

Case Study: CRM in Poland

Jan Rączka, Senior Advisor

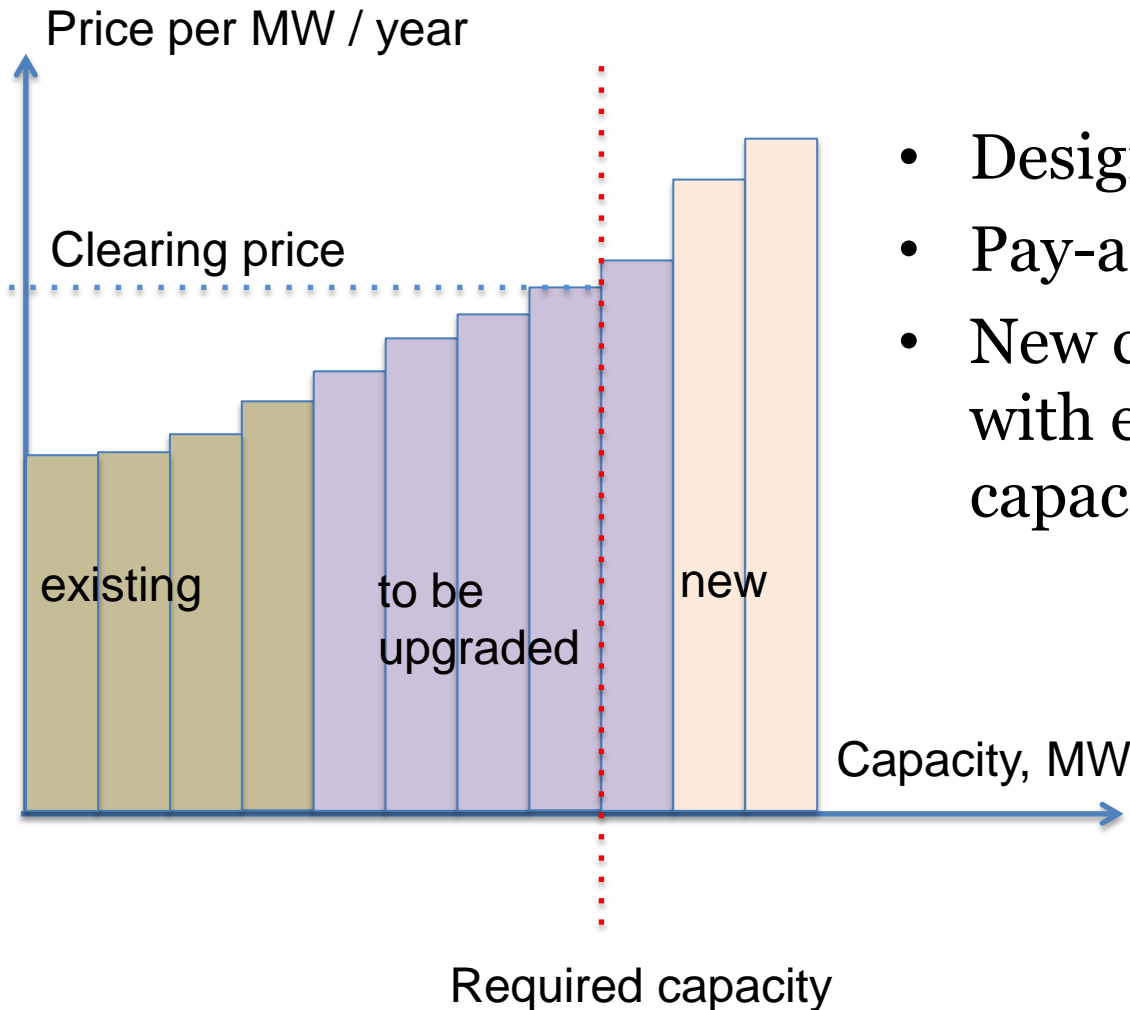
Key message

- 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

