

High energy prices: implications for electricity market design

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Three points, three slides, three publications

- Taxing windfall profits
- Proposal to move towards pay-as-bid
- FSR policy brief

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Viewpoint

Windfalls and other profits

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ABSTRACT

"Windfall profits" again is a popular term, but mostly the term is used inappropriately. This short article discusses why, and proposes a more complete taxonomy of profits. There exists little ground and need for policy to act against genuine windfalls, while the contrary holds for other excessive earnings. Very few windfalls, freely fallen down from winds in the sky, occur after observed excessive profits are stripped from deliberate man-made interventions. That is why clear identification and correct language are needed.

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Uniform Pricing or Pay-as-Bid Pricing: A Dilemma for California and Beyond

Any belief that a shift from uniform to as-bid pricing would provide power purchasers substantial relief from soaring prices is simply mistaken. The immediate consequence of its introduction would be a radical change in bidding behavior that would introduce new inefficiencies, weaken competition in new generation, and impede expansion in capacity.

Alfred E. Kahn, Peter C. Cramton, Robert H. Porter, and Richard D. Tabors

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POLICY BRIEF

Recent energy price dynamics and market enhancements for the future energy transition

Highlights

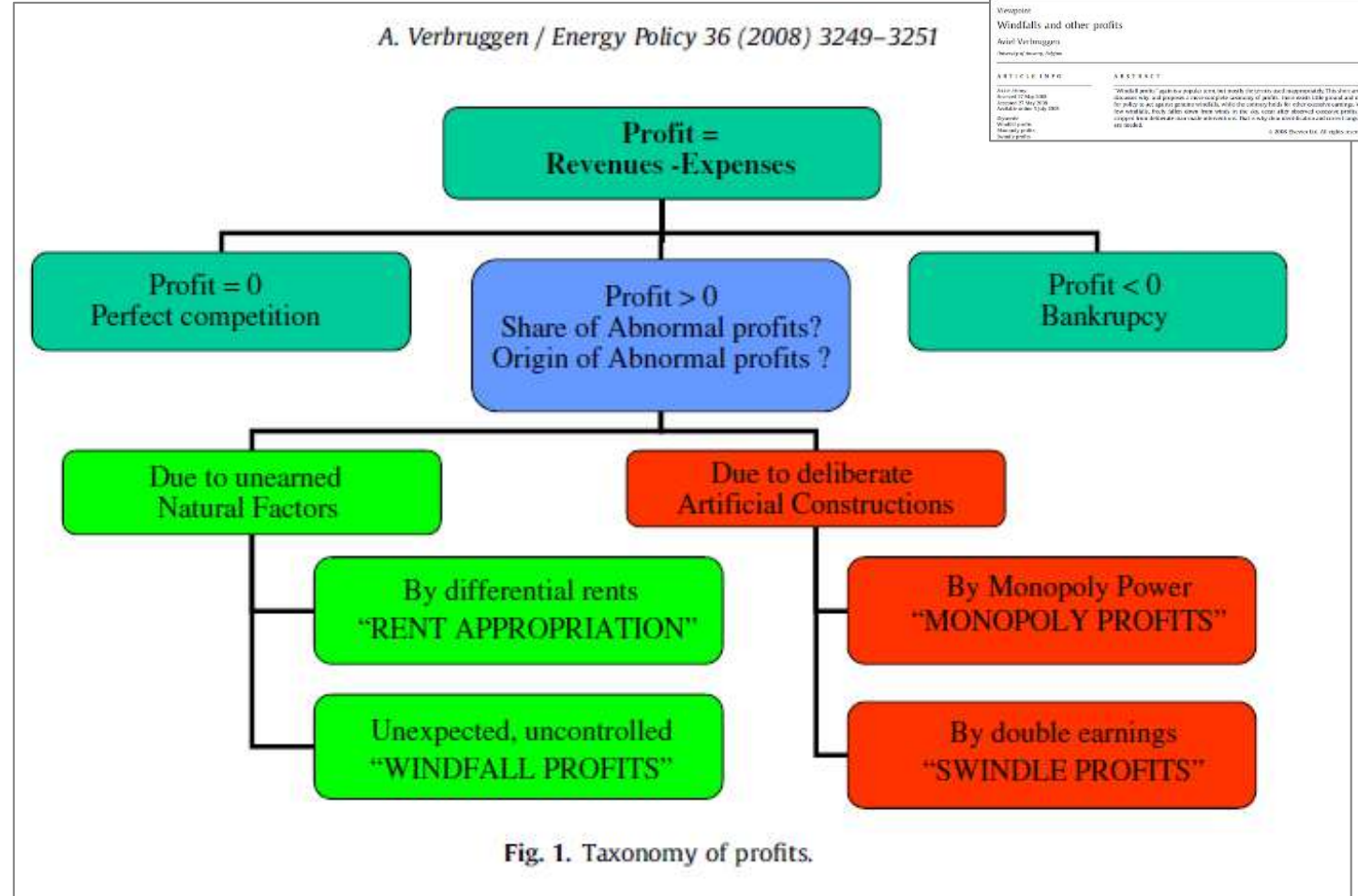
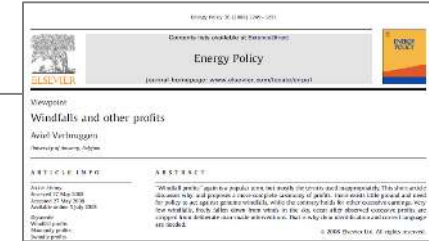
- EU gas and electricity prices have increased rapidly over the last few months and reached unprecedented levels. While the recent energy price dynamics reflect current market conditions and have little to do with the future energy transition, they provide an opportunity to reflect on the most appropriate electricity market design to support this transition.
- As a reaction to the recent price surges, calls have been made by different stakeholders, including some national governments, to introduce changes in the electricity market design. Some of these proposals could be interpreted as calling for the 'pay-as-cleared' pricing approach in the wholesale day-ahead electricity market to be replaced by some version of the 'pay-as-bid' method.
- This is not the first time that 'pay-as-bid' has been proposed to replace 'pay-as-cleared' as the remuneration rule in the day-ahead electricity market and every time the conclusion is the same: 'pay-as-cleared' is a superior pricing method for the day-ahead electricity market. 'Pay-as-bid' pricing would not necessarily result in lower overall payments to resources selling electricity on the market, while possibly having a negative impact on the efficiency of the generation mix used to serve demand.
- This Policy Brief also assesses how consumers could be protected from the impact of wholesale price volatility on their energy bills and how best to protect vulnerable consumers from higher energy prices without depriving them of the opportunity to participate in electricity markets to offer their valuable flexibility, and which instruments can best ensure resource adequacy in the context of the future energy transition.

