

# **EURELECTRIC Introductory Presentation**

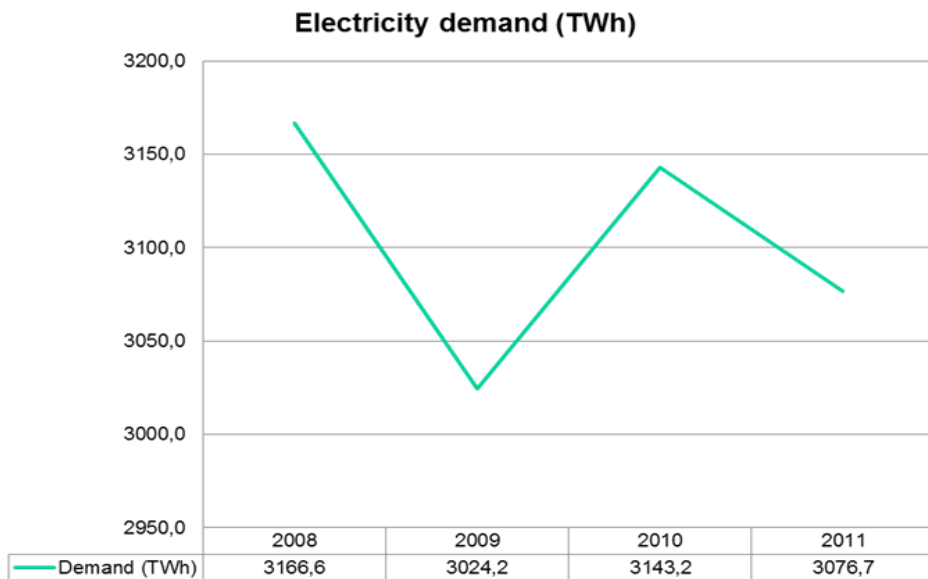
**European Electricity Regulatory Forum**

**Ljubljana, 15 and 16 May 2013**

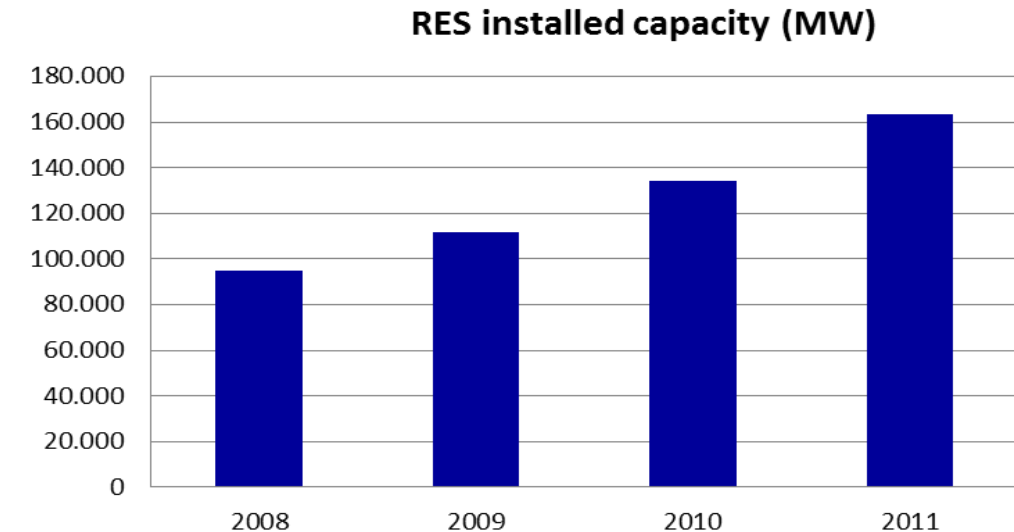
## Florence Forum debate on the IEM: Reality check?

