

European  
Engine  
Power  
Plants  
Association



# Electricity Market Design: Creating the right incentives

Kari Hietanen - President of EUGINE

12 October 2015 - EEF dinner-debate



fast  
modular  
environmentally sound  
efficient

reliable

flexible energy

# EUGINE in a nutshell...

“**EUGINE** is the voice of the European reciprocating engine power plants industry in regulatory and policy matters relating to energy.”



**BOSCH**  
Technik fürs Leben

**CATERPILLAR**

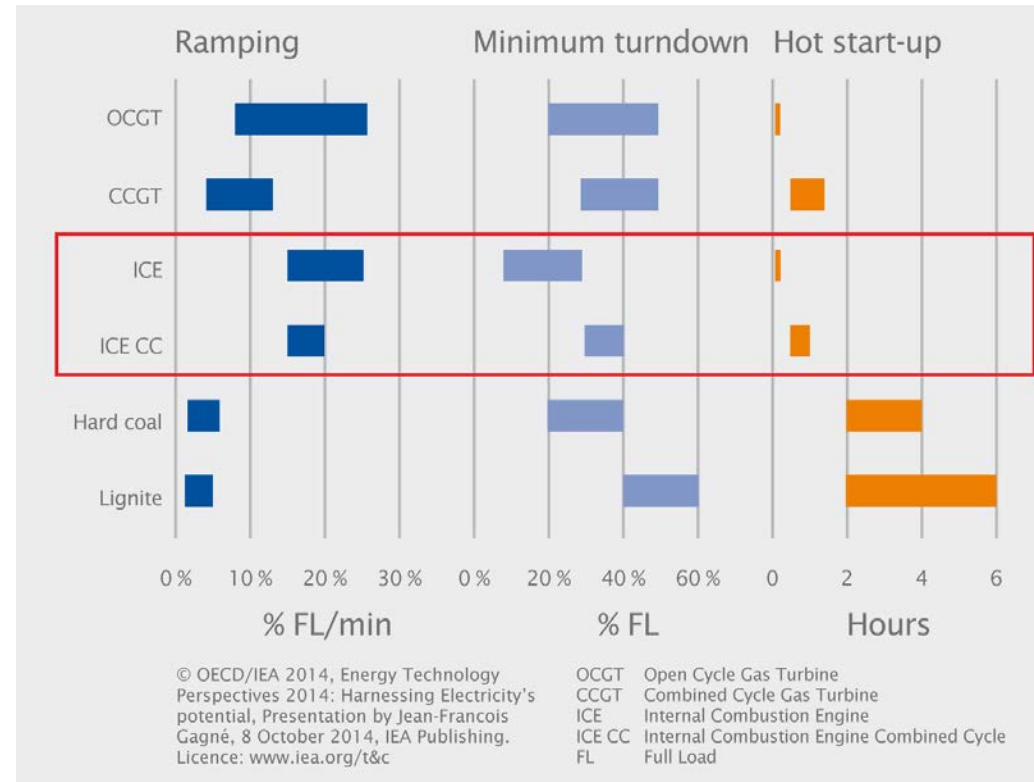
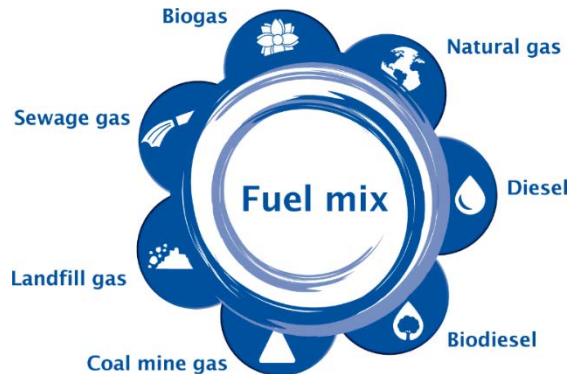


