

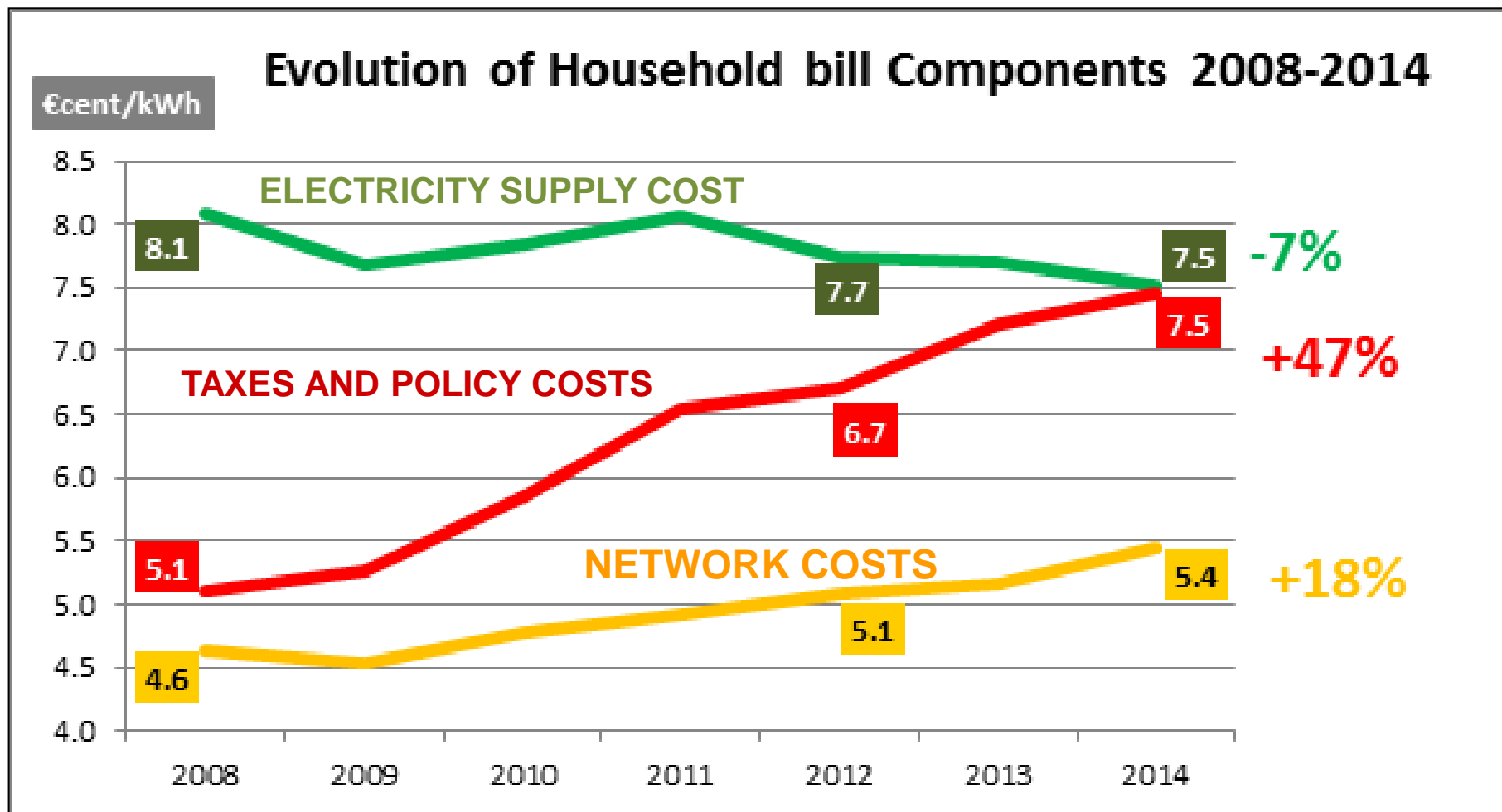
# **A FUTURE-PROOF ELECTRICITY MARKET DESIGN**

