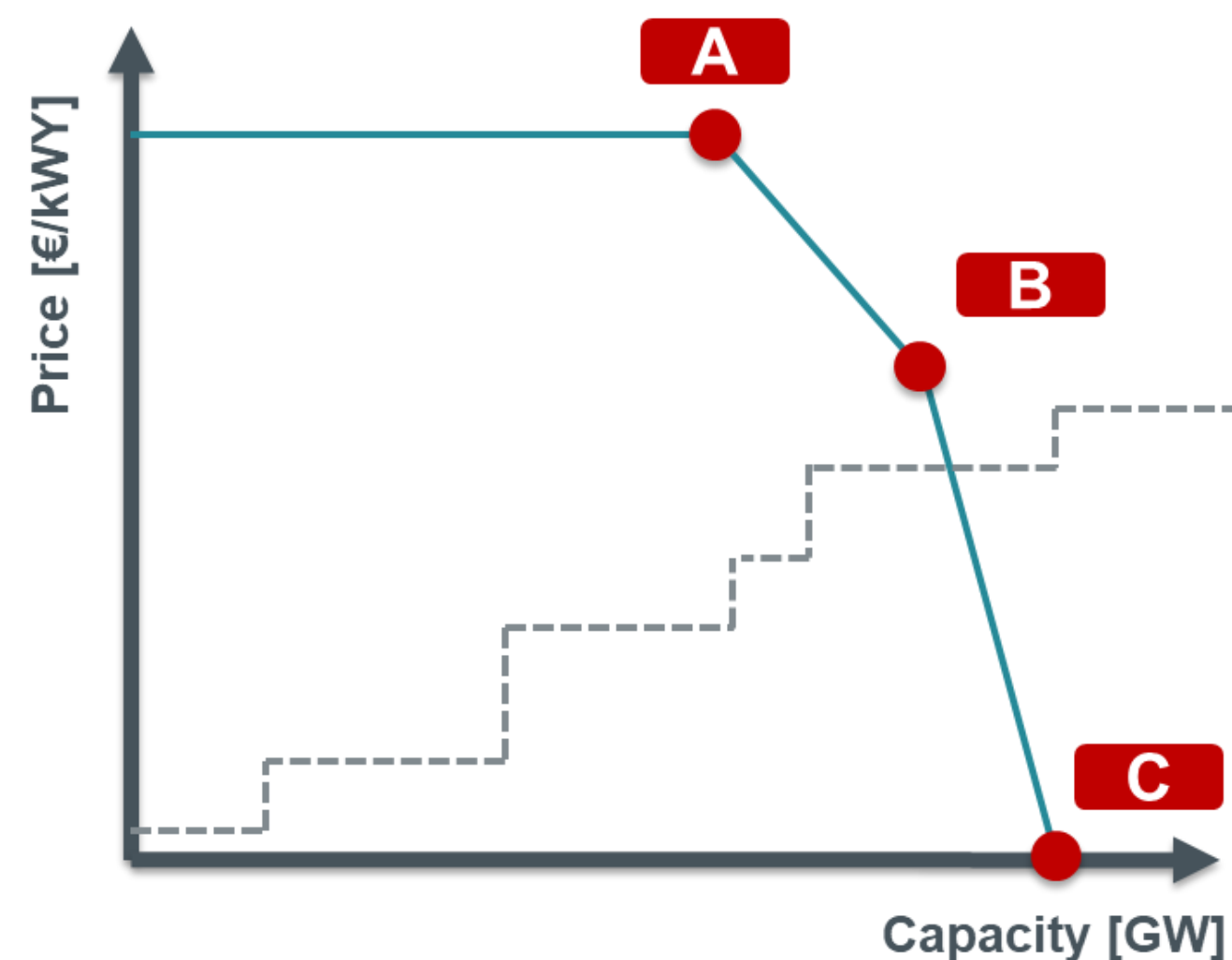


# Demand Curve: High level principles

Daniel Huertas Hernando

Demand curve – illustrative example



### Description/purpose

The demand curve is a crucial aspect to calibrate the auction.

Typically, the demand curve in the auction is administratively set and should reflect the willingness to pay by society for different values of security of supply.