**LIEBHERR**



# Engine power plants

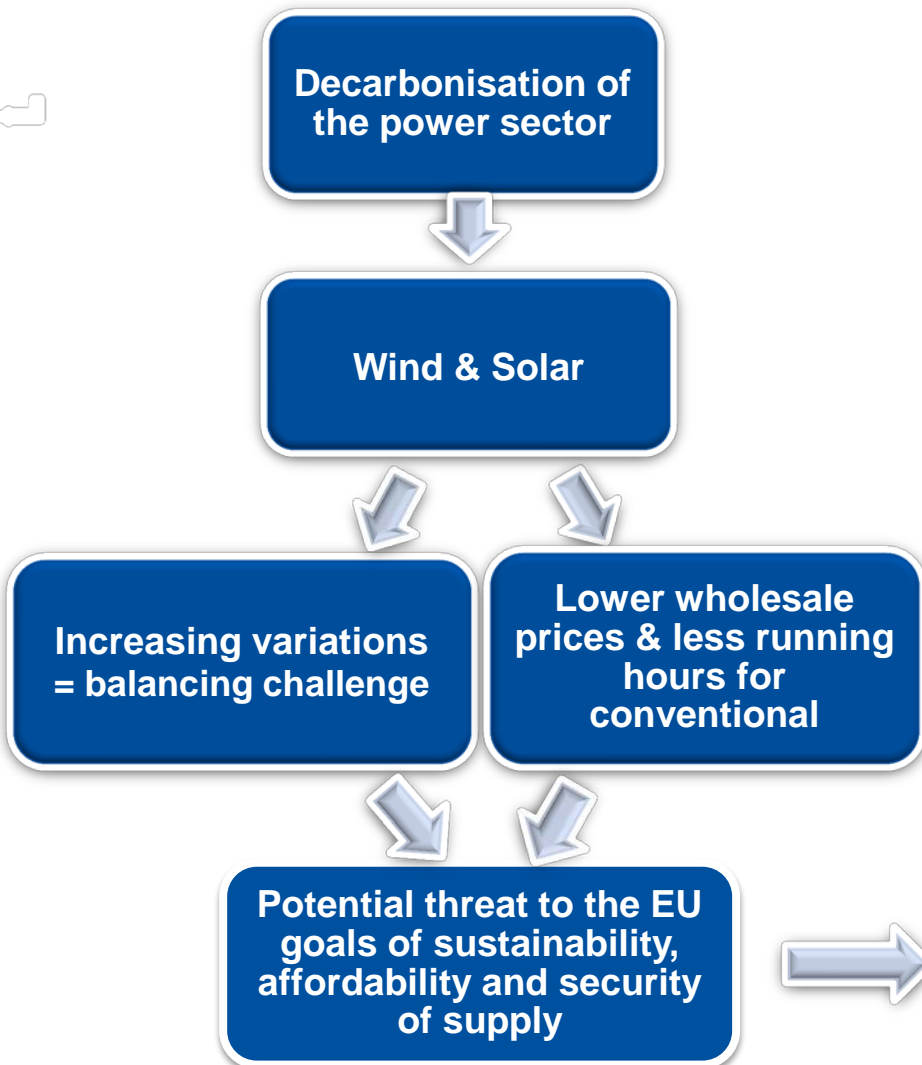
## An optimal solution for flexible power generation