**Juan-José Alba Rios**

Chairman of EURELECTRIC Markets Committee

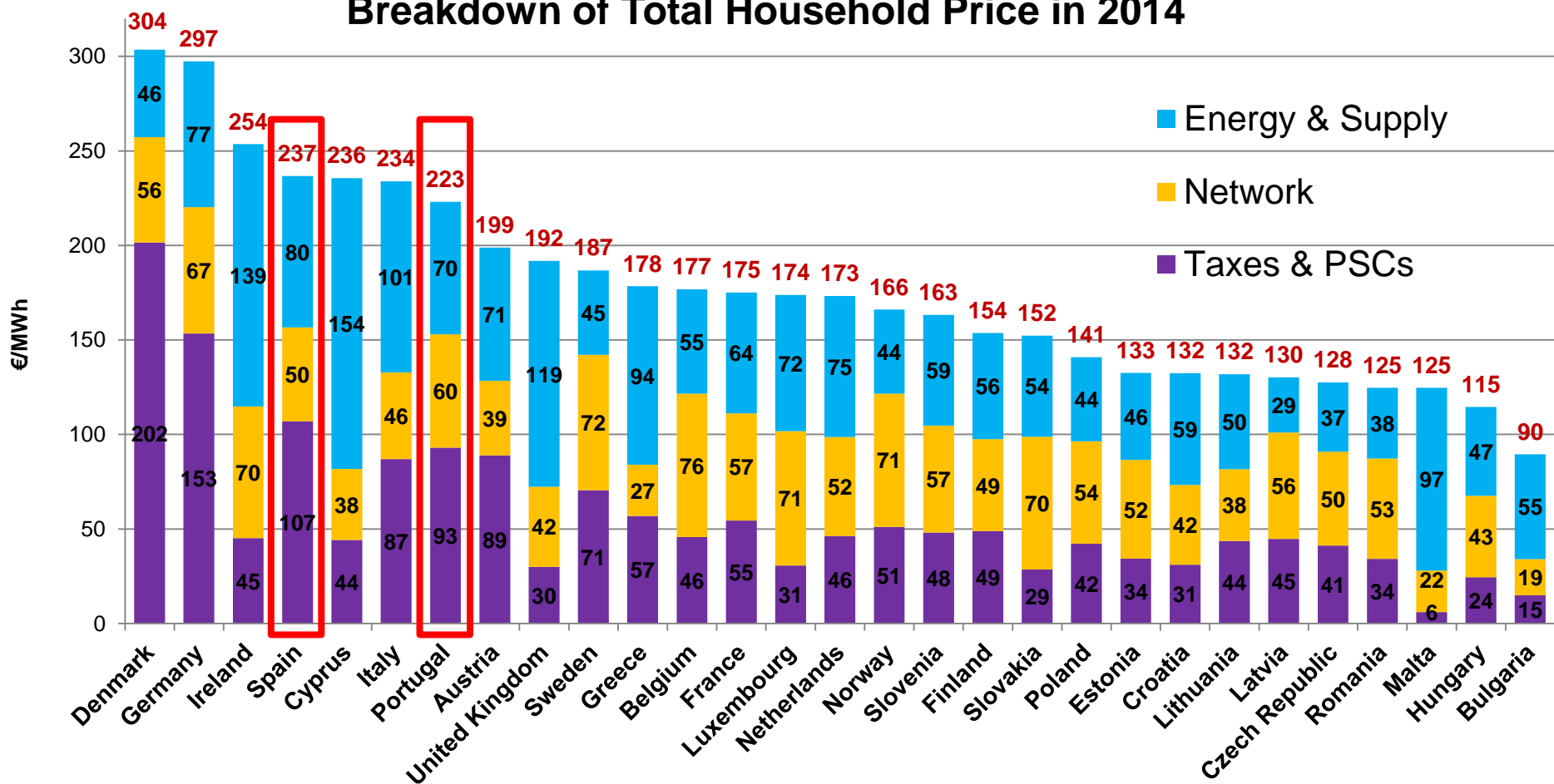
CONFERENCE OF THE BOARD OF REGULATORS OF THE IBERIAN ELECTRICITY MARKET  
(MIBEL), Madrid, 5 July 2016

## CUSTOMER BILLS' INCREASE DUE TO TAXES & POLICY COSTS



# CUSTOMER BILLS' INCREASE DUE TO TAXES & POLICY COSTS, SPECIALLY IN SPAIN AND PORTUGAL

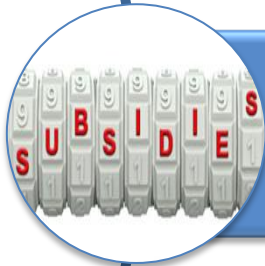
Breakdown of Total Household Price in 2014



## GROWING **TAXES & POLICY COSTS** MAKE ELECTRICITY ARTIFICIALLY EXPENSIVE



Electrification is THE way to decarbonise the economy



Taxes & policy costs make electricity artificially expensive, thus hampering decarbonisation