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Taxing windfall profits

- ““Windfall profits” again is a popular term, but mostly the term is used inappropriately.”
- ...
- “Often the blend of rent skimming, monopoly profits and swindle profits will be difficult to distillate.
- But done successfully one will find very little real—unexpected, uncontrolled, unearned—windfall residuals.
- This bottoming in the large profit barrel may be left to the lucky finder.”



Proposal to move to pay-as-bid

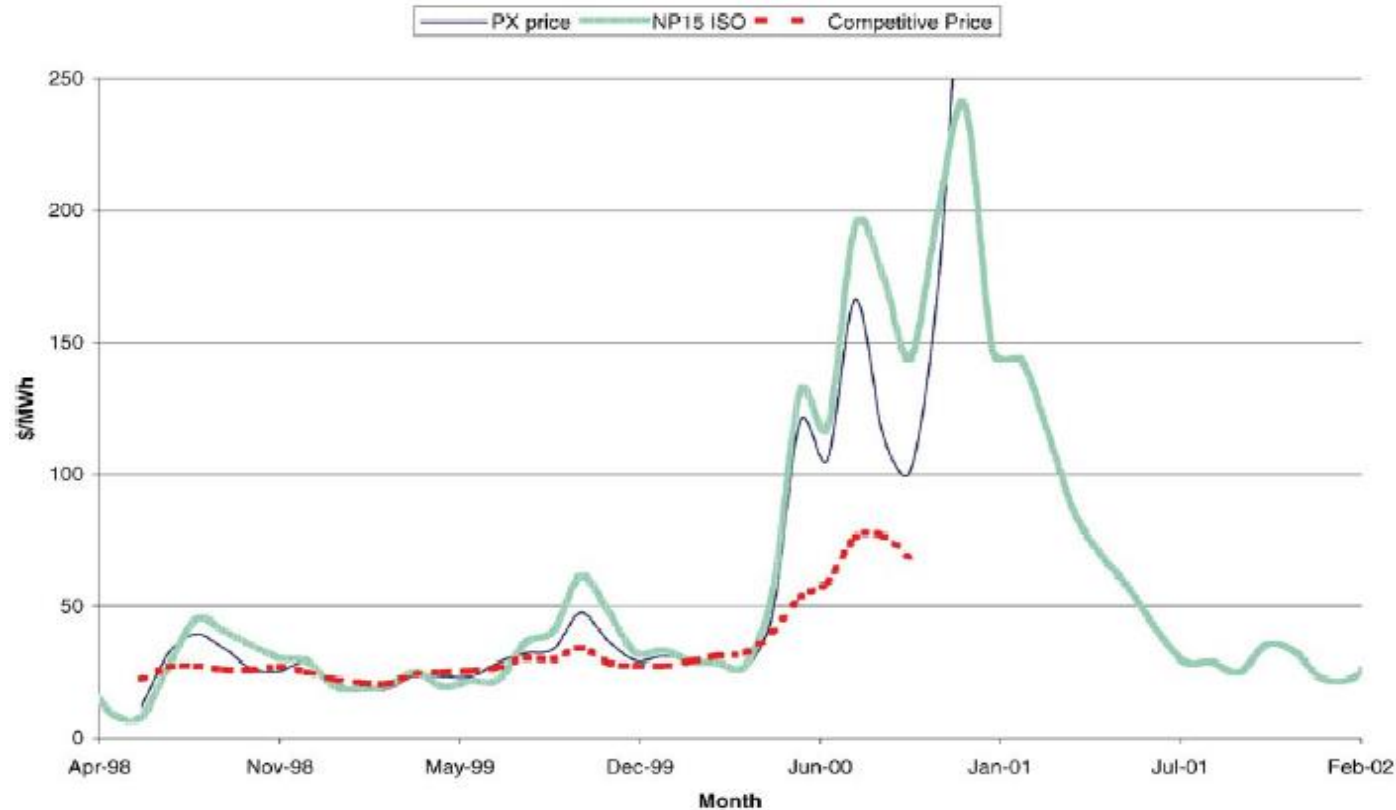


Fig: Borenstein et al. (2002)

Uniform Pricing or Pay-as-Bid Pricing: A Dilemma for California and Beyond

Any belief that a shift from uniform to as-bid pricing would provide power purchasers substantial relief from soaring prices is simply mistaken. The immediate consequence of its introduction would be a radical change in bidding behavior that would introduce new inefficiencies, weaken competition in new generation, and impede expansion in capacity.

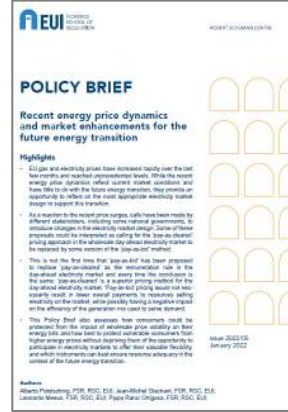
Alfred E. Kahn, Peter C. Cramton, Robert H. Porter, and Richard D. Tabors