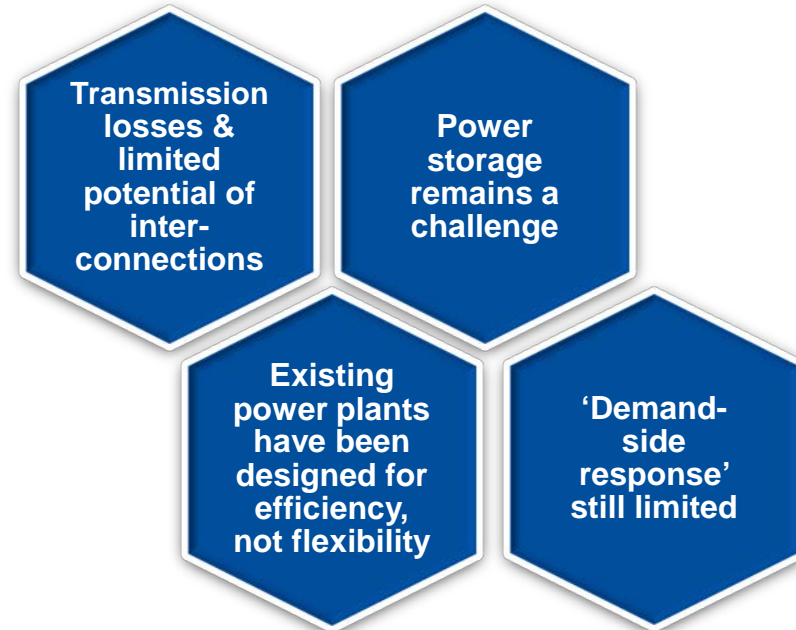
According to the “International Energy Agency”, engine power plants are “increasingly attractive”: “They are robust, offer flexible operation, accept a wide range of fuels, are effective for cogeneration and can be stacked to match the capacity required.”

