ELECTRICITY MARKETS, AND THE ROLE OF RENEWABLES & NUCLEAR

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SURVEY

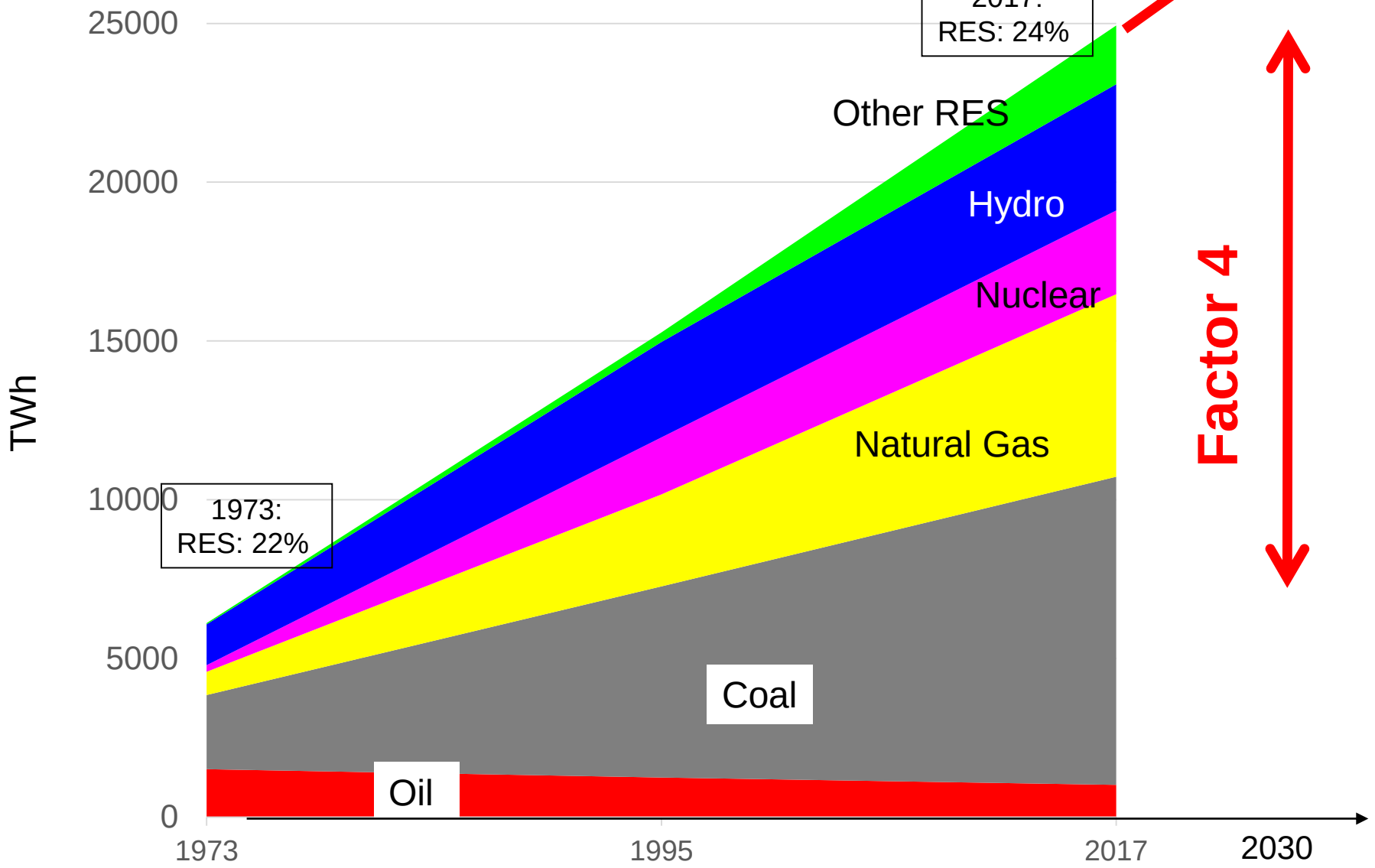
1. Introduction: Historical background
2. How prices come about (theory)
3. Environmental issues: CO2-prices
4. How prices developed in Europe
5. Electricity generation costs
6. Recent developments of nuclear
7. The role of Renewables
8. Conclusions

OUR LIFE: PERMANENTLY UNDER

ELECTRICITY

Electricity – THE universal technology for providing energy services

WORLD-WIDE TREND IN ELECTRICITY CONSUMPTION



Source: IEA (2018)

1. INTRODUCTION: CORE OBJECTIVE

- How to provide access to electricity „optimal“ from societies point-of-view?
- What is the optimal political „structure“? Private, price (de-)regulation ….
- How to bring about a transformation to a sustainable electricity system?
- Coal vs nuclear vs renewables vs natural gas?

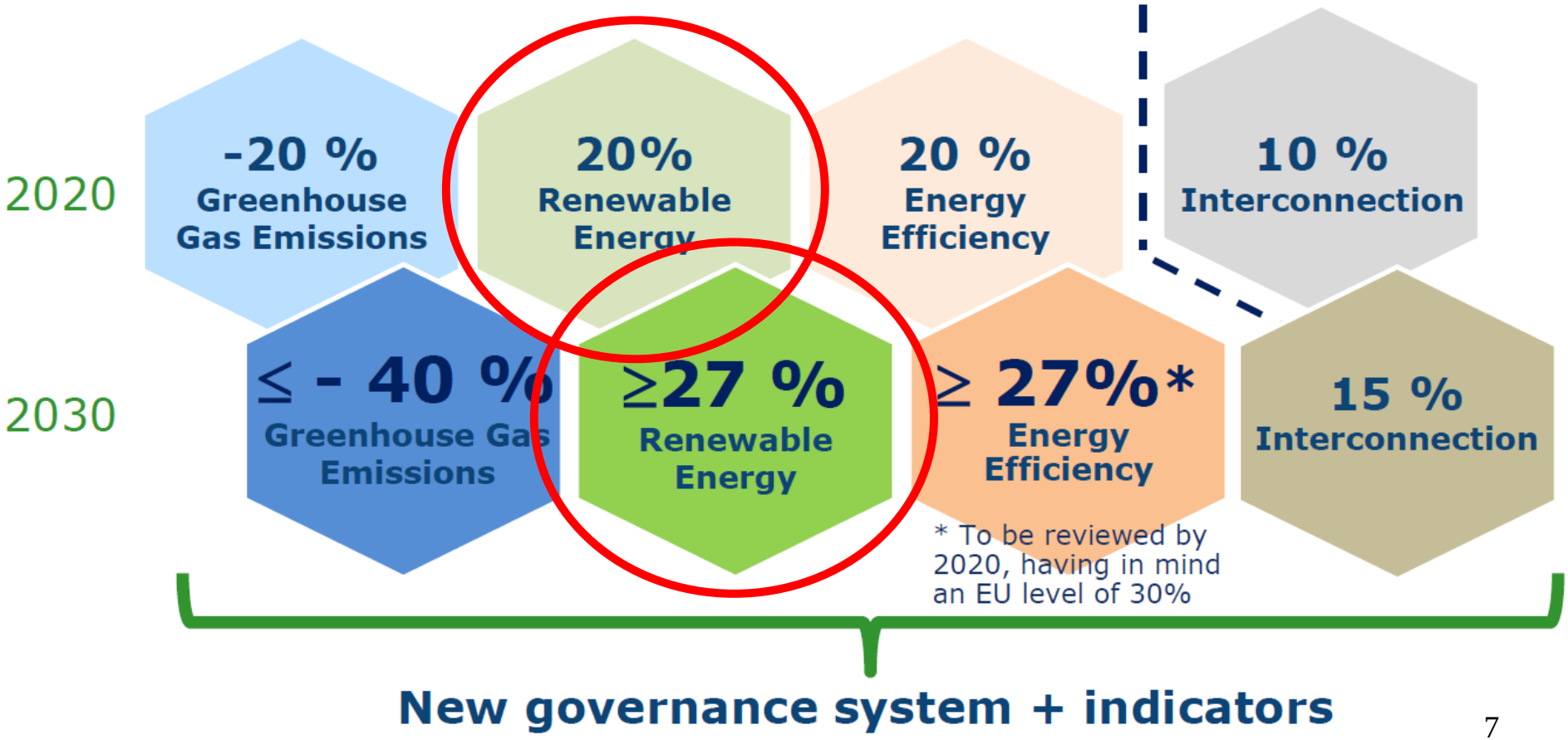
THE EU-DIRECTIVE(S) 1

The European Commission's main expectation …. was the belief that

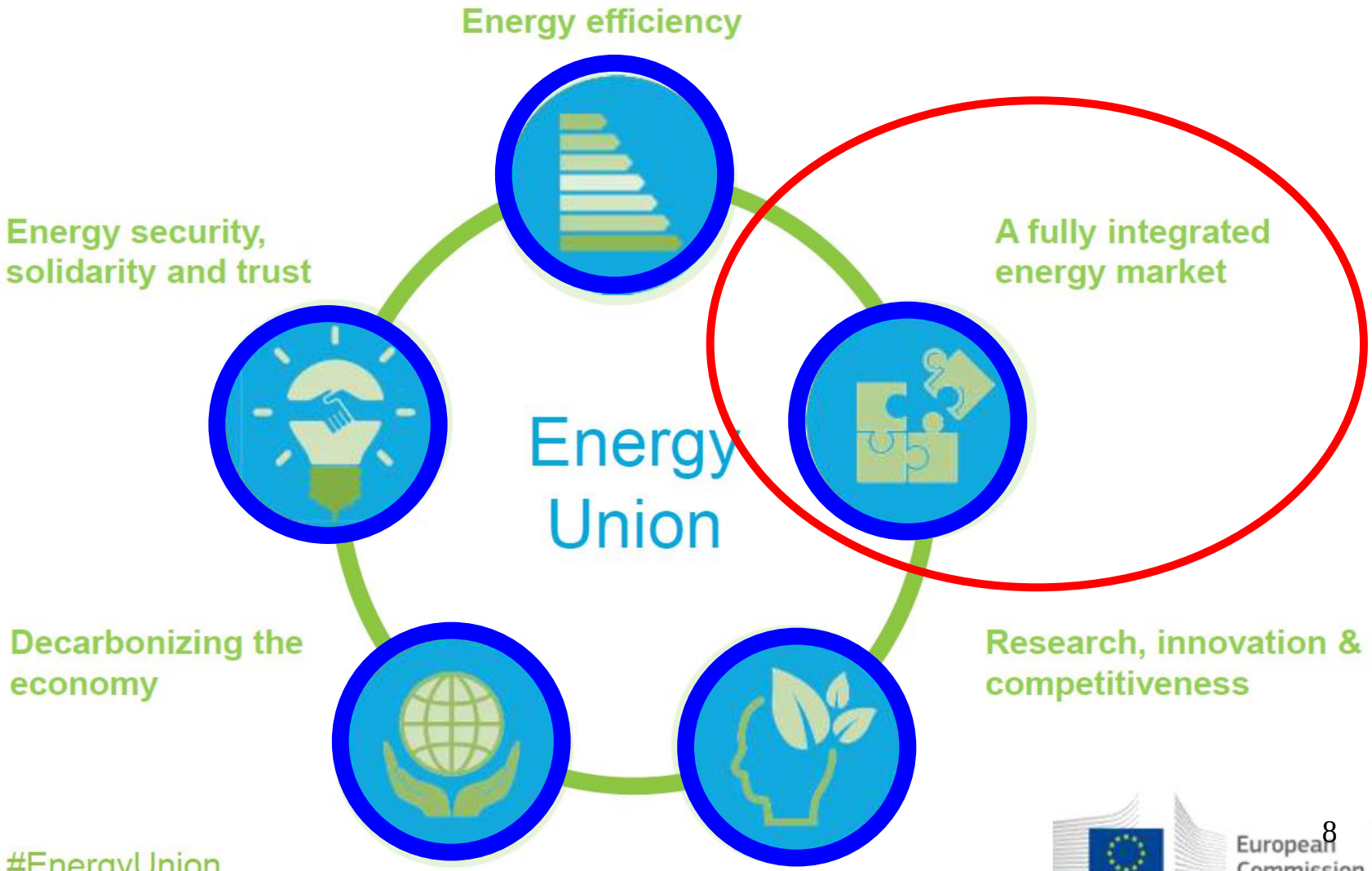
"market forces [would] produce a better allocation of resources and greater effectiveness in the supply of services"

- **Intentions of the EC directive:**
  - → **Competitive markets**
    - → **lower electricity prices**
      - → **more environmentally benign**

