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**The interaction of market design and cross-border issues with the climate policy components**



Pedro Linares

A Smart EU Energy Policy  
Florence, April 30th 2009




**My starting assumption**


- We want the climate policy objectives to be achieved
- So the question is: Which are the market design and cross-border issues we need to deal with to achieve them.



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## The climate policy components


- Emissions Trading Scheme
- Renewable energy (RES) targets
- Technology policies (other than RES)
- Energy efficiency (not explicit, but critical to the rest)

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## Carbon policies (ETS)


- Generation
  - Marginal pricing vs Cost of service: Windfall profits / Signal
  - Non-unbundled systems: Loss of signal
- Retail
  - Possibility of pass-through
    - Tariff deficit
    - Pass-through impossible
- Cross-border
  - The single auction scheme has removed some of the possible cross-border problems (if there are no grandfathering or new entrant rules)
  - Although of course the merit-order change might make more salient some grid issues

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## Renewable energy policies


- Generation
  - Balancing, reserve requirements
  - Marginal pricing vs Cost of service: Cost recovery, marginal price issues
- Grid
  - Third-party access
  - Grid extension, nodal pricing
- Retail
  - Guarantee of origin
  - Allocation of RES subsidies (electricity, public budgets)
  - Regulation of distributed generation
- Cross-border
  - Single market, differentiated national RES targets (flexible): cross-country subsidies

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## Technology policies


- The most salient may be CCS, but also nuclear
- Generation
  - If we set support schemes for RES, clean coal, even nuclear... ¿what do we leave to the market?
- Retail
  - Guarantee of origin
  - Allocation of RES subsidies (electricity, public budgets)
- Cross-border
  - Single electricity market, differentiated national support: cross-country subsidies

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## Energy efficiency


- Generation
  - Impact on marginal prices (similar to the issues discussed for RES)
- Retail
  - Degree of liberalisation
    - Good: prices signals, demand participation more efficient
    - Bad: Decoupling complicated, it is more difficult to transfer signals
  - Regulation of distribution activities. Are there right incentives for energy efficiency?
  - Allocation of subsidies, if any
- Cross-border
  - Cross-country subsidies

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## Conclusions

- Market design and cross-border issues may prove critical for the effective and efficient implementation of climate policies
  - Marginal pricing vs Cost-of-service: Signal, cost recovery
  - Balancing / Reserve requirements
  - Third party access to the grid
  - Retail liberalisation and regulation
  - Cross-country subsidies
- Then of course we have the interaction between these climate policies, but that needs another talk...

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Thanks!

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