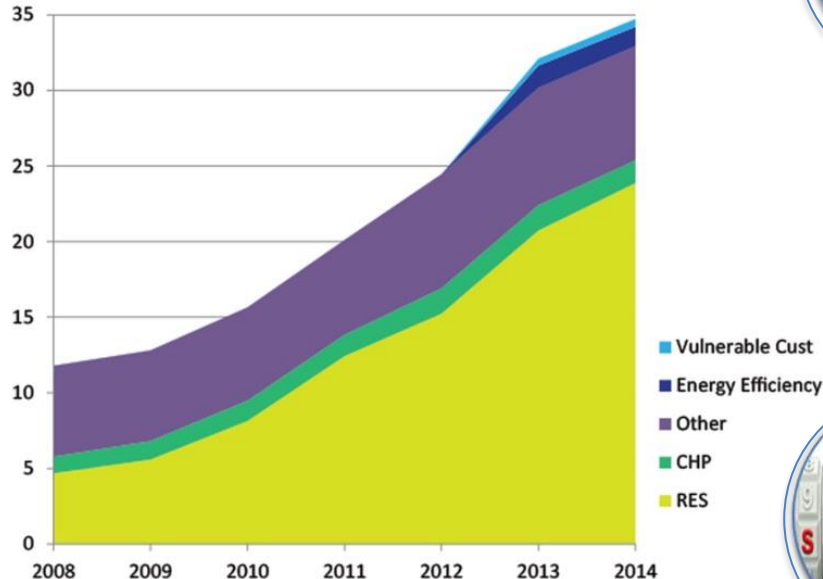


Customers see a growing wedge of fixed costs on their bills. They do not see market price signals!

## MOST **POLICY COSTS** DERIVE FROM RES SUPPORT

- Current RES support schemes are a big and growing part of customers' bills
- A decarbonised power system needs high shares of renewables
- This will only be sustainable if we develop a cost-efficient transition