Strategic decision by European Council in 2014



Energy Union Strategy

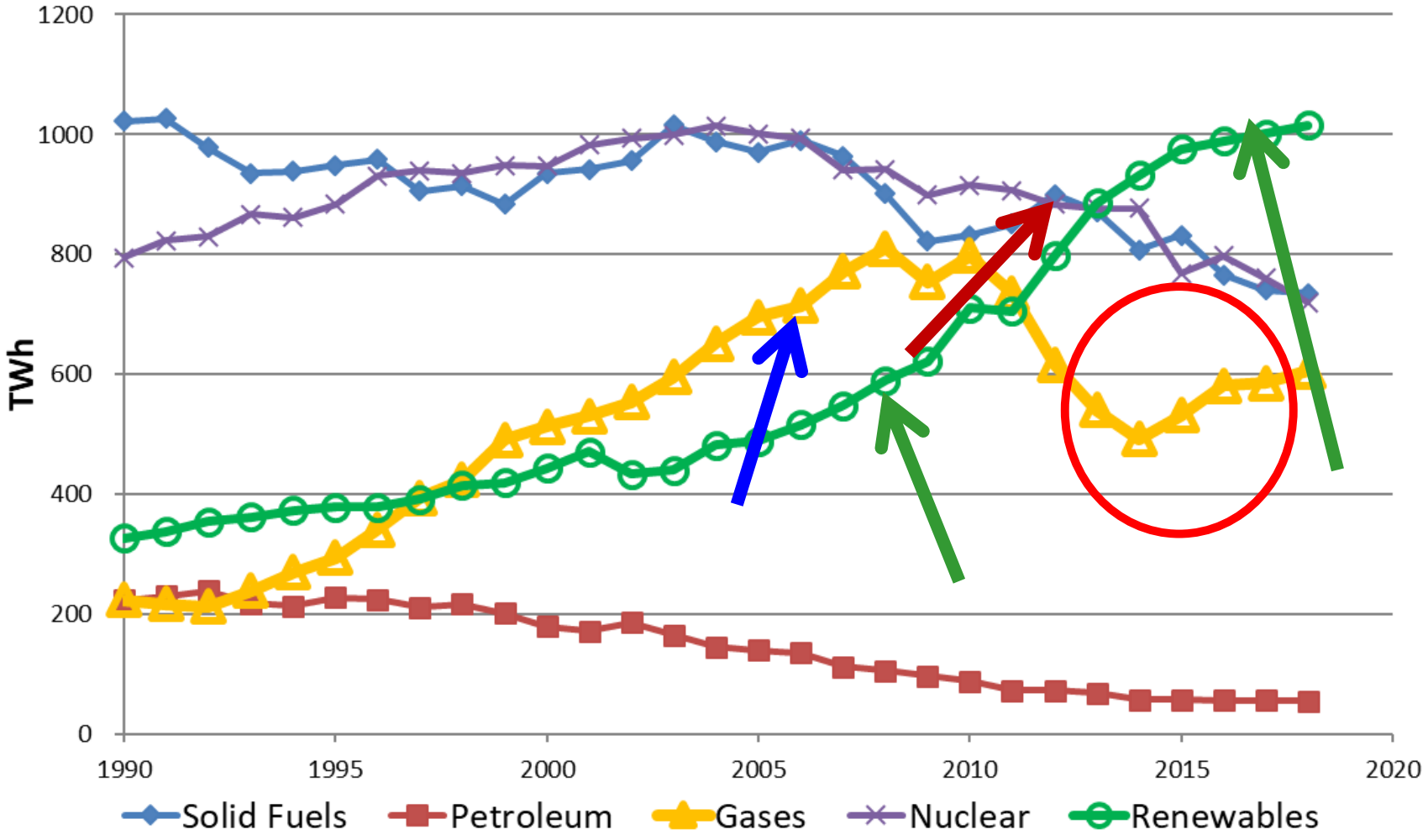


THE CLEAN ENERGY PACKAGE

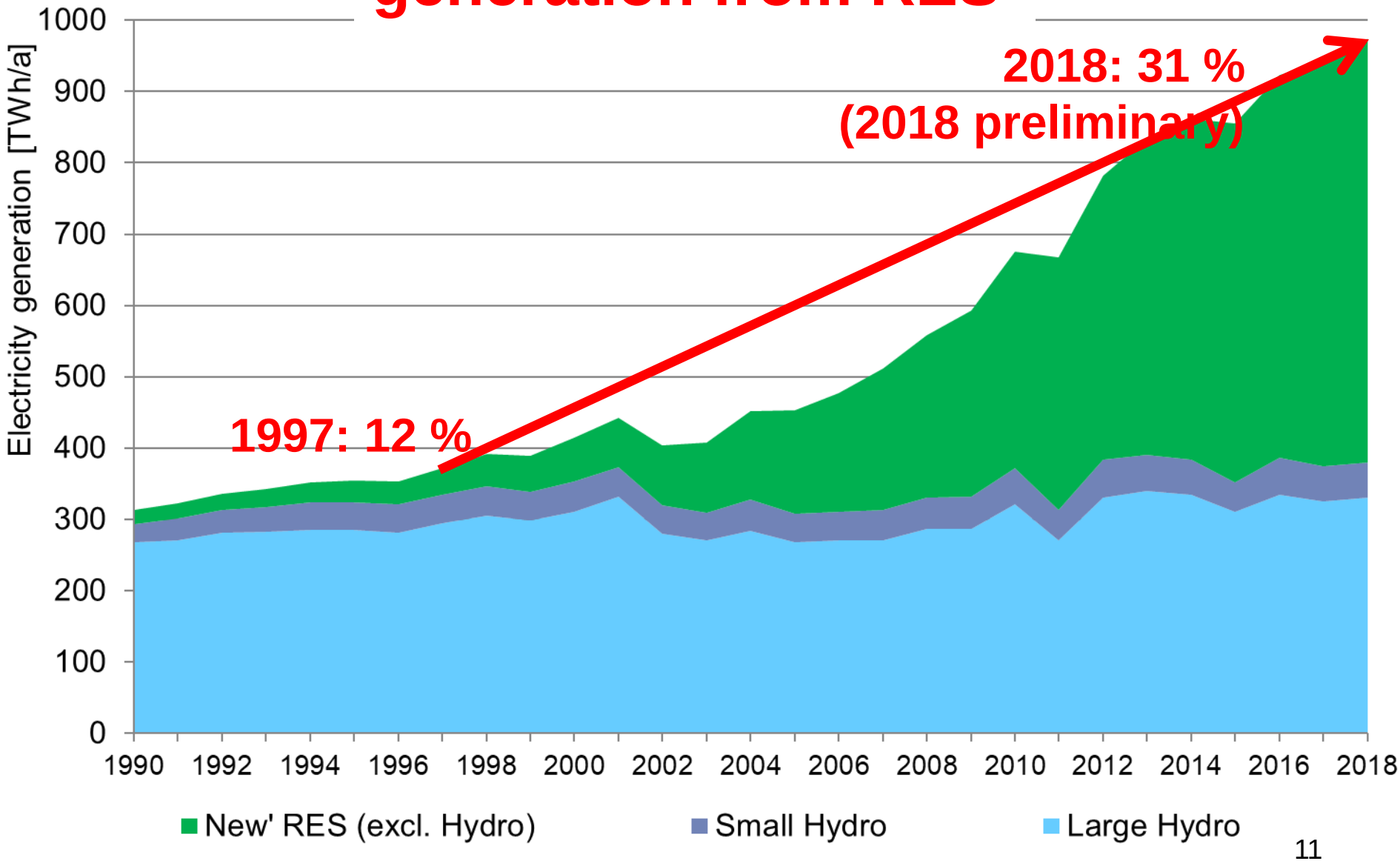
Structure of the Package

European Commission

Electricity generation EU-28



EU-28: Electricity generation from RES



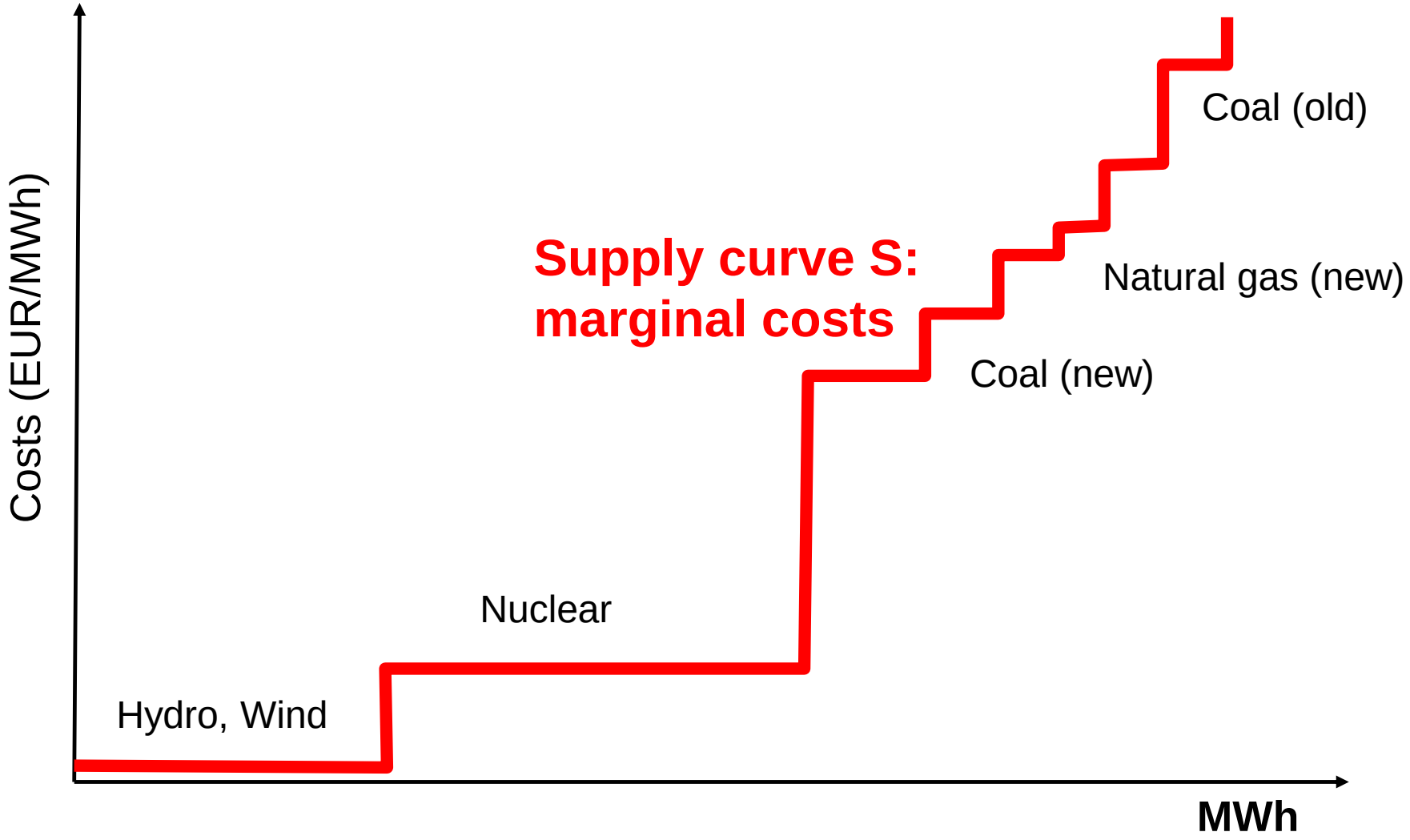
Source: EUROSTAT, own estimations

Discussion: PV vs Nuclear
What are the advantages and disadvantages for reducing GHG emissions and heading towards a sustainable energy system?

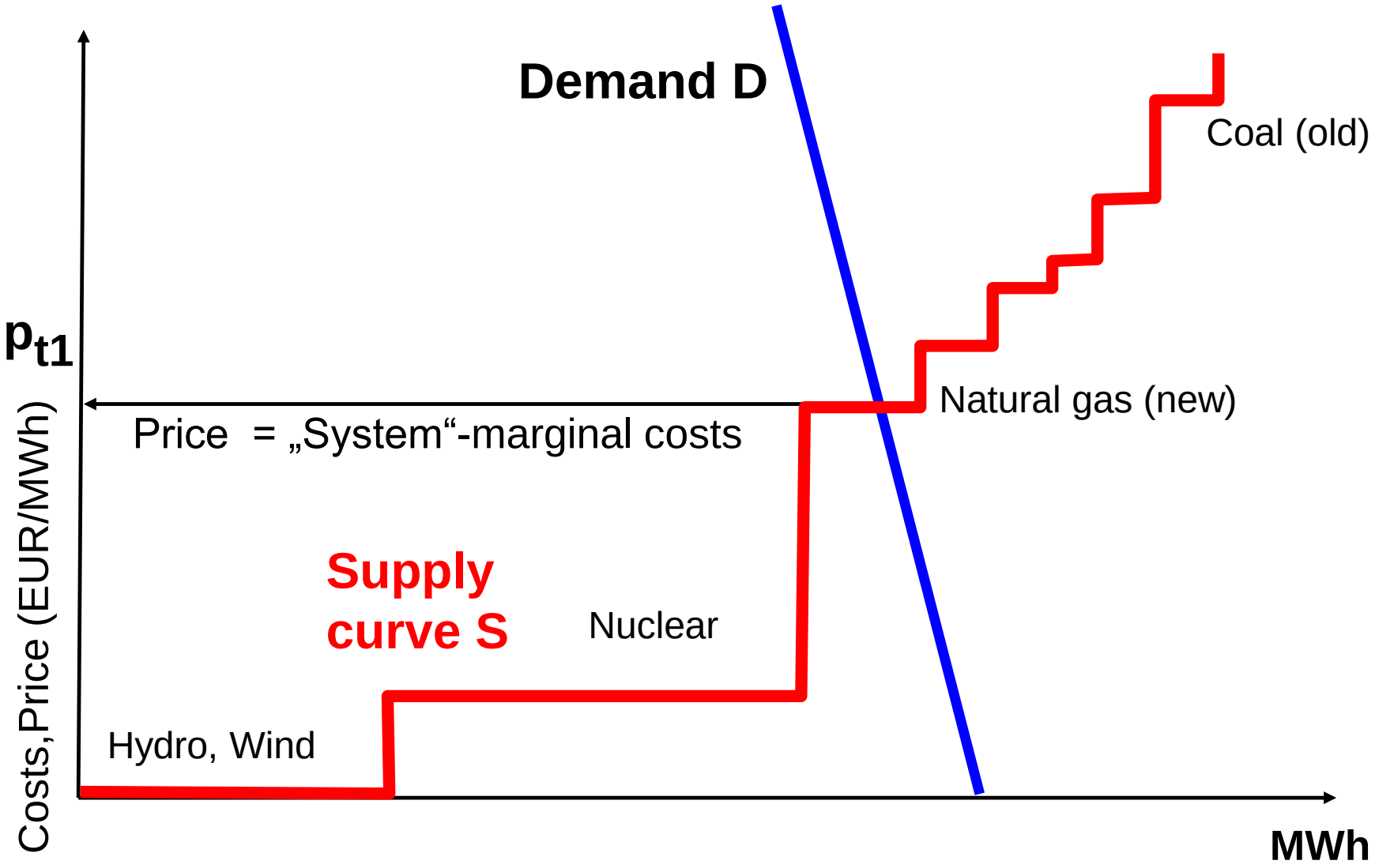
2. How prices come about

THE *MERIT-ORDER* CURVE OF SUPPLY

based on short-term marginal costs (MC)



