Agenda

10:00 - 10:30: Registration
10:30 - 10:45: Introduction
10:45 - 12:30: Cross-border participation in capacity mechanisms
12:30 - 14:00: Lunch break
14:00 - 15:45: Different capacity mechanism models
15:45 - 16:00: Conclusion
Work programme and deliverables

1. Demonstrating necessity
2. Eligibility 1: General design considerations, demand response and storage
3. Designing a competitive bidding process and eligibility 2: existing and new resources
4. Designing appropriate obligations and penalties
5. Eligibility 3: interconnector / cross-border participation
6. Example models
Cross-border participation in capacity mechanisms
## EEAG Requirements

<table>
<thead>
<tr>
<th>EEAG requirement</th>
<th>Objective</th>
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<tbody>
<tr>
<td>(226)</td>
<td>1. Should take the contribution of interconnection into account.</td>
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<tr>
<td>(232)</td>
<td>2. Should be open to interconnectors if they offer equivalent technical performance to other capacity providers.</td>
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<td>3. Where physically possible, operators located in other member states should be eligible to participate.</td>
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<td>(232)</td>
<td>4. Should not reduce incentives to invest in interconnection, nor undermine market coupling.</td>
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Purpose of these guidelines

• maximise competition in capacity mechanisms
• ensure efficient signals for investment in the right types of capacity and network infrastructure where they are most needed
• But enable market coupling to continue to deliver the most efficient use of existing resources in real time
Design choices

- De-rating
- Obligations and penalties
- Counterparty
Potential for common rules

- Interconnector de-rating
- Eligibility
- Allocation
- Trading
- Obligations and penalties on i) foreign capacity ii) interconnector operators
- Interaction with market coupling
- Allocating costs
- Supporting interconnector investment
- Ensuring compliance of TSOs
What about strategic reserves? (i)

Price: EUR 3,000 / MWh

Price: EUR 1,000 / MWh

100% B to A
What about strategic reserves? (ii)

Price: EUR 3,000 / MWh

No flow under market coupling, but SR capacity sent from B to A

Price: EUR 3,000 / MWh
Discussion

- Have we identified the main design choices in this area?
- Would it be helpful for the Commission to develop common rules for cross border participation?
- Have we identified the right areas for common rules to cover?
- Would the high level design described here be appropriate as a basis for common rules?
- Can cross border participation be enabled effectively for other capacity mechanism designs, or only for volume-based market-wide designs?
High level comparison of capacity mechanism models and compatibility with EEAG
Types of capacity mechanisms

- Targeted
  - Volume-based
    1: Tender
    2: Reserve
  - Price-based
    3: Targeted capacity payment

- Market-wide
  - Volume-based
    4: Central buyer
  - Price-based
    5: De-central obligation
    6: Market-wide capacity payment
1. Tender for new capacity

- **Advantages**
  - Simple implementation?
  - Can it be one-off?

- **Disadvantages**
  - Effectively solution to missing money problem?
  - Development of other technologies

- **Assessment under EEAG**
  - Appropriateness (points 226-227)
  - Technology neutrality (point 232)
2. Strategic reserve

- **Advantages**
  - Simple implementation?
  - Suitable for exceptional peak demand

- **Disadvantages**
  - Solution to missing money problem?
  - Efficient use of resources?
  - Competition of new and existing capacity?

- **Assessment under EEAG**
  - Appropriateness (points 226-227)
  - Proportionality (point 231)
3. Targeted capacity payments

- **Advantages**
  - Simple implementation?

- **Disadvantages**
  - Complex central calculations
  - Overcompensation?

- **Assessment under EEAG**
  - Proportionality (points 228–231)
  - Technology neutrality (point 232 (a))
  - Competitive price to avoid trade distortions (point 232(c))
4. Central buyer

- **Advantages**
  - Transparent market price
  - Right signals for efficient market entry / exit
  - Long term contracts – new investments

- **Disadvantages**
  - Significant intervention / complex rules and calculations
  - Difficult to adapt / remove

- **Assessment under EEAG**
  - Appropriateness (points 226-227)
5. De-central obligation

- **Advantages**
  - Simpler design than central buyer
  - Right signals for efficient market entry / exit
  - Development of different capacity products

- **Disadvantages**
  - Significant intervention and complex rules
  - Suitable in case of concentrated market and vertical integration?

- **Assessment under EEAG**
  - Appropriateness (points 226-227)
  - Proportionality (point 230)
6. Market-wide capacity payments

- **Advantages**
  - Simple to implement?

- **Disadvantages**
  - Difficult central calculations
  - Overcompensation?

- **Assessment under EEAG**
  - Proportionality (points 228–231)
  - Competitive price to avoid trade distortions (point 232(c))
Questions

• Which factors should be taken into account when choosing one capacity mechanism model over another?

• Are certain models more appropriate than others to address particular generation adequacy problems?

• Do you agree with the advantages and disadvantages identified for each model? Has experience in your market shown something different? Are there major advantages or disadvantages missing from this list?