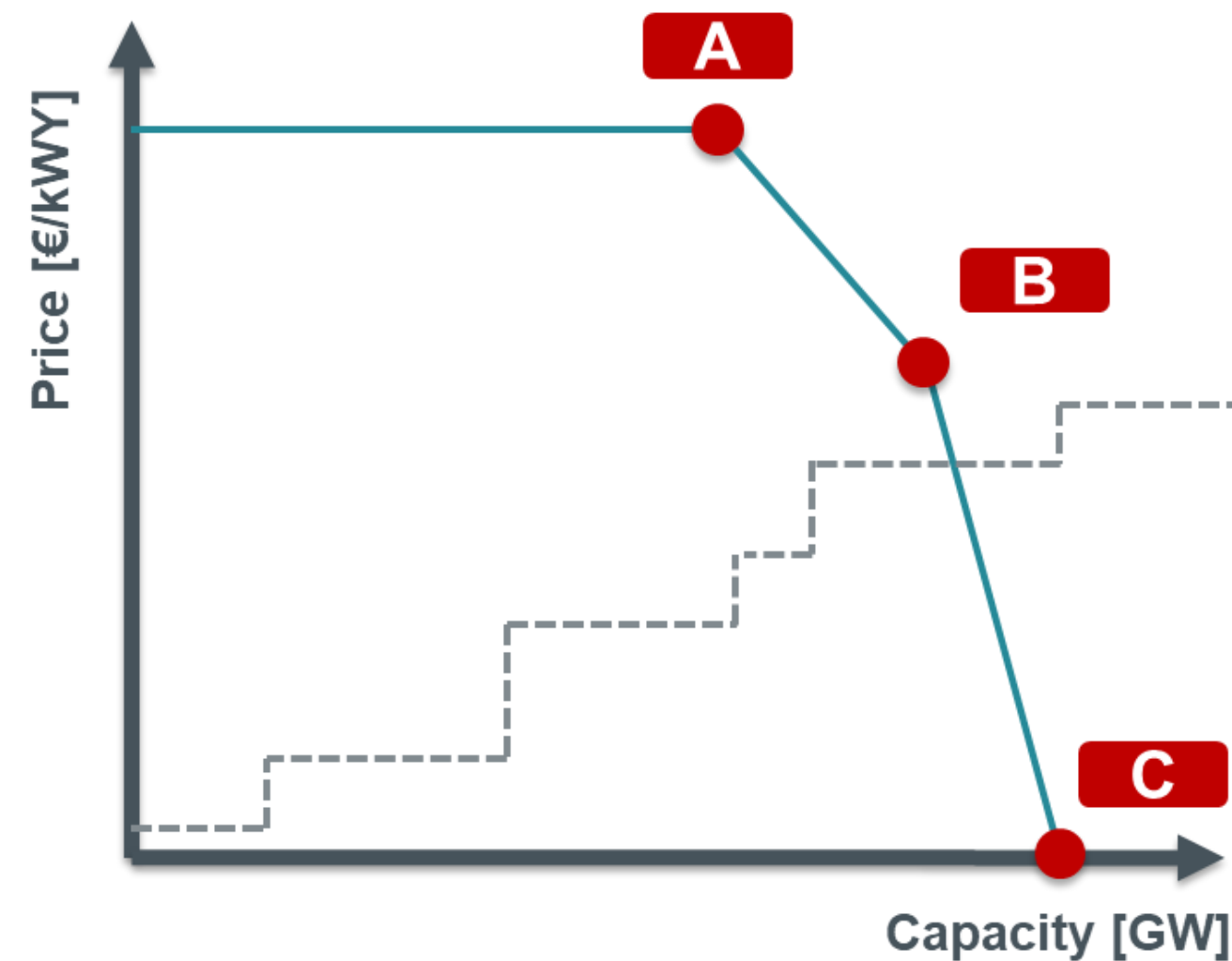
This curve is in the auction matched with all offers made by market participants to determine the market outcome.

**A** represents the minimum capacity to be contracted at a maximum global price cap

**B** represents the target capacity to fulfill the adequacy criteria

**C** represents the maximum capacity to be contracted

Demand curve – illustrative example



### Scope

The demand curve is a crucial aspect to calibrate the auction.

