

A concept for the implementation of a long-term capacity mechanism for ensuring generation adequacy in Lithuania

Stakeholders' workshop

5 February 2018



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Introduction

Compass Lexecon is an economic consultancy with significant experience on European capacity mechanisms

■ About us

- A global economic consulting firm providing expert economic advice on competition policy, economic and financial regulation, public policy, and the assessment of damages in complex disputes
- Offices across the US, South America, Asia-Pacific and Europe
- Many former chief economists at competition authorities and national regulators
- 145 PhD economists and econometricians, and faculty from leading universities and institutes including two Nobel Prize winners

- Over the last five years, Compass Lexecon has participated in the design and state aid analysis of the Capacity Mechanisms in at least 12 European countries.

European countries where Compass Lexecon worked on Capacity Mechanisms



Focus on our Energy practice

Compass Lexecon is one of the leading advisory firms for economic and policy analyses in the European energy industry

- Policy and market design
- Investment decision support
- Energy markets modelling
- Financial valuation of assets
- Business model development
- Corporate strategy design
- Economic expertise in commercial litigations

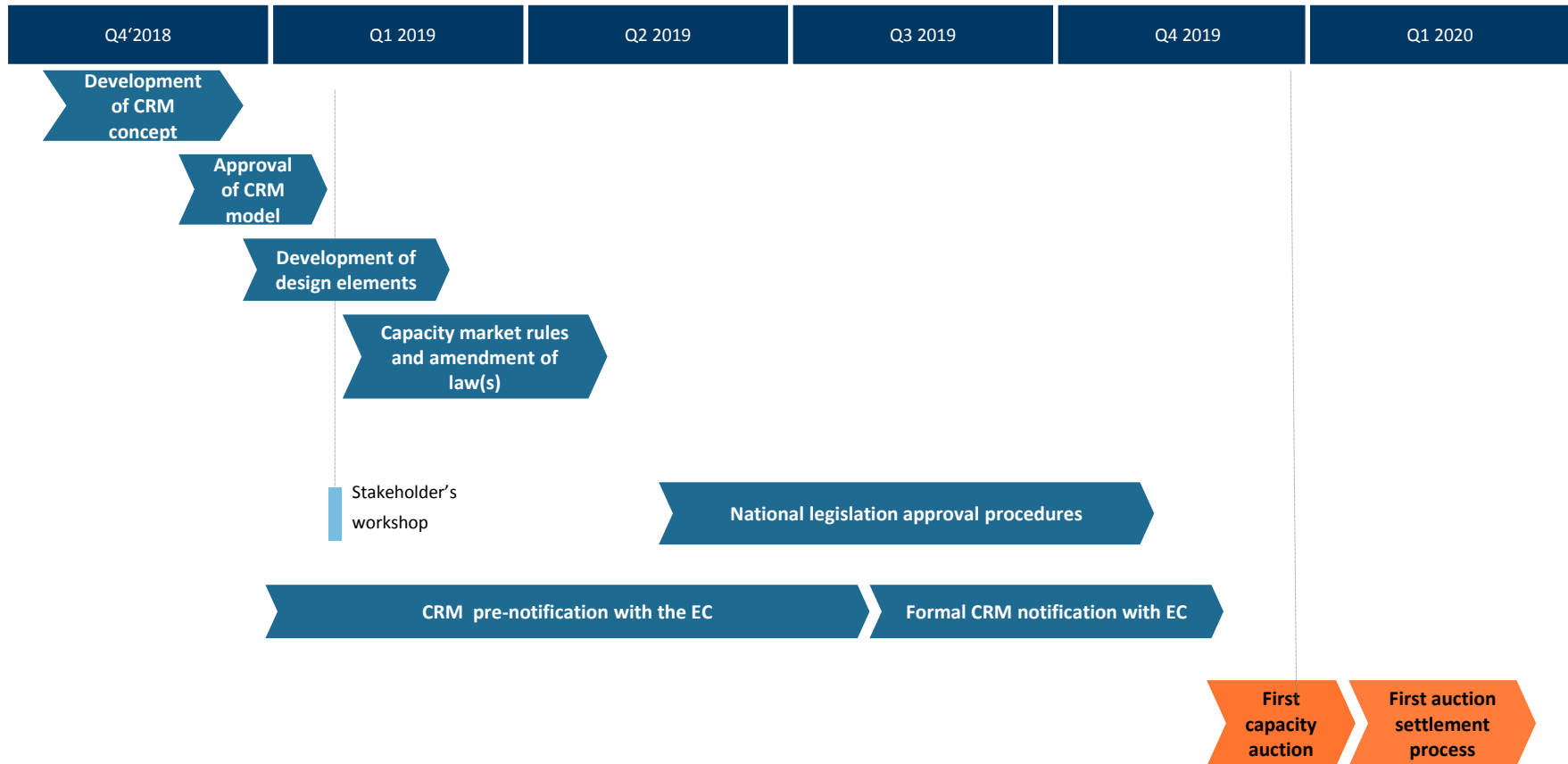


This workshop presents key background on EU CRMs and our preliminary findings on the preferred CRM model for Lithuania

- **The main challenges faced by the Lithuania electric power system (LEPS) are:**
 - The need for new generation according to the National Energy Independence Strategy
 - Potential retirement of existing old thermal plants and associated peak load adequacy problems
 - RES development and the resulting requirement for flexibility
 - Synchronisation with the Continental European Network (CEN) and the associated requirements to ensure sufficient ancillary services
 - Reduction of import dependency
- **Compass Lexecon was requested to assist LitGrid in developing a Capacity Remuneration Mechanism (CRM) fit for Lithuania to address the above challenges.**
- **The objective of this workshop is to:**
 - Present the decision of the Lithuanian authorities for a preferred high level CRM design model, and
 - Discuss the most important design elements that impact on the effectiveness of the preferred CRM model
- **The presentation is structured in three sections:**
 - An overview of the European CRMs
 - Analysis of two CRM models against selected criteria and the preferred model for Lithuania
 - Options for design elements of the chosen CRM model

