

“CAPACITY MECHANISMS” VIDEO VOICE TRANSCRIPTION

Voice over: “We all want a cleaner world, and all nations are clearly backing renewable energy. It is here to stay - and will be the key instrument in achieving decarbonisation.”

“Renewable energy already represents over 30 % of electricity production at European level. However, the design of the electricity market has not totally adjusted to the new challenges posed by a high penetration of renewable energy into the system.”

“In this sector, as in the other liberalised markets, the price is determined by supply and demand.”

“In the electricity sector there is a daily market, where generators present their offers for the energy to be produced to meet demand. The competition causes the generators to present the lowest possible offers (if the offer is high, it will be another generator that sells its energy). The offers must cover at least variable costs, such as fuel.”

“But what happens in the daily market when connected renewable power plants increase substantially?

- the fuel for these technologies are wind and sun, whose variable cost is zero, allowing them to offer at very low prices.
- when there is wind and sun, renewable plants produce massively, reducing considerably the market price.”

“So, what happens when there is no wind or sun? In these situations, the electricity supply still needs to be guaranteed through “firm” power plants, in other words, those capable of producing based on human’s decisions. But then, how do these plants recover the investment if they only produce at specific moments and, therefore, have low incomes in the daily market?”

“The answer lies in modernising the electricity market by recognizing that energy and capacity are two different things. This means introducing new long-term markets – known as capacity mechanisms –, which can co-exist with the existing daily market, and establish competitively-assigned contracts with the aim of offering price signals that will attract the needed investment to guarantee supply.”

“These long-term markets will make it possible to attract the investment needed to ensure the transition to a decarbonised economy and maintain security of electricity supply at the lowest possible cost for all consumers.”