BASIC PRINCIPLE OF COMPETITION: PRICE = MARGINAL COSTS



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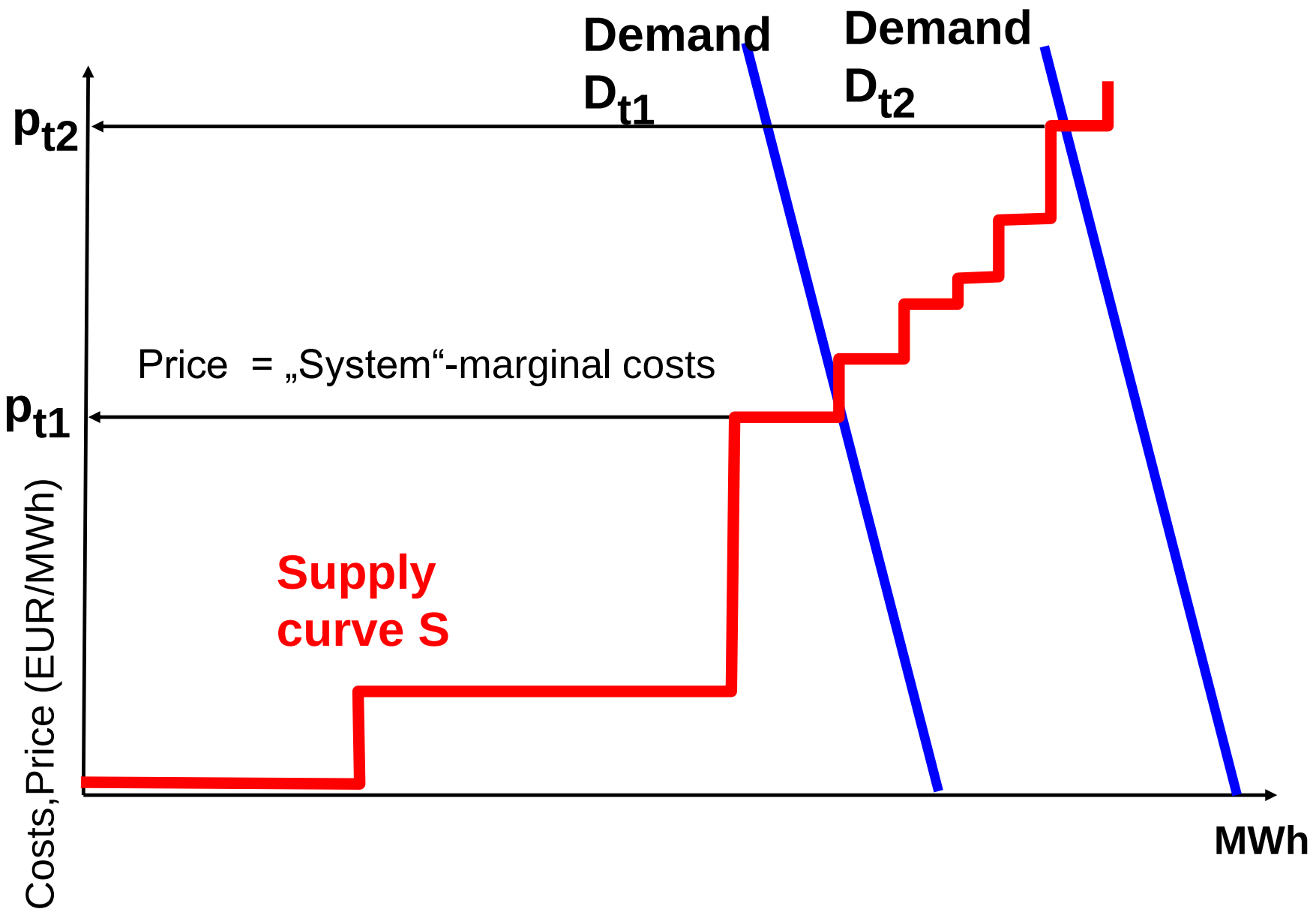
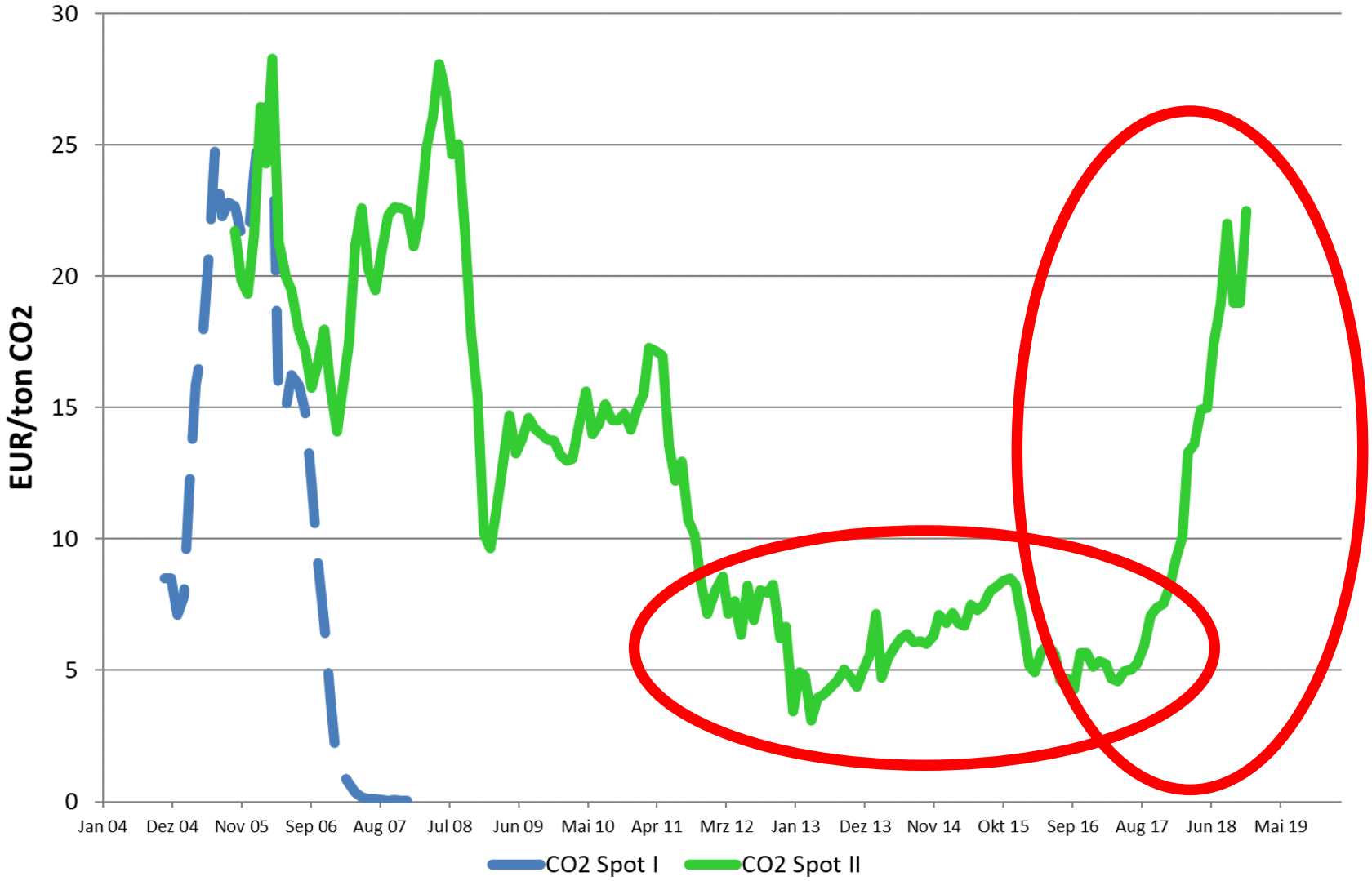


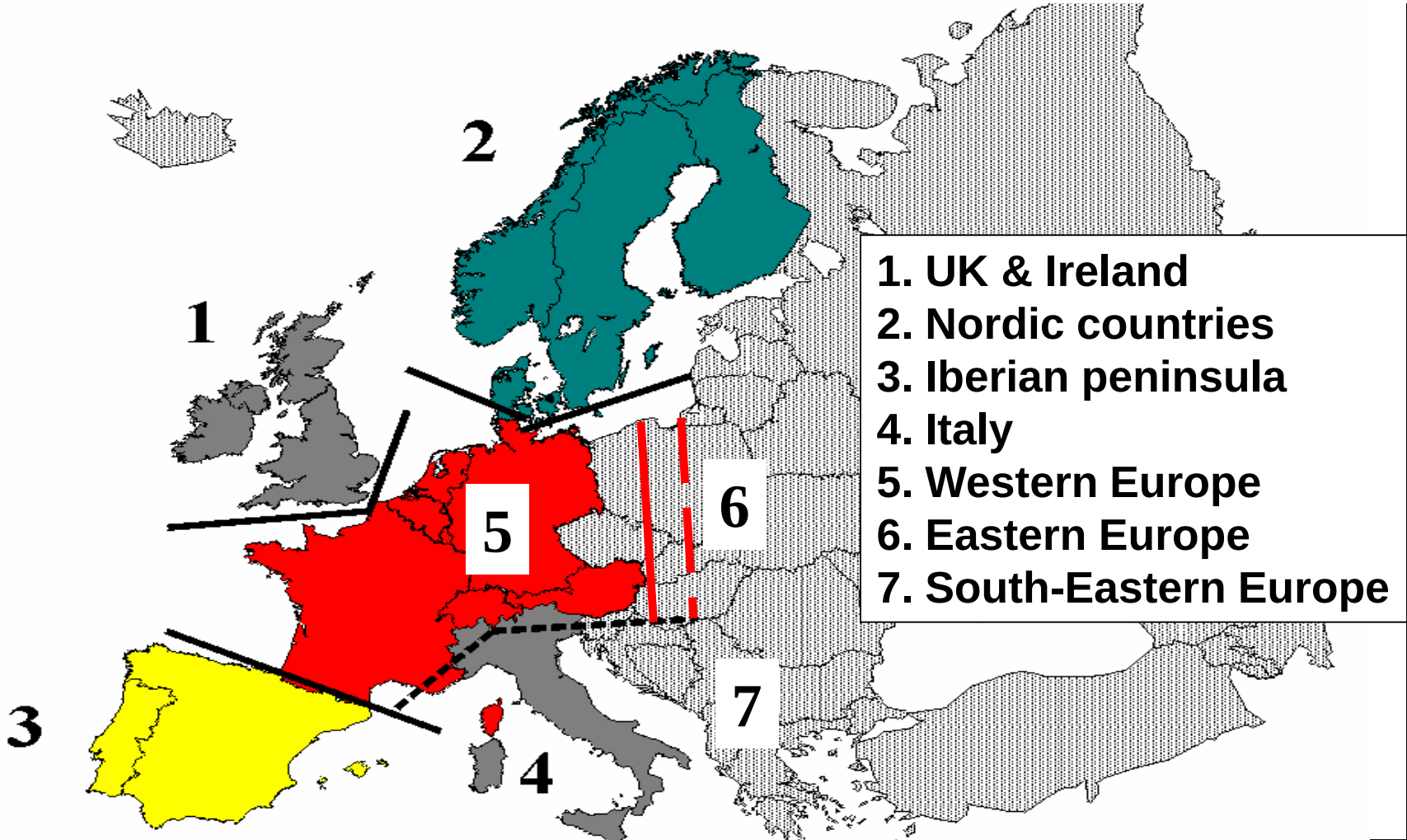
3 ENVIRONMENTAL ASPECTS – THE CO2-PRICE



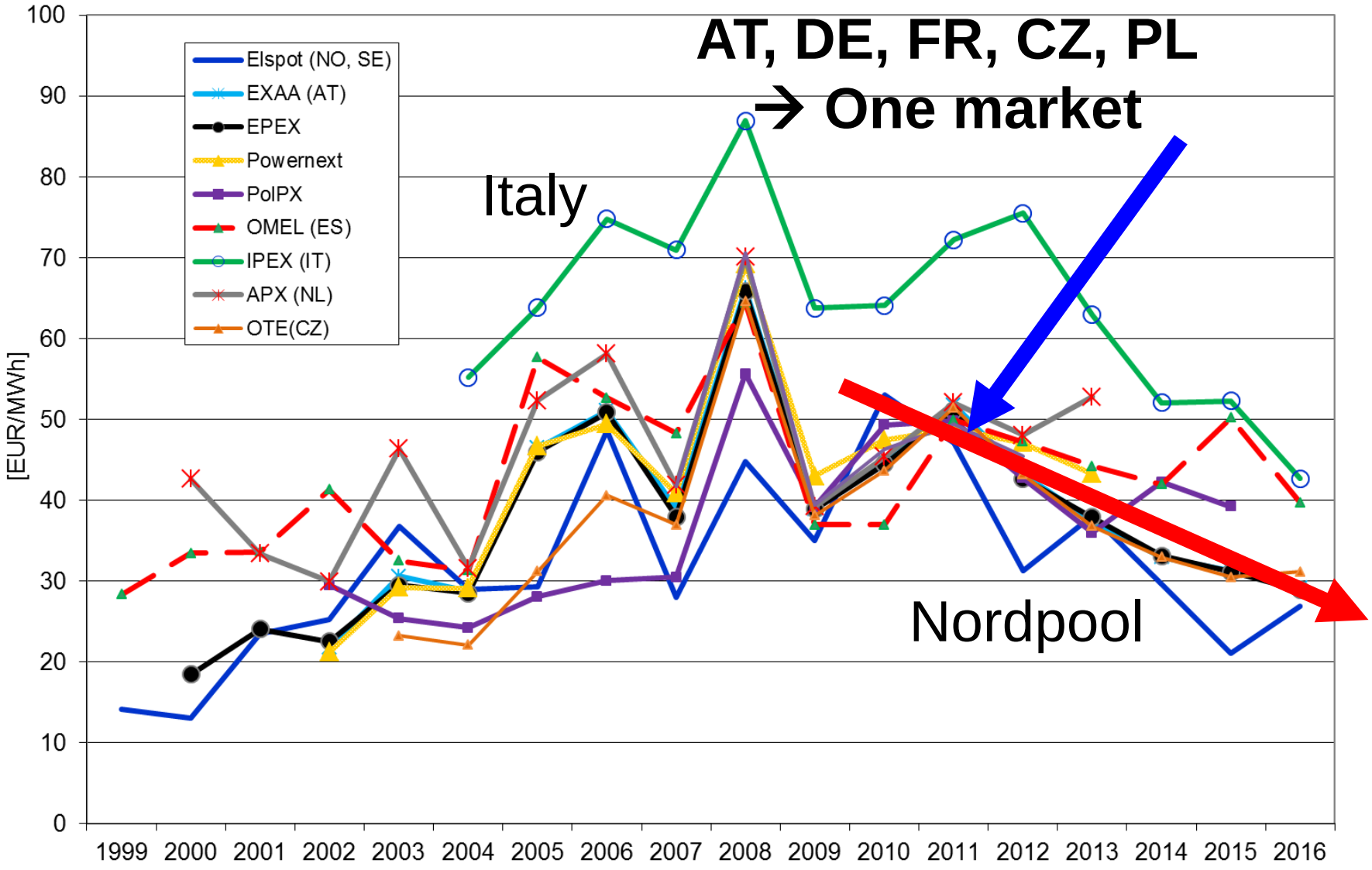
THE CO2-PRICE IN THE ETS IN THE LAST 4 YEARS