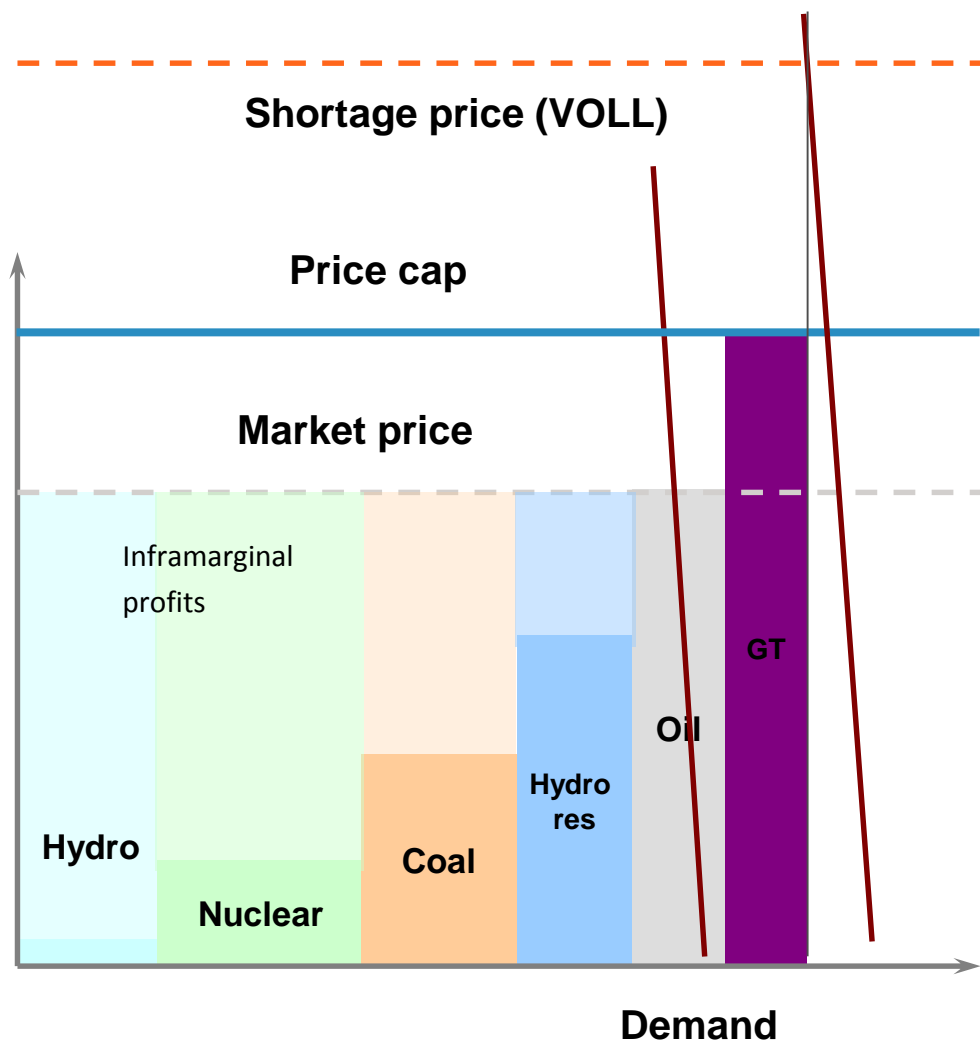
Lithuania's timeline for CRM implementation project

- Lithuania intends to decide on the CRM design elements, to prepare CRM market rules and draft legislation by April 2019
- Pre-notification discussions with the EC have started and a formal CRM notification process with the EC is expected from July to October 2019
- First auction is planned in December 2019 and settlement to be finalized in Q1 2020



Overview of European CRMs

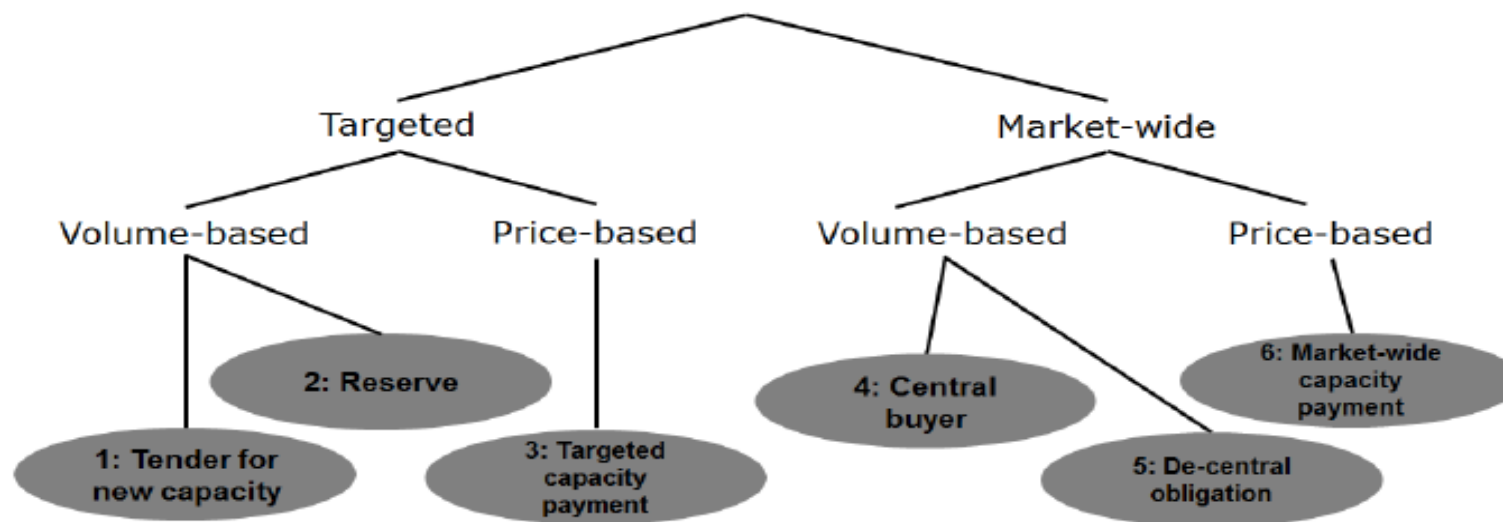
The need for CRM is driven by the “missing money problem” exacerbated by policy and regulatory interventions



- **In absence of market failures, adequacy should be reached**
 - Price should be able to reach the Value of Lost Load (VOLL) in periods of scarcity
 - In the long run, such prices should induce investment in capacity ensuring an economically justified reliability level
- **The “Missing money” problem**
 - Inability of the energy and ancillary services markets to provide efficient signals to meet the reliability target (e.g. 3h LOLE)
 - Market design flaws suppressing the scarcity prices at times of shortage
 - Price and bid caps, market power mitigation measures
 - Lack of demand response and scarcity pricing mechanisms
 - Inefficient balancing and ancillary services markets
- **Policy and regulation intervention**
 - May further contribute to the “missing money” (e.g. out-of-the market technology support, decisions on plant closure etc.)
- **Capacity Remuneration Mechanisms (CRMs) :**
 - Aim to address the “missing money” problem by providing an additional revenue stream to some or all capacity resources

The EC distinguishes targeted and market-wide CRMs, that can be either volume or price-based

