

RES Schemes and Market Design: EURELECTRIC Board Meeting Points to Way Forward

17/04/2014 by Anne-Malorie GERON

*In June 2013, the EURELECTRIC Board of Directors decided to appoint an 'issue manager' to carry out horizontal work on the topics of 'Renewables integration into the market'. Since then, good progress has been made by renewables (RES) and market experts. First findings were submitted for a strategic discussion at the Board meeting of 20 March. Some of the topics touched upon by the Issue Manager will also be raised at a **EURELECTRIC event** on 6 May.*

Against the backdrop of the European Commission's recently published state aid guidelines, but with ambitions going far beyond that document, Issue Manager Thomas Barth outlined three RES scheme models that, in the run-up to 2020, should foster greater cost-efficiency while avoiding additional market distortions. Regarding market design, it was generally acknowledged that one single capacity remuneration model (CRM) for Europe is not desirable. Where CRMs are due to be implemented, efforts should converge towards greater coordination between member states, with the view of reaching consensus on a common market-based mechanism at regional level. It was also stressed that cross-border participation will be a key element in the emergence of capacity markets.

In its feedback, the Board expressed general support in favour of the market-proofed RES schemes, i.e. RES capacity auctions, auctions for feed-in premiums, and green certificates, acknowledging their ability to achieve the EU's 2020 RES target in a way that, if correctly designed, should not cause any further market distortions. Board members also concurred with the principle that RES producers should take on a fair allocation of risks in relation to any new investment and operation of RES plants and that a level playing field should be achieved between RES producers and other producers. As for existing generation, it should be left to the discretion of the member states to decide whether operational measures such as balancing responsibility (through incentives or compensation) should be applied, full market integration remaining the final objective.

With CRMs becoming a de-facto reality, the preliminary recommendations to the Board also raised the need for member states to rely on market-based mechanisms that can interact with one another. From four of the models under scrutiny, experts deem the decentralised certificates and capacity auctions models as being more suitable. CRMs should be introduced as a means of ensuring security of supply – not to achieve other policy objectives – and should be technology-neutral, should not discriminate between existing and new plants, and should be open to generation, demand response and storage. Furthermore, CRMs should be seen as an integrated element of market design and should be construed as a market-based tool, keeping the underlying energy market intact. Properly designed CRMs should thus not be regarded as state aid.

Board members in their debate also underlined that a regional approach to capacity (ideally based on one preferred model) should not hamper the objective of achieving integrated wholesale markets nor lead to cementing electricity markets into regional markets that will become more difficult to integrate. The practicalities around cross-border participation will thus be the cornerstone of any market design adjustments. EURELECTRIC should take an active role in designing a solution providing non-discriminatory access to generators across borders, whilst taking into account the reality of the grid.

Final deliverables in the form of a technical report and concluding Board presentation will be shown at the next Board

meeting on 1 June, followed by extensive dissemination.

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