4 HOW PRICES DEVELOPED IN EUROPE

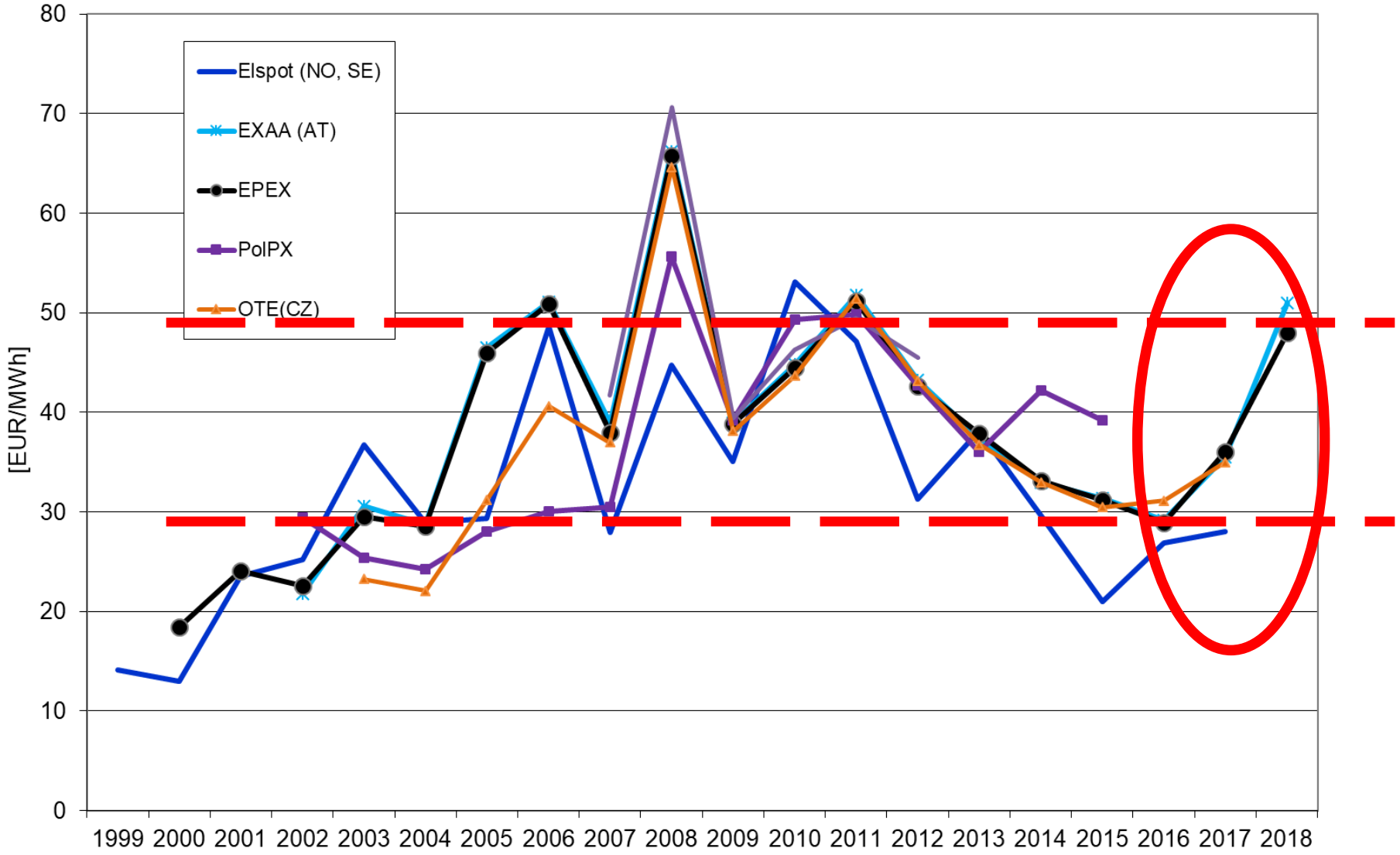
EUROPEAN ELECTRICITY SUB-MARKETS



Development of day-ahead electricity prices in Europe per year (1)

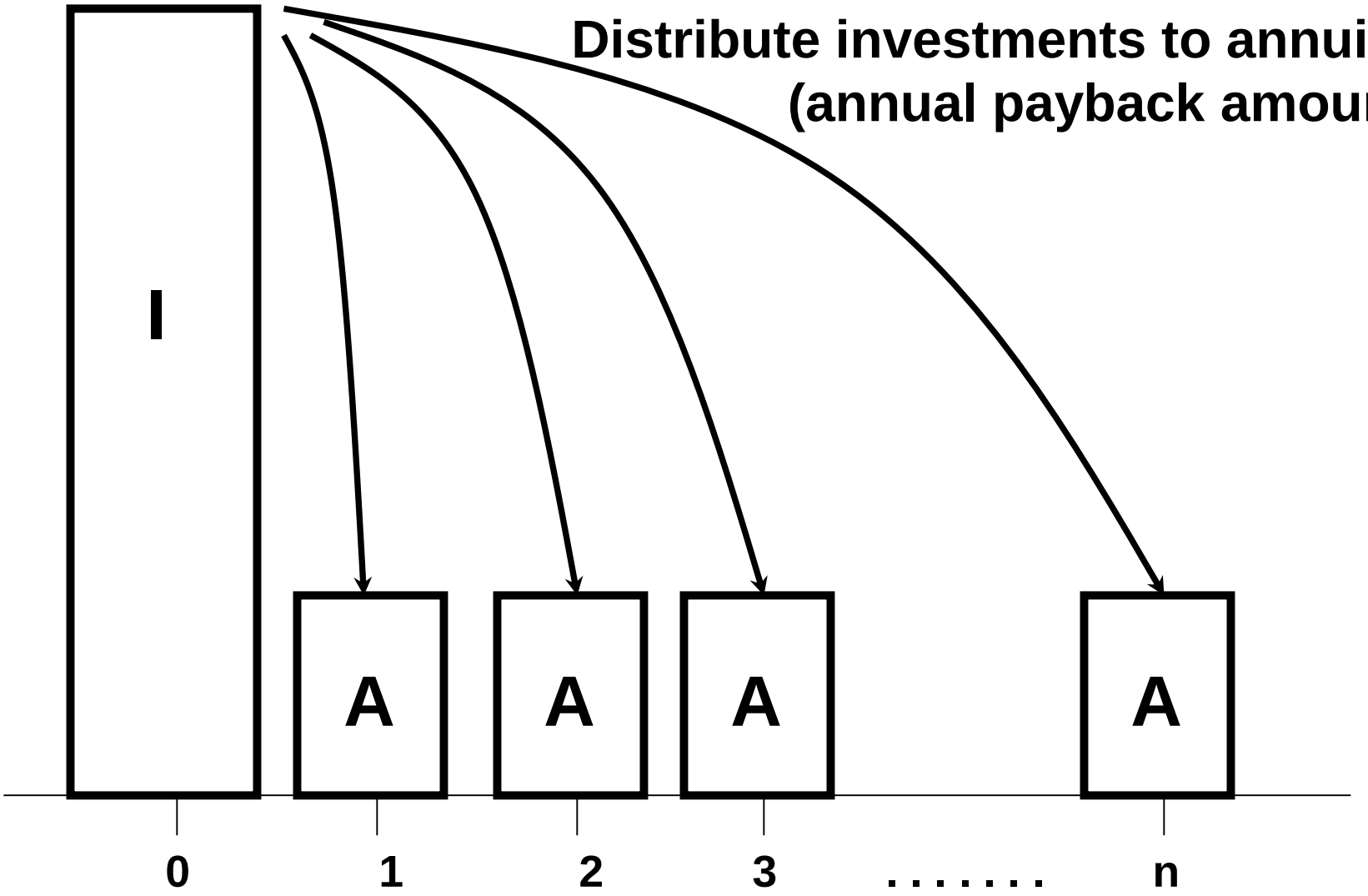


Development of day-ahead electricity prices in Europe per year (2)