- The **EC 2016 Sector Inquiry** defines **CRMs** as measures that enable revenues for capacity providers and thus they may fall within the category of state aid measures that can be subject to the Union's rules on state aid.
- The EC Sector Inquiry groups the Capacity Mechanisms into **two broad categories**:
 - **Targeted mechanisms that only benefit specified operators** (e.g. tenders for new capacity, strategic reserves and targeted capacity mechanisms)
 - **Market-wide mechanisms**, which are in principle open to participation from all categories of capacity providers (e.g. central buyer obligations, de-centralised obligations and capacity payments).
- Furthermore, within these two categories, the EC **distinguishes volume-based and price-based mechanisms**

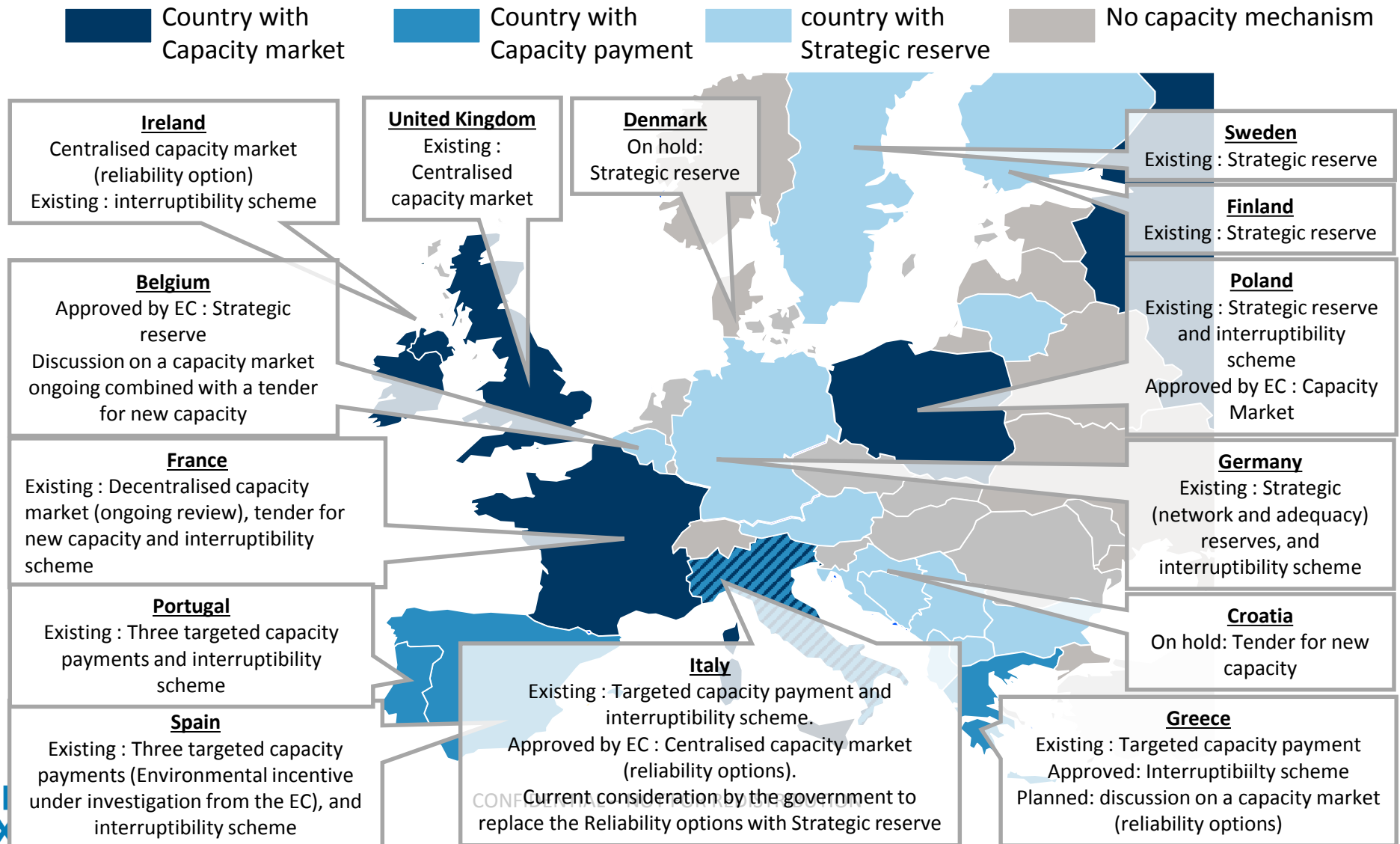


Source: EC 2016, Final Report of the Sector Inquiry on Capacity Mechanisms. Commission Staff Working Document





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Mapping of European CRMs according to the European Commission classification

- EU Member States present examples of all CRMs under the EC definition including market-wide CRMs, strategic reserves (including network reserves and interruptibility schemes), specific tenders for new capacity, and targeted capacity payments.



The choice of a CRM model is driven by the local specificities of the electricity system

	 POLAND	 FRANCE	 GERMANY	 BELGIUM	 ITALY
Local specificities	Substantial mothballing and phasing-out of thermal units by 2020	Uncertainty of nuclear and mothballing of thermal capacity; peak demand growth	Grid constraints from North to South - Nuclear phase-out - Strong RES growth	Transition from over-capacity towards the need for new capacity to replace the phased-out nuclear plants	Massive phase out of thermal capacity; Internal zones and grid constraints; Strong RES growth Central dispatch
Key issues	Capacity shortfalls already experienced in 2015, and expected in 2020 and 2025	Peak demand growth (+25% in 10 years); Missing money for peak plants; Low profitability of CCGTs	Capacity needs in Southern Germany; Flexibility needs; Low profitability of CCGTs	High degree of interconnection but unwilling to depend on neighbours for security of supply	Overcapacity and low profitability of CCGTs; Coordination of generation and network investment; Flexibility needs
CRM design	Market-wide CRM centralised approach based on auctions for Certification obligations	Market-wide CRM Decentralised approach Tenders to address local issues	Strategic reserves aimed at security of supply in extreme events Network reserves for local issues	A market-wide CRM to replace the strategic reserve Centralised RO to address market power	Zonal market-wide CRM to maintain capacity and trigger investment RO to address zonal market power

The three main CRM designs recently implemented in the EU

■ Market-wide CRM

- Preferred approach when there is a need to maintain existing capacity and attract new investment to replace ageing fleet or phase-out existing capacity (e.g. nuclear or coal).

■ Strategic reserves

- Preferred choice in markets that have opted for an Energy-Only market approach (e.g. Germany and Nordics).
- Often seen as a transitory measure in countries with overcapacity to ensure controlled exit of existing capacity while maintaining the security of supply (e.g. Germany and Belgium until recently) or in countries which are unwilling to provide “windfall profits” to all existing plants through market-wide mechanisms (Nordics).

