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*THE EUROPEAN ELECTRICITY SECTOR:
WHAT IS THE PROBLEM AND HOW TO FIX IT*

DAVID ROBINSON

7th ELECPOR CONFERENCE
“THE ELECTRIC UTILITY OF THE FUTURE”
IMPLICATIONS ON STRATEGIES, ON BUSINESS MODELS AND ON REGULATION

Hotel Intercontinental, Lisbon – 13 November, 2015

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- The Problem
- Fixing the Problem
- Ideas for Spain and Portugal

Source: Eurelectric



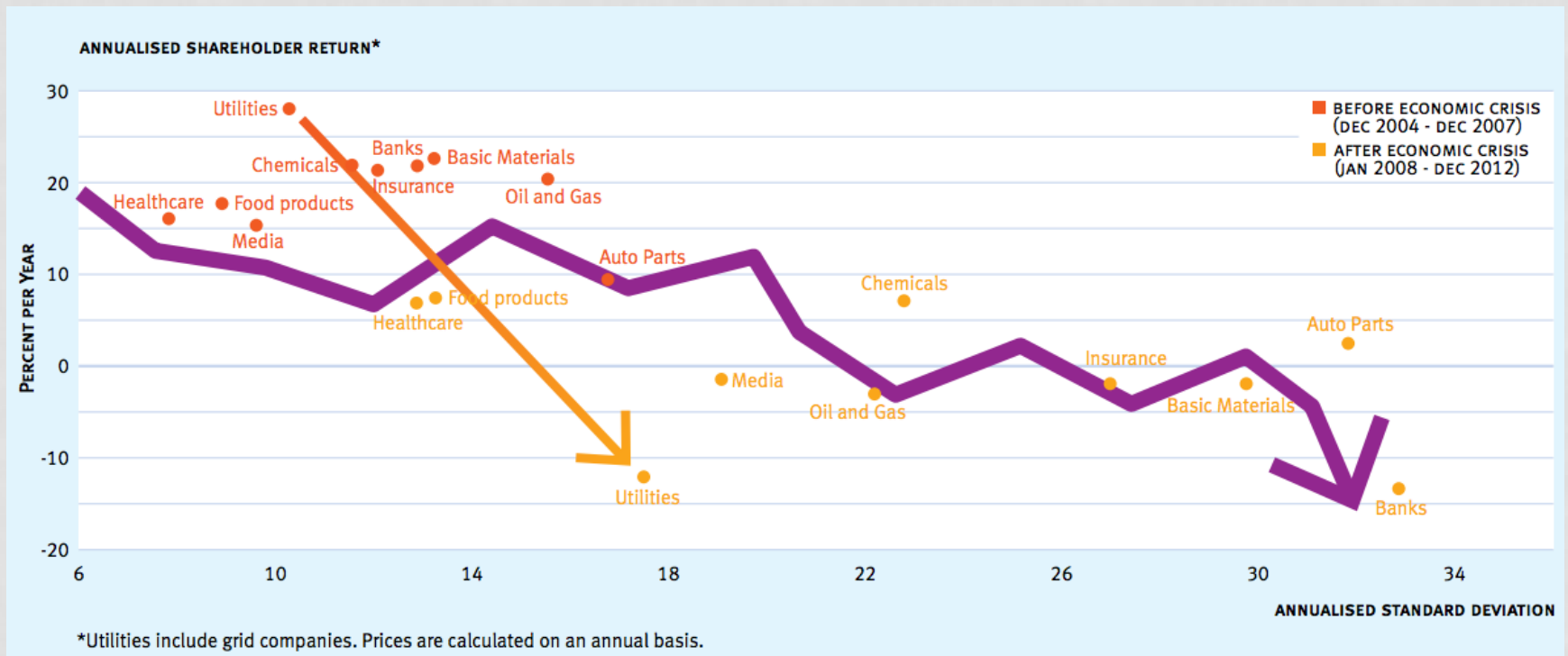
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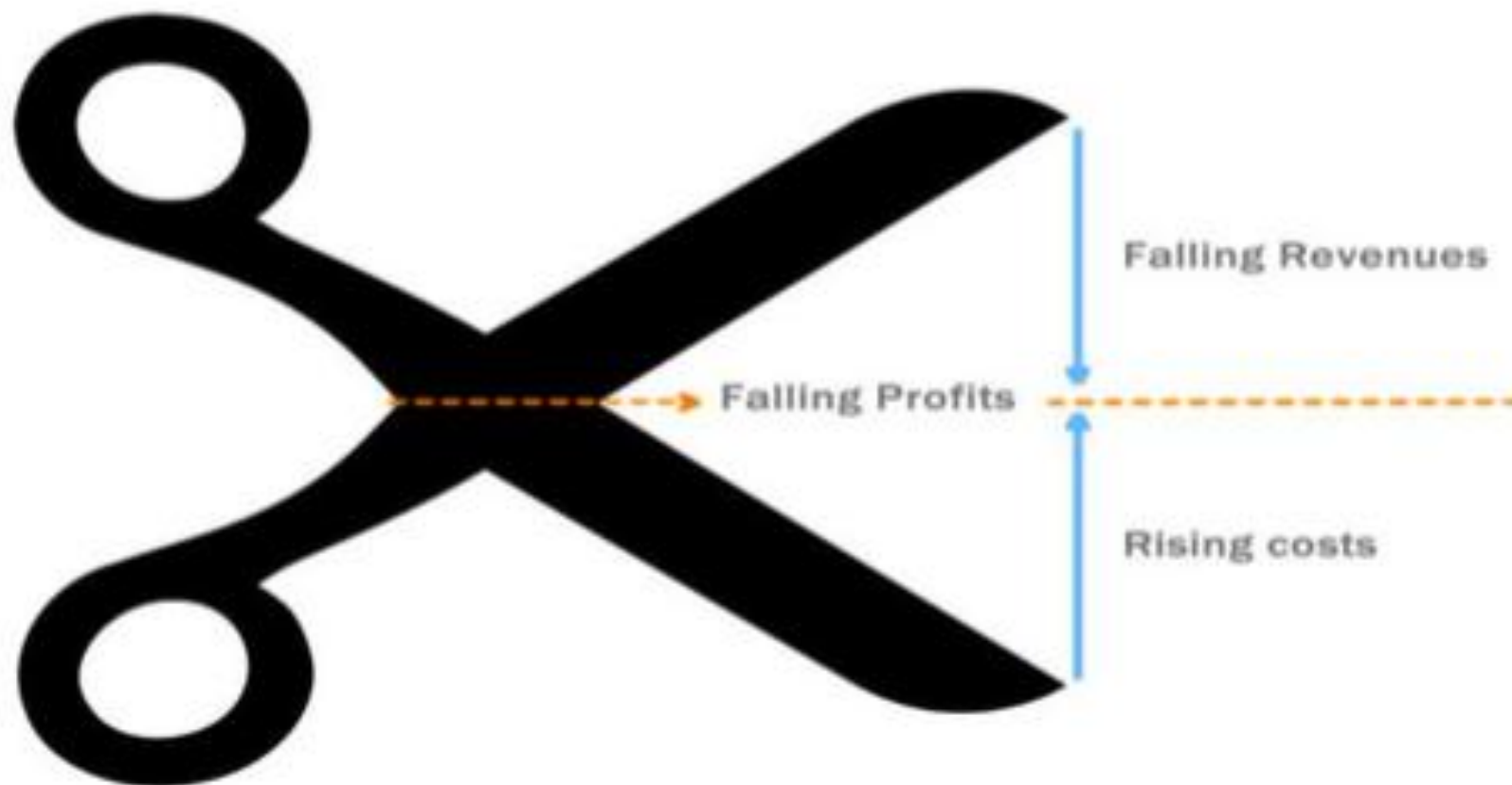