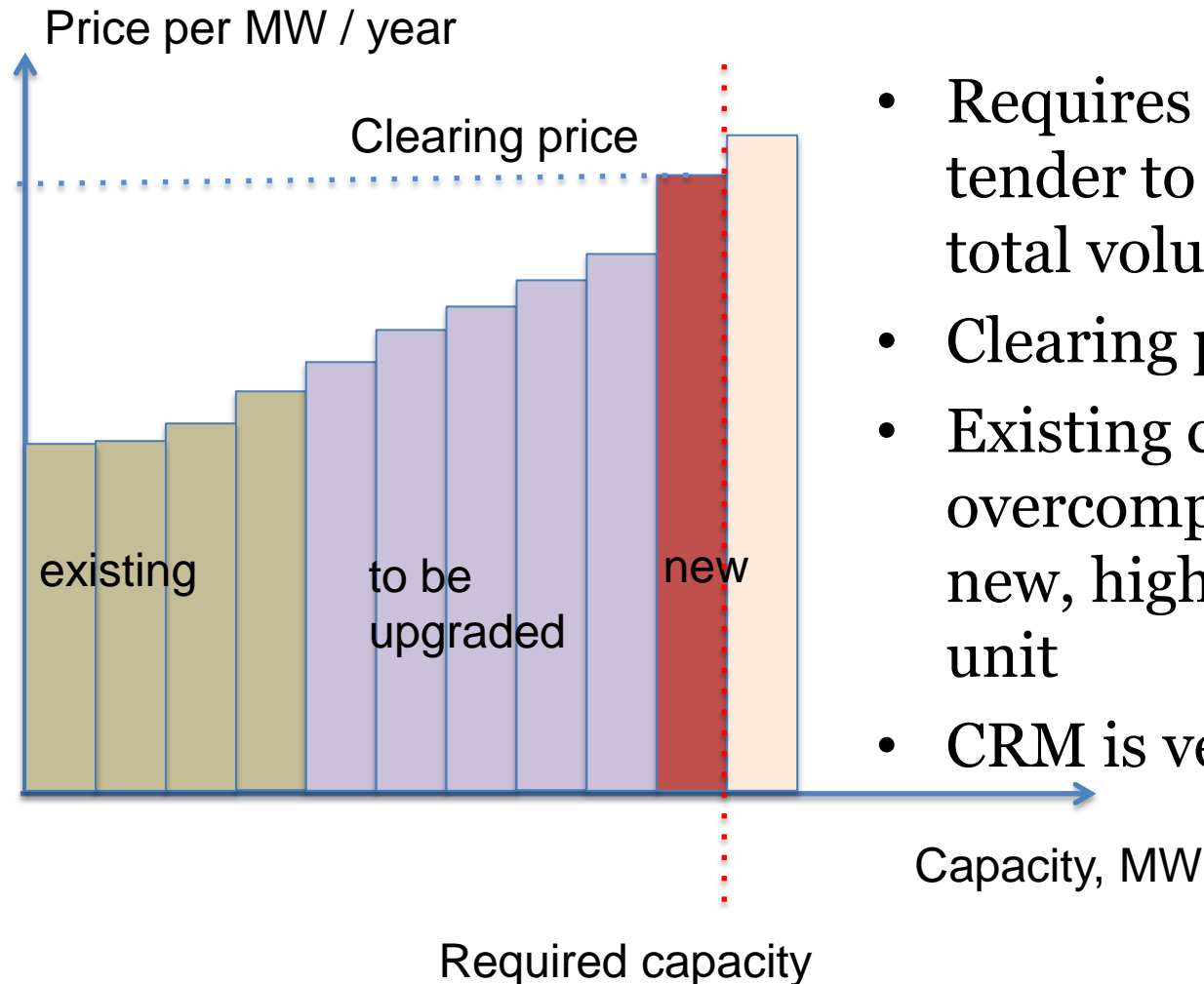
- Default design of the capacity auction
- Modified design to secure funding for new capacities
- Limited competition in the tranche for new capacities
- Conclusions