- **The Florence Forum agenda** is dedicated to the **progress** made in **building the IEM** and the drafting of the related **network codes**
- **This discussion requires adopting a broader perspective on the challenges ahead:**
  - **Constraints on competition** in the power market as a result of the **RES paradigm shift** and **inefficiencies in RES support schemes**
  - **Regulatory uncertainty** because of **retroactive changes**
  - **Deteriorating investment climate** and increasing concerns about **generation adequacy**

## Continuous growth of subsidised RES ...



Source: EURELECTRIC, Power Statistics 2012



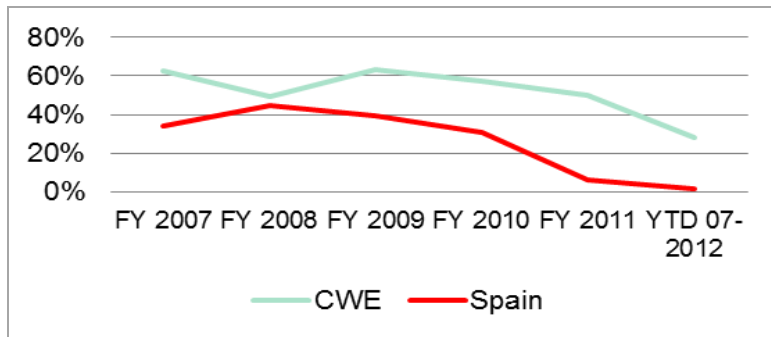
**Steady increase in RES capacity despite declined electricity demand**



- **RES development independent of market conditions** (and more specifically of demand)
- **RES support** focussed on **operation** instead of investment costs
- **Whilst bringing a contribution to climate change, bears negative effects on market** (e.g. distorting dispatching decisions and market prices)

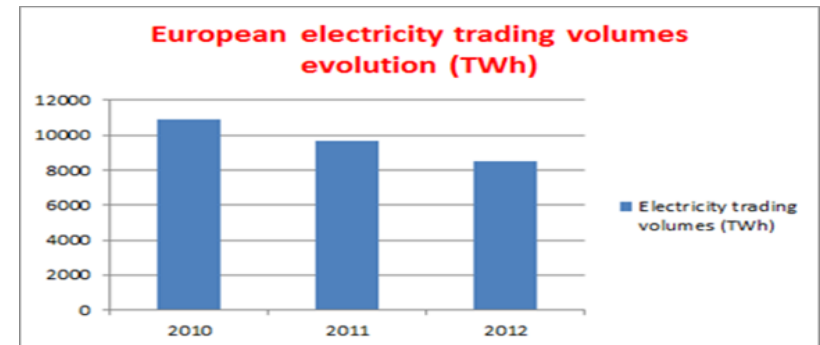
## ...while conventional generation is pushed out of the market ...

### Running hours of CCGTs in CWE and Spain



- Significant decrease of CCGT running hours in Spain and CWE ...
- ... against the background of growing concerns over generation adequacy and system stability

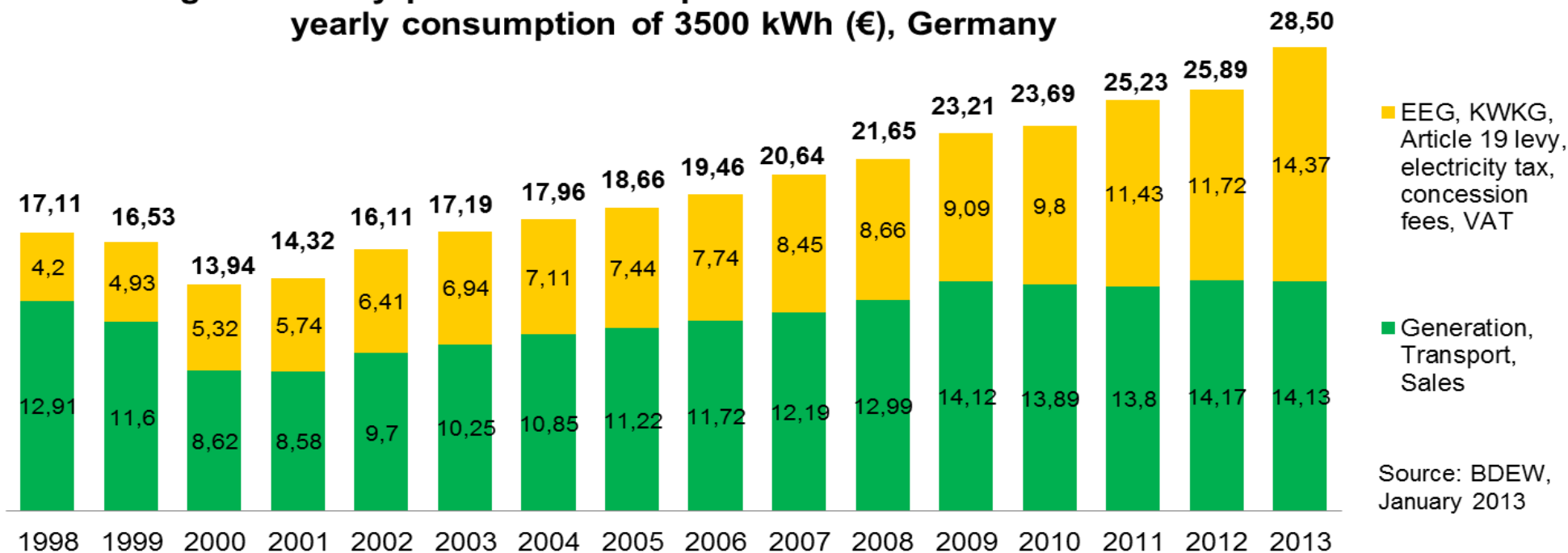
### Electricity trading volumes in Europe