Two options will be presented on the calibration of points **A**, **B** and **C**, and therefore on the shape of the curves

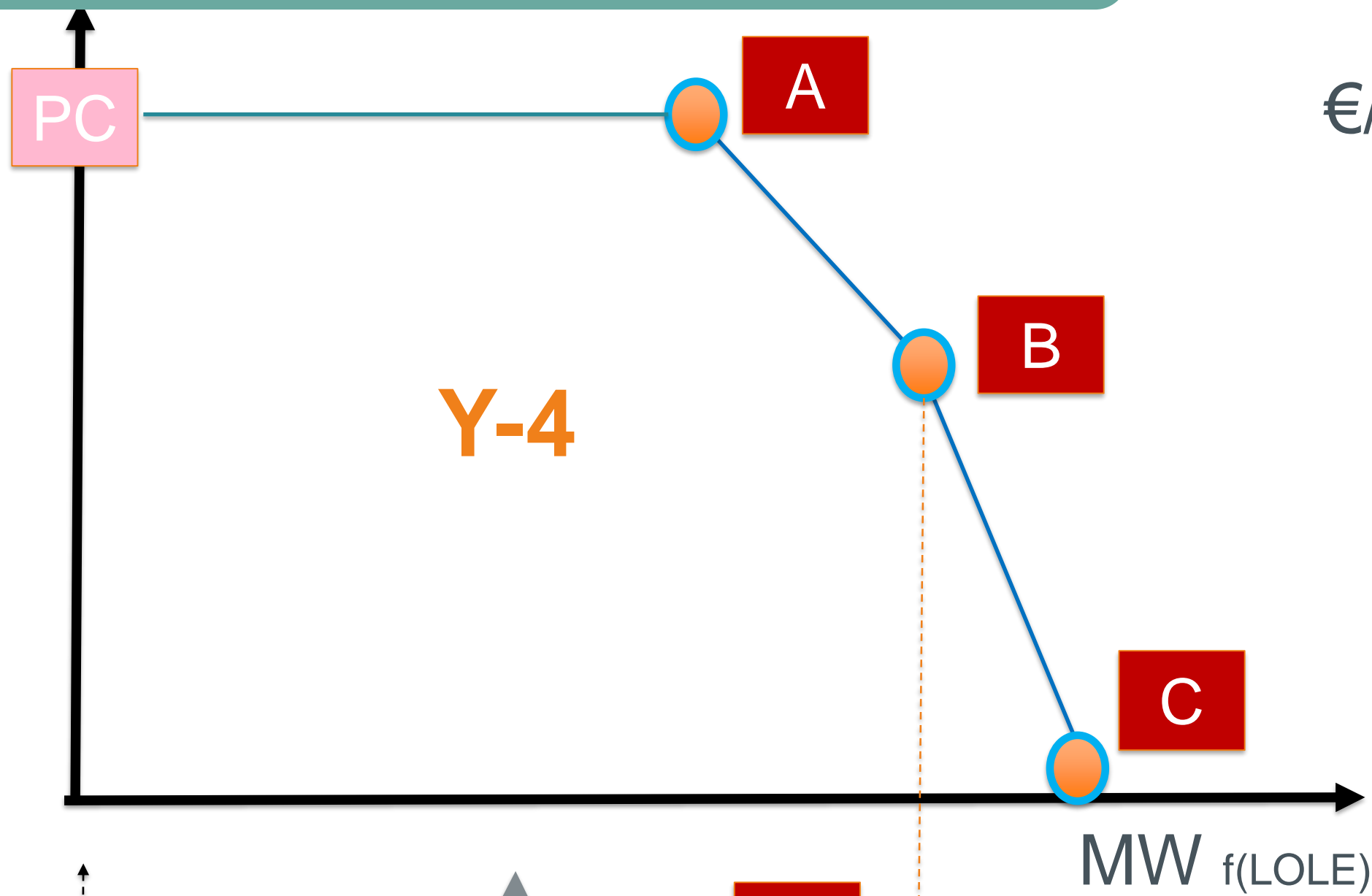
### Disclaimer:

*“The options here presented are for information and feedback by Stakeholders. These are presented by Elia without prejudice to any evolutions on the matter or governance following the Clean Energy Package (CEP) regulation”*