**Evolution of policy costs**



Source: EURELECTRIC, 2016



**Integrate RES in the market; ensure they are balancing responsible**

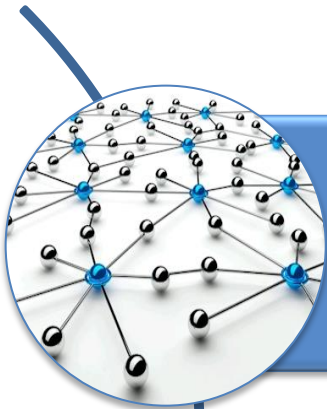


**Strengthen the EU-ETS**

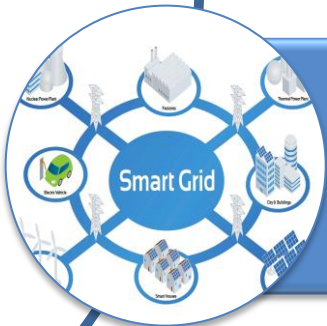


**Ensure that possible RES support is market-based and cost-efficient**

# **NETWORK COSTS** ARE NOW ALMOST STABLE. BUT INNOVATION IN NETWORKS IS NEEDED FOR THE ENERGY TRANSITION



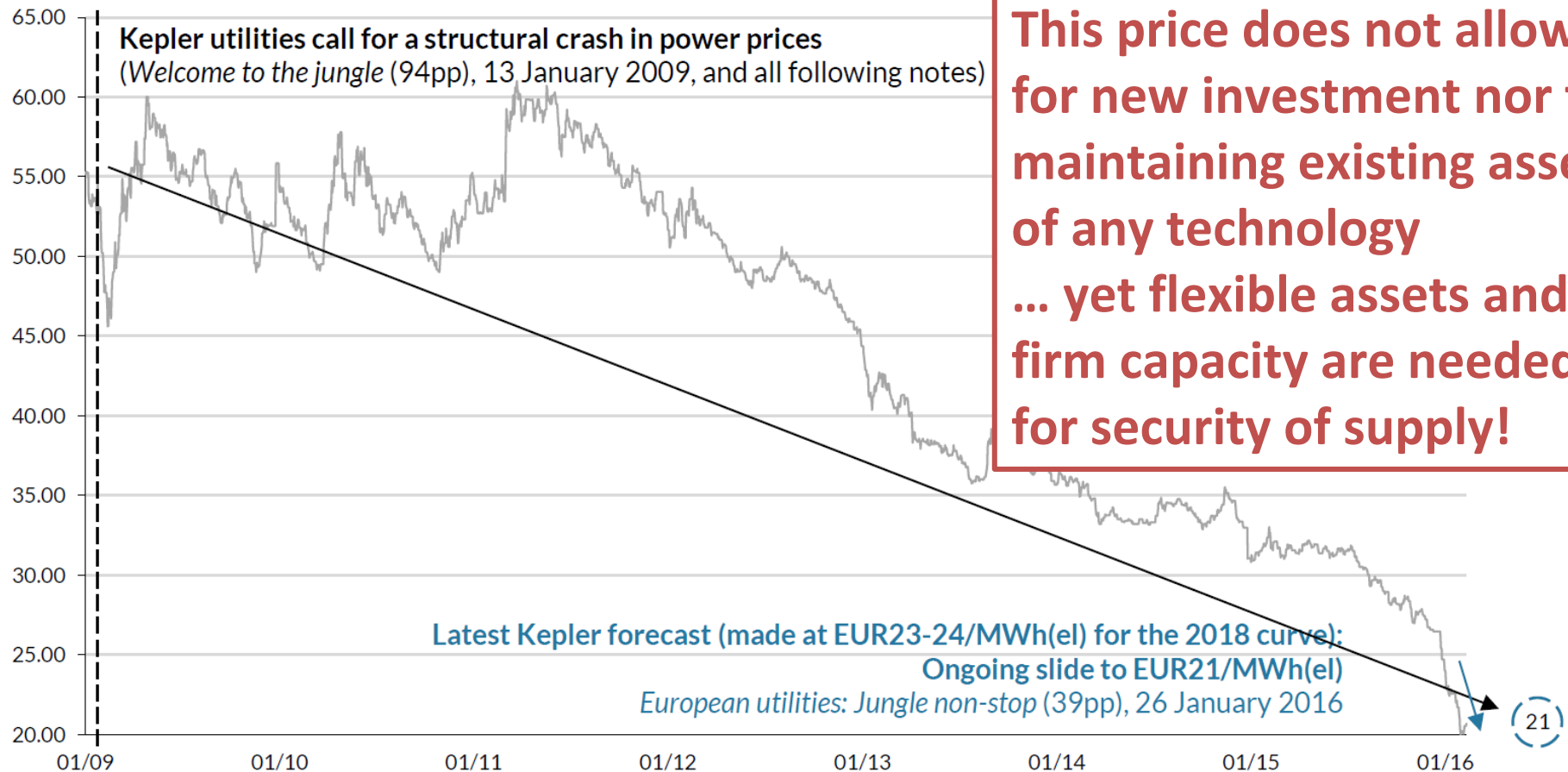
Network regulation should focus on optimising new investments and incentivising innovation



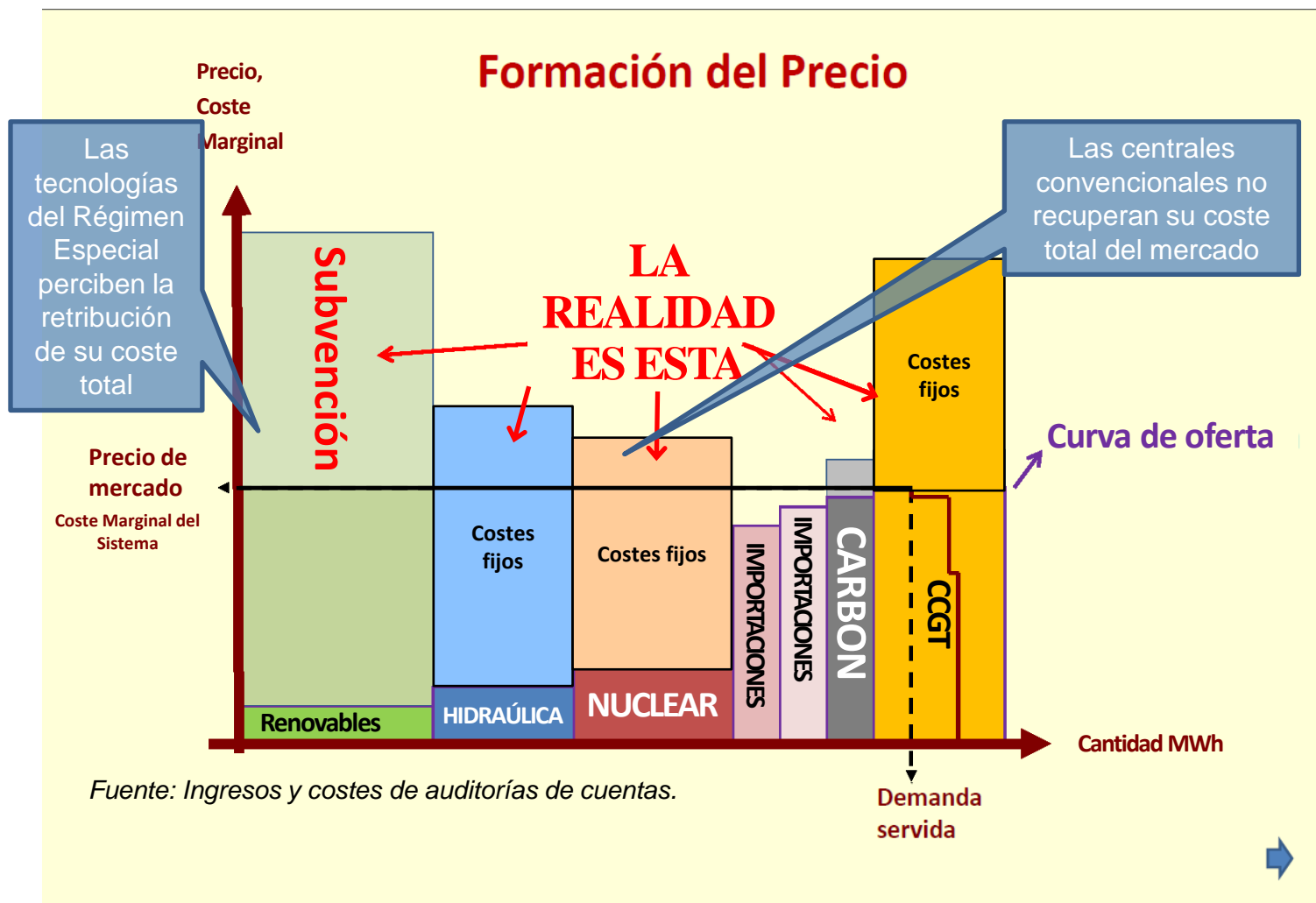
Smart grids & smart meters are needed for RES integration and active customers