Default design of a capacity auction



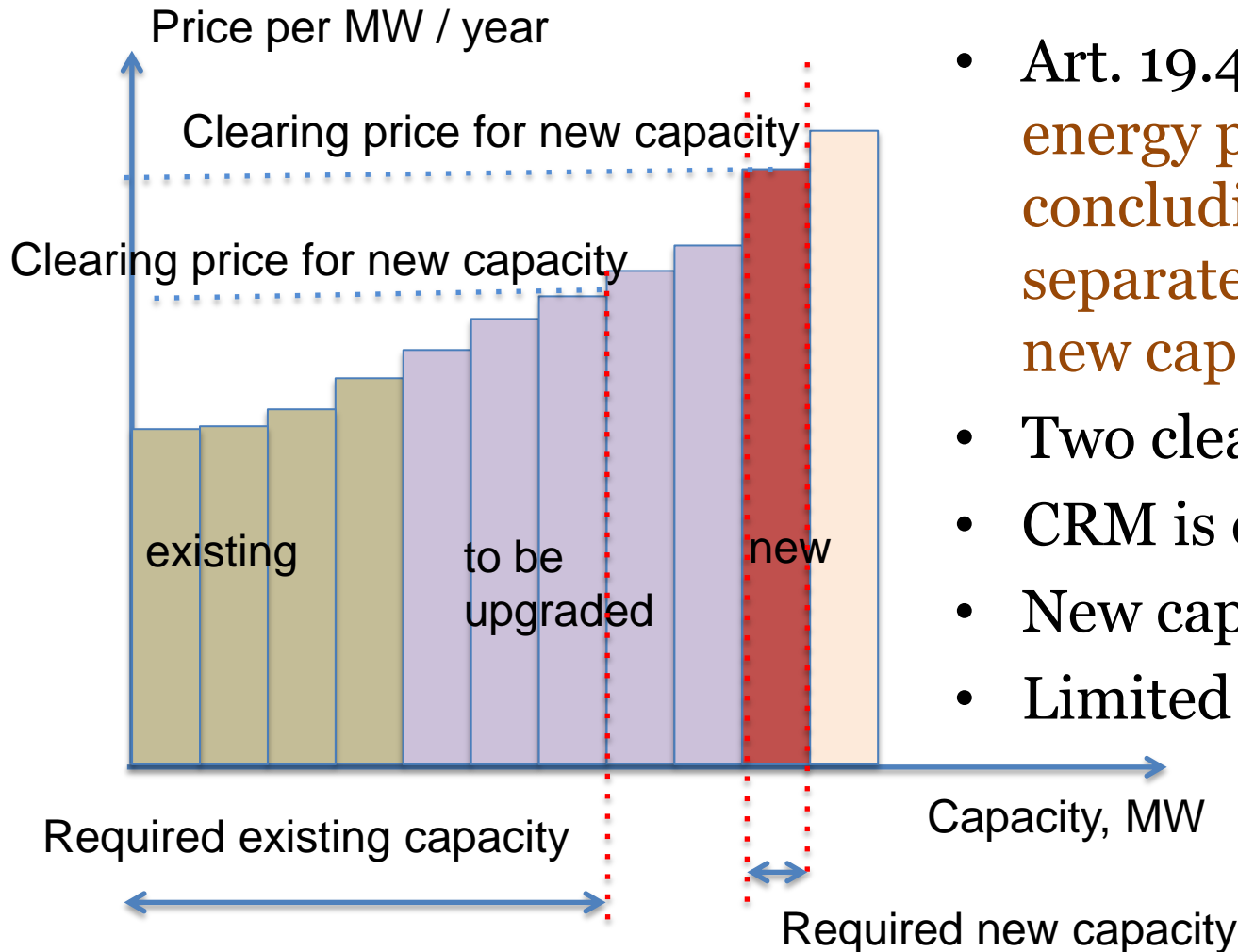
- Design draws on UK CRM
- Pay-as-clear (one price)
- New capacity competes with existing capacity and capacity to be upgraded