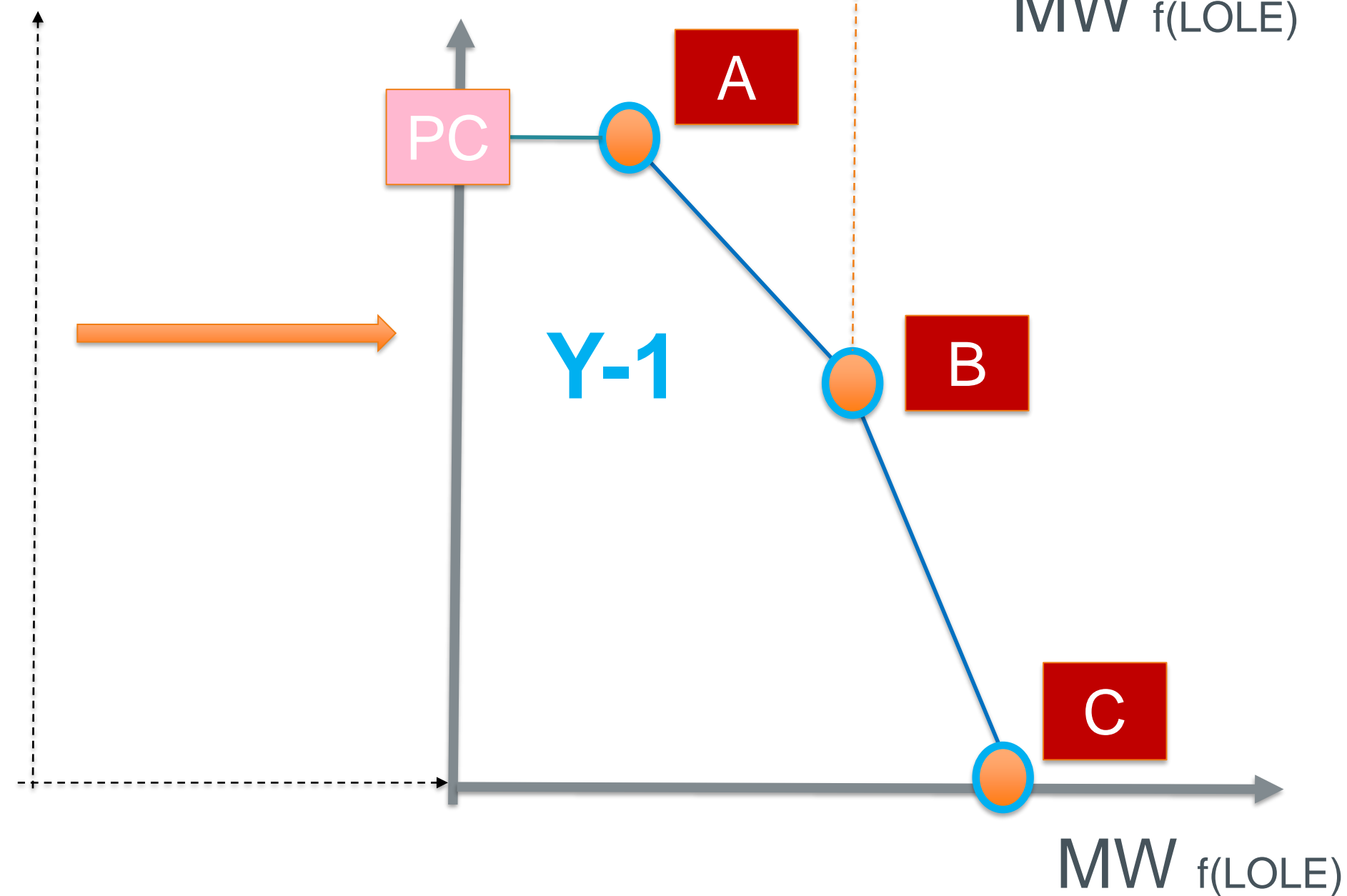
# DEMAND

Option 1: Same curve shape for Y-1 and Y-4

€/MW/yr  
f(CONE,  
revenues)