EUROPEAN ELECTRICITY SHAREHOLDER RETURNS FELL POST 2008

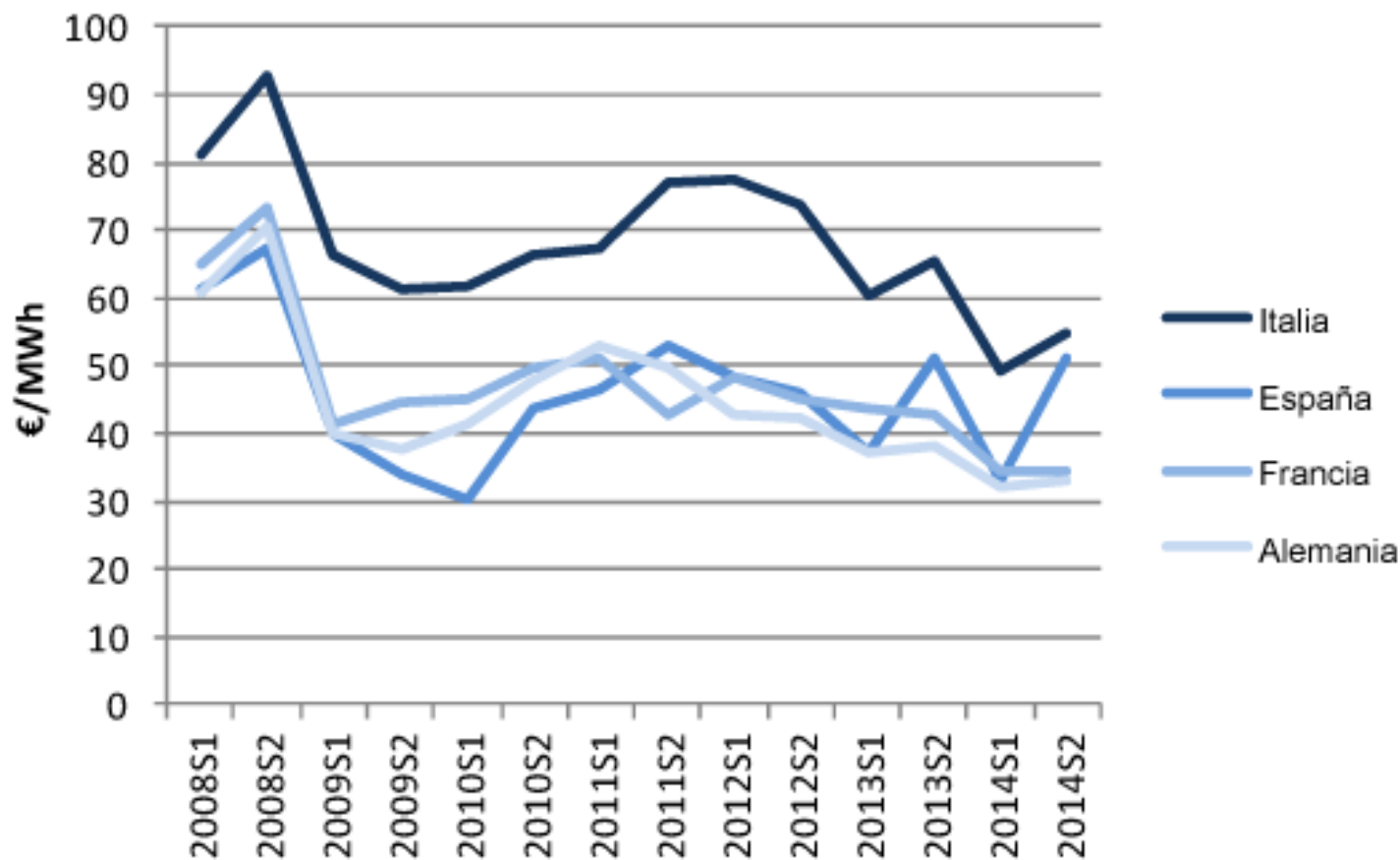


Source: Eurelectric

WHY DID RETURNS FALL? THE SCISSORS EFFECT



