



EU Electricity Market Reform

A new era for electricity market players

About EAI

- Trade Association representing the electricity industry on the island of Ireland (SEM geographic area)
- Eurelectric national member for Ireland
- Membership



| Generation | | Supply | | Networks |
|-----------------|---------|------------------|----------|--------------|
| AES | ESB | Airtricity | Power NI | ESB Networks |
| BGE | Tynagh | BGE | Vayu | NIE |
| Bord na Móna | Energia | Energia | | |
| Indaver Ireland | SSE | Electric Ireland | | |

A new era of opportunity if ...

- Room for a Market continues to exist
- Investment is delivered and remunerated
- Customers perceive they are receiving value through competitive (and affordable) prices
- SEM integration results in a commercially viable solution

Room for a competitive EU Market?

- Energy policy framework determines the market
- Long-standing EU policy aims in place that make objective sense
 - Security of supply,
 - Environmental/climate protection,
 - Market-based competitive prices (at least internally)
- External drivers (climate, geo-political) stretching the cohesion of these aims
- *Example: 2020 RES-target and EU Energy Roadmap indicate*
 - *35% RES-E by 2020 (+15% on 2010; mainly out of market Wind and PV)*
 - *40% in SEM*
 - *45-60% RES-E by 2030 (assuming new nuclear and CCS available; also likely out of market)*
 - *?% in SEM*
- How does market function with 70%+ of generation outside yet determining market price?

Investment will happen?

- EU market needs €1tr investment over next decade (SEM €50bn to 2030)
 - “Yesterday”:
 - EU policy aims that make objective sense
 - Security of supply, environmental/climate protection, competitive prices (at least internally)
 - EU targets that overlap
 - 20:20:20 by 2020
 - EU policy delivery instruments that conflict
 - A current value for EUAs of €4-5
 - “Today”:
 - Uncertainty: about future aims, targets and instruments
 - Lack of urgency to address post 2020 policy framework
 - A challenge to understand market and business implications
 - “Tomorrow”:
 - Increasing inability to make rational investment decisions (in Europe)
 - More attractive opportunities outside Europe

Customers perceive value for money?

- End Price is primarily a function of:
 - Primary fuel costs
 - Capital charges
- but also:
 - Regulatory, national policy requirements and standards
 - Source of subsidies (taxpayer, customer, customer class)
 - Level of Taxes
- In addition to:
 - Competition
 - Extent of interconnection and efficiency of trading
- Market integration addresses only competition and trading efficiency

SEM integration project

Expressed EAI concerns

- Market redesign is complex, governance is essential
- Understanding commercial impact of change is critical
- Success requires:
 - A well resourced Project Team
 - Direction provided by SEM-C with Departmental guidance
 - Expert technical and economic consultant advice on market design and systems
 - 2-stranded Stakeholder Forum:
 - To monitor direction and progress
 - To discuss in detail elements under consideration
 - Commercial analysis in impact assessments for each design Decision
- EAI welcomes “next steps” Decision paper

Residual major concern

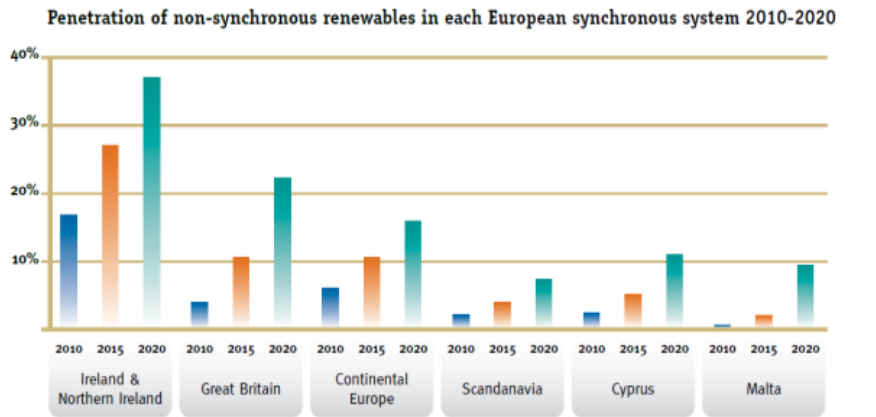
- Ensure sufficient time for design stage

*“Thus grief still treads upon the heels of pleasure:
Married in haste, we may repent at leisure”*

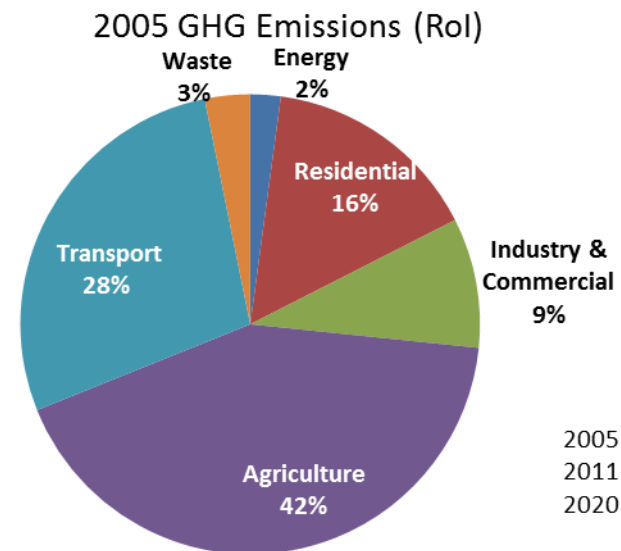
William Congreve (1693)

Unique challenges and opportunities

- RES-E and (non-ETS) climate targets set SEM apart



Data collated from information submitted to the National Renewable Energy Action Plan by EU Member States to the EU Commission in June 2010.



EPA (2012)

Conclusion

- 2020 targets dictate we have to move faster
- Need to:
 - Think harder
 - Act smarter
- Opportunity to provide templates for Europe
(IF we can first persuade EU of value)
- Market design a critical facilitator for a new era
 - Decarbonisation of electricity
 - Electrification of the economy