■ Targeted capacity tenders

- New capacity tenders are very specific in the size, technology type and location of capacity tendered out.
- Mixed experience with the EC state aid approval, e.g. Belgian tender was not approved and Irish tender was approved under the old State aid rules.
- French tender was recently approved despite being limited to a specific technology. The approval was based on the grounds of the specific network needs that a market-wide CRM may not be able to meet.

Analysis of two CRM models pre-selected by LitGrid against assessment criteria

We compare the two CRM models pre-selected by LitGrid against a number of assessment criteria

A market-wide CRM

- Technology neutral
- Open for participation to all capacity contributing to adequacy, including DSR, RES and cross-border
- Explicit cross-border participation and remuneration of cross-border capacity or interconnectors

Targeted tenders for new capacity

- Tenders limited to new capacity only and excluding existing capacity and cross-border capacity
- Potential possibility to specify technical characteristics of tendered capacity

Assessment criteria

Meeting Lithuania's objectives

- Reduction of import dependence – 2030 and 2050 targets
- Adequate capacity for peak load and RES variability – after 2025
- Sufficient Ancillary Services – after 2025

EU state aid guidelines compatibility

- Justification
- Design
- Impact on competition and trade

Other considerations

- Cost of capacity procurement
- Complexity of implementation and operation
- Constraints for the implementation timeline

Lithuania specific CRM

Lithuania needs adequate capacity to reduce imports, counter possible retirement of existing plants, and meet high AS requirement

Reduction of import dependence – 2030 and 2050 targets

- Indigenous Lithuanian production represents a very small proportion of electricity demand
- Local production mainly represents RES, hydro and some thermal
- National Energy Independence Strategy foresees increasing the share of local generation

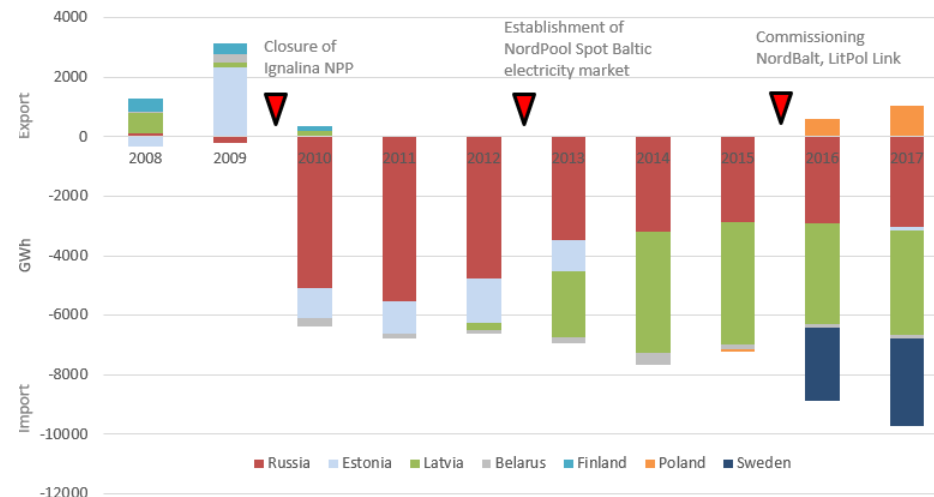
Adequacy capacity for peak load and RES variability – after 2025

- Lithuanian peak demand is expected to steadily increase to exceed 2300MW in 2025
- Over 2000MW of thermal capacity could retire or mothball by 2025; variable RES capacity will increase
- Adequacy study of KTU indicates the need of 240MW - 370MW of new capacity between 2024 and 2030

Sufficient Ancillary Services – after 2025

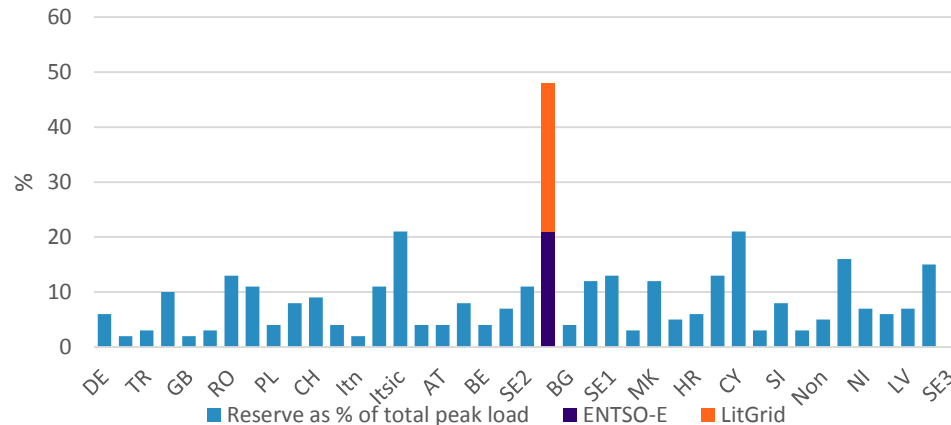
- Lithuania has a very high requirement for ancillary services – over 900 MW representing nearly 50% of the peak demand in 2020
- After synchronisation with Europe, the reserve requirement is expected to reach 1150 MW in 2025

Net electricity import volume in Lithuania, 2008-2017



Source: Litgrid

Reserves in 2020 as specified in the PEMMDB. Values in MW and in % of total peak load.



Source: ENTSOE MAF 2017 Report, LitGrid

The EC Guidelines on State Aid define a number of criteria for European CRM on justification, design and impact on markets

1. Contribution to a well-defined objective of common interest
2. Need for State intervention
3. Appropriateness of the aid measure
4. Incentive effect
5. Proportionality of the aid (aid to the minimum)
6. Avoidance of major undue negative effects on competition and trade between Member States
7. Transparency of aid

Justification

- Objective of common interest needs to be clearly defined
- The need for intervention needs to be demonstrated: in the absence of any intervention, security of supply would be endangered
- Need to identify market failures that are the source of the problem and demonstrate how they will be resolved in the long term

Design

- Open to existing and future generators, technology neutral (storage, DSR) with no undue discrimination
- Take into account potential contribution of interconnection and open to explicit cross-border participation
- Remuneration to the minimum

Impact on competition and trade

- Limited impact on the energy market and avoid market distortions: avoid the use of market power by dominant generators
- Absence of influence on the participation (e.g. dispatch or bidding behaviour) of operators in energy markets
- Absence of adverse influence on investment, mothballing and retirement decisions of existing and new operators.

Other considerations on CRM include the cost of the mechanism for customers, and implementation timeline and complexity

Capacity procurement cost

- **Short-term capacity procurement costs** – accounting for the costs of the first several auctions passed through to customers
- **Long-term dynamic capacity procurement costs** – accounting for the effect of the chosen CRM on the incentives to decommission existing capacity and the cost of new investment needed to replace it.