# The flexibility challenge in Europe

## Origin & Consequences



### The power system's constraints



**Need for investments in flexibility solutions on supply & demand sides**

# Market design: current situation

**Flexibility  
is not  
rewarded**

**Very few  
investments  
in flexibility  
solutions**

**Growing  
threat to the  
electricity  
security of  
supply**

**Adoption of  
diverging  
national  
measures**

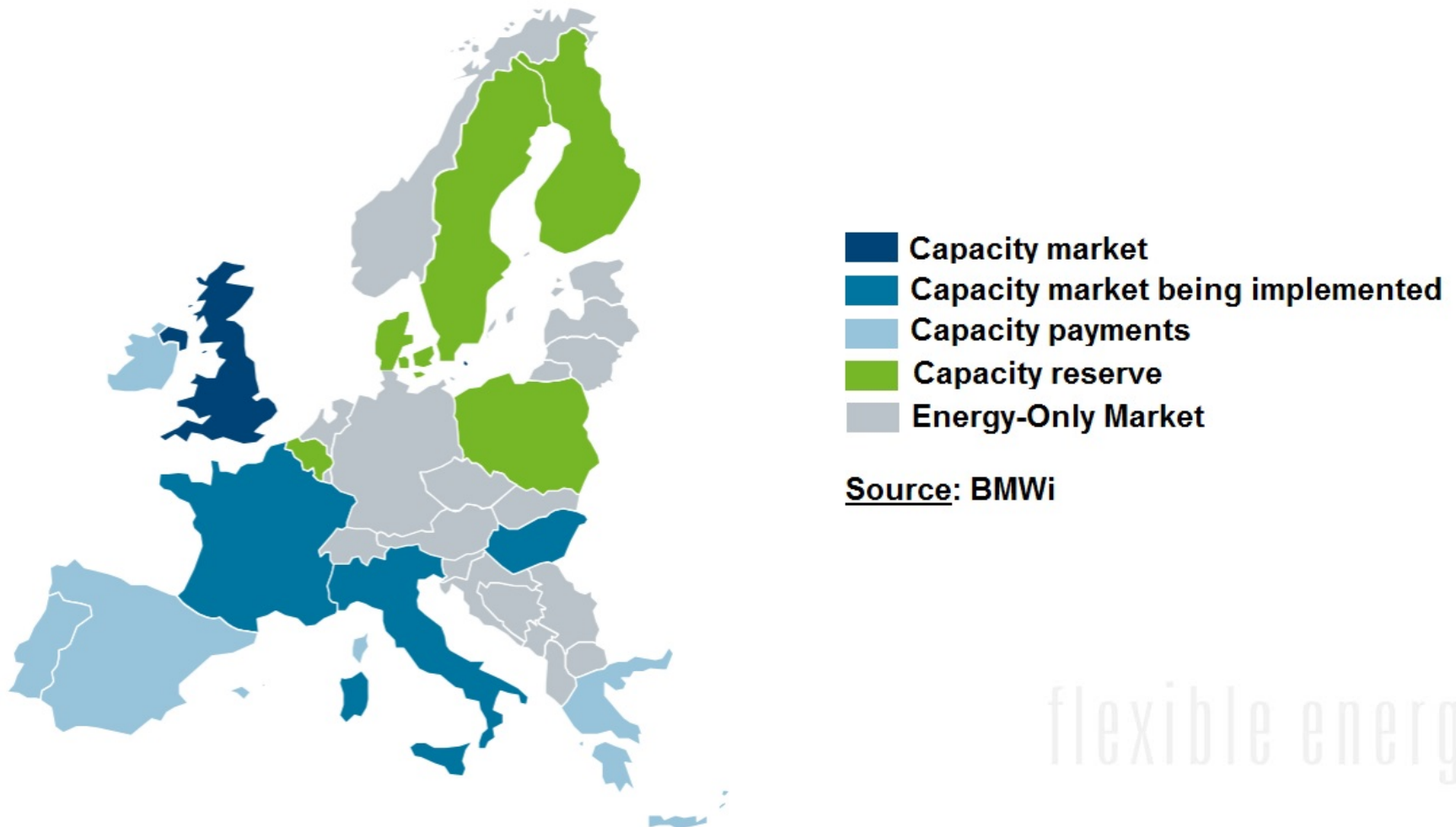
**Wrong  
incentives**

- **Support for existing, less efficient and less flexible capacities**
- **Capabilities required by the system not taken into account**
- **Renationalisation of the energy policy**
- **Suboptimal EU energy system, increased costs for society**

flexible energy

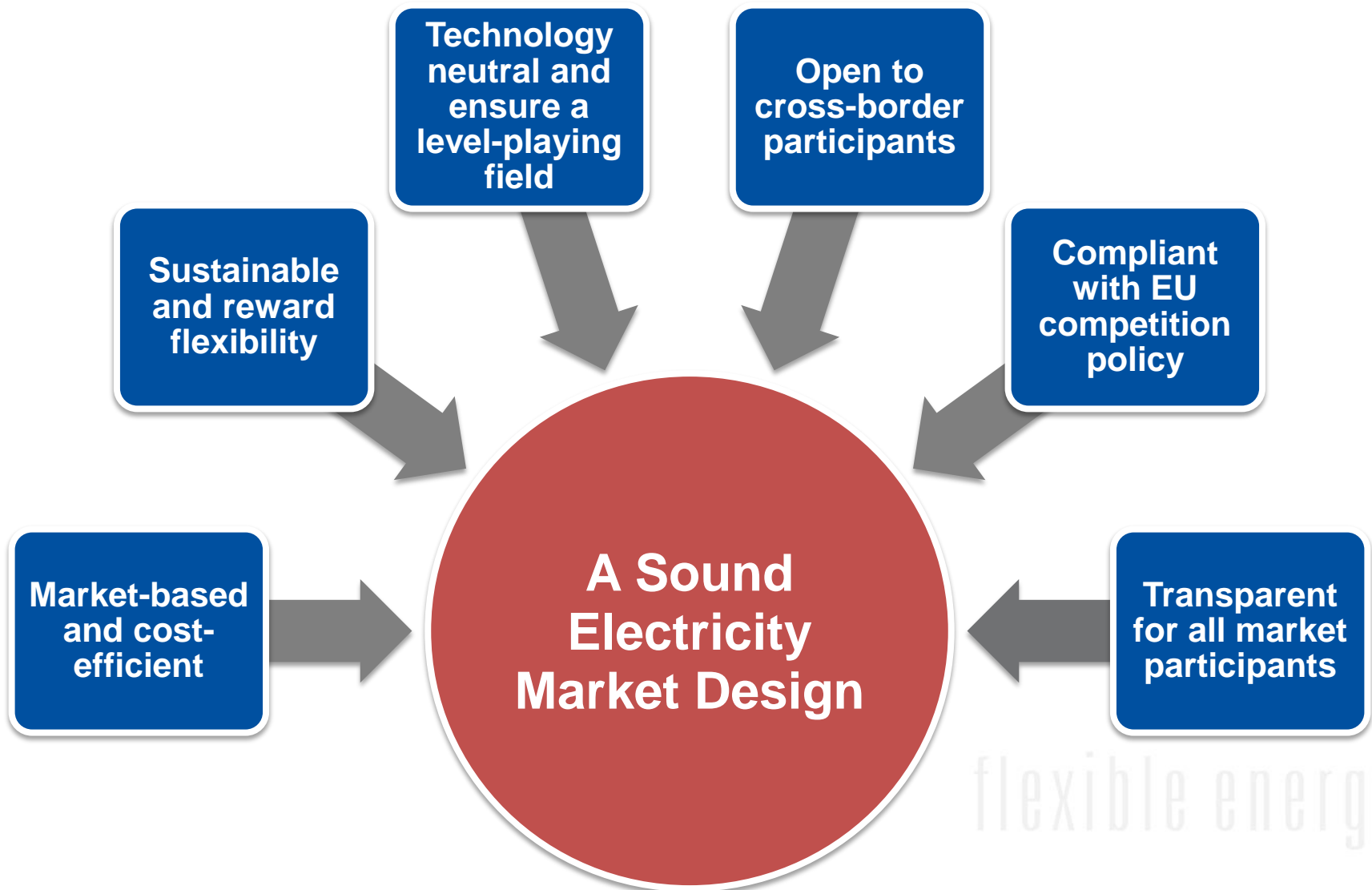
# National mechanisms vs. internal energy market

