



Discussion re Weale, et al.: “Can an Energy-Only Market support investment – empirical evidence from the last 16 years?”

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Agenda

- Selected highlights and findings
- Expectations related to cost recovery and the need for generation capacity
- Implications of the results for market structure and market participant behaviour

Selected highlights and findings

- The presentation addressed questions related to:
 - The proportion of full costs, including financing costs, that have been recovered from the wholesale electricity market in France and Germany in recent years for a variety of technology types.
 - The role of scarcity pricing.
 - The factors that influence the cost of capital.
- Some of the key findings:
 - Returns from wholesale prices alone were not high enough to cover full costs.
 - There has been a general decline in returns since 2010, especially for thermal and nuclear plants.
 - Scarcity pricing contributed little to returns after 2008.
 - Monthly returns of generation plants are less volatile than stock indices.
 - Key implications.

Expectations related to cost recovery and the need for generation capacity

- Observations
 - Competitive markets and price signals for investment
 - The forward-looking nature of investment decisions
 - Variation of cost recovery across generation technologies
 - Interpretation of the results
- Comments
 - Need for generation investment
 - Consistency of outcomes with broad public policy objectives
 - Expectations for future demand growth
 - Policy objectives and the market design
 - Repurposing of incumbent assets is a source of investment
 - New technologies and the interface with regulated assets

Implications of the results for market structure and market participant behaviour

- Observations
 - Implications of low prices in a generic, non-electricity market
 - Market participant behaviour
- Comments
 - How do generators compete in the market?
 - Is competition administratively limited?
 - What is the distribution of returns across firms in the market?
 - Analysis of monthly returns across selection of commodities? Or a selection of generation firms?