Complexity of implementation

- The Clean Energy Package (CEP) requires **explicit participation by foreign capacity providers as target model**
- Implementation of the explicit cross-border participation could be **time consuming and its design could be complex**
- The EC accepts **transitional regimes** conditional on explicit cross-border participation being the target model

Constraints for the implementation

- The **expected timeline of the closures of existing gas plants** and **synchronization with CEN in 2025** call for rapid actions, especially if the most economic approach requires replacing them with new capacity
- LitGrid intends to run the **first auction in Q4 2019**

Comparison of the two CRM models against the selected criteria

Criteria	Market -wide CRM	Targeted Auctions for New Capacity
Lithuania's objectives	<ul style="list-style-type: none"> Ensures adequate capacity for peak load and RES variability Provides remuneration to capacity providing AS but may not guarantee AS capacity adequacy May not guarantee reduction of import dependence 	<ul style="list-style-type: none"> May induce further decommissioning of existing capacity Can deliver capacity for AS Can help reducing import dependence
EU state aid guidelines	<ul style="list-style-type: none"> Open to all capacity providers Competitive allocation process 	<ul style="list-style-type: none"> Discriminative against existing capacity Not competitive
Other considerations	<ul style="list-style-type: none"> Higher short term cost More complex to implement 	<ul style="list-style-type: none"> Higher long –term costs Easier to implement
Conclusion	<ul style="list-style-type: none"> Open to both new and existing capacity Provides an economic solution to reach adequacy targets at least cost by keeping the existing capacity and/or by building new capacity 	<ul style="list-style-type: none"> Very likely to be blocked by the European Commission because it discriminates between the new and existing capacity and may accelerate decommissioning of existing capacity

Conclusions from the multi criteria assessment of the pre-selected models and decision on the CRM model

■ Decision on CRM approach for Lithuania

- **The authorities in Lithuania** have chosen a **centralised market-wide capacity market** that can ensure participation of both existing and new capacity of all technologies as well as consider contribution of cross-border capacity.
- However, in case of **objective urgency of the adequacy issues**, the CRM could be **introduced in stages**:
 - first implement a transitional approach for the cross-border participation,...
 - ... and introduce the explicit cross-border participation required for a market-wide CRM by the EC at a later stage.

■ Meeting other Lithuanian objectives for the power system

- **A market-wide CRM alone may not solve all Lithuania's objectives and will therefore need to be supplemented by other measures**
 - Peak load adequacy and need for flexibility to accommodate RES are directly addressed by a CRM
 - But the CRM will not solve alone import dependence and AS adequacy issues
- **The CRM can contribute to these other objectives but complementary measures will be needed e.g.:**
 - AS market reforms for AS adequacy post synchronisation
 - CHP support introduced in the RES scheme for reduction of import dependence.

Key design elements of the chosen CRM model

- A** Eligibility
- B** Allocation
- C** Product design
- D** Roles and responsibilities

Key design elements of a centralised market-wide CRM

- The selected CRM model requires a choice of a number of design elements that would specify the Lithuanian CRM
- For each of those categories we discuss possible design options based on the existing experience in Europe and their impact on the effectiveness of the mechanism

Important design choices

Eligibility

What types of capacity can participate in the capacity mechanism and receive the capacity payment?

Allocation

How are the capacity providers selected and how is the level of capacity remuneration determined?

Product design

What are capacity providers selected by the mechanisms obliged to do to receive the capacity payment and what happens if they do not do it?

Roles and responsibilities

What entities are responsible for different roles in the CRM design, implementation and monitoring?

Lithuania specific CRM

Eligibility rules determine the resources that can participate in the capacity mechanism

■ What type of resources can participate in the capacity mechanism?

- The eligibility criteria identifies which capacity providers can contribute to procuring the identified capacity
- Centralised market-wide mechanisms are open to all types of capacity, including DSR, foreign capacity and renewables, but specific conditions may apply
- To participate in the capacity auction, eligible capacity needs to get their capacity certified. Certification could be mandatory or voluntary

■ With how much capacity can resources participate?

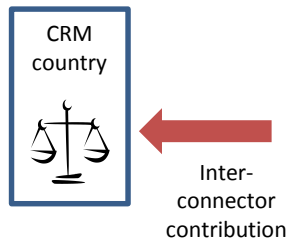
- De-rating methodology is used to **define de-rating factors** specifying the estimated contribution of each capacity provider to the capacity target. The de-rated capacity define the volume of capacity that each provider can sell on the capacity auction
- De-rating factors are computed for **each capacity unit** (unit-based) or for **each technology** (technology-based)
- Different methodologies exist to estimate the de-rating factors

■ Why is foreign capacity participation in the CRM important?

- Exclusion of foreign capacity from the national CRM may lead to overcapacity and increase the cost for consumers
- To avoid discrimination, foreign capacity contributing to the reliability targets needs to be remunerated at the same level as national capacity

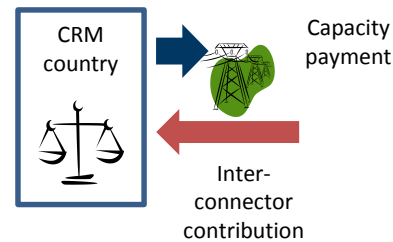
How can foreign capacity participate in the CRM?

Implicit Interconnector



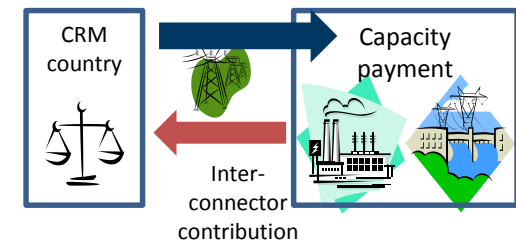
- **How does it work?**
 - TSO quantifies the expected contribution of interconnectors to the capacity requirement in Lithuania, and
 - TSO uses this to adjust the capacity to be procured from within Lithuania.
- **What are the drawbacks?**
 - Interconnectors or XB capacity do not receive capacity payments.
- **Examples**
 - First CRM Auctions in GB and France

Explicit Interconnector



- **How does it work?**
 - Each interconnector is de-rated based on its expected contribution at times of system stress
 - Interconnector then bids for capacity – alongside other local providers and receives capacity payment if is selected
- **What are the drawbacks?**
 - XB capacity providers do not receive capacity payment.
- **Examples**
 - Implemented in GB as a permanent solution and was adopted in Ireland and Poland as a transitory solution

Explicit capacity provider



- **How does it work?**
 - Foreign providers are able to participate directly in the Lithuania CRM
 - Mechanisms should be put in place to ensure Lithuania consumers do not pay for capacity if it does not deliver when required (simultaneously scarcity events)
- **What are the drawbacks?**
 - Requires agreements on design with neighbours on various levels: TSO, regulator, States.
- **Examples**
 - EC Targeted Model
 - Adopted as a enduring solution in France, Ireland, Poland

