

To **PLEF Support Group 2**
From Market Parties Platform
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Subject Contribution to the discussion on the co-existence of different market models

About this note

This note is a contribution to the discussions on the co-existence of different market models in and around the PLEF region. The MPP is supporting any measure aiming at ensuring a good co-existence of the different market models in the PLEF region and is hence welcoming the TSO initiative to study cross-border aspects of capacity markets. This note covers several aspects, such as adequacy, interaction of different market models, market impact and political aspects.

Introduction

The MPP has always been supporting the integration of energy markets and welcomes the recently achieved milestones. In order to maintain the benefits of this integration process, we would like to stress the need for cooperation between countries on security of supply.

Currently some national initiatives are undertaken and implemented at different time horizons to deal with national security of supply issues. These national initiatives are valuable in the current context. The MPP acknowledges that is important to investigate how these different market models that result from these national initiatives can co-exist in the most optimal way pursuing the achievements obtained with the integration of the energy markets. Evenly important is to investigate how they can be further harmonized and integrated.

System adequacy calculation should be made on a regional basis

The regional system adequacy calculation brings several advantages:

- Synchronicity of peaks between the zones should be assessed: peak load don't occur necessarily at the same time in each country ('semi-synchronous peaks');
- Common peak load is therefore lower than the sum of individual peaks, leading to a lower need of production capacity to meet this common peak (taking into account cross-border capacities);
- A common merit order allows to reach economic optimum;
- A common calculation allows measuring the same elements in the same way.

For the above reasons, the MPP welcomed the CWE Adequacy Analysis as an important milestone as it shows that a regional adequacy assessment gives a better picture of the situation compared to a



country-by-country approach. Therefore we propose to further improve the regional adequacy assessment:

- Harmonise methodologies, assumptions and scenarios between countries;
- Integrate all the details and scenario's used in the national assessments into the regional model;
- Include network adequacy, i.e. reliability of the interconnectors, and cross-border support agreements in case of synchronous adequacy issues in the assessment;
- Make the process more transparent for market parties and include a crosscheck with the expectations of the market parties.

We consider this regional adequacy assessment as a first step forward in implementing a regional solution to ensure security of supply. One of the important rules to be harmonised is the adequacy criterion: implementation of capacity markets based on the same adequacy criteria would ensure a level playing field.

Step-by-step approach in implementing a regional solution to ensure security of supply

The MPP is also convinced that a common approach to tackle security of supply issues is more efficient: ideally, a unique reference market model for security of supply should be applied European wide. Similarly to the energy market, this reference market model should mimic the current zones or cover several existing zones (at least in CWE). This regional dimension can be achieved either with a centralised capacity market (e.g. UK) or with a decentralized capacity market (e.g. FR). Each design has advantages and drawbacks that make it more or less suitable to meet the specificities or objectives of a country: MPP will try to identify and assess them in subsequent work

Co-existence of energy only market and capacity market

As energy markets are coupled, the implementation of a capacity market in one country next to an energy only market in another country influences both sides..These interactions should be investigated in order to improve the efficiency of the regional cooperation and to pursue the path towards harmonisation and integration in the region.

The country with a capacity market could also allow capacity from the country with an EOM to contribute to its security of supply (and reciprocally):

- The country with a capacity market can implicitly take the cross-border capacity via the interconnectors into account when assessing the required volumes for its capacity market
- The country with a capacity market could also allow cross-border capacity to explicitly participate in its capacity market, which would require a political agreement between the two countries to deal with the consequences of scarcity in both countries: if both countries reach the price cap, there's no longer a price signal to distribute the energy over the two countries.

Requirements for a good cross-border participation

According to the MPP the following requirements are essential for a good cross-border participation:

- The capacity markets should co-exist based on availability, not on energy delivery: this is a good way to ensure a good co-existence of the energy market and of the capacity market. The



obligation related to the capacity market should not interfere with the behaviour of each unit on the energy market.

- Any participant (national or foreign) in a capacity market has to fulfil the same requirements and market rules (e.g. certification, penalty regime, availability requirements, energy producing requirements etc.).
- It should not be possible to participate in more than one capacity market at the same time for the same capacity: a MW in a capacity market cannot be committed twice and receive double earnings.
- TSOs should propose the capacity volume that can participate cross-border and the concerned regulators should approve this: the higher this amount of cross-border capacity, the more cross-border competition on capacity will be possible.
- The cross-border participation in capacity markets should have no influence on the cross-border allocation for forward, day-ahead, intra-day and balancing energy markets.
- As regards cross border participation - although a common model would be preferable - there is no strict necessity for identical capacity markets in the concerned countries: e.g. a decentralized capacity market (e.g. France) could co-exist with a centralized capacity market (e.g. UK).

Conclusion

In our view the PLEF should make the next steps:

- Investigate the influences of the co-existence of the different market models;
- Put in place political agreements that accompany and facilitate the co-existence of the different market models
- Reflect on harmonized prerequisites and rules to facilitate cross-border participation of capacity markets to avoid double counting
- Work on an integrated enduring solution for the whole region in parallel