- Declining trading volumes
- Downward pressure on spot electricity price from RES

# Final end-user prices are on the rise while wholesale prices are going down

Average electricity price for a three-person household in ct/kWh with a yearly consumption of 3500 kWh (€), Germany



- Taxes and levies are piling up!
- IEM is becoming less important to end-customers.
- E.g. Wholesale price is only 15 % of the total end-customer price in Germany!

- Hidden costs: balancing, re-dispatching, connection
- Costs of ensuring security of supply (i.e. generation adequacy)

# The European power sector is at the verge of being unable to invest

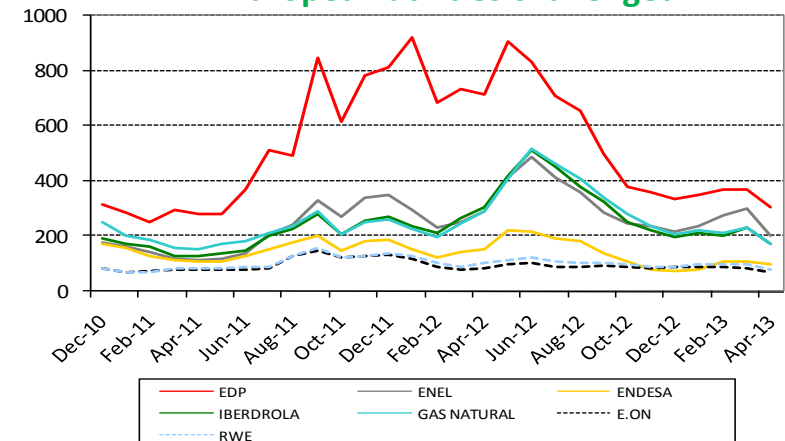
## The electricity sector is undergoing a financial crisis

- Credit ratings of the utilities have significantly **deteriorated**
- Many **generation assets** are **valued at zero** by financial investors
- **Regulatory risk** is the main **discount factor** in the asset valuation

Utilities are underperforming the European business index



Deteriorating credit ratings of the European utilities challenged



## Conflicting and inefficient energy policies at EU and national level are at the heart of the current crisis

- Price regulation and caps
- RES out of the market
- Intervention in the market (e.g. taxes )

**Jeopardised IEM?**

*Market*

- Weak ETS and national approach to carbon pricing
- Uncoordinated/ill- designed RES support

*Climate*

*SoS*

- Growing generation adequacy concerns
- Strain on system operation

**Unacceptable cost of decarbonisation?**

**System security at risk?**

## Steering the process: What are the solutions?

- Remove distortions hindering emergence of Energy-only markets by 2014 (eg. regulated prices)
- Integrate RES into the market
- Enhance demand response
- Avoid discretionary taxation

**Getting the IEM right!**

*Market*

**Ensuring decarbonisation at the lowest possible cost!**

- ETS reform - key driver for investment in low carbon technology
- Phasing-out of RES subsidies for mature technologies after 2020
- Set the basis for a consistent post-2020 energy policy

*Climate*

*SoS*

**System security is paramount!**

- Energy Infrastructure Package
- Regional/EU generation adequacy assessment
- EU compatibility criteria for CRM



**Thank you for your attention!**