## Capacity markets and capacity reserves in Europe in 2014





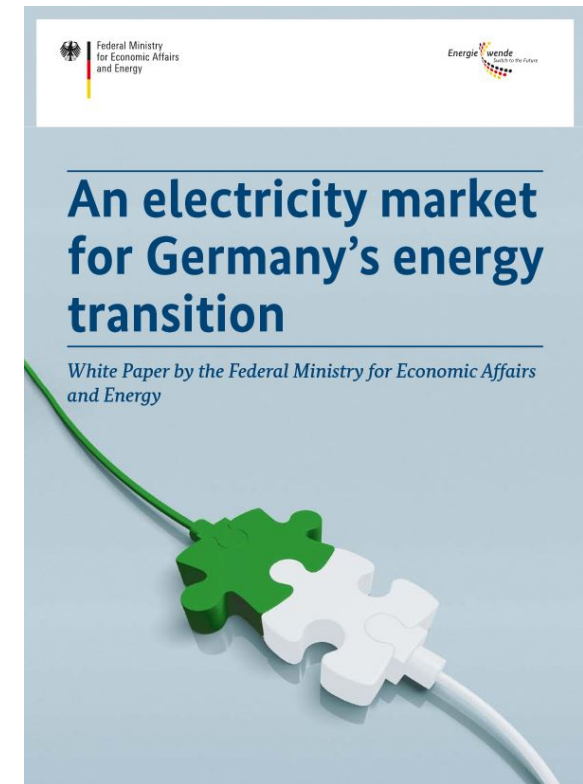
# The future market design has to be...



