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international federation of industrial energy consumers

European Commission – DG Energy

# Stakeholder Forum

## *Bringing in the demand side: industry as front runner*

**Peter Claes**

**8 March 2013**

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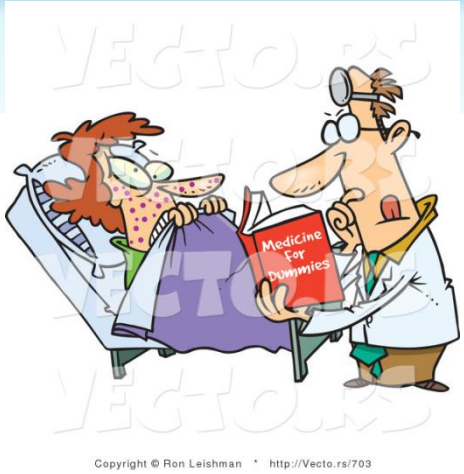
# What is the problem?




- In some member states there is no investment in new non-renewable capacity for power generation
- In some member states no spinning reserves are available because of mothballing or decommissioning
- In some member states this could jeopardise security of supply as a result of insufficient conventional back-up capacity
- As a result, some stakeholders propose capacity mechanisms/ payments to build new capacity or keep old plants available
- Risk of substantial cost for consumers, threat to industry global competitiveness

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# What are the underlying causes ?

Renewable Energy

- Pushes conventional plants (further) out of the merit order
- Conventional plants run less hours to cover their cost

→→ No incentives for producers to keep excess capacity

Market distortions

- Unilateral decision on nuclear phase-out in Germany
- (No) decisions or policy choices about fuel mix
- Price caps on electricity
- Climate policy (20/20/20)
- Announcement of possible capacity mechanisms

→→ Uncertainty obstacle to investment in new conventional capacity

Market situation

- Low demand due to recession
- High gas price

→→ High risk & Low Margins lead to asset sweating (squeezing cost by keeping minimal capacity available)

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# What is the proposed solution ?

- Some stakeholders say it is not profitable to invest in new non-renewable capacity
- They propose a compensation from the government (or the market) to make sure there is enough capacity in the future
- They ask for capacity mechanisms
  - To build new non-renewable capacity
  - for keeping old generation plants available

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# What are the potential risks of the proposed solution ?

- Capacity payments might cause severe market distortions (merit order, investment signal)
- They might strengthen position of dominant players
- Initiatives for electricity storage might not develop
- Markets for demand response might not develop
- Total costs will increase substantially and consumers will pay thrice (Renewable energy subsidies, grid expansion and back-up)
- Consumers might not benefit form the opportunities provided by demand side response

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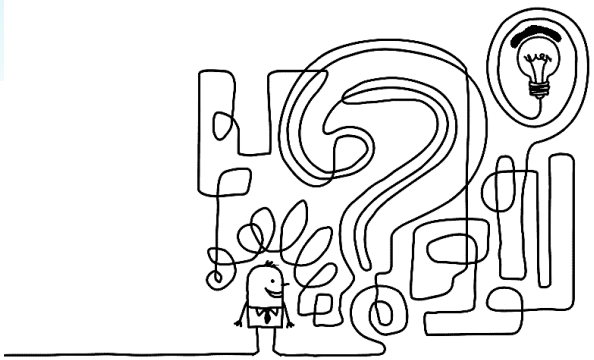
# What solutions do industrial consumers propose?

