

Status on:  
Strike/Reference price

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# Status: Strike & Reference price

- **Remember:** There were 4 options on the # of Strike price(s) and % of hedging exemption upon which a “survey” was organized
  - ➔ **Option 1:** *One single Strike price formula & No payback obligations exemption*
  - ➔ **Option 2:** *Multiple Strike prices formulas & No payback obligations exemption*
  - ➔ **Option 3:** *One single Strike price formula & Fix % payback obligations exemption*
  - ➔ **Option 4:** *Multiple Strike prices formulas & Linked % of payback obligations exemption*
- **Arguments were received from several stakeholders focusing on a set of assessment criteria, underlying the multi-objective nature of the design question:**
  - ✓ Simplicity/complexity & feasibility
  - ✓ RO Principle (spirit of the law)
  - ✓ Technology Neutrality and Openness
  - ✓ Limit Overall CRM cost & Avoid Windfall profits
- **The survey has not yet resulted in a clear consensus or silver bullet alternative**
- **Over summer the topic has been further discussed within the Comité de Suivi**

# Forward hedging exemption?

- **An exemption on the payback obligation linked to forward hedging is no longer considered in the updated proposal**

## *Justification:*

- **Academic literature is inconclusive** on the so-called “Forward backwardation principle” and its applicability to our context.
  - As such, **hedging in forward markets is an individual choice** (per asset and/or company) linked to a trading and risk management strategy.
  - A market-wide exemption on the payback obligation would ignore the individual choice element, whereas an individualized approach **risks to interfere with energy market functioning and more generally increase overall mechanism complexity** (either via a lock-in in case of multi-year contract and/or increased complexity)
- ➔ To the extent CRM participants at individual level would appreciate a risk related to forward hedged volumes, they can of course assess this risk when pricing their offers in the CRM

- **Only design options 1 and 2 remain: one or multiple strike prices?**

# One or multiple strike prices: Elia proposal (1/3)

To best meet the multiple objectives for the strike price design, it is proposed to foresee:

***A single, sufficiently high strike price complemented with (1) a payback exemption in case of unplanned and planned unavailability, (2) load following factor and (3) a separate stop-loss limit on the payback obligation***

## ➤ **Single strike price**

- Ensures a level playing field in the CRM via a homogeneous product
- Facilitates DSR and small-scale generation participation as it avoids technology-driven limitations to aggregation in case of 2 or more technology-driven strike prices
  - Otherwise, how to fairly aggregate generation, storage and demand response which have de facto very heterogeneous activation costs
  - If technology-differentiation would be considered appropriate, this would actually require several strike prices, i.e. at (sub)technology level, which would be very impacting and very complex
  - Moreover, by differentiating technologies explicitly via “the economics”, it would not be sufficient to limit this to the strike price to ensure a non-discrimination. Also in the capacity auction further differentiation would be required, e.g. through technology-differentiated price caps recognizing the differences between CAPEX/OPEX of various technologies.
- Limits complexity/risk of *in*transparency towards energy market functioning
- In line with earlier EC approved mechanisms in Ireland and Italy

# One or multiple strike prices: Elia proposal (2/3)

To best meet the multiple objectives for the strike price design, it is proposed to foresee:

***A single, sufficiently high strike price complemented with (1) a payback exemption in case of unplanned and planned unavailability, (2) load following factor and (3) a separate stop-loss limit on the payback obligation***

## ➤ Sufficiently high strike price

- The strike price should be sufficiently high to ensure a realistic chance of all technologies to participate in the CRM. This is particularly relevant with respect to high SRMC technologies, not the least for demand response
- The strike price should however not be excessive in order to
  - Respect the spirit of the CRM law, i.e. ensuring a reliability option with a payback obligation
  - Limit any windfall profits of lower SRMC-technologies, to the extent not all inframarginal rents from the energy market are not accounted for in setting the CRM offer prices

## ➤ Towards a first, preliminary calibration: a strike price range of [500;800] €/MWh seems an acceptable trade-off

- International comparison:
  - Irish strike price: 500 €/MWh (already DSR-driven)
  - Italian strike price: 125 €/MWh (not DSR driven and generally different DSR approach)
- Average activation cost of strategic reserve (SDR) for winter 2015-16: 736,73 €/MWh

# One or multiple strike prices: Elia proposal (3/3)

To best meet the multiple objectives for the strike price design, it is proposed to foresee:

***A single, sufficiently high strike price complemented with (1) a payback exemption in case of unplanned and planned unavailability, (2) load following factor and (3) a separate stop-loss limit on the payback obligation***

## ➤ **Payback exemption in case of unplanned and planned unavailability & Load following factor**

*Cf. earlier proposals.*

- Payback only due in case the energy could actually have been delivered to the market
- In case of unavailability no energy could not be delivered, hence no energy revenues supposed to be earned that could be reimbursed
- Load following factor corrects for the fact that not all contracted CRM capacity (~peak demand) would be required to meet demand at moments of the reference price being higher than the strike price.

## ➤ **Separate stop-loss limit on the payback obligation (NEW)**

- Stop-loss limit at the (yearly) contractual value
- Ensures that any technologies with SRMC still higher than the strike price can participate as the risk on the payback obligation is not open-ended.
- Ensures a better transition to phase-out the CRM as it allows the CRM offer price to go to zero. Without stop-loss energy(-only) revenues would be unnecessarily capped preventing a phase-out of the CRM