# A market design rewarding flexibility

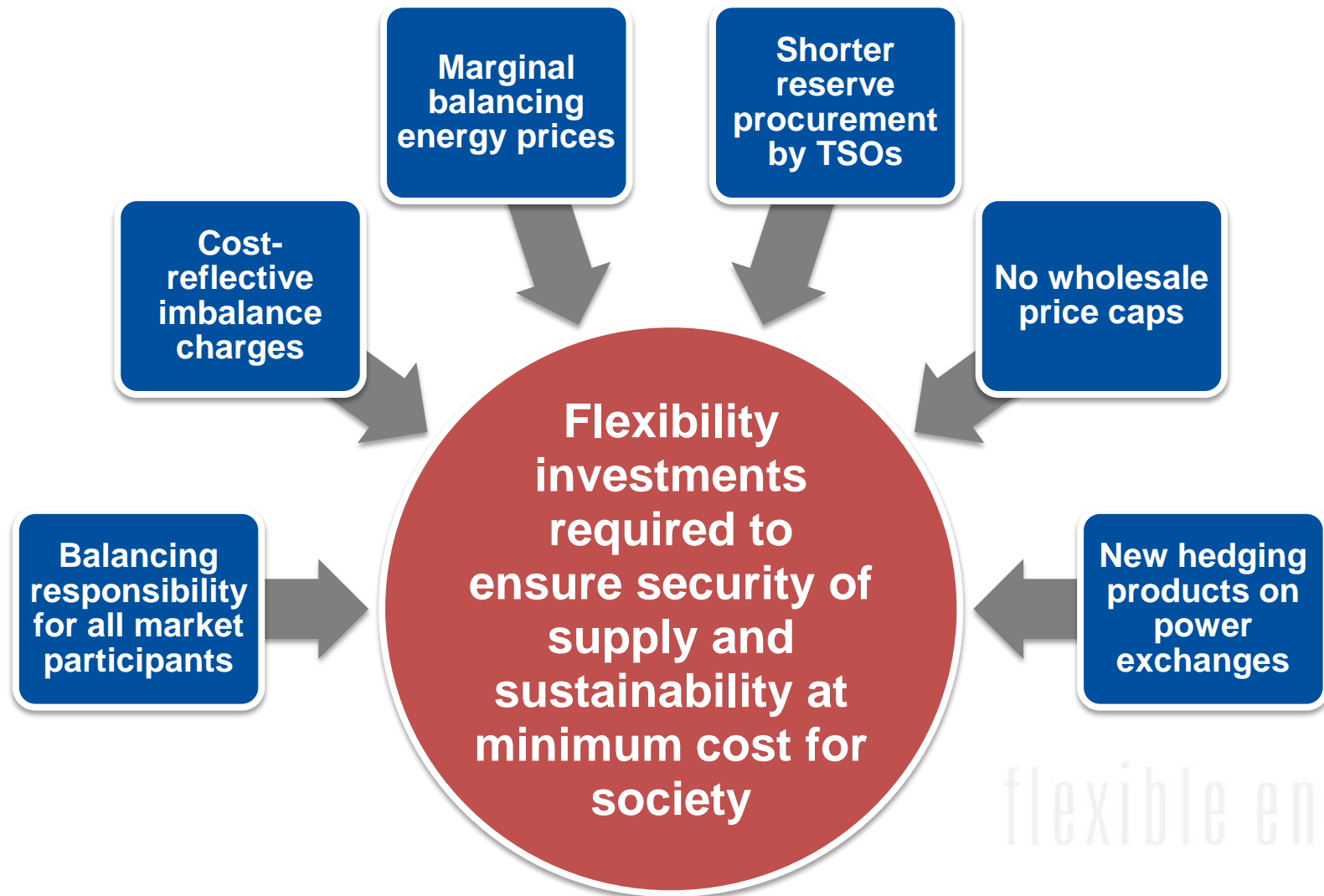
## The German model

- An Improved energy-only market: the ‘EOM 2.0’
  - free price formation signalling scarcity
  - enhancement of the balancing markets
- A ‘strategic reserve’, outside of the market:
  - Capabilities of reserve capacity are important
- Why an ‘EOM 2.0’ and not a capacity market?
  - ‘It ensures security of supply’
  - ‘It is cheaper than a capacity market’
  - ‘It enables innovation and sustainability’





# The solution: Empowering market participants



# Summary:

Security of supply and sustainability at minimum cost

1. **Strengthen the internal energy market**

2. **Allow market price signals that reflect actual supply/demand situation, to:**

- **Increase incentives for balancing**
- **Foster the (further) development of (long-term) hedging products**
- **Attract investments in flexibility**



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