FLAT OR FALLING WHOLESALE PRICES

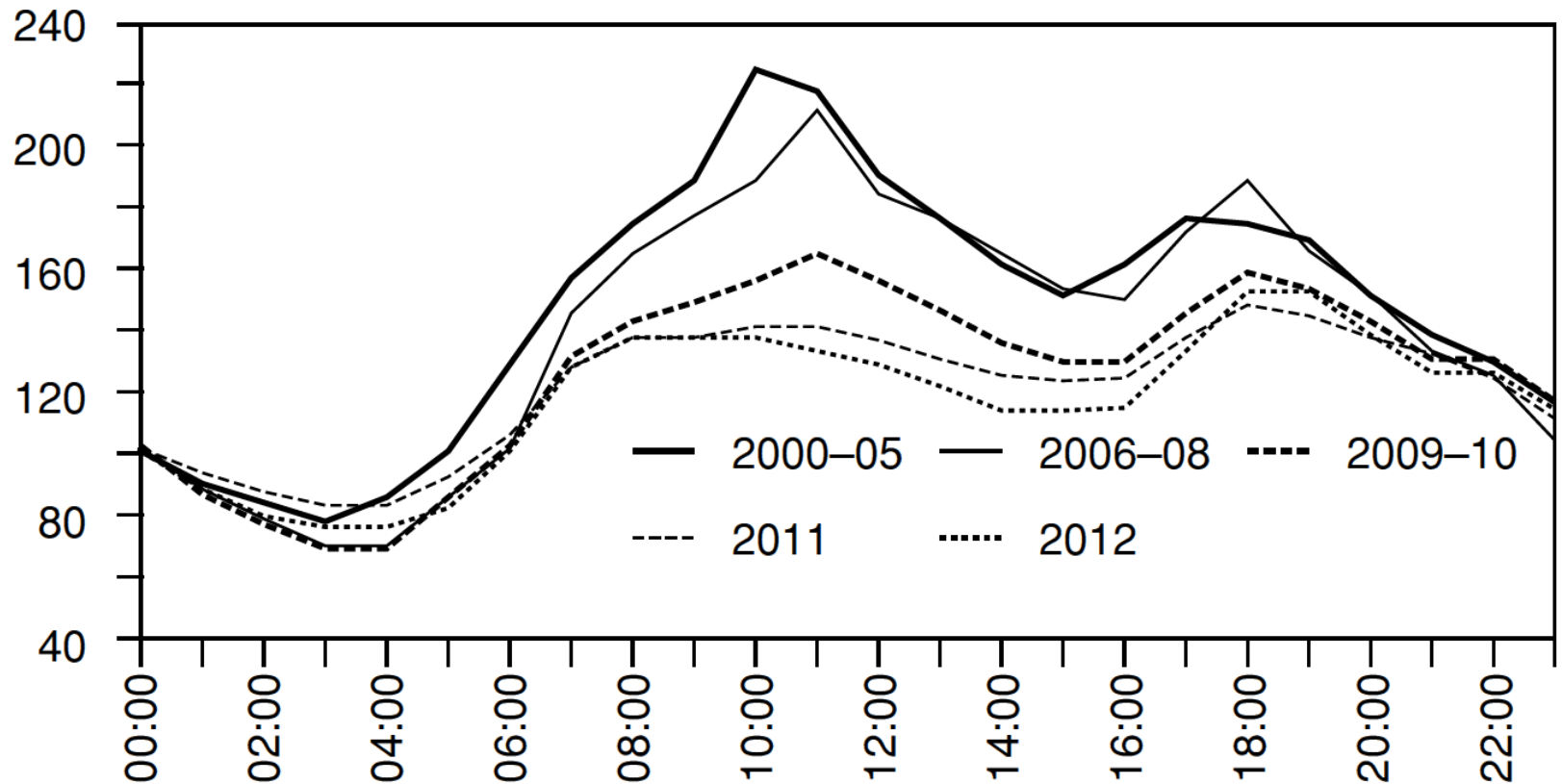


Source: OMIE, EEX, GME

