

Electricity Long Term Contracting for Professional Consumers – *An economic overview*

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Leveraging the Energy Transition: the role of long-term contracts

Leigh Hancher, Guillaume Dezobry, Jean-
Michel Glachant, and Emma Menegatti

Report Project Report
RSC/FSR 2024

Contracts-for-Difference to support renewable energy technologies: Considerations for design and implementation

Lena Kitzing, Anne Held, Matte Gephart, Fabian Wagner,
Vasilios Anatolitis, Corinna Klessmann

Research Report
RSC/FSR March 2024

Overview

- 1. Economics does not provide a “general theory” of long term contracting LTC valid in any industry, any place and any time.
- 2. BUT It does strongly suggest that today, in the EU, time is come to treat seriously the “Electricity long term contracting” issue for professional consumers.
- 3. It is because our EU energy & climate policy is arrived exactly there: where a fast & voluntary decarbonization of professional consumption will permit the EU to reach on time its “common good Energy & Climate policy” 2030-2040
- 4. In front of such EU common good, old EU doctrine of “ex ante hostility” to LTCs cannot stand anymore > *Let’s revisit “3 Worlds 4 LTC”*

World 1 “*Just Building Open Markets*” (the 90’)

- 1. It all started with ‘*just building open markets*’ (*Joskow & Schmalensee 1983; UK Pool 1990 + Cambridge & EPRG, Newbery, Green, Littlechild*).
- 2. Economic theory did not move much: “Well Open” Markets work (*T-O Léautier 2019 MIT Press; Léautier-Joskow 2021*). But many practical issues + policy & legal frame constraints >> “market designs” derailing, adapting, changing.
- 3. EU made pragmatic doctrine: *Monopolies are national; **EU needs double opening: open country markets + open borders; ***EU has no strong Central energy regulator, but strong Central competition authority >> Ex Ante hostile EU doctrine
- 4. Ex Ante hostile doctrine did not hurt, but helped EU core: building EU internal market. <<*Publicly backed at FSR by A. de Hauteclocque & me.*>>

World 2 “Co-building a set of working markets” - After 20xx

- 1. “*Just Open Markets*” did not work for both “industry sector practice” and “policy & legal frame”
- 2. >> Sector practice went to “*Co-building a set of working markets*”. “Wholesale daily” being bypassed for *entry in generations (Nuclear or Renewables LT revenues) and **LT adequacy (CRM, and various Security options) <<*Pioneer works by Fabien Roques, as 2011, 2017, repeated 2021*>>
- 3. An “EU economic review” should have followed, but it did not. EU kept its “double standard” (pragmatic LT bypass of Wholesale Daily + de facto restrictions for LT with Prof. Consumers)
- 4. That contradiction did not hurt the new core: Co-building a set of working markets. “**Greening Supply**” > **dwarfing** > “**Greening Consumption**”

[2019 before Covid: only 35 GW PPAs for 2,300 GW of Generation capacity = 1.5%]

World 3 “*Accelerated Decarbonization push towards a Net Zero Industry*” After 2021-22

- 1. What was true with **World1** and **World2** [“hostility” or “benign neglect” with LT contracting for Prof.Consumers were not hurting the policy core] is become obviously false. It now hurts the core of EU policy for 2030-2040.
- 2. The core of **World3** is to get Prof.Consumers becoming: 1*very active with the voluntary “greening of their professional consumption” (much more than voluntary ‘ESG’ branding strategy); and 2**investing a lot into new tech, new processes, new equipments to “electrify their today’s fossil consumption” {**Electrification**}.
- 3. Exactly [like **World2** has been reviewing LT contracts to enter generation (nuclear or RES) or to guarantee capacity adequacy (CRMs)] **World3** has to review LT contracting for Prof. Consumers to enter new, deep & accelerated electrification.
- 4. It is an illusion to believe that CfDs will provide anything needed in **World 3**. Only PPAs can take into account the various concrete needs, options or trials of the various Prof. consumption processes to electrify & decarbonize. CfDs are only ‘regulated’ “mass market tools” provided by public authorities. PPAs are “à la carte” Business Tools for professionals.<< Cf my own 2023 Report(s) to French Regulator CRE>>

CfDs & PPA # Risk of Country fragmentation & politization #To resist creation of new deep country barriers inside EU

****David Newbery (2021, 2023) Production-based CfDs are giving bad incentives to RES Gen by distorting real value of their output. Better to decouple financial hedging from real-time output***

****Entsoe (17May 2024) Yes CfD designs are very diverse: at least 6 families (4 ‘Production-based’) + (2 ‘non-Production based’) > wide EU heterogeneity coming; obvious fragmentation of EU for entry, operation & payments processes***

