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Market design in electricity

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Electricity Directive and Electricity Regulation – necessary steps towards the Energy Union

• Draft Electricity Directive and Electricity Regulation proposals respond to the electricity market challenges and correctly identify the main barriers to EU market integration, such as:
  • The security of supply (missing capacity issues due to lack of investment incentives);
  • Need of resource adequacy assessment to provide the European dimension to the security of supply;
  • Removing further obstacles in the single energy market development caused by the market distortions:
    • uncoordinated state aid mechanisms for RES and conventional power;
    • electricity price caps on the wholesale and retail market.

• What is questionable is the pace of implementation of some key EMD changes proposed by the European Commission given the current state of EU market development – physical flows via interconnections, the unsolved problem of simultaneous scarcity situations. In particular:
  • The adequacy assessment at EU level – are we ready for this today? Can we guarantee supply from another MS in a scarcity situation?
  • Emission Performance Standards in capacity mechanisms – do we know the security of supply implications for some MS dependent on coal?
Prior to the European adequacy assessment the mutual scarcity situations and loop-flows should be addressed

- The **European adequacy assessment** may be a useful tool to estimate the transboundary risk of a scarcity situation. We propose an **adequate transition period**, which may be necessary in some MSs to facilitate new regional challenges in the most cost-effective way.
- In order to fully use this opportunity it is imperative that **transparent rules addressing simultaneous scarcity situations** are included in the forthcoming Electricity Regulation proposal.

Source: URE (NRA) (2015)
The current market design does not generate proper signals for Polish generators and there is a significant blackout risk in mid 2020s.

Shortage of generation capacity occurred in Polish National Energy System (BAT modernisation scenario)

* Source: Polish Transmission System Operator (PSE) forecast peak demand for power in years 2016 – 2035 in Poland.
The Capacity Market is an adequate response in Poland to the currently identified market failures

- The Capacity Remuneration Mechanism is necessary to address the missing capacity problem.
- Interconnectors are not capable to fully supply the Polish Power System.
- The proposed Capacity Market will be fully in line with the EC’s guidelines and competition rules.
- It will be fully market-based, technology-neutral, open to the DSR.
Conditions for capacity markets should respect this technological neutrality principle – the 550 kg/MWh EPS should be revised to allow for more flexibility.

The Emissions Performance Standard set at 550 kg/MWh level for existing capacities **excludes the main part of our fuel mix.** Capacity markets should be established in line with the technological neutrality principle, which is preserved by the Member States’ **right to determine their own energy mix** (Art. 194 TFEU).

- Over 70% of capacity – ca. **28 GW** - in Poland will not meet the EPS standard. Interconnection capacity today is ca. **3 GW.**