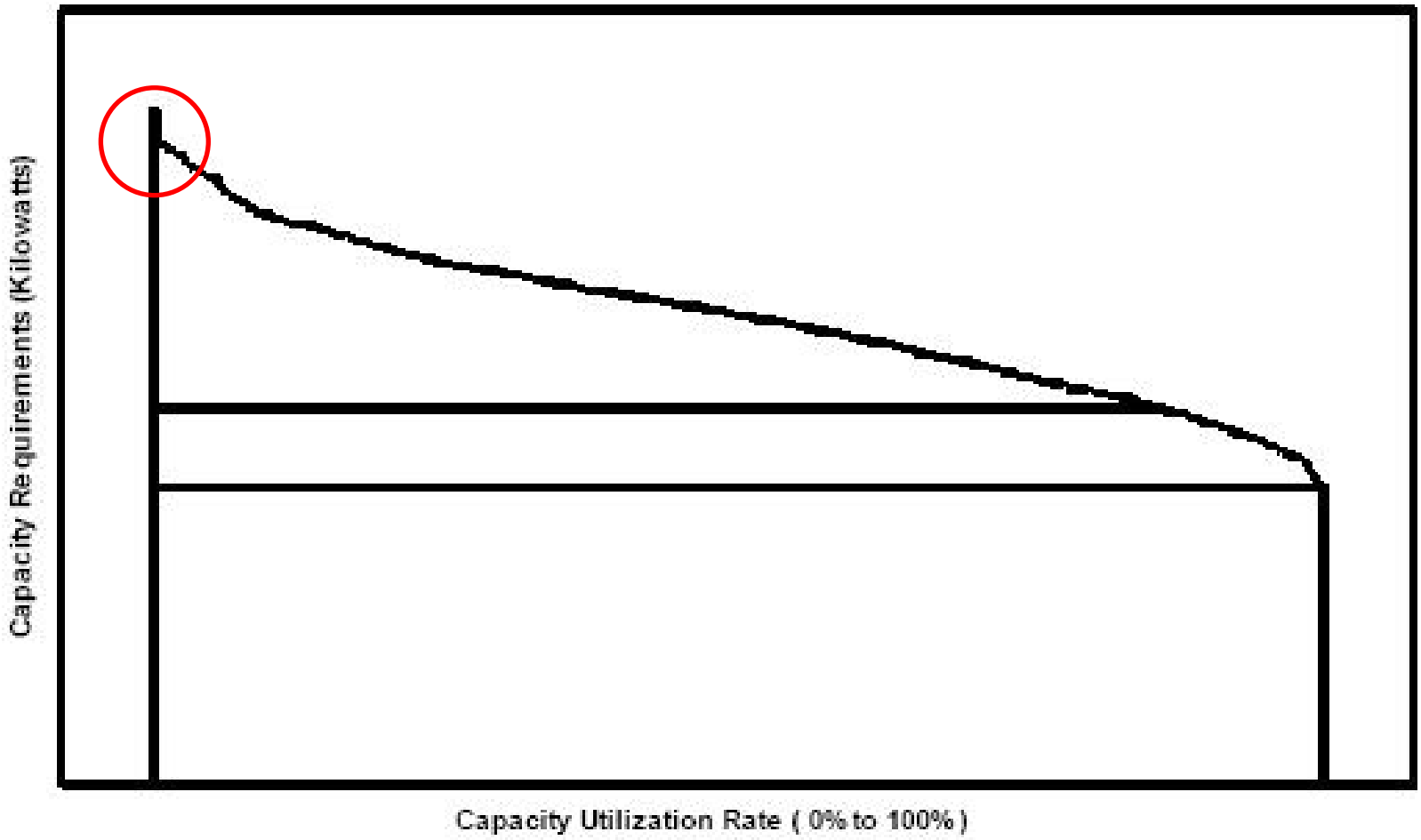


First: Make sure there are no market distortions

Second: Develop the Internal Energy Market (market integration)

Third: Provide maximum opportunities for efficient solutions, such as demand side response and innovations (electricity storage)

# Load duration curve



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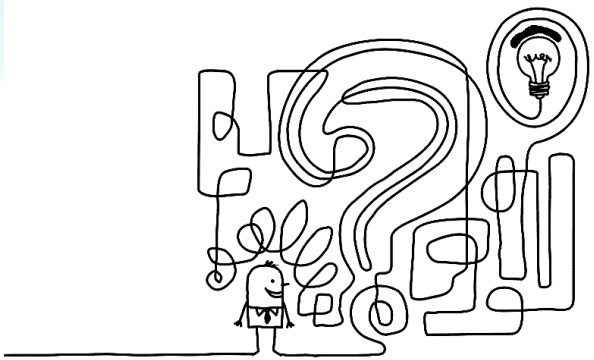

First: Make sure there are no market distortions

Second: Develop the Internal Energy Market (market integration)

Third: Provide maximum opportunities for efficient solutions, such as demand side response and innovations (electricity storage)

Only as a measure of last resort and after proper impact assessment, capacity mechanisms should be put in place

If so:

- Make use of market based mechanisms
- Avoid barriers to market functioning and integration