

CEEM conference on Winter Package, Dauphine, January 30th 2017 – Final round table

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The WP does raise political concerns. About the underlying model (the well-functioning short term market may not be the silver bullet) and about the means as well (are SM willing to resign vast areas of subsidiarity, like regulated rates or security-of-supply responsibility?)

Nevertheless, in front of this forum, I'd rather make some points where academic works and communications, in energy & regulation economics, may improve the debate in the forthcoming months. **Six points.**

1. The WP ignores the poor situation of EU ETS, and thus fails to address **the damage caused by overlapping targets and tools**. For instance: absent a real effort towards coherency, the increased energy efficiency target (+3% is by no means modest) may aggravate the uncertainty **all low-carbon investors are facing**. Important to produce studies and proposals **advocating a real reform of ETS** (dynamic quotas allocations ...)
2. The PEF for electricity. Clear that 2 instead of 2.5 better reflects the power mix, but the right question is: why a primary energy target? The real and shared targets are **climate change, security of fuel supply, economic dependency on importations**. Power sector (generation and consumption) is key to reach them in a cost-efficient way. That is the main issue. An accounting convention is thus misleading.
3. The WP regards capacity mechanisms as temporary palliatives, and calls for an EOM based design. Yet the possibility of ensuring system adequacy through short term scarcity pricing is far from being proven. It is quite demanding: **first**, the output should be a socially acceptable loss-of-load probability; **second**, the incentives for developing or maintaining capacity should be sufficient, despite uncertain revenues. That is the reason why many states have built CRM's. Accepting those decisions and articulating them in an efficient and fair manner may prove better.
4. Interconnections. Be cautious about normative guidelines, like allocating congestion rents to interconnections development, or setting a minimum ratio (15%) between connection capacities and power demand. I think any economist will explain that **such a priori criteria cannot be optimal**. The good solution, taking advantage of various power mixes and resources, is unfortunately more complicated ... but far less costly.
5. Energy transition and digitalization will lead to new business models. Good to encourage them, provided they are based upon sound economics. Not sure the EC meet this requirement when allowing **DSM aggregators** to value on the market an energy they have neither produced nor bought. Not sustainable.
6. (Not least!) Providing All Europeans with a Clean Energy needs **long term and capital intensive investments** (generation, networks, energy uses) **with high fixed costs and low variable costs**. Long term arrangements, and appropriate procurement schemes, on a technology neutral basis, are therefore at the core of a 2.0 market design.

This is worth the pain: **triggering** the right investments, **giving visibility** to industrial activities, **reducing** the cost-of-capital (and thence a major part of the overall energy supply cost for business and households), and eventually **enhancing competition** where it actually brings benefits, all this should be possible ... and invite economists to help us.