Possibility of a transitory approach for cross-border participation

■ EC sets as a Target model explicit cross-border participation

- EC requires explicit participation by foreign capacity providers as a target model

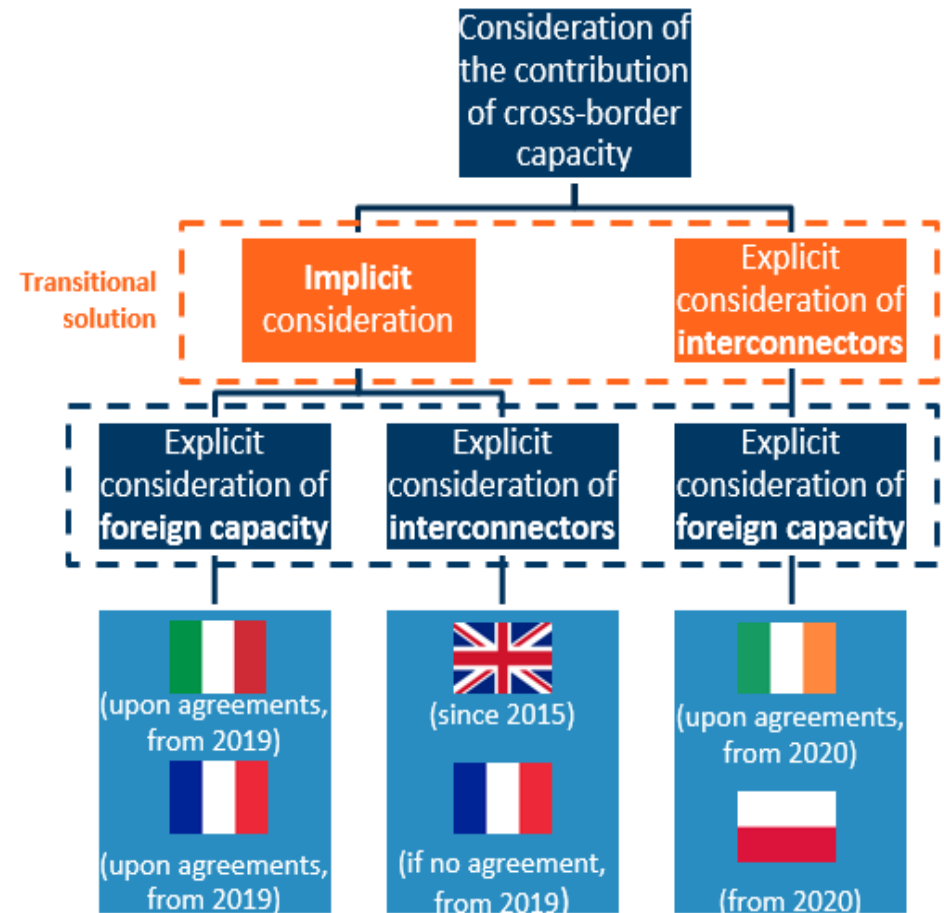
■ Implementation of the EC target model is complex for several reasons:

- **Design:** remuneration sharing, derating, etc
- **Implementation:** need to adapt all building blocks of the general design
- **Agreements with neighbours:** need to reach agreements at various levels (TSO, Regulator, State).
 - The Polish CRM model may provide a good basis for discussion, but this could be a slower process with Latvia and Sweden

■ The EC could accept a transitory regime given the urgency in Lithuania

- Conditional on explicit cross-border participation being the target model
- The EC has accepted implicit participation in early CRMs (France and UK)
- The EC tends to be stricter in later decisions demanding explicit participation of interconnectors from the start (Ireland and Poland)

Cross-border participation in the EU CRMs



Eligibility options for Lithuania

Which resources can be eligible to participate?

- In the market-wide CRM all capacity providers should be eligible to participate
- CEP (19 Dec 2018) reform **excludes plants emitting more than 550g CO₂/kWh from receiving capacity payment from 2025** (and a special clause for Poland)

Should participation be voluntary or mandatory?

- Mandatory participation better addresses potential physical capacity withholding
- If mandatory participation is enforced, exemptions should be possible for plants soon to be closed or mothballed.

With how much capacity can resources participate?

- The technology-based vs. unit-based makes little difference in the context of few units as it is the case in Lithuania
- Marginal impact methodology could be more suitable to reflect flexibility of capacity resource in meeting peak and flexibility targets

What could be the transitory solution for cross-border participation?

- Implicit IC participation – the EC is not in favour of this model, even as a transitory approach
- Explicit IC participation – requires IC derating methodology to be developed

How can the congestion rent resulting from the XB participation be shared between neighbouring TSOs?

- **Split 50/50** between the national TSO and the neighbouring TSO(s), regardless of the regime in the neighbouring market (Poland)
- The national TSO keeps **the total congestion rent** if no explicit IC participation is implemented in the neighboring market (France)

The allocational process selects capacity providers that receive the capacity payment and determines the capacity price

- **The “allocation process” is used to:**
 - Select the capacity providers that will receive capacity remuneration
 - Determine the price paid to these capacity providers

- In the centralised CRM in Lithuania, the allocation will be determined via a competitive process
 - **A centralised auction**

- **How is the centralised auction organized?**
 - The **auction demand and bid restrictions**, i.e. how much capacity is needed and are there any restrictions for bidding?
 - The **bid selection**, i.e. how participants submit their bids and how the successful bidders are identified?
 - The **auction pricing**, i.e. the price that each successful player will receive?
 - The **timing of auctions**, i.e. how long before the delivery year the auctions take place?

Parameters of the demand curve determine capacity price through the capacity requirement, and the price and bid caps

How to set the capacity requirements?