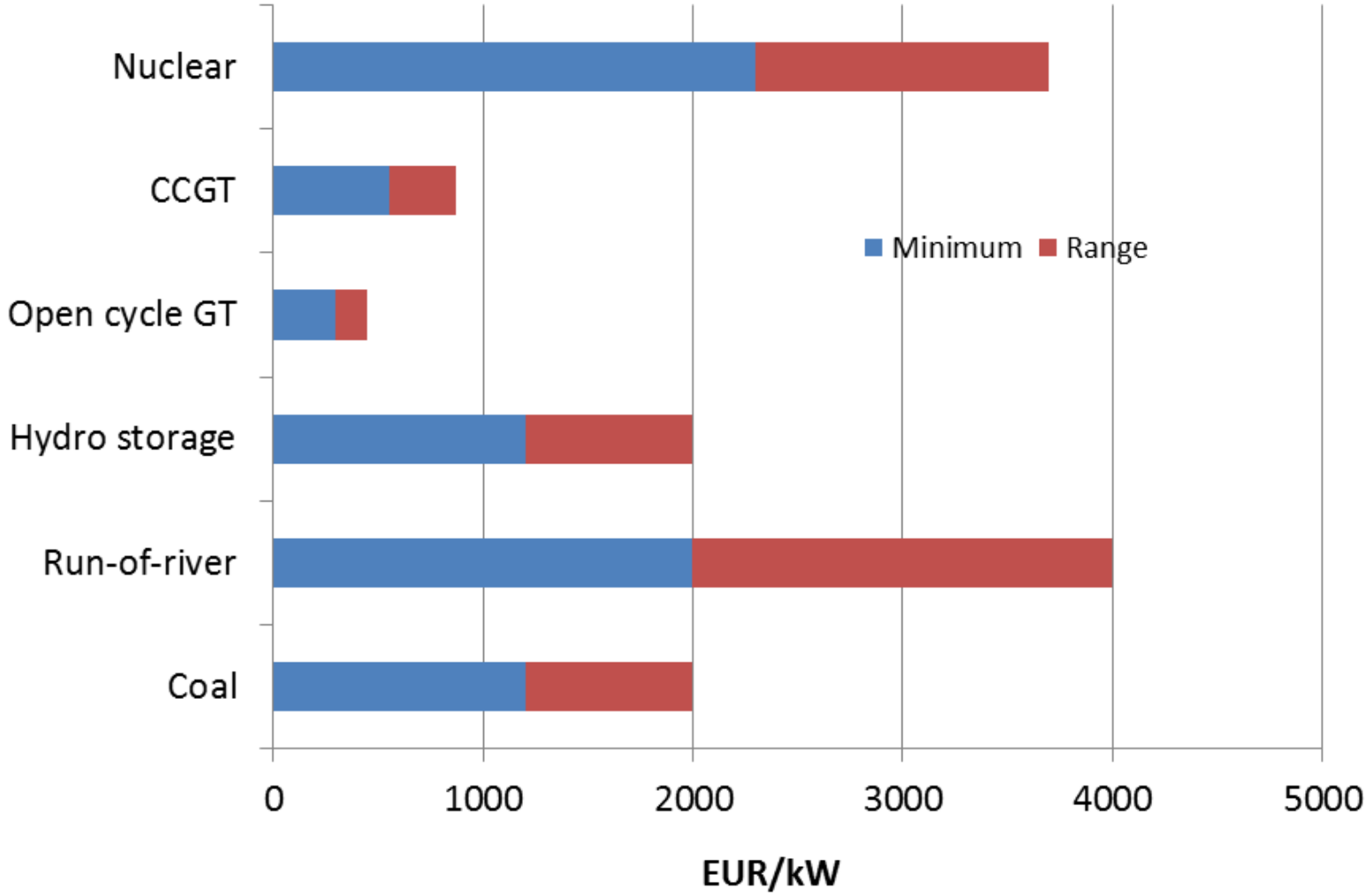
5 ELECTRICITY GENERATION COSTS

ANNUITY METHOD

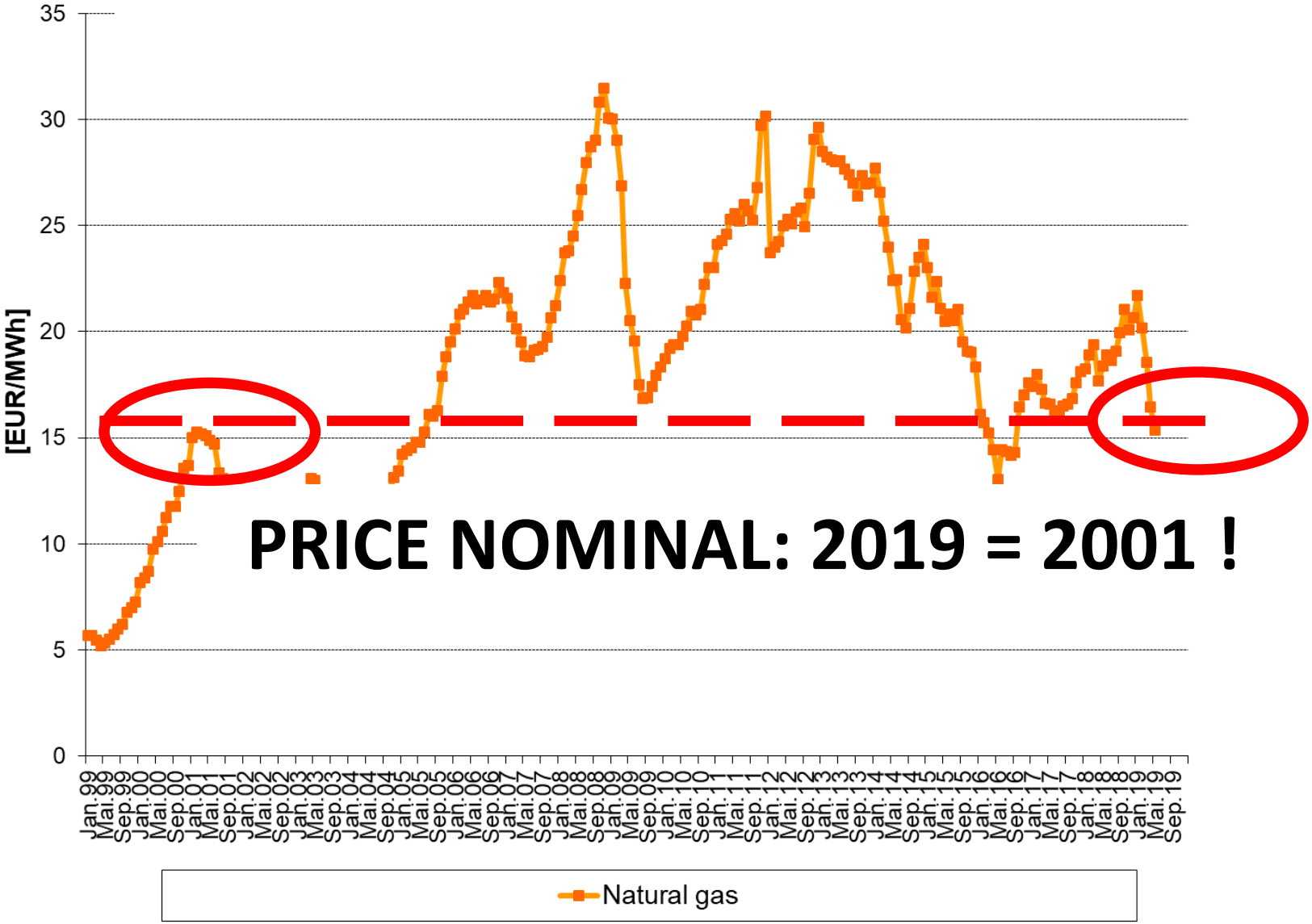


Investment costs

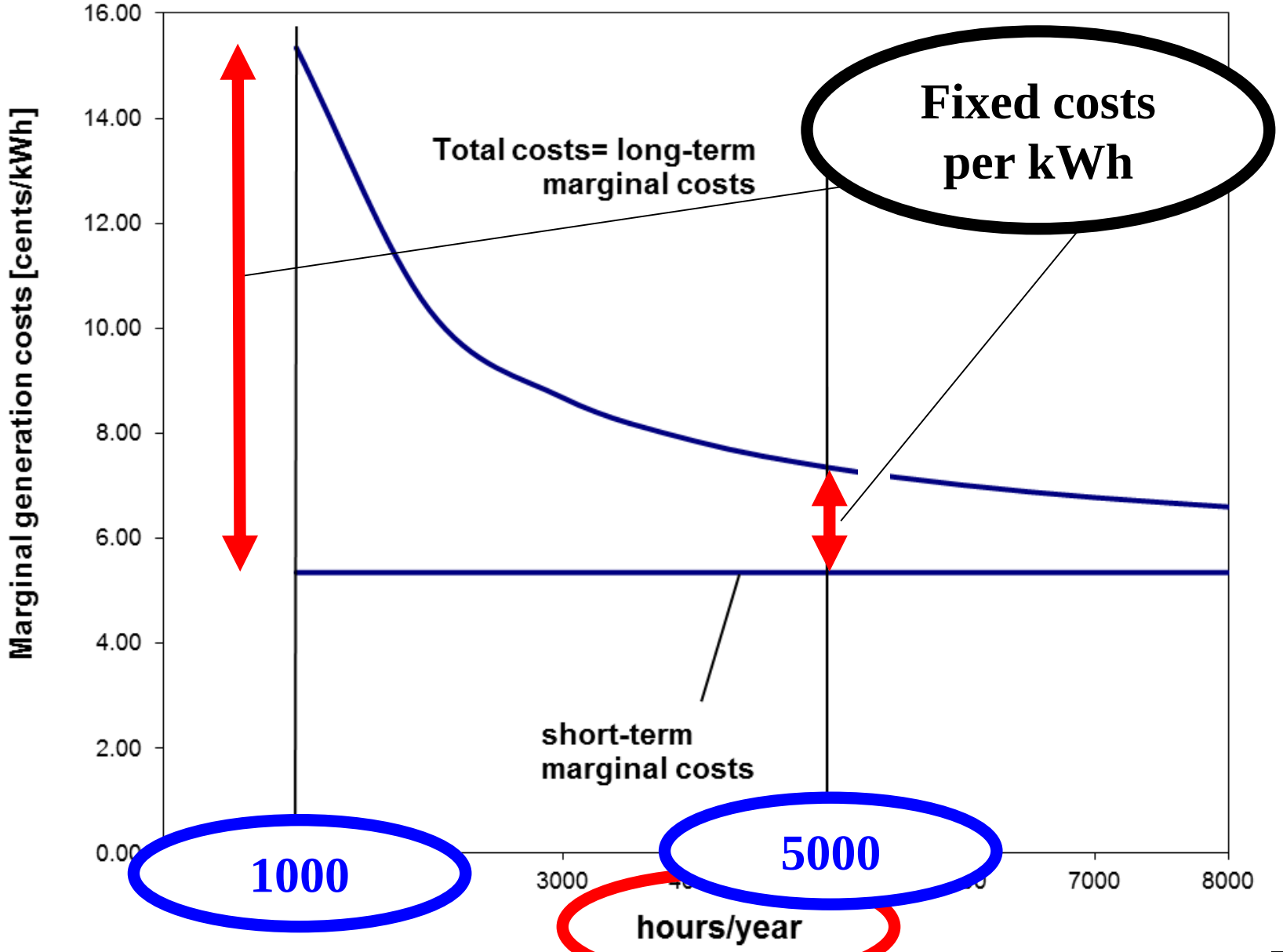
Electricity generation Conventional 2018



WHOLESALE MARKET PRICE OF NATURAL GAS



Generation costs CCGT



Costs of electricity generation

$$C = C_F + C_V = \frac{I\,\alpha + C_{O\&M}}{T} + \frac{p_f}{H\,\eta} + \frac{C_{CO2}\,f_{CO2}}{\eta} \quad \left[\frac{\text{cent}}{\text{kWh}}\right]$$

where:

C …Total costs of electr. Generation (cent per kWh)

C_F …Fix costs (cent per kWh)

C_V … Variable costs (cent per kWh)

$C_{O\&M}$…Operation & maintenance costs (EUR/kW)

I ….Investment costs (EUR/kW)

α … C.R.F. (Capital recovery factor, e.g. 0.1 for 15 years, 5% WACC)

T ….Full load hours (hours per year)

p_f …Fuel price (cent/kg or m³)

H …Caloric heat content (e.g. 10 kWh per m³ for gas)

η …Efficiency of power plant

C_{CO2} …Price of CO2 (e.g. 5 EUR/ton Carbon)

f_{CO2} … CO2-factor of fuel (0.2 kg Carbon/kWh)

Example: Costs of electricity generation from CCGT

I ….Investment costs = 600 EUR/kW

α … C.R.F. = 0.1 for 15 years and 5% interest rate

T ….Full load hours = 6000/1000 hours per year

$C_{O\&M}$…Operation & maintenance costs = 20 EUR/kW

p_f …Fuel price (e.g. 25/10 cents/m³ natural gas)

H …Caloric heat content (e.g. 10 kWh per m³ for gas)

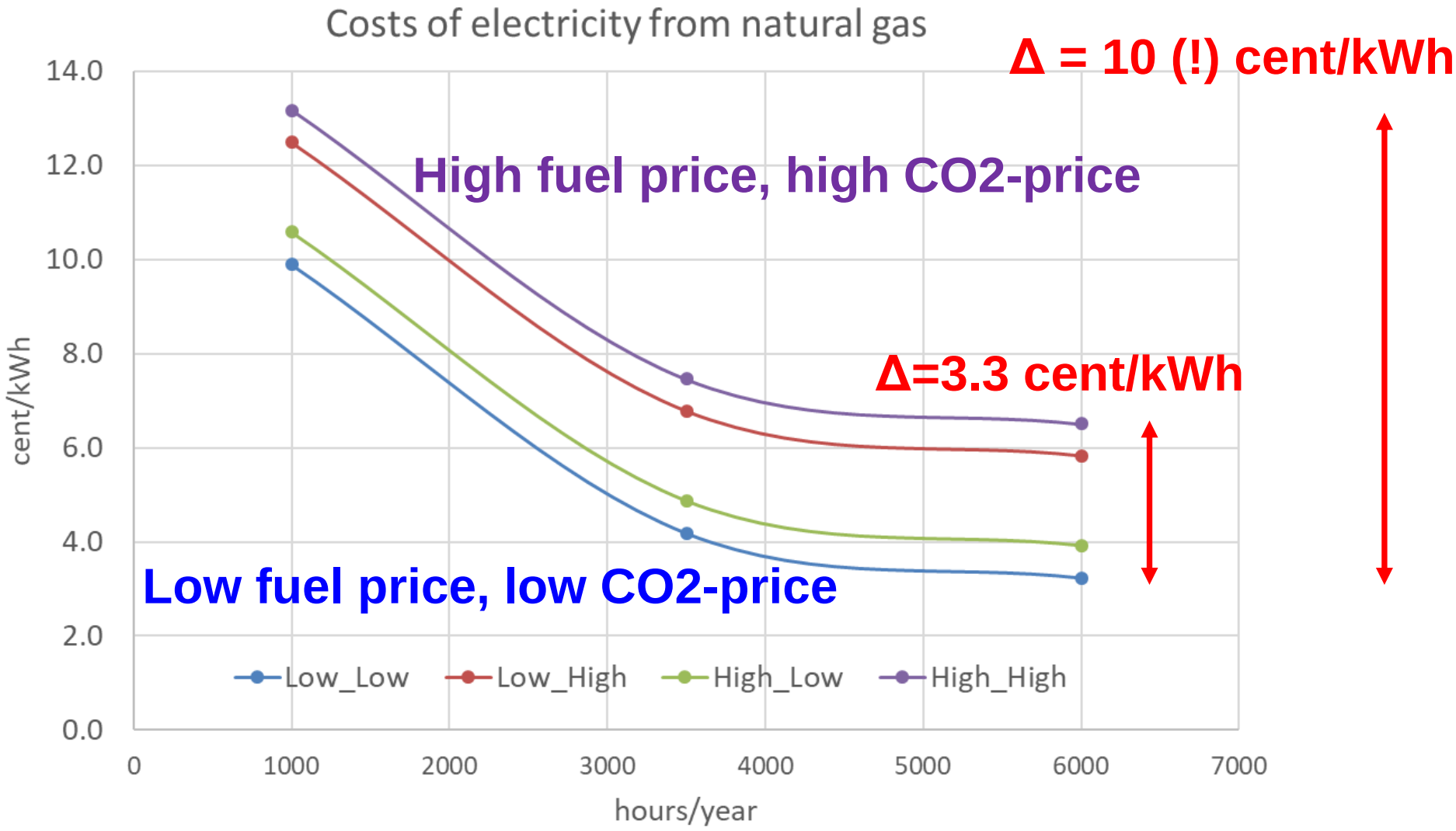
η …Efficiency of CCGT plant = 0.58

C_{CO2} …Price of CO2: 5/25 EUR/ton Carbon)

f_{CO2} … CO2-factor of fuel (0.2 kg Carbon/kWh)

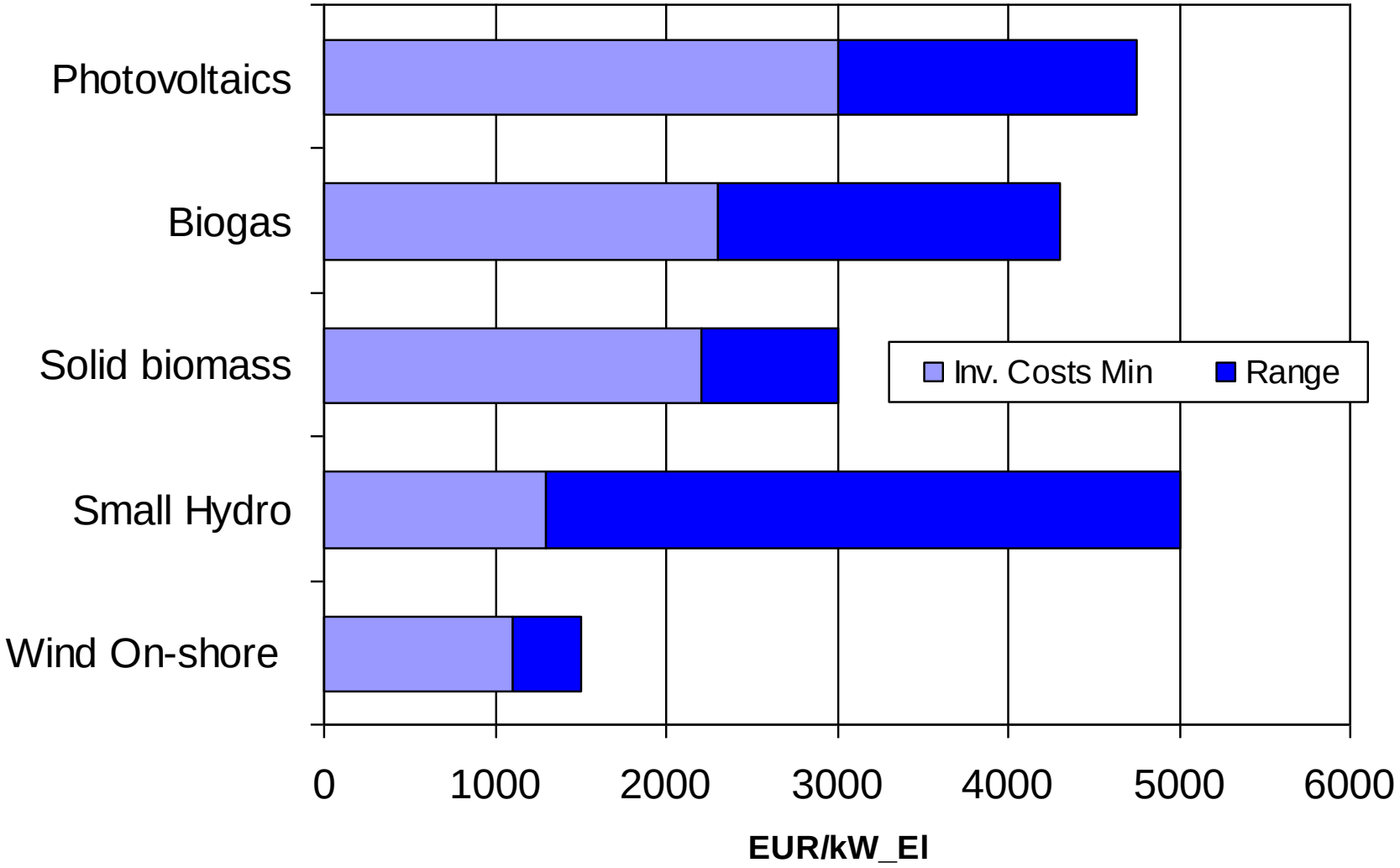
Example: Costs of electricity generation from CCGT