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DECLINING MARGINS

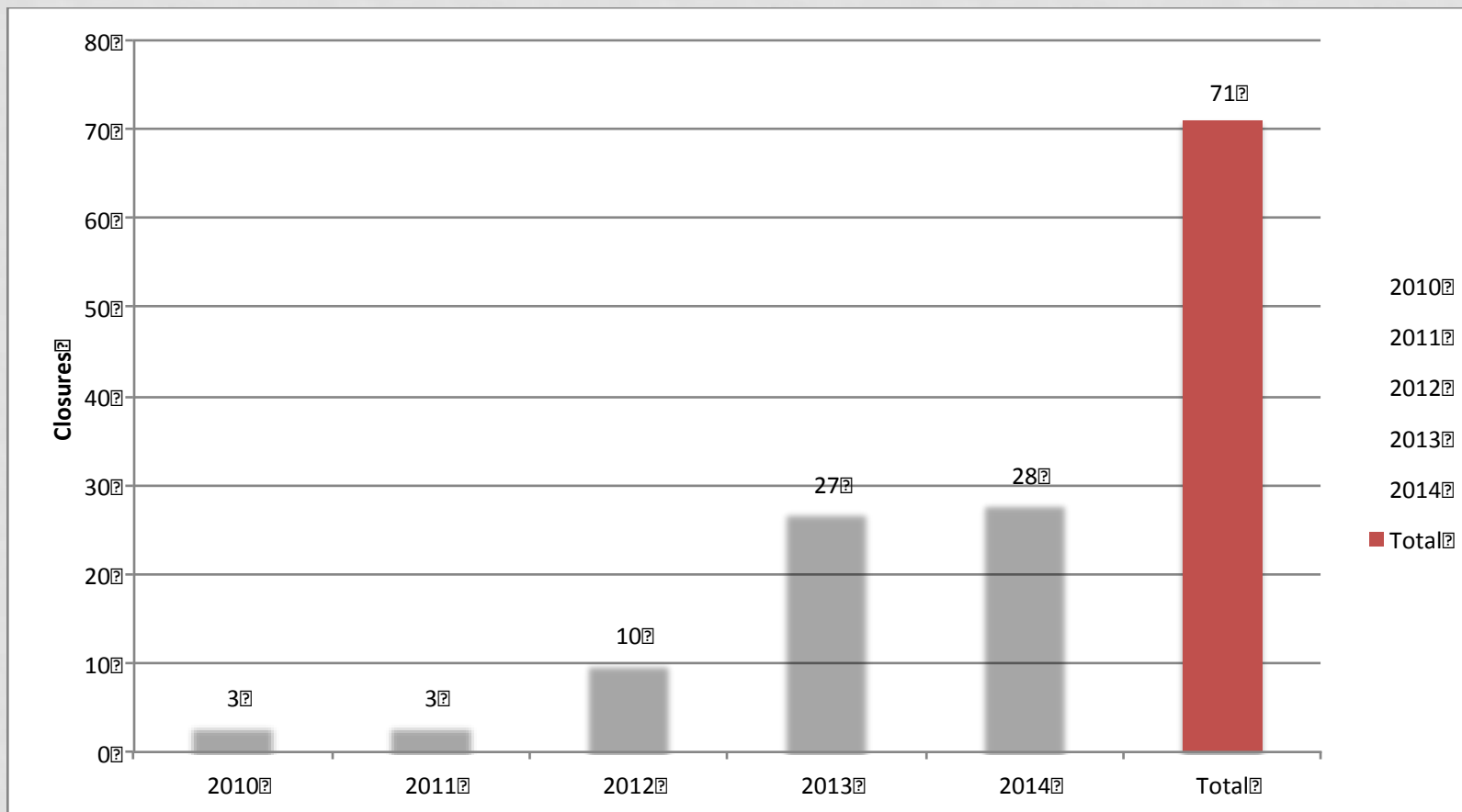
AVERAGE INTRADAY PRICE PROFILE IN GERMANY (2000-2012)