- Must be **based on the TSO adequacy study consistent with ENTSO-E's MAF**
- Not participating capacity should be deducted from the capacity requirement

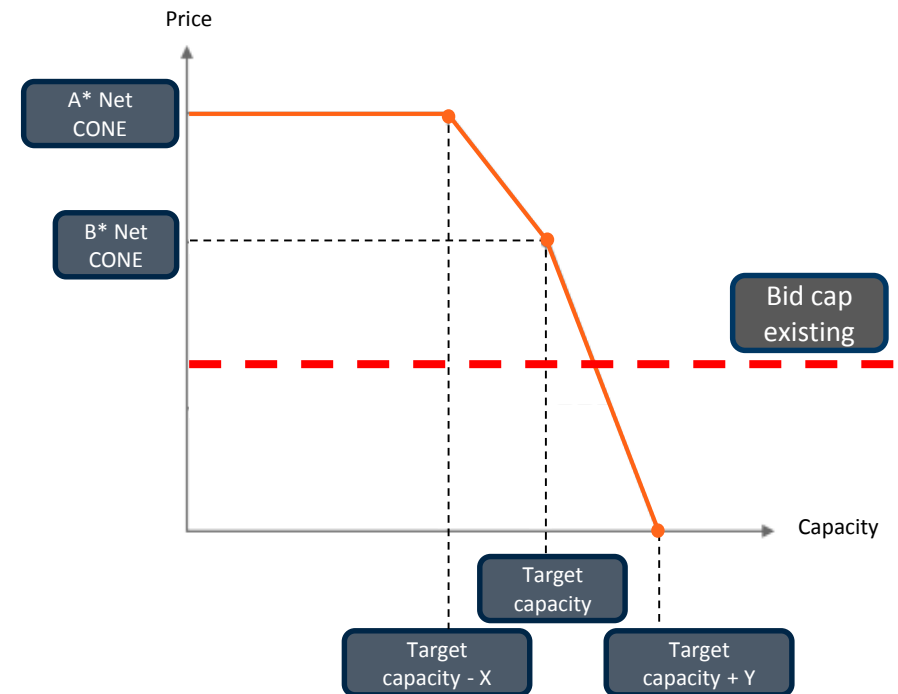
What should be the principles of the price cap?

- High enough to cover the missing money of new capacity
- **Related to the Net CONE**, to reflect the missing money of a new entrant. Specific methodology of Net CONE may be needed

How to set the bid cap for existing capacity?

- Bids of existing capacity may need to be **capped at the net going forward costs**
- Exceptions should be allowed upon justification of net going forward costs above the bid cap

Centralised auction demand and bid caps



Auction design will determine the bidding strategy of capacity providers

How to select the bids?

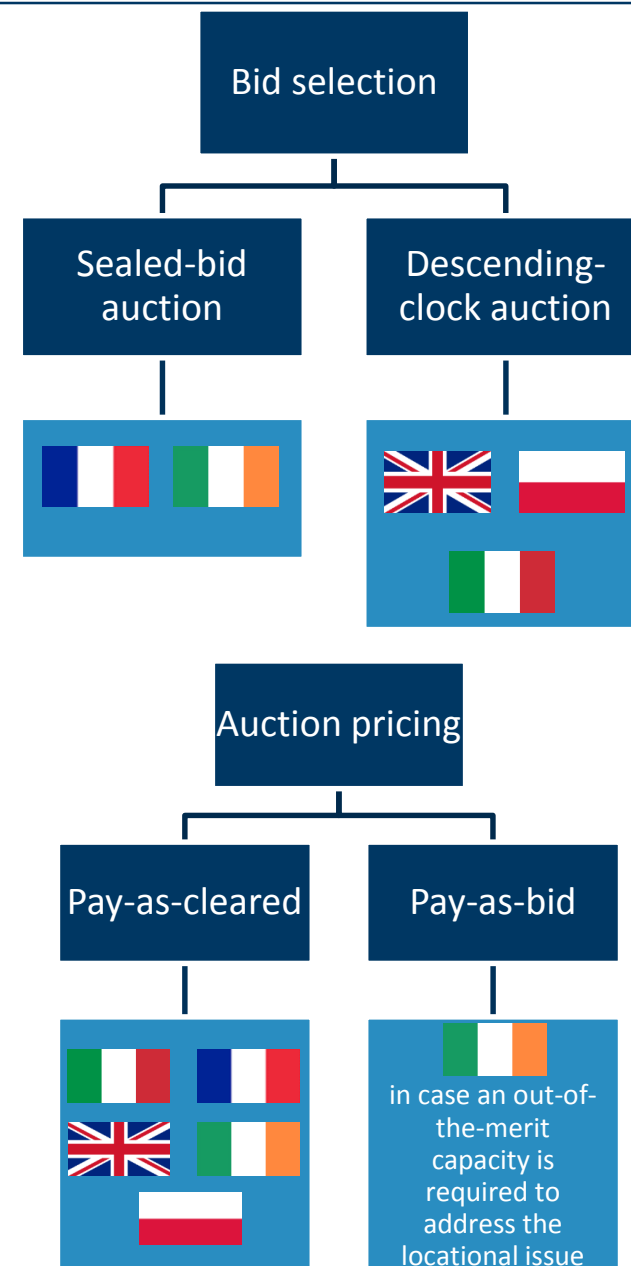
- In case of lack of competition, the **sealed bid approach limits information asymmetries** and potential for gaming
- A **descending clock auction can help new entrants** with less prior knowledge since information is revealed throughout the auction

What price will the successful bidders receive?

- **Pay-as-clear approach is shared by all studied CRMs** and is the preferred choice to reveal the capacity value in the auction. It fosters efficient bidding while providing revenues above avoidable costs to finance fixed costs / investments

What should be the auction timing?

- Several auction time horizons to promote new investment in new generation and DSR
- Organised **several years ahead** to foster entry of new capacity, e.g. T-4 or T-5
- T-1 provides **possibility for adjustment** and stimulates development of DSR



The capacity product determines obligations and penalties for the capacity auction winners

- **Once the capacity providers are selected, their capacity payment is conditional upon:**
 - what exactly they are required to do in the capacity delivery period in return for receiving capacity payments (“their obligation”)
 - what happens if they fail to do what they are required to do (usually a “penalty” of some kind)
- These rules define the “**capacity product**” and include:
 - Period of obligation – the period during which the capacity should be available – all year or at pre-defined peak periods
 - Type of the obligation: reliability option (RO) vs capacity obligation
 - Penalties enforcing the obligation
- The **contract duration** of the “obligation” sets the period for which capacity providers will receive the payment
 - Longer contracts provide **steady and foreseeable capacity revenues**
 - Short contracts cost less for consumers but are not attractive for new entrants
 - Criteria needed to define which capacity providers can be granted long term contracts

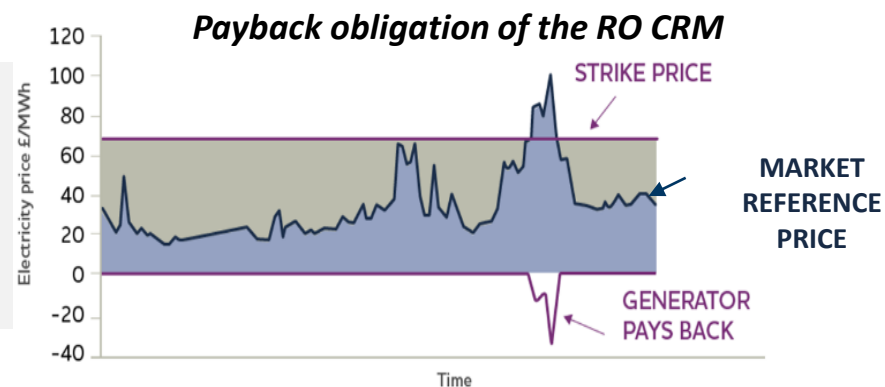
Options on product design for Lithuania

What should be the type of obligation?