# ELECTRICITY SUPPLY COSTS ARE MOSTLY THE WHOLESALE PRICE

Central European power baseload forward price and Kepler forecast (EUR/MWh(el)), 2009-15

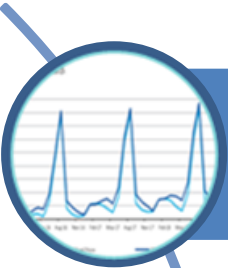


# THIS HAS LED TO THE WHOLESALE PRICE NOT COVERING THE COSTS OF ANY GENERATION TECHNOLOGY

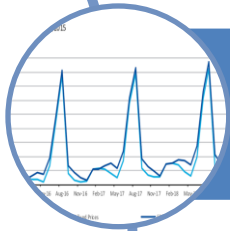




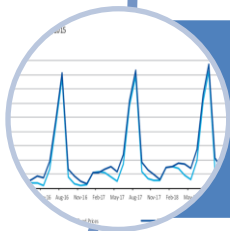
## ENSURE THAT WHOLESALE PRICES ADEQUATELY REFLECT SCARCITY SITUATIONS –WILL GOVERNMENTS LET SCARCITY PRICES HAPPEN?



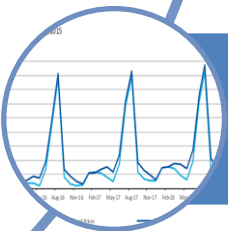
Scarcity prices should appear when there is a real risk of brown out. Are governments ready to accept scarcity situations?



Price caps should be set higher or removed. Yet, they are not the main issue today as they are rarely reached.



The main issue is interventions, subsidies that distort the market and market exit barriers for power plants: prices do not go as high as they should.



In a market where scarcity prices are rare and uncertain, will they provide investment signals for investors in all technologies?

## A future-proof market design

### ENERGY

Selling KWh

Markets:

- Forward, day-ahead, intraday markets

### FLEXIBILITY

Adjusting to short-term variations

Markets:

- Day-ahead, intraday, balancing markets, ancillary services

### CAPACITY

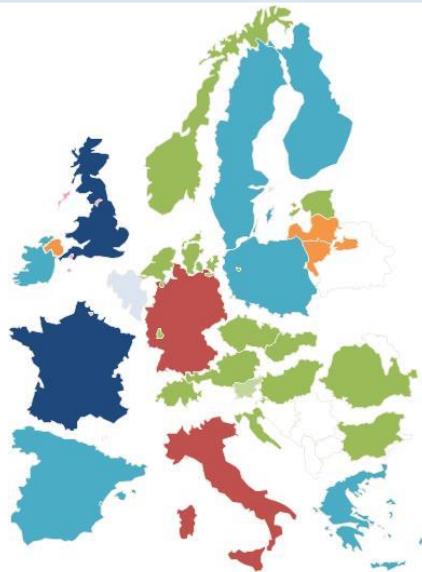
Firm capacity for security of supply

Markets:

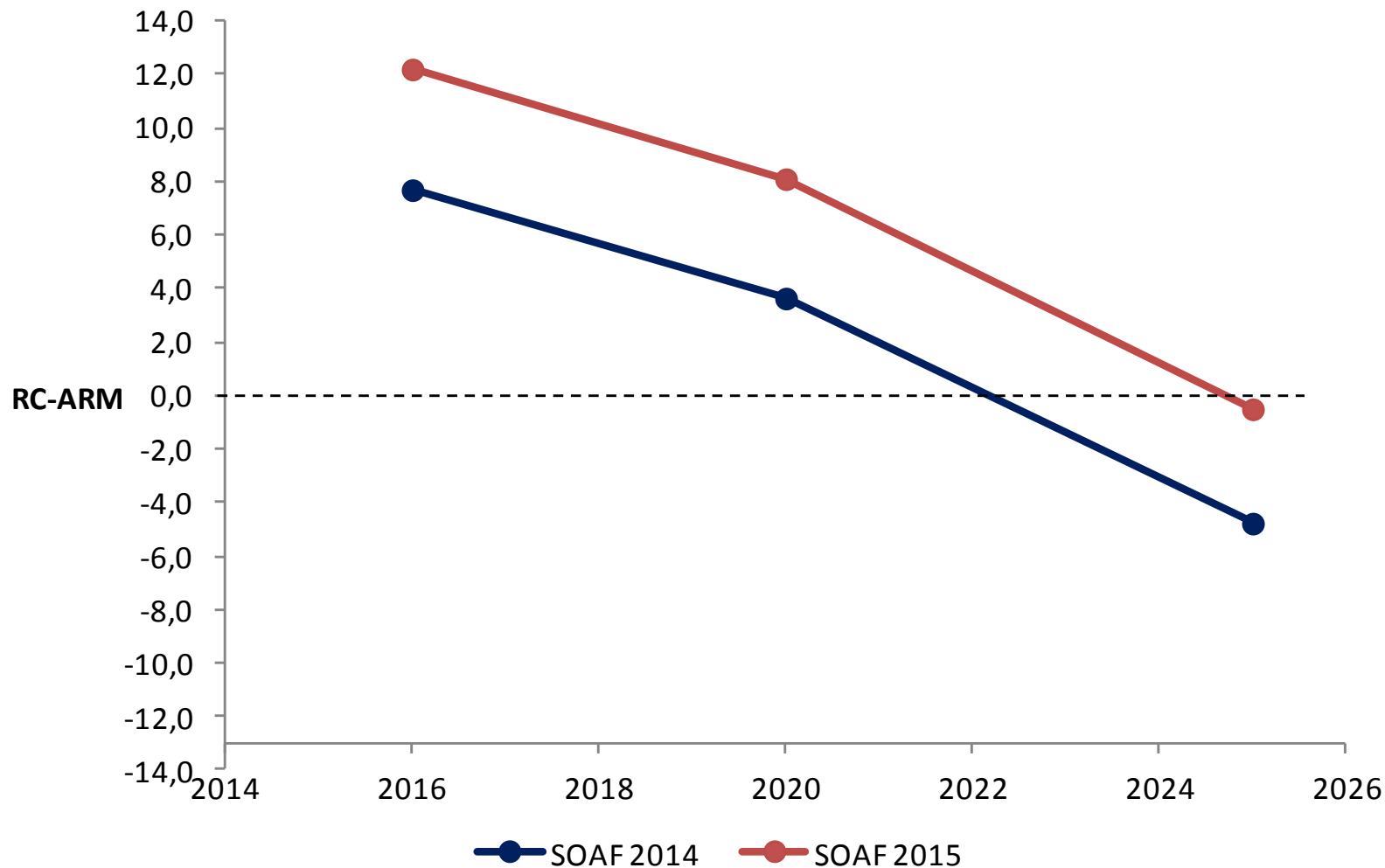
- Market-based capacity mechanisms where relevant

