade

CMs existing on the date of entry into force of the Regulation will have to be adopted to comply with the new Requirements

MS can introduce CM provided they are justified by a resource adequacy concern documented in an European resource adequacy assessment conducted on the basis of a shared methodology established through ENTSO-E and ACER
New Regulations for CM (CEP)-3

Proposed amendments to Electricity Regulation, Article 21

Where the adequacy assessment has not identified a resource adequacy concern, MS will not be allowed to implement a CM

When applying a CM MS will have to have a reliability standard in place to indicate their desired level of security of supply
Proposed amendments to Electricity Regulation, Article 21

12 months after entry into force of the new Regulation, ENTSO-E shall be obliged to submit to ACER the following documents:

1. Methodology for calculating the maximum entry capacity for cross-border participation
2. Methodology for sharing the revenues
3. Common Rules to carry out the availability checks
4. Common Rules to determine a non-availability payment
5. Terms of operations of the Registry of capacity providers
6. Common Rules to identify capacity eligible to participate in tenders
Thank you for your attention

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