A default design – rewarding new capacity



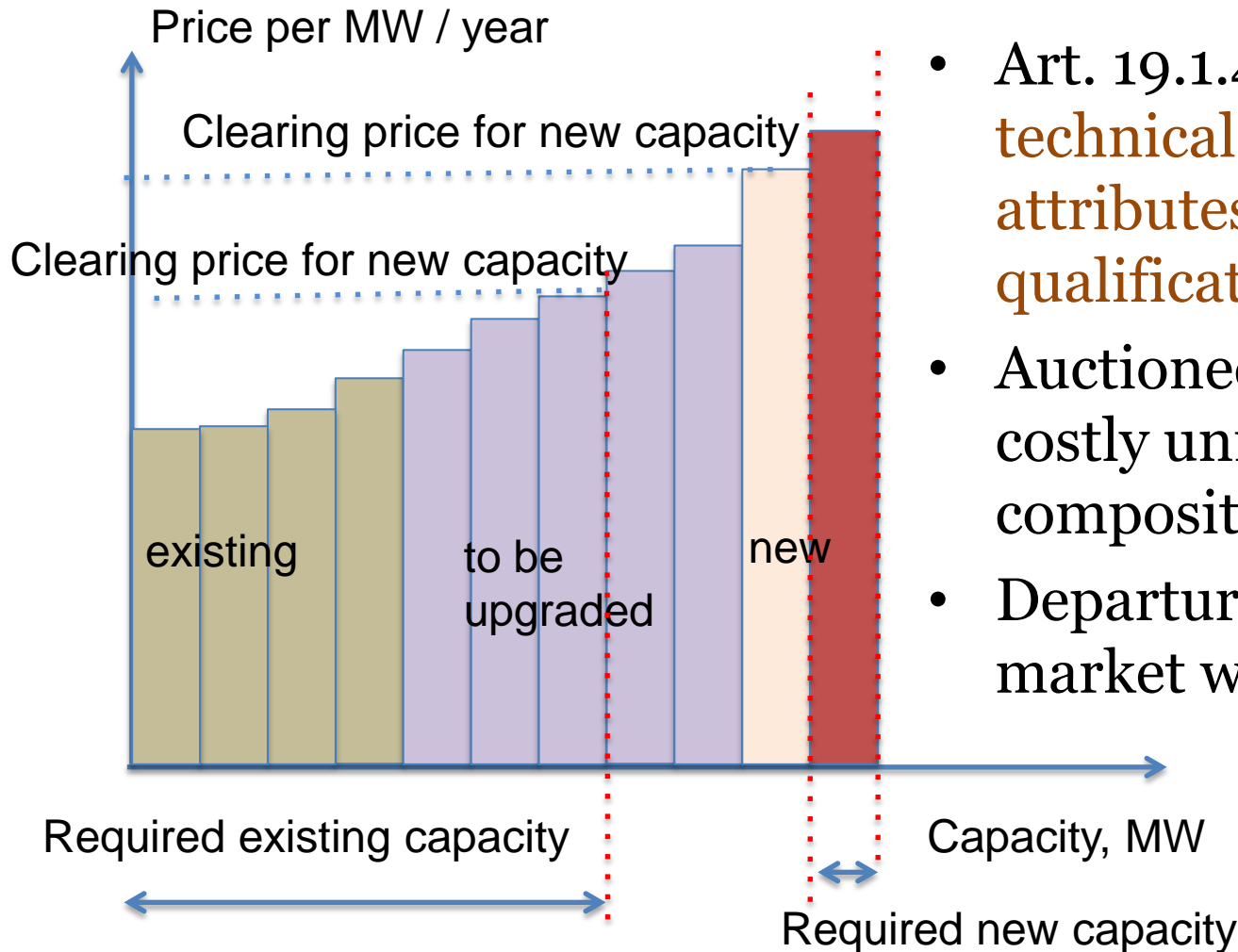
- Requires expanding the tender to call for a higher total volume of capacity
- Clearing price goes up
- Existing capacity is overcompensated due to new, high cost marginal unit
- CRM is very expensive

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



The Regulatory Assistance Project (RAP)[®]

Beijing, China • Berlin, Germany • Brussels, Belgium • Montpelier, Vermont USA • New Delhi, India

www.raponline.org