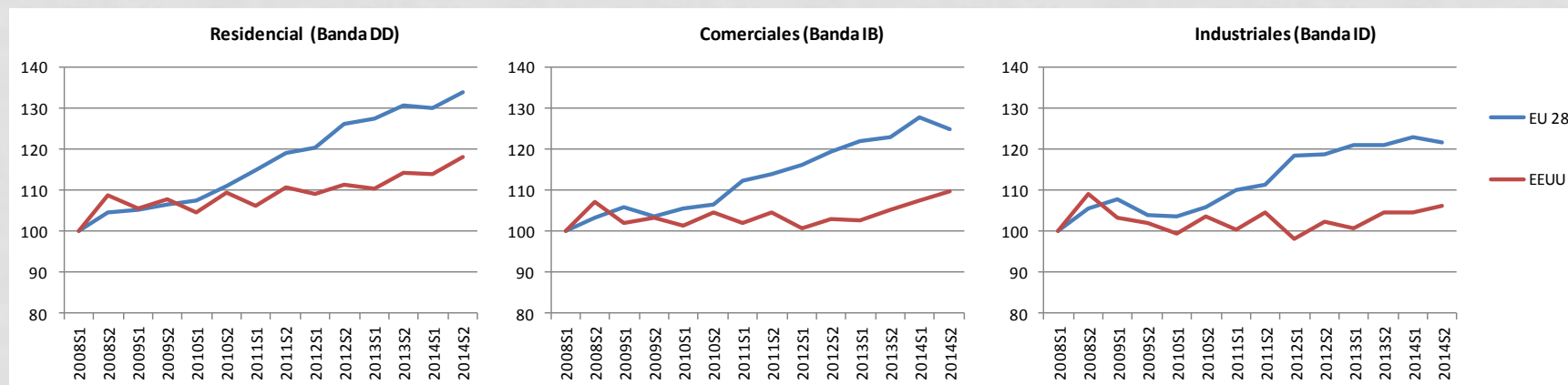
Source: Bloomberg

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COAL AND CCGT POWER PLANT CLOSURES IN EUROPE: 2010-2014



RETAIL PRICES RISING FASTER IN THE EU THAN IN THE US

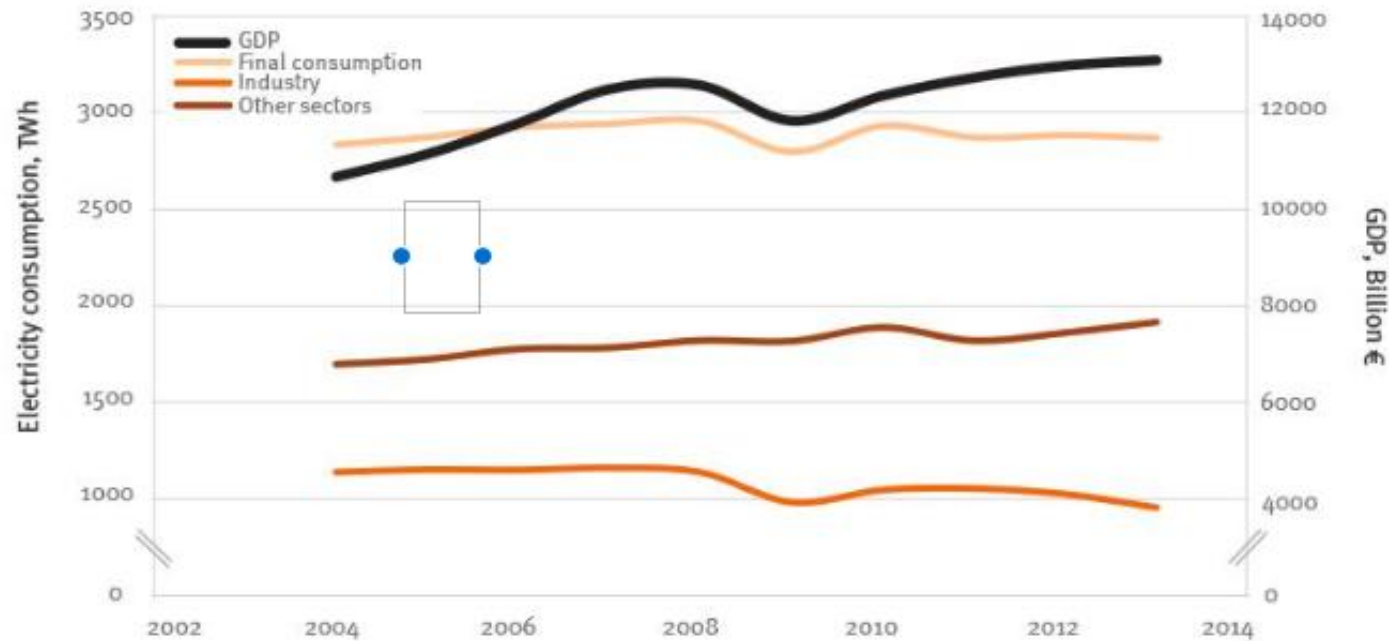


Source: Eurostat, US DOE-EIA

WHAT EXPLAINS THE SCISSORS EFFECT?

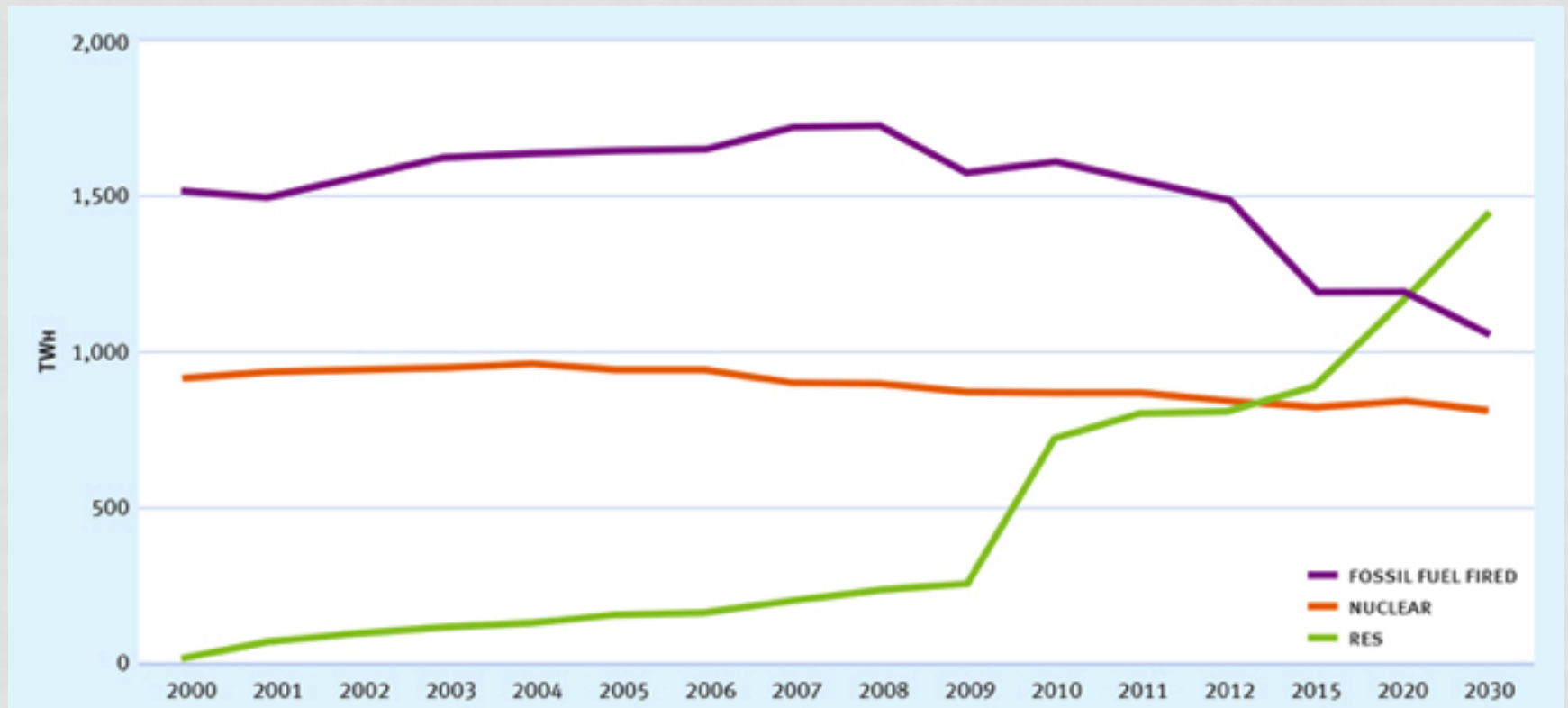
- Three structural trends contribute to scissors effect
 - Stagnant or falling demand for grid-based electricity
 - Growing renewable energy production (and share)
 - Distributed energy resources (DER) – DR, EE, Rooftop solar
- Government intervention in liberalized markets
 - Financial support “out of market” for renewable generation
 - Financing public policy (e.g. renewables) via final tariffs
 - Poor tariff design
 - New regulations that raise costs