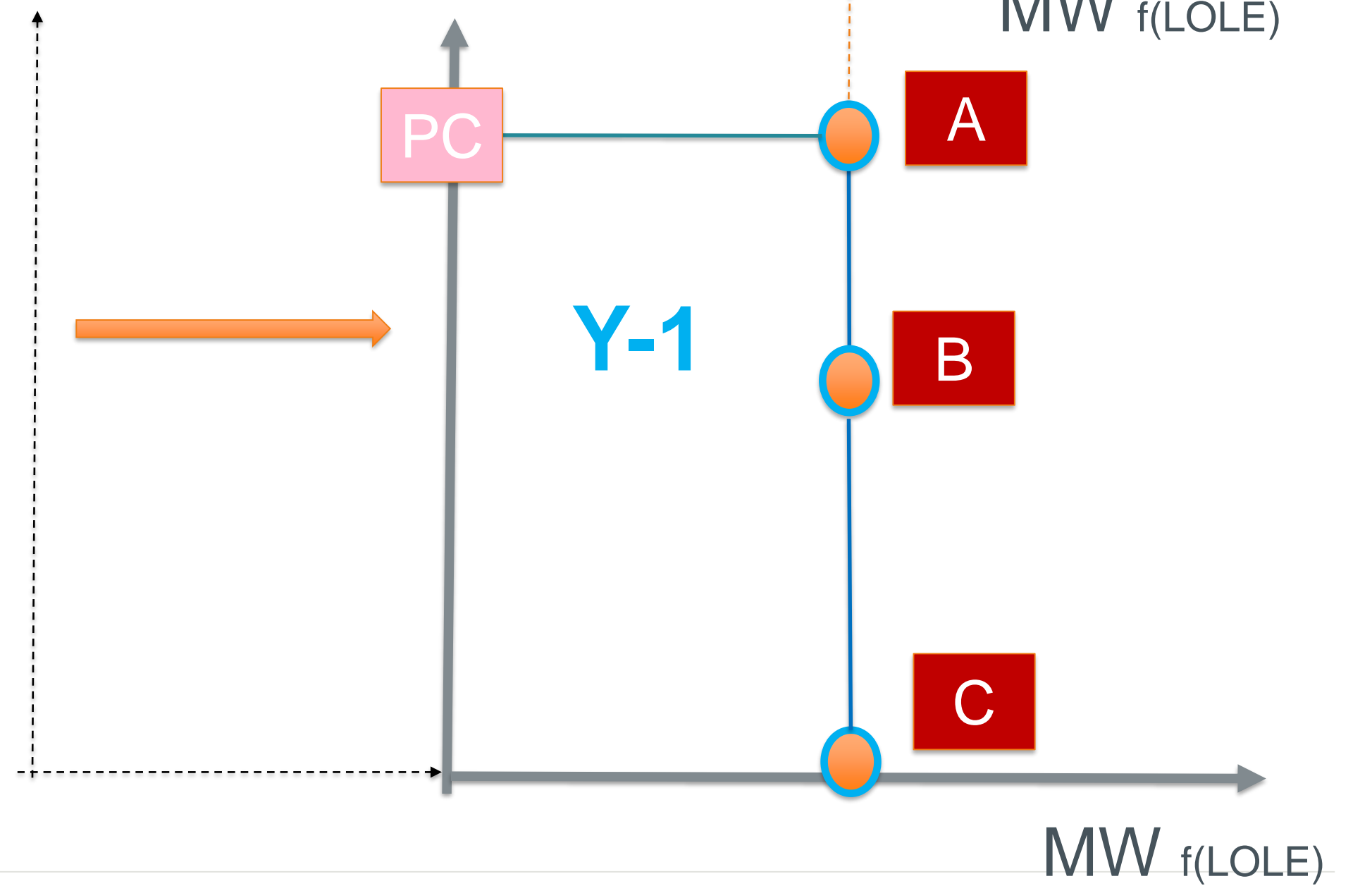
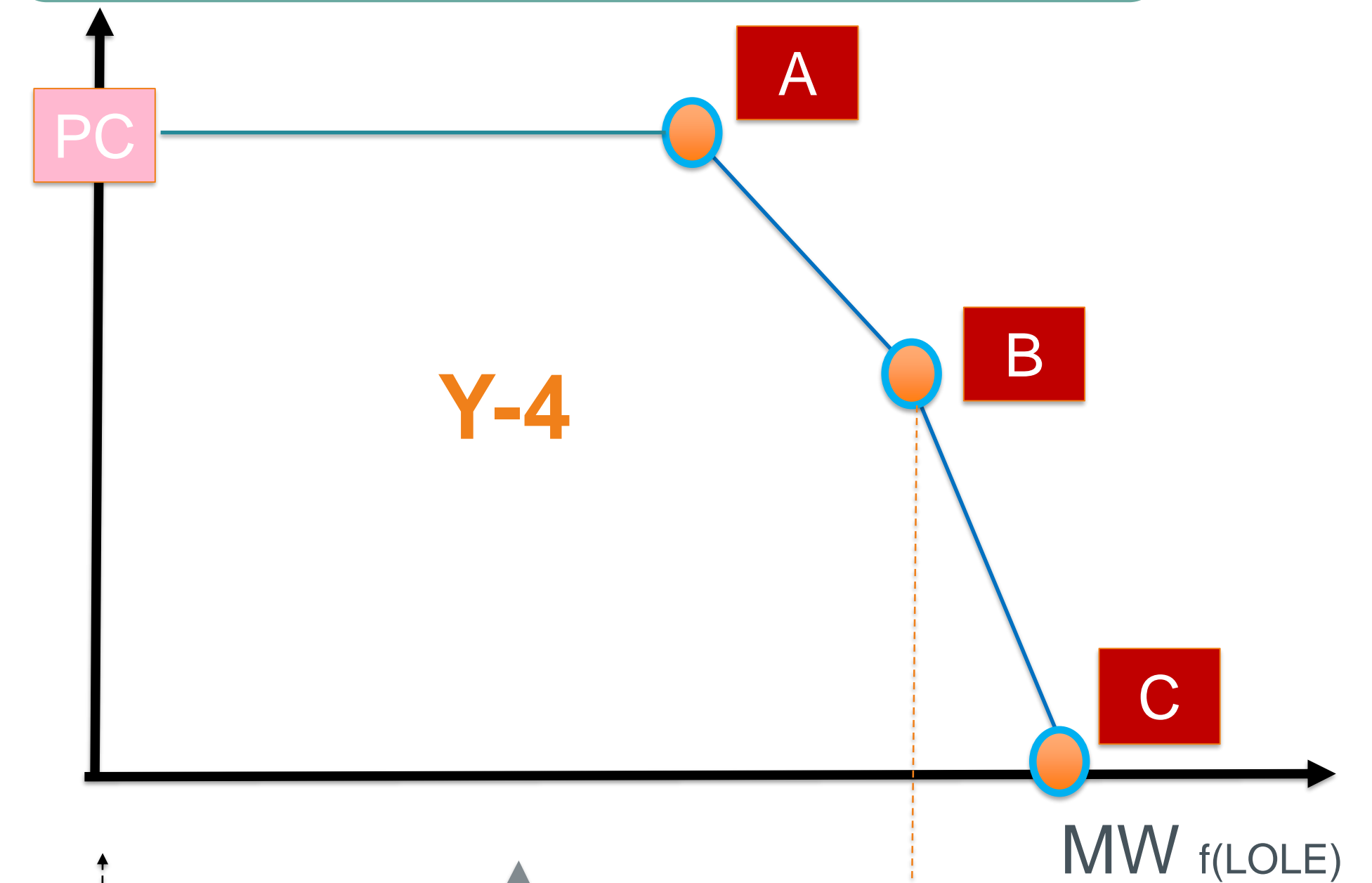


