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EFET

European Federation of Energy Traders

Improving the valuation of flexibility in open electricity markets

"Flexibility" is a popular word, but what does it mean?

- "Flexibility" and especially "improving flexibility" is often mentioned as crucial given the growing share of renewable energy sources in the electricity sector
- "Flexibility" is however not well defined, i.e. there is no common definition
- **EFET believes that an efficient market can tackle "flexibility challenges" most efficiently**
- Forwards, futures and flexibility options, provide the hedging instruments necessary to drive investments in flexible capacity
- Improving the granularity of short-term energy products provides basis price signals for flexibility valuation

Our definition

- **Capacity**: is the ability (or option) to deliver or offtake (sell/buy) electrical energy
  - Provided by an asset (generation, storage, DSM)
  - Or by a group of assets (portfolio), or aggregated for a system
  - Can also be addressed through contractual relations

- **Flexibility**: is the ability to use/exploit capacity without limitations – thus flexibility **is a characteristic of capacity**!

Capacity is "flexible" if there are limited constraints to use the capacity as needed

The role of the market

- Flexibility is **not a standard product as such**
- There is no "flexibility market", the **energy market** is the place where "flexible capacity" can create value
- Flexibility will be utilized by the market **as soon as opportunities arise**

- Energy Products are traded on that market and encompass:
  - Standard products, e.g. base/peak forwards/futures, etc.
  - Non-standard products, e.g. VPPs, PPAs, options , profiles, etc.
- Excessive interventions may reduce the ability of existing standard base and peak load profiles to adequately attribute value to flexibility
- **New products will emerge** and be traded if the market has a need and remains undistorted
  - OTC market is important as it allows to adapt fast

Summary

- Flexibility is a **characteristic of capacity** (but not the same as capacity adequacy)
- It's the **role and task of the market** to provide flexibility (i.e. not T/DSOs)
- An efficient market will deliver the right mix of flexible capacity
- Policy makers should continue to focus on **improving the efficiency of the markets** (incl. enlargement of markets, flexible access to interconnections in intraday, open balancing markets), so that market participants are exposed to the correct price signals and can make right/ correct decisions.
- A **level playing field** is of upmost importance (i.e. no subsidies, allowing all providers of flexibility to participate in the market)

Thanks for your attention

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