STAGNATION IN EUROPEAN ELECTRICITY DEMAND



Source: Eurelectric

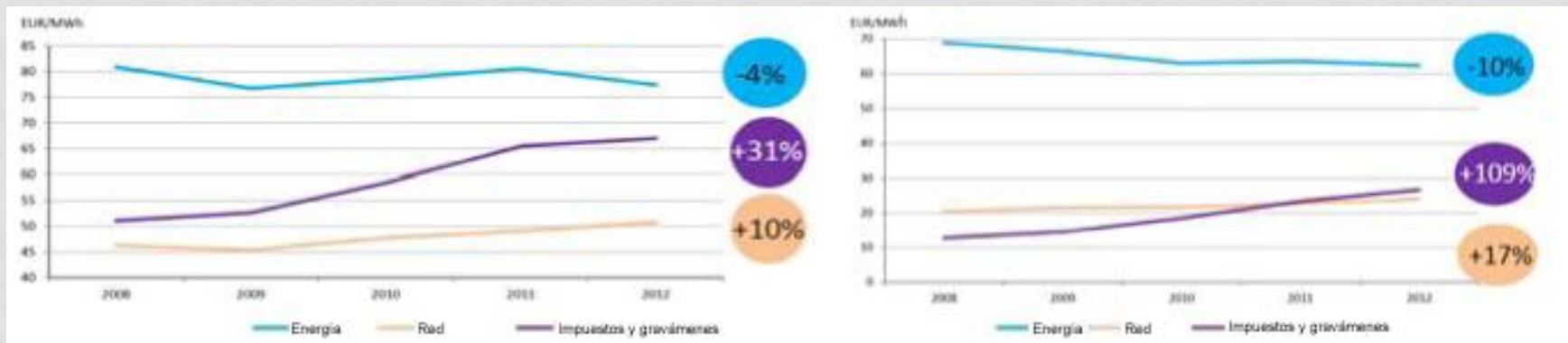
STRUCTURAL RISE OF RENEWABLE GENERATION IN EU



Source: Eurelectric

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EU RETAIL PRICE INCREASES REFLECT RISING GOVERNMENT “WEDGE”



Source: Eurelectric

PUBLIC POLICY LESSONS

- Liberalisation can work and electricity companies can thrive
- But EU wholesale and retail markets now broken
- Companies and consumers jeopardised
- Threatens adequacy, de-carbonization, cost/efficiency
- Need to replace or transform the current model:
 - More government control; or
 - Make liberalization compatible with de-carbonization

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PRINCIPLES OF LIBERALIZATION 2.0

- Vision:
 - Electricity to resemble other competitive sectors
 - Policy objectives: adequacy, de-carbonization, efficiency
 - Competitive market incentives/risks drive decisions
 - Efficient regulation of natural monopoly networks
 - All energy resources compete in all markets
- Transition:
 - Eliminate distortions
 - Resource adequacy policy instrument
 - Renewable target policy instrument
 - Flexibility needed to integrate renewables
 - Integrating distributed energy resources into all markets

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SPAIN AND PORTUGAL: PROPOSALS

- Introduce climate change law – electrification key
- Rethink financing of public policies – “liberate” tariff
- Integrate wholesale and retail markets
- Use technology-neutral auctions for resource adequacy and renewables – preferably combined.

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