****Lena Kitzing (FSR Report March 2024) 7 families: all CfDs have trade-offs and create problems + not the same in different places > we need to be very careful & pragmatic > Who will take care?***

****Lion Hirth (Hertie School, 2023,2024) Inside a single design family, details of the parameters can create big differences > wide EU heterogeneity coming > Who will take care?***

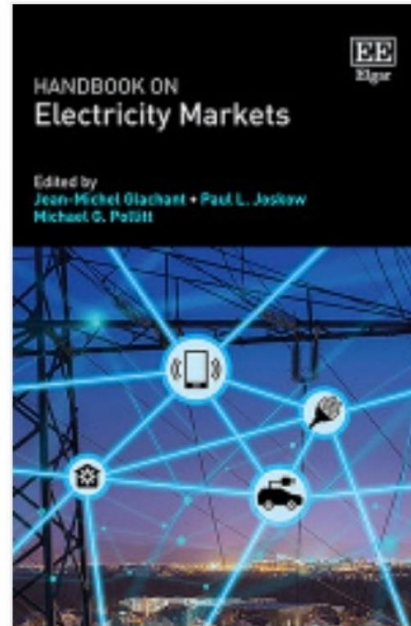
>>> Enrico Letta report (April 2024) Instead of strengthening our internal market as a common tool for faster industrial decarb; we might highly fragment our EU to favor “national populist” politics

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My last Electricity Handbook: a new edition January 2023

Add to Wish List ☆

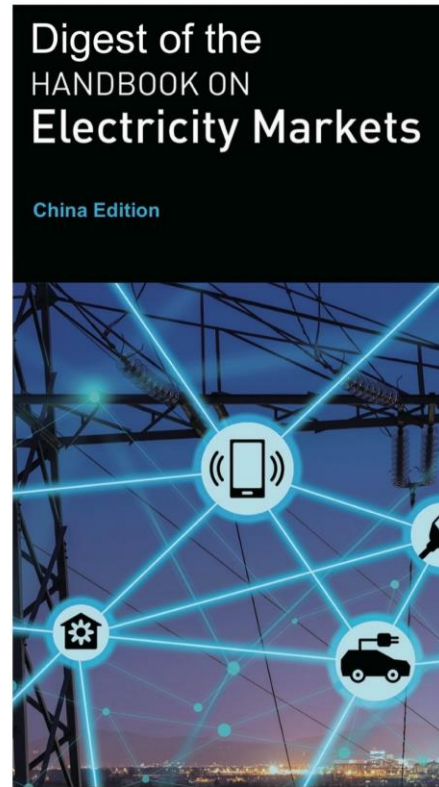
*Nov.
2021*



Handbook on Electricity Markets

Edited by Jean-Michel Glachant, Paul L.
Joskow, Michael G. Pollitt

[Digest of the Handbook on Electricity Markets NEW | EU-China Energy Cooperation Platform \(ececpcp.eu\)](#)



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And World Exec V.President IAEE...
International Association for Energy Economics

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CfDs (+ PPAs) for EU Accelerated Decarbonization Push towards NZ Industry

CfDs will offer state-driven public tools in mass markets. 3 issues: #1 eviction; #2 mass market; #3 country fragmentation & politization

- **1 # (Eviction) ~ Avoiding publicly pushed CfDs evicting private PPAs**
- Could standardizing PPAs make them easier to use, easier to enter in an EU platform of trade and to create standardized financial derivatives (Eurelectric & Compas Lexecon, March 2023)
- **2 # (Mass Market) ~ Avoiding Mass Market features' rigidity**

**2A* Keeping PPAs open to the 'innovative fringe' – acknowledging that CfDs will offer state-driven public tools in mass markets, and that only PPAs might adapt to the variety of concrete needs, risks, options that professionals would face to keep innovating, discovering & testing in this decade long “Net Zero Industry” discovery process. (Toulouse WP, Amber & Crampes co-signed by Nobel Laureate Tirole, October 2023).*

**2B* Electrifying à la carte – keeping PPA characteristics open to the variety of needs and trials of the various industries investing into their electrification and decarbonization; “one size PPA” will not fit all (Working Group “Electrification of industry usage” at French Energy Regulatory Commission, March 2023).*

**2C* Stronger PPAs for the hardcore – creating very robust “hedging PPAs” for energy-intensive consumers consuming 24/7 (= 8760 hours a year) by combining solar assets, wind assets and batteries in typical contracts for 10 MW baseload demand (Eurelectric and PexaPark, November 2023).*