## SECURITY OF SUPPLY: SYSTEM OPERATION AND ADEQUACY: START REGIONAL ... GO EUROPEAN

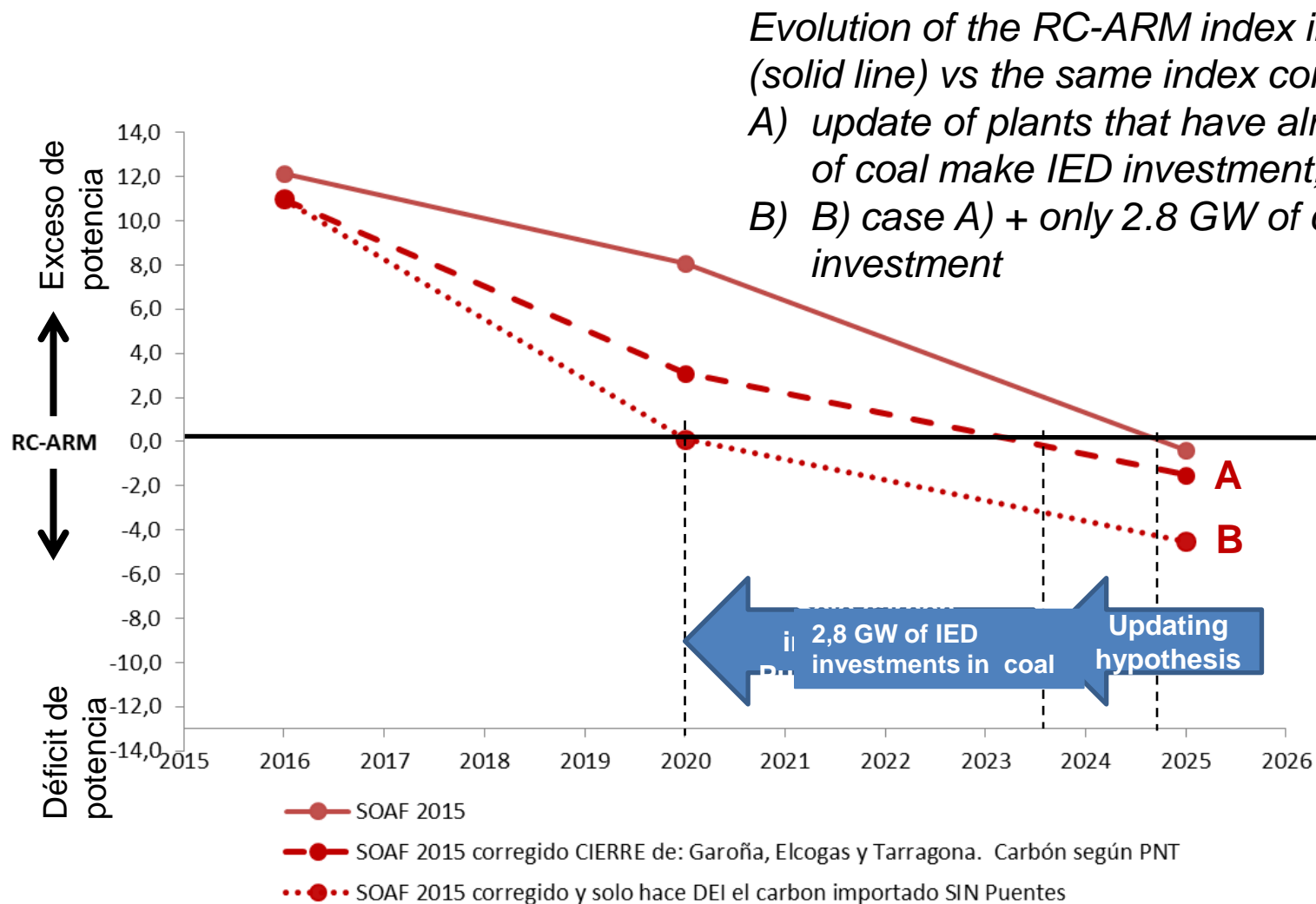
- System adequacy should be assessed at least at regional level.
- System adequacy should take into account the economics of assets!
- It should inform the introduction of market-based capacity mechanisms with a regional scope and cross-border participation
- The cross-border tasks of TSOs should ultimately be integrated at regional level