Example: Costs of electricity generation from CCGT



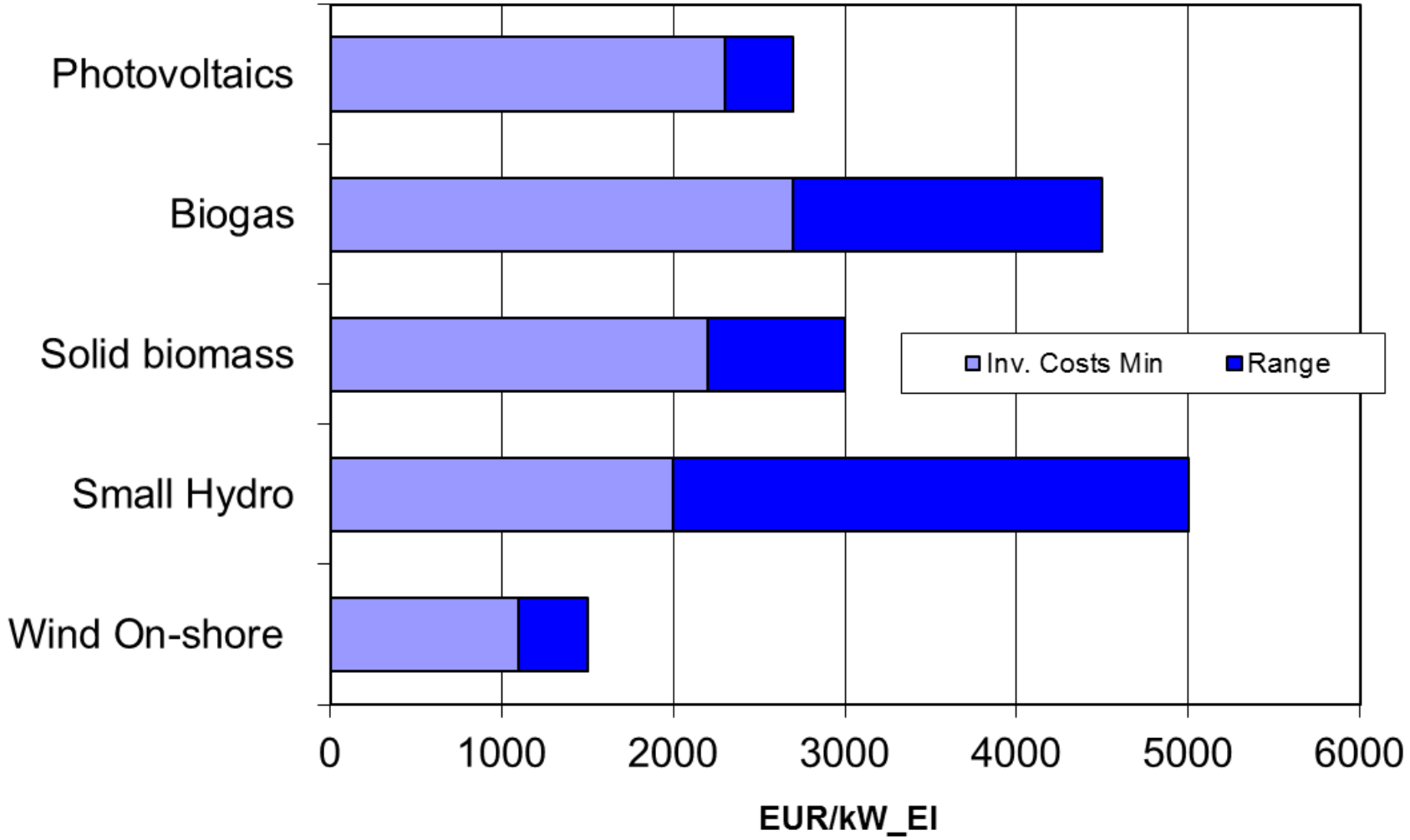
Investment costs

Electricity from new renewables 2010



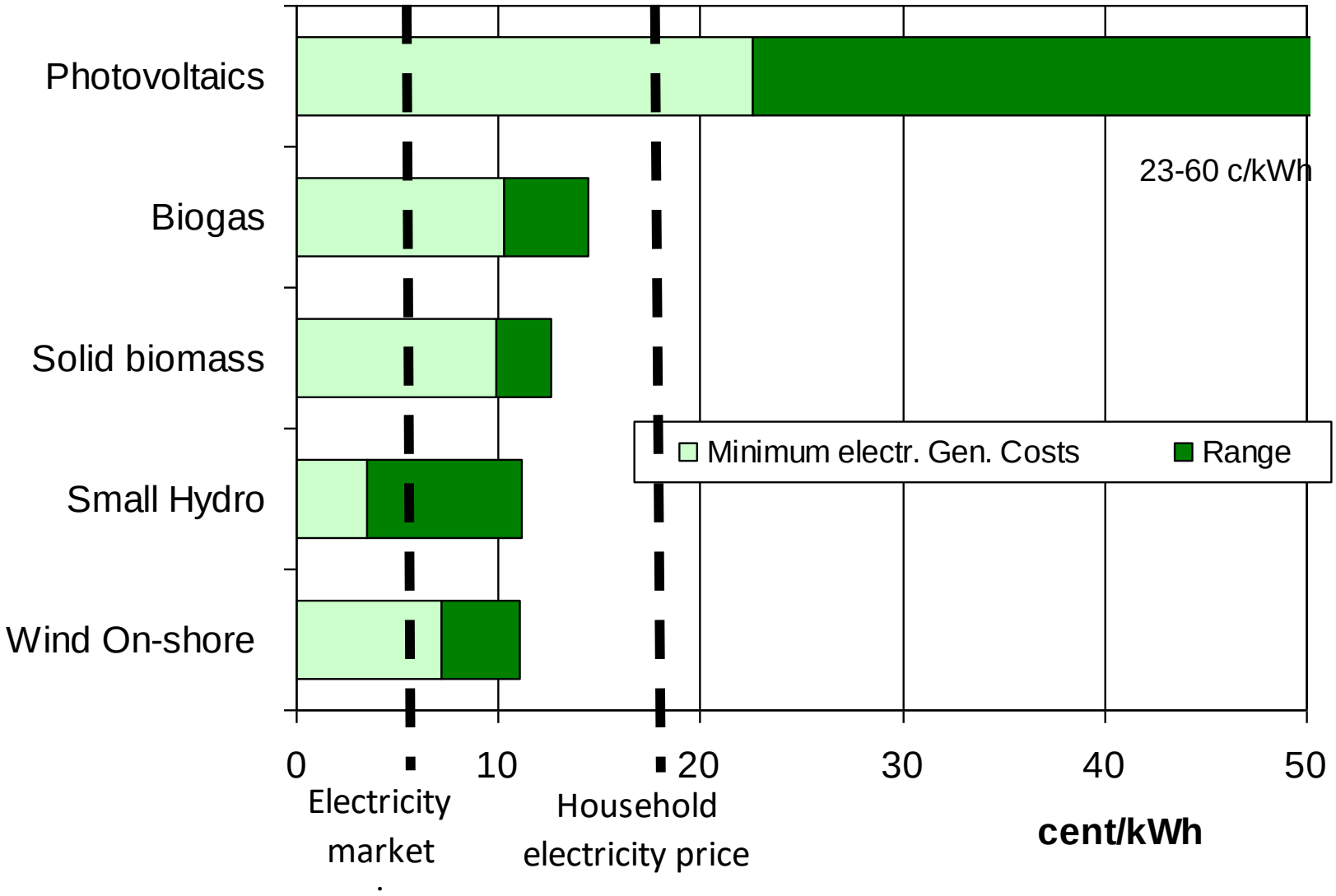
Investment costs

Electricity from new renewables 2018



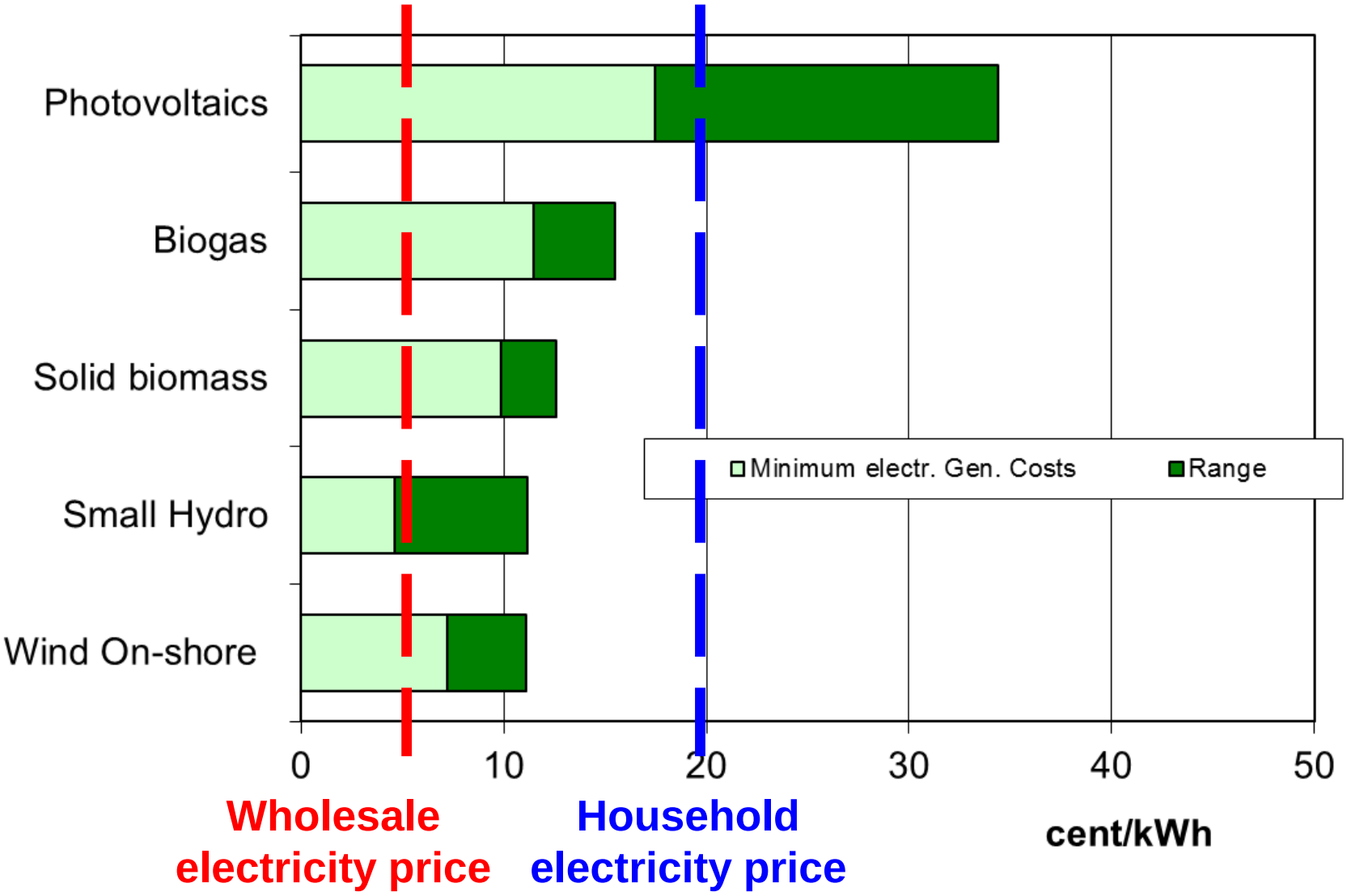
Generation costs

Electricity from new renewables 2010



Generation costs

Electricity from new renewables 2018



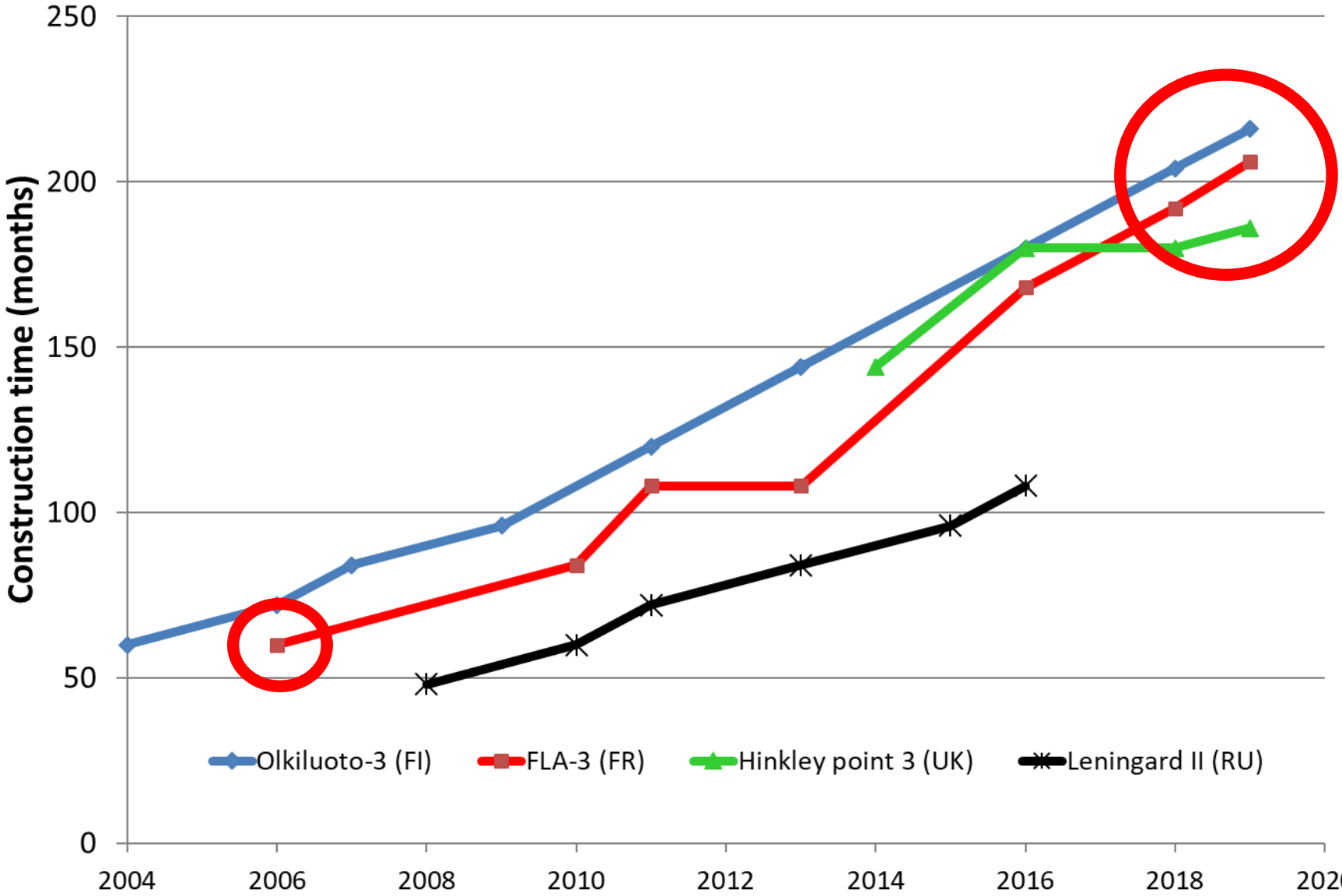
6. RECENT DEVELOPMENT OF NUCLEAR COSTS

- Olkiluoto-3 (Finland): Construction started in 2004, now expected to be completed 2019 (originally: 2009); 1600 MW

