Case Study: CRM in Poland

Jan Rączka, Senior Advisor
Key message

• Capacity Remuneration Mechanism (CRM) is expected to encourage investments in new capacities in Poland
• The current proposal allows to set up a basket/tranche for new capacities
• It will be possible to assign a 15-year fixed price contract to a preferred project through specific composition of attributes that condition qualification
• In the basket for new capacities competition is limited
Outline

• Default design of the capacity auction
• Modified design to secure funding for new capacities
• Limited competition in the tranche for new capacities
• Conclusions
Default design of a capacity auction

- Design draws on UK CRM
- Pay-as-clear (one price)
- New capacity competes with existing capacity and capacity to be upgraded

Price per MW / year

Clearing price

Existing

to be upgraded

New

Capacity, MW

Required capacity
A default design – rewarding new capacity

- Requires expanding the tender to call for a higher total volume of capacity
- Clearing price goes up
- Existing capacity is overcompensated due to new, high cost marginal unit
- CRM is very expensive
A modified design – rewarding new capacity (1)

- Art. 19.4 of draft CRM bill: energy policy may justify concluding an auction separately for existing and new capacity
- Two clearing prices
- CRM is cheaper
- New capacity gets funding
- Limited competition
A modified design – rewarding new capacity (2)

- Art. 19.1.4 of draft CRM bill: technical and economic attributes condition qualification
- Auctioneer can pick up a more costly unit through specific composition of attributes
- Departure from a concept of market wide mechanisms
Why is competition limited?

- New capacity can enter the market although there is sufficient existing capacity (in contrary to UK case) – new capacity gets advantage.
- There are few large projects ready for implementation (only a new coal-fired unit in Ostrołęka)
- An auctioneer can apply a modified design in the first auction and stick to a default design in subsequent auctions, giving an advantage to a project that is ready for implementation
- An auctioneer may compose technical and economic conditions in a way that favors a specific project
Conclusions

• Poland is determined to encourage new capacities
• While the current design contributes to this goal, it departs from a concept of market wide mechanisms
• The competition in the tranche for new capacities will be very limited
• The CRM may become a vehicle for rewarding a preferred project with 15-year fixed price contract
• A case of invoking a modified design of an auction may deserve separate notification for compliance with EU state aid rules
About RAP

The Regulatory Assistance Project (RAP) is a global, non-profit team of experts that focuses on the long-term economic and environmental sustainability of the power sector. RAP has deep expertise in regulatory and market policies that:

- Promote economic efficiency
- Protect the environment
- Ensure system reliability
- Allocate system benefits fairly among all consumers

Learn more about RAP at www.raponline.org

jraczka@raponline.org