- The RO provides incentive for capacity providers to be available in stress events...
- ...however, this advantage may be difficult to implement in Lithuania in the absence of the unit-based bidding (as in Italy and Ireland) that allows a direct estimation of the reference price...
- ...also, efficient RO incentive may require interventions in the energy market (e.g. Administrative Scarcity Pricing, Ireland)

What should be the obligation period?

- TSO defines the capacity obligation periods based on the analysis of the peak periods (pronounced peak demand, e.g. winter peaks, CHP capacity availability etc.)



How to enforce the obligation?

- RO includes payback obligation that induces the capacity providers to be available during the stress events
- If RO is not applicable, explicit availability obligation and penalties may be needed in Lithuanian CRM
- Implementing an explicit availability obligation in the form of delivered energy model could be considered, but this model may create distortions in the energy market
- In any event, potential benefits of explicit penalties need to **be balanced with practicality and distortive effects on the CRM and costs considerations** (e.g. the recent Polish auctions)

Options on contract duration for Lithuania

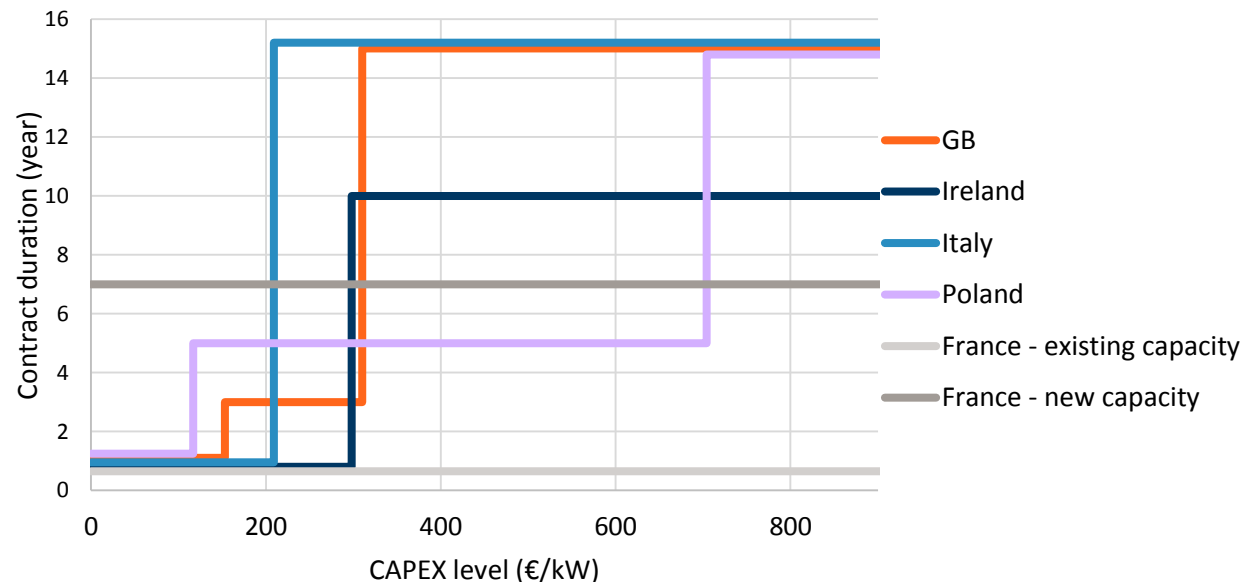
How many contract periods to offer?

- **Long-term contracts should be given to capacity providers justifying high CAPEX to promote investments**
- Multiyear contracts may concern not only new capacity but also **refurbished plants**
- However, the advantage linked to a multiyear contract should be **proportional to the level of the investment risk** (for instance, through a CAPEX threshold)

What should be the contract duration?

- **When determining the contract duration and the CAPEX threshold, a balance need to be found between:**
 - Giving incentives to perform refurbishment or built new capacity
 - Impeding a level playing field between existing Lithuanian plants and new plants in case of too generous conditions for long-term contracts
- **Contract duration and CAPEX thresholds vary across EU CRMs and the quantitative analysis to assess proportionality of the investment threshold seems rather limited**

Contract duration and CAPEX threshold in studied CRMs



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Roles and responsibilities

- Clear and transparent governance arrangements and allocation of roles and responsibilities are important to ensure that the Lithuanian CRM provides framework that **protects consumers' interests, delivers competitive outcomes and ensures long run market confidence**. The main roles and responsibilities in the CRM include:
 - **Delivery Body roles:**
 - Preparation, pre-qualification and operation of auctions, publishing results
 - Setting values for different CRM parameters
 - Providing to the Settlement body the data and collection of the auction results
 - Testing providers to ensure they can demonstrate their capacity availability
 - Maintaining a central register of capacity agreements
 - **Settlement Body roles:**
 - Responsible for settlement of data and auction results necessary to settle capacity contracts and levy charges on market participants
 - **Monitoring body roles:**
 - Approving the CRM design and overseeing the implementation
 - Approving proposed values by the Delivery body (parameters)
 - Providing market monitoring function – i.e. an independent Auction Monitor to oversee the operation of the capacity auction (ex-post CRM Market Audit)
 - Mitigating possible conflicts of Interests
 - Participating in a dispute resolution

Options for roles and responsibilities for Lithuanian CRM

Who can be the Delivery Body?

- As is standard in other jurisdictions where capacity mechanisms are implemented (GB, Italy, Ireland, and Poland) and in line with their statutory duties regarding security of supply, **the TSOs is the Delivery Body.**
- **TSO is uniquely placed at the centre of the system** to undertake analysis and inform the RAs on capacity adequacy, ancillary services requirements and a detailed understanding of the technical capabilities of all technologies

Who can be the Settlement Body?

- This role could be carried out by the **entity responsible for settlement of imbalances** in order to maximise synergies and lower transaction costs
- Or by a contracted **third party** (e.g. power exchange)

Who can be the Monitoring Body?

- The **Ministry could be best positioned** to lead the **EC notification process** and supervise implementation timelines
- The **Regulator could be best positioned** to continuously **monitor the capacity market** (including qualification, auctions and the operation of the secondary market) for signs of market abuse, gaming and for compliance with REMIT and wider competition law provisions as part of their overall monitoring function regarding wholesale electricity market
- The monitoring body should be well positioned and should **have the capacity to assess** (conduct independent analysis) the values submitted for approval by the Delivery body

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