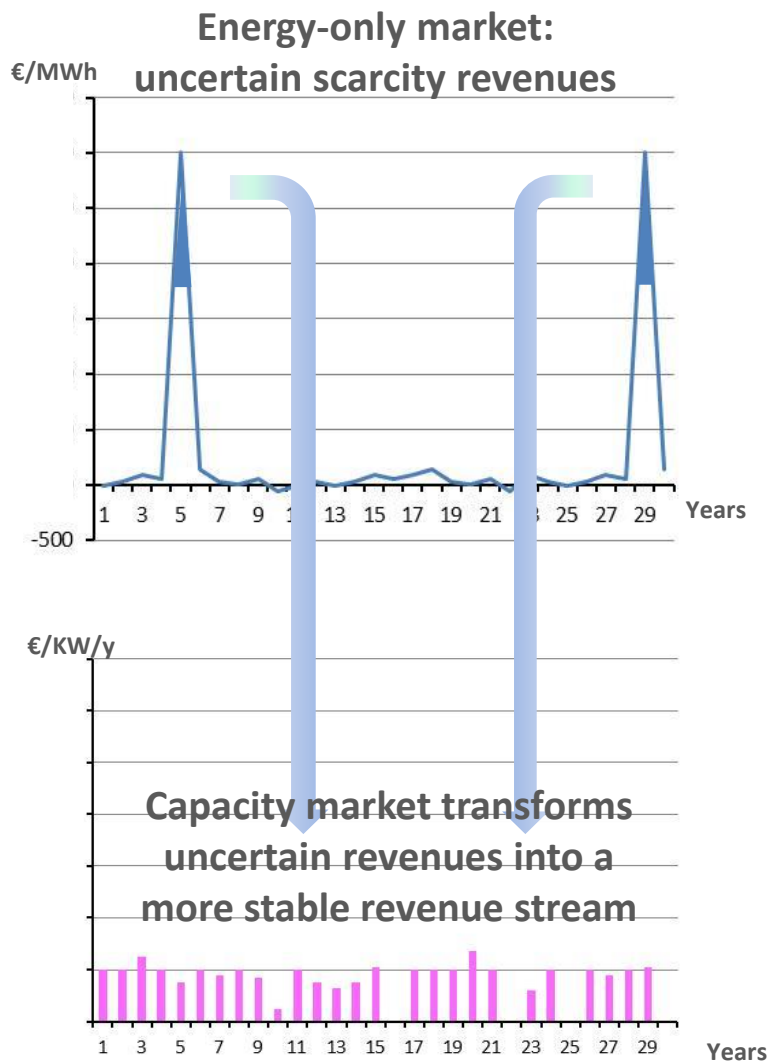
## THE LIMITS OF THE CURRENT SECURITY ASSESSMENTS: EXAMPLE FROM SPAIN'S SOAF



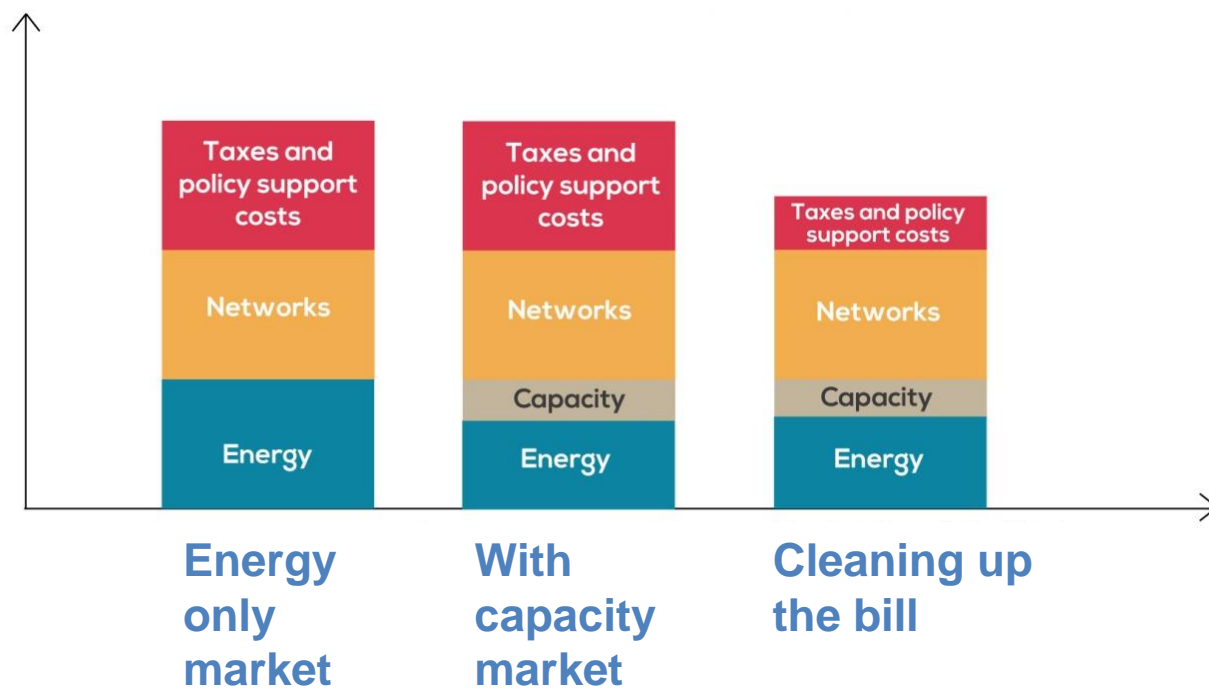
# THE LIMITS OF THE CURRENT SECURITY ASSESSMENTS: EXAMPLE FROM SPAIN'S SOAF



# WHERE IMPLEMENTED, WHAT DOES A WELL-DESIGNED CAPACITY MARKET DO?



## Illustrative evolution of the customers' bill structure



## KEY MESSAGES: to decarbonise...



**Clean-up the bill!**



**Implement market-based solutions**



**Develop a regional approach to security of supply**



**Where relevant, introduce market-based capacity mechanisms with cross-border participation**