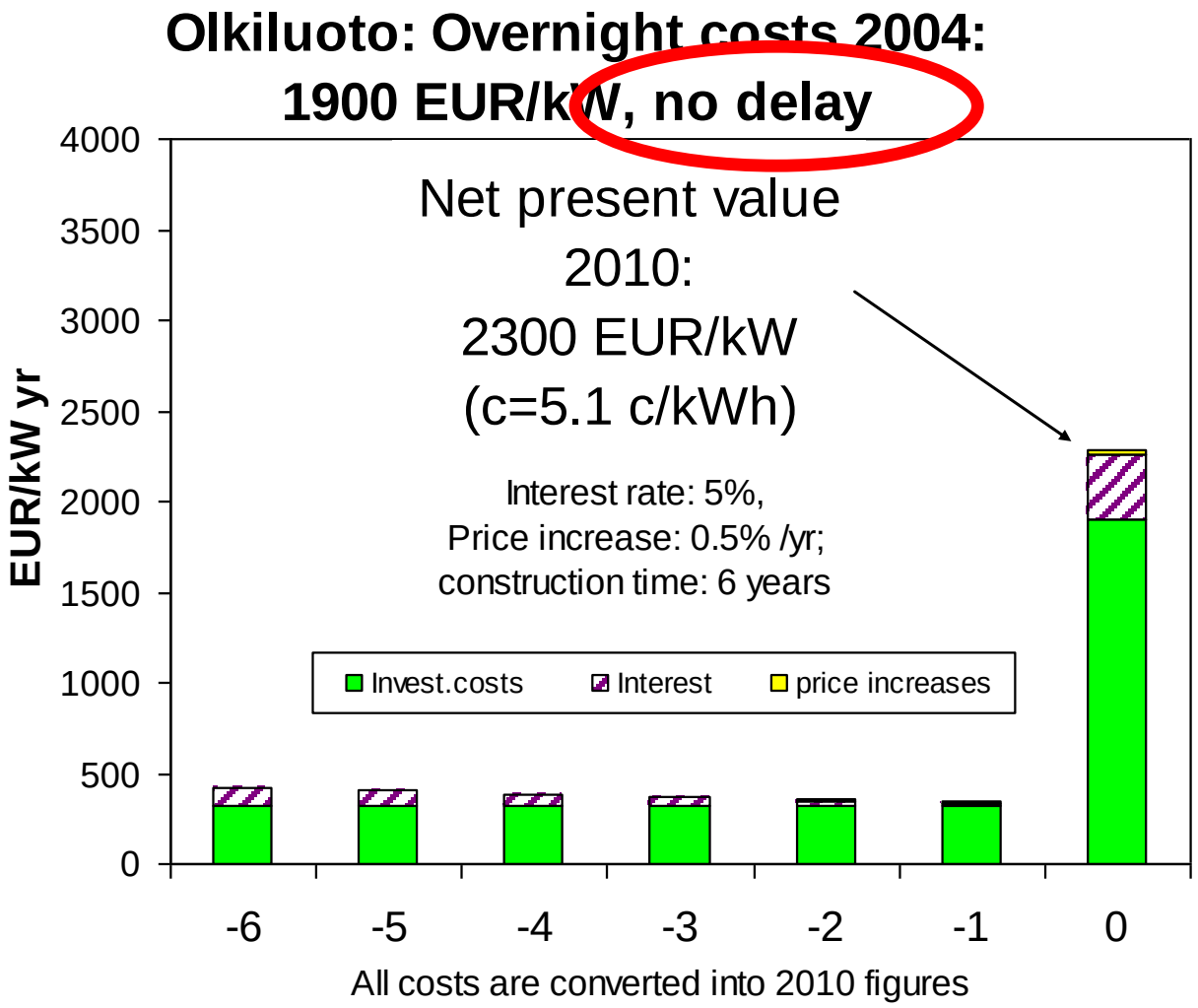
- Flamanville-3 (France): Construction started in 2006, now expected to be completed 2019 (originally: 2011); 1600 MW

- Hinkley point (UK): Construction start expected in 2022, 1600 MW

Construction times



Impact of construction time on investment costs: Example Olkiluoto



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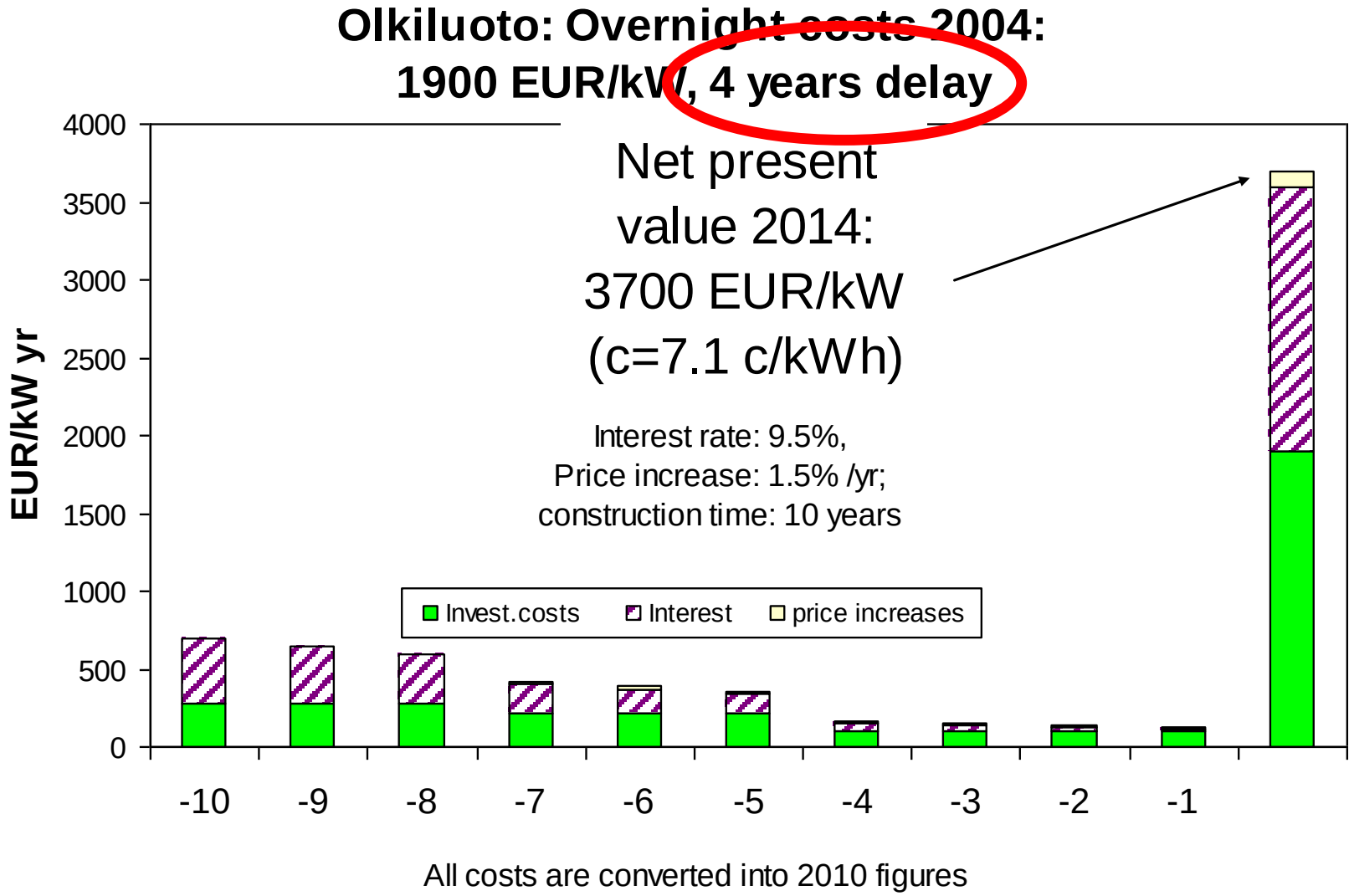
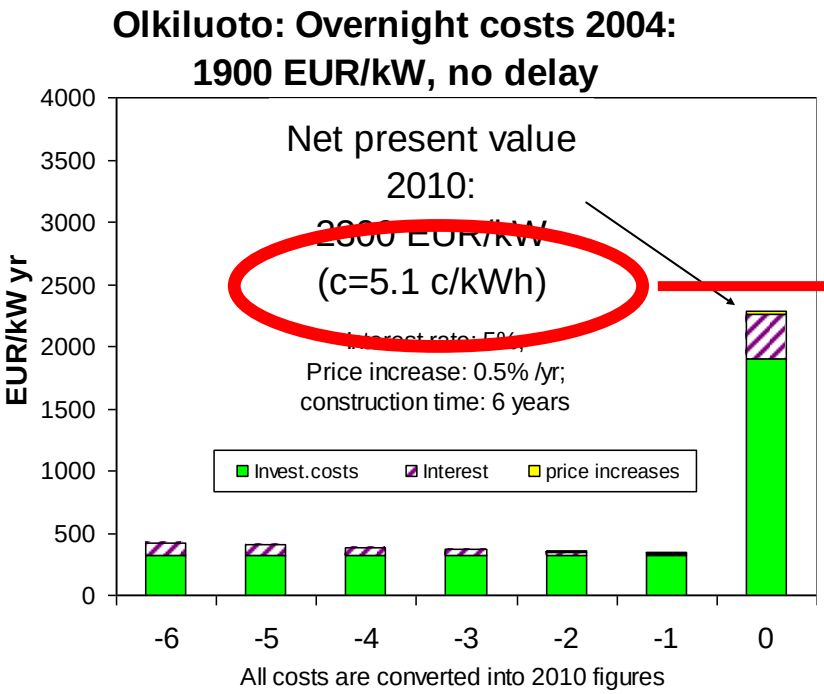
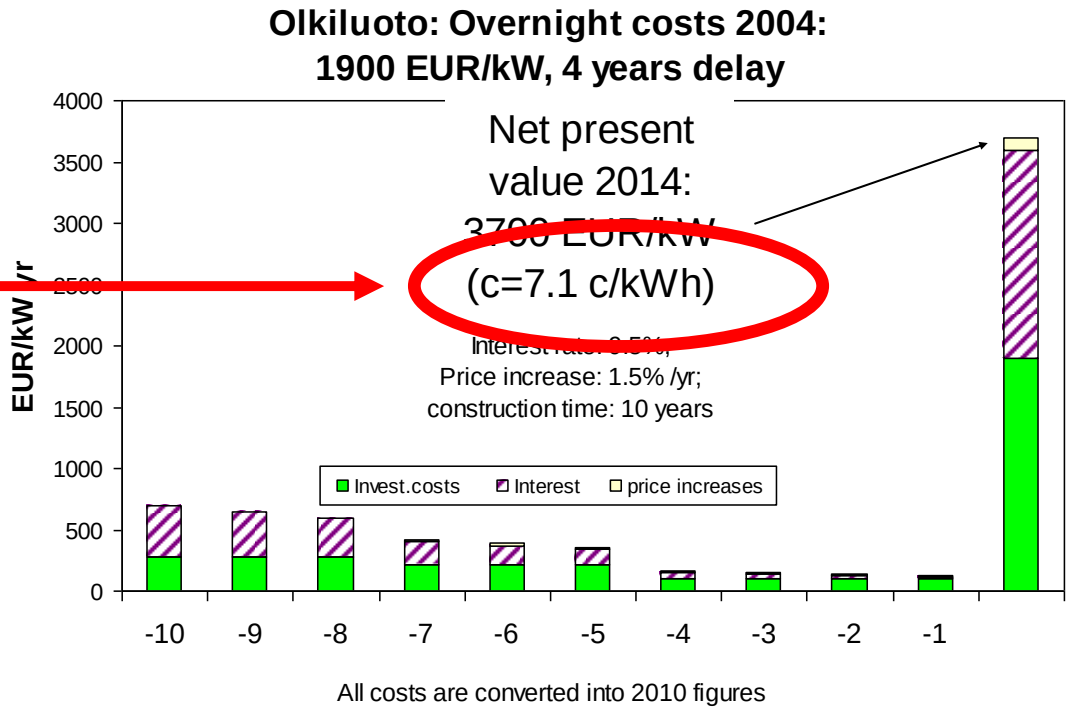
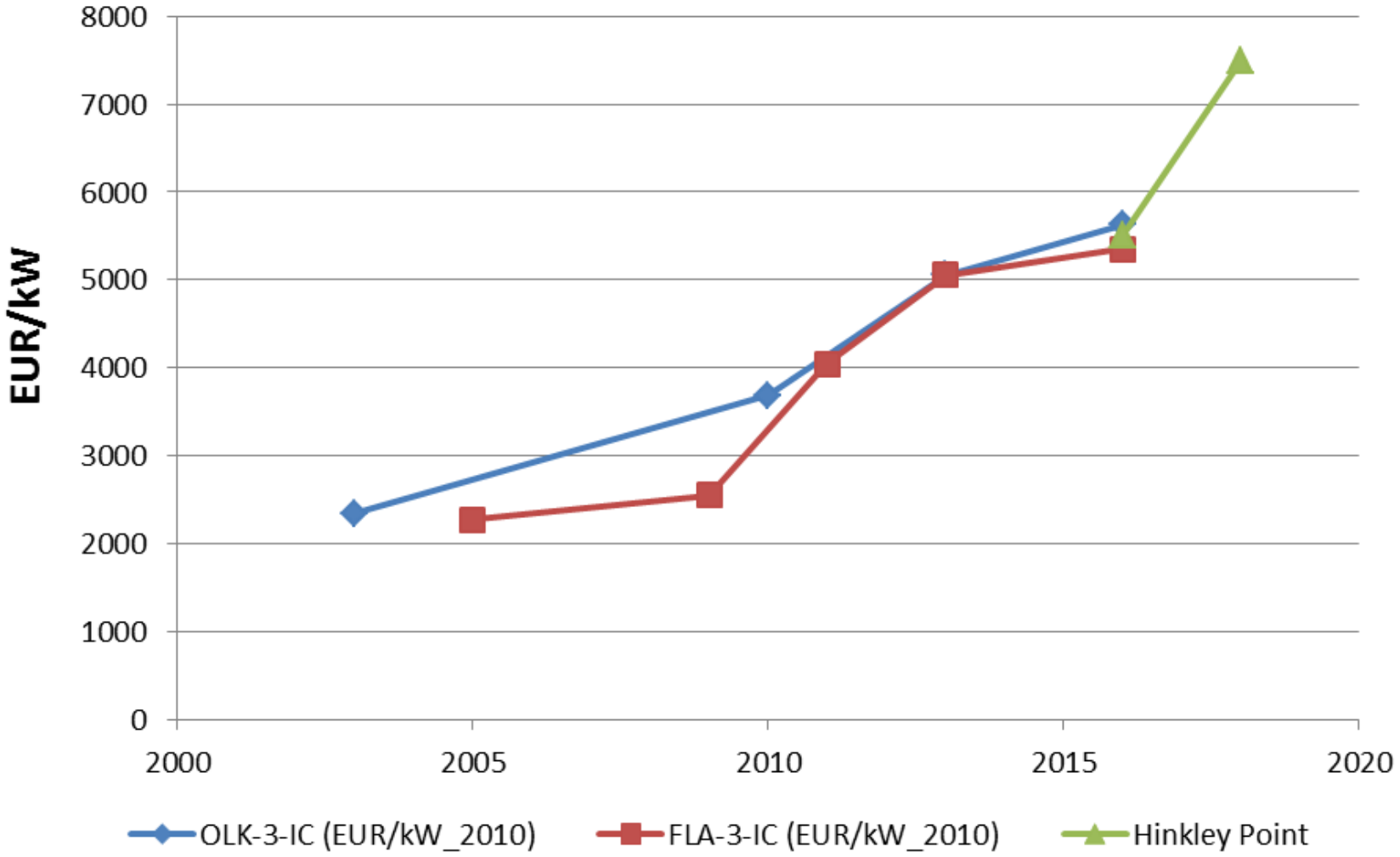