€/MW/yr  
f(CONE,  
revenues)



Option 2: Y-1 curve shape is a vertical line

€/MW/yr  
f(CONE,  
revenues)



Option 1: Same curves for Y-1 and Y-4

Option 2: Y-1 curve is a vertical line

Pros	Cons	Pros	Cons
<p>Curves are based on economic rationale</p> <p>Less prone to market power</p> <p>Lower capacity price volatility as capacity price changes more gradually with capacity supply over time</p> <p>Used in most other CRMs</p>	<p>Based on actual definition of reliability standards:</p> <ul style="list-style-type: none"> <li>▪ Legal criteria might not be met for the considered delivery year</li> <li>▪ Risk of over procurement compared to the legal reliability standards</li> </ul>	<p>Based on actual definition of reliability standards:</p> <ul style="list-style-type: none"> <li>▪ Required level of adequacy (at the legal reliability standard) is ensured after Y-1</li> <li>▪ Y-4 curve still follows economic rationale.</li> <li>▪ No risk of overprocurement compared to legal reliability standard.</li> </ul> <p>Vertical line A – B exists also in other CRM</p>	<p>Economic rationale only fully exploited in Y-4</p> <p>If insufficient liquidity in Y-1 auction, could be more prone to market power. Risk seems relatively low since for Y-1 more smaller volumes are expected to be offered (e.g. DSR, small generators,..)</p> <p>Increase price volatility over time what could make investments more risky</p> <p>Vertical line B-C different from other existing CRM's</p>