

NATIONAL ENERGY POLICIES WITH RESPECT TO CAPACITY REMUNERATION MECHANISMS (CRM) IN THE CONTEXT OF THE EUROPEAN TARGETS

FAEE – BAEE – CEEM conference held on March 9th 2015, Paris-Dauphine

Session 2 (French roundtable) – Presentation by Laurent JOUDON, EDF

0. I won't make many comments on the French mechanism, which enters a ballistic and technical stage. It requires a formidable amount of work as seen in the previous presentations by DGEC and RTE.
Perhaps a concern with volatility of the price signal that will emerge. RTE adequacy study shows that we shall be, by 2017-18, within the criteria, where +/- 1 GW induces a high sensitivity.
1. The energy market cannot ensure that the desired level of security-of-supply (hereafter: SoS), whatever it is, will be met in Europe, hence the need of regulation. No need to develop on this. What I want to insist on is that defining a target must be prior to choosing a tool and to designing a capacity mechanism.
 - a. First step: explain what the desirable level of SoS is in Europe countries, then determine the level of capacity that collectively secures this at minimal cost, taking of course advantage from solidarities that networks permit.
 - b. This level of capacity can be determined through a common simulation of the supply-demand equilibrium in Europe, taking into account i) uncertainty factors affecting supply and demand (e.g. hydro inflows, generation availability, wind, sun, temperature) in Europe and ii) the physical possibility to flow energy from different interconnected areas.
 - c. That means the capacity to flow power between different countries but also within certain countries. I have in mind Germany for example where additional capacity in the North will not improve SoS in the south ...
 - d. ENTSOE may do that with transparency, producing a cross and coherent ex ante assessment of importation flows each TSO can count in its adequacy balance.
2. Once this is done and agreed, the question of choosing the appropriate tool can come. It is probably too much demanding that the same tool is used throughout Europe, and in fact not necessary. What is necessary in my view is to meet :
 - a. In the forthcoming decade, critical decisions are rather decommissioning than adding the best mix of peakers and mid-merit plants. It is important to secure no-regret decisions.
 - b. All capacities contribute and should therefore be treated the same way. If not, we won't get efficient trade-offs between existing and new plants, between peak and mid-merit plants, between supply and demand-side actions.

- c. One tool for one target, say economists and common wisdom. So, the adequacy mechanism won't work if it also pursues the idea of rescuing assets which profitability has been affected by the massive addition of RES out of the market. The R of CRM may be misleading. 'Capacity Value Signalling Mechanism' may be more accurate.
 - d. Set a visible framework for utilities decisions. Avoid any kind of negotiated actions between the state and utilities, generating unease from a competition law point of view.
3. Quantities rather than prices. Initially, theory teaches us both (price or quantity based tools) are efficient. But at a second stage, we learn that uncertainty may be discriminate. Here, a political priority is clearly to make sure the desired quantity (I mean total GW of guaranteed capacity, counting peak demand shaving capacities) is reached. Uncertainty concerning price is lower (10% total cost of energy generation). Necessary to give confidence. Provokes a cautious approach to capacity payments and to prefer something like ...
- a. Auctions like under EMR in the UK.
 - b. Capacity requirement like in France.
 - c. Possibly, since long term contracting is more and more favored in academic works on power market design, call for tenders and competition for long term contracts.
4. A final remark. Securing power SoS (and backing up variable renewables as well) will rely to a large extent on gas-fired plants (OCGT, CCGT).
It means that if gas supply is not secure, power supply will be jeopardized even though we are proud of our targets and tools. That is my last point: Europe energy SoS should be tackled as a whole. An overfocus on power capacity won't make up for the fuel security issues.