- *“Any belief that a shift from uniform to pay-as-bid pricing would provide power purchasers substantial relief from soaring prices is simply mistaken.”*
- *“The immediate consequence of its introduction would be a radical change in bidding behavior that would*
 - *introduce new inefficiencies,*
 - *weaken competition in new generation,*
 - *and impede expansion in capacity.”*

FSR Policy Brief

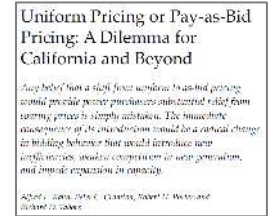
EU crisis 2021-2022

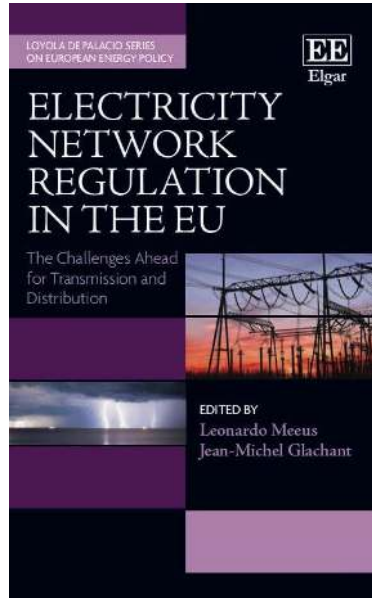
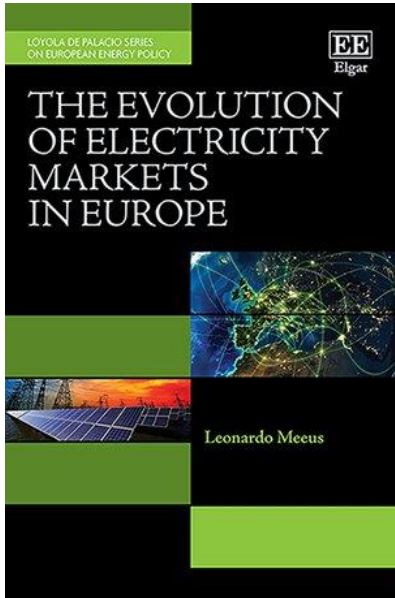
- Mandatory hedging for retailers offering fixed-price contracts
- Revisit paradigm that CRMs are not part of target model: reliability options
- Quality differentiation (“subscriptions”)
 - Market-based load shedding
 - To set level of mandatory hedging by retailers
 - To set level of capacity procured in capacity remuneration mechanisms



California crisis 2000-2001

- Long-Term Contracting
- Promoting Customer Price Response
- Direct Interventions to Combat Strategic Withholding of Supplies





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