Olkiluoto: Overnight costs 2004:
1900 EUR/kW, no delay
Net present value
2010:
(c=5.1 c/kWh)
Price increase: 0.5% /yr;
construction time: 6 years
Invest.costs
Interest
price increases
EUR/kW yr
4000
3500
3000
2500
2000
1500
1000
500
0
-6
-5
-4
-3
-2
-1
0
All costs are converted into 2010 figures

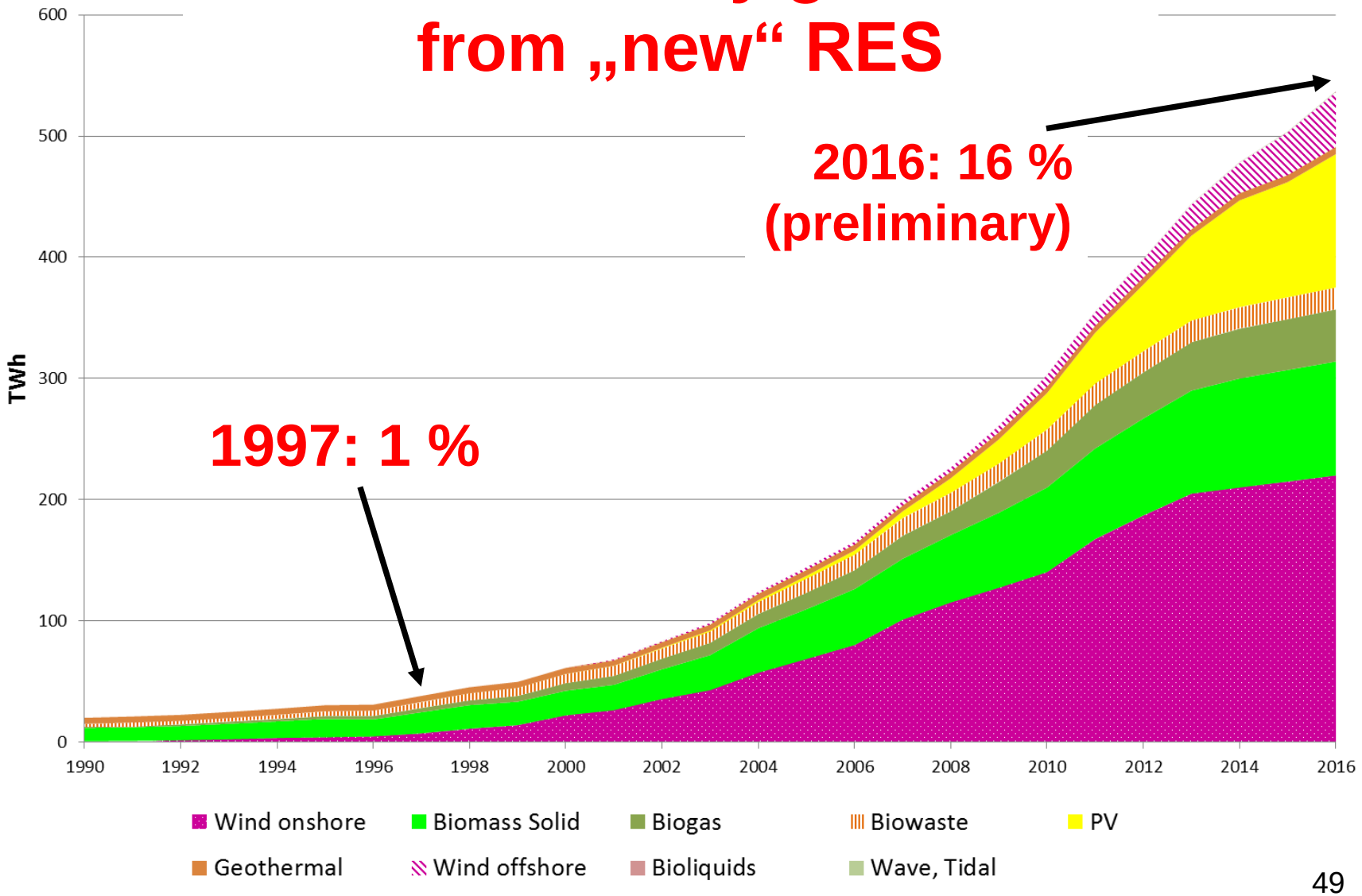

Olkiluoto: Overnight costs 2004:
1900 EUR/kW, 4 years delay
Net present
value 2014:
(c=7.1 c/kWh)
Price increase: 1.5% /yr;
construction time: 10 years
Invest.costs
Interest
price increases
EUR/kW yr
4000
3500
3000
2500
2000
1500
1000
500
0
-10
-9
-8
-7
-6
-5
-4
-3
-2
-1
All costs are converted into 2010 figures

Investment cost development Olkiluoto 3 vs Flamanville 3 vs HP



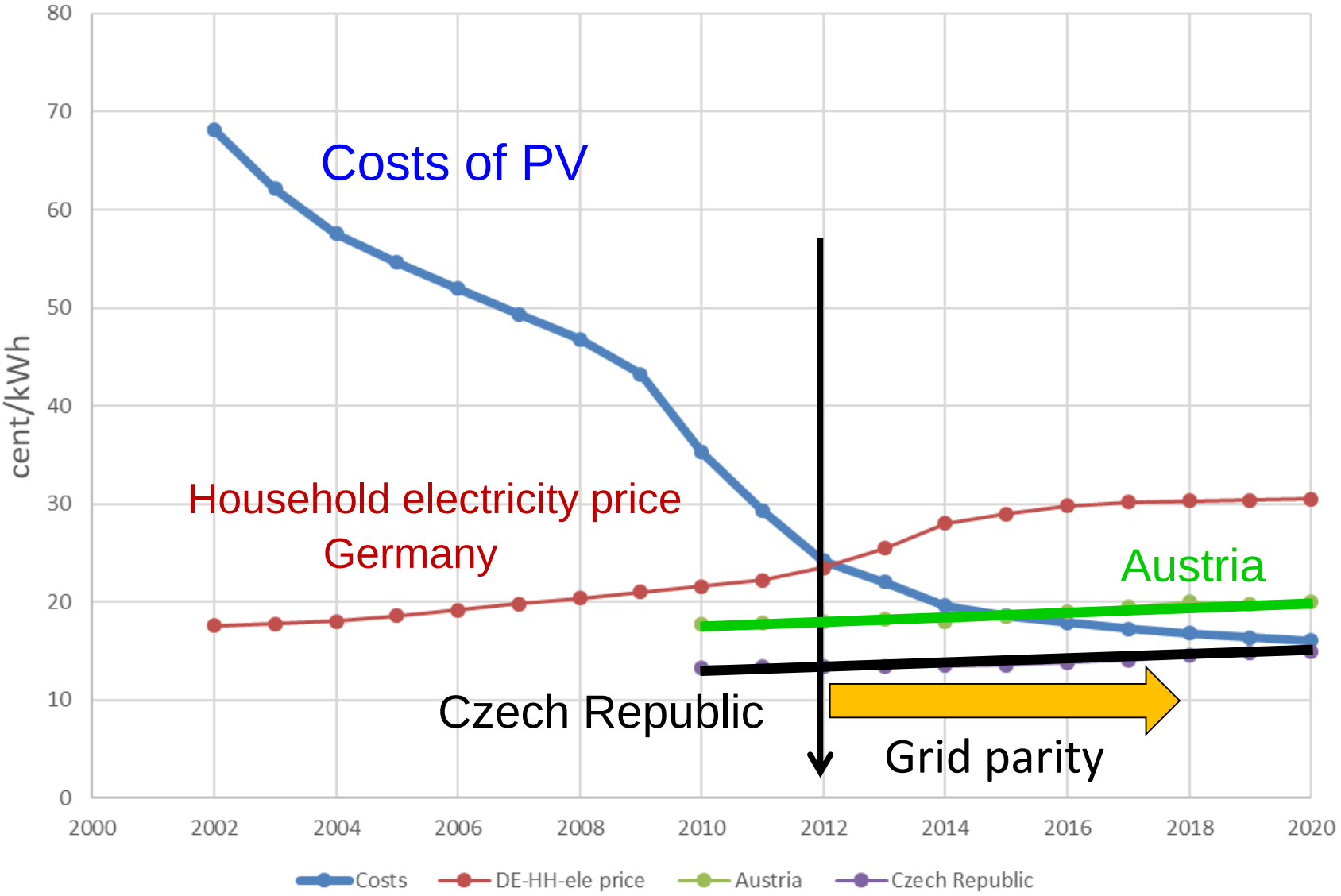
7. THE ROLE OF RENEWABLES

EU-28: Electricity generation from „new“ RES

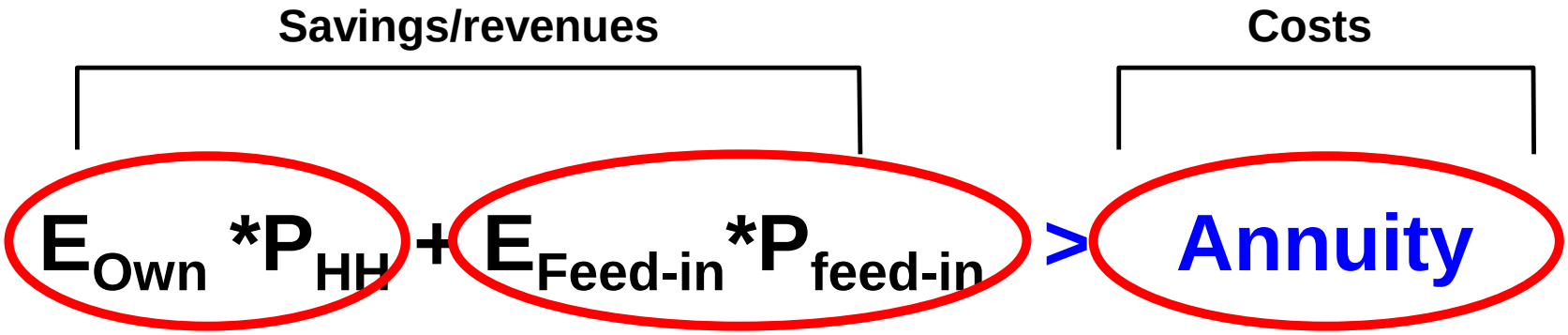


Source: EUROSTAT, own estimations

Grid parity: PV-costs and household electricity prices



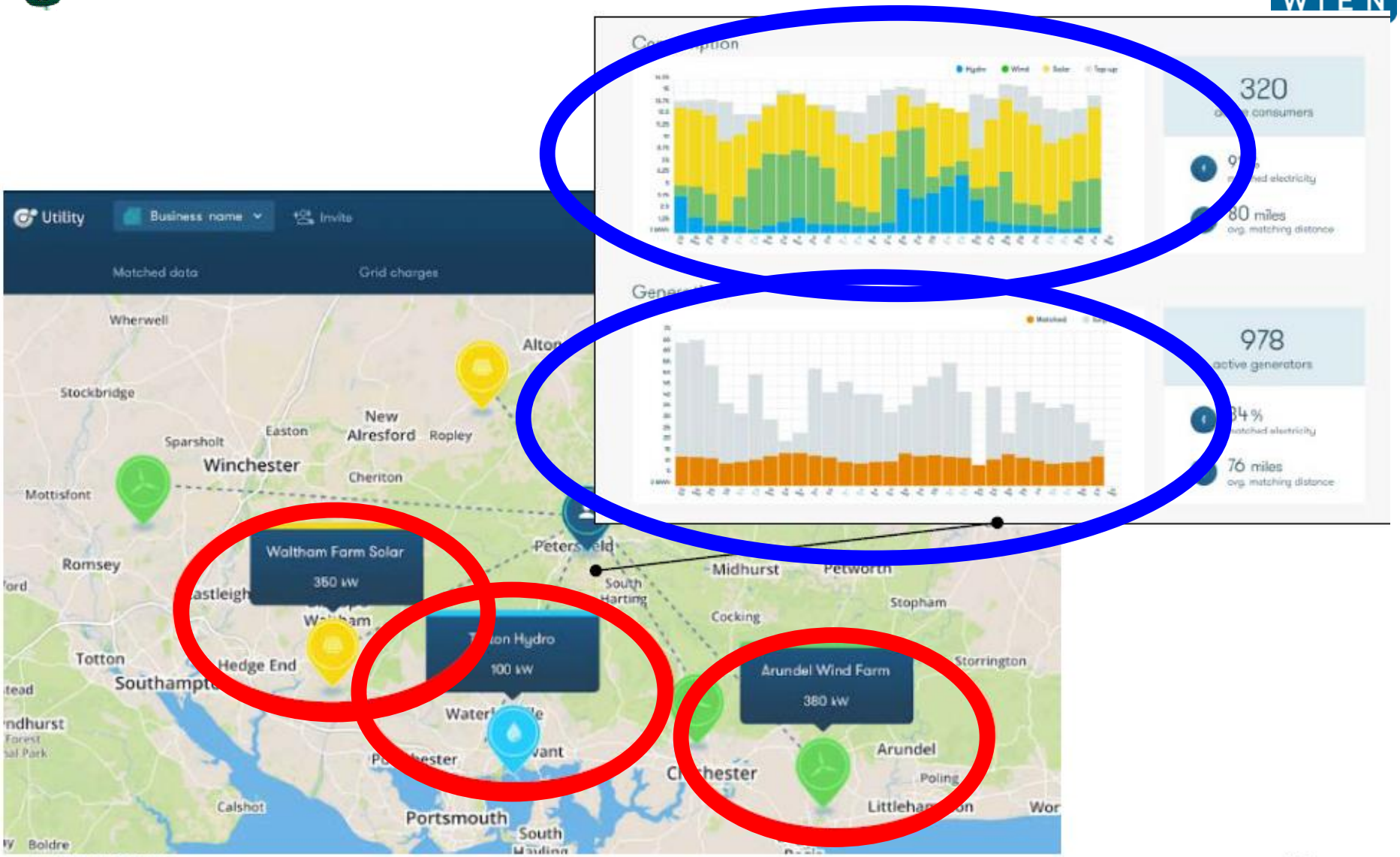
Assessment of Grid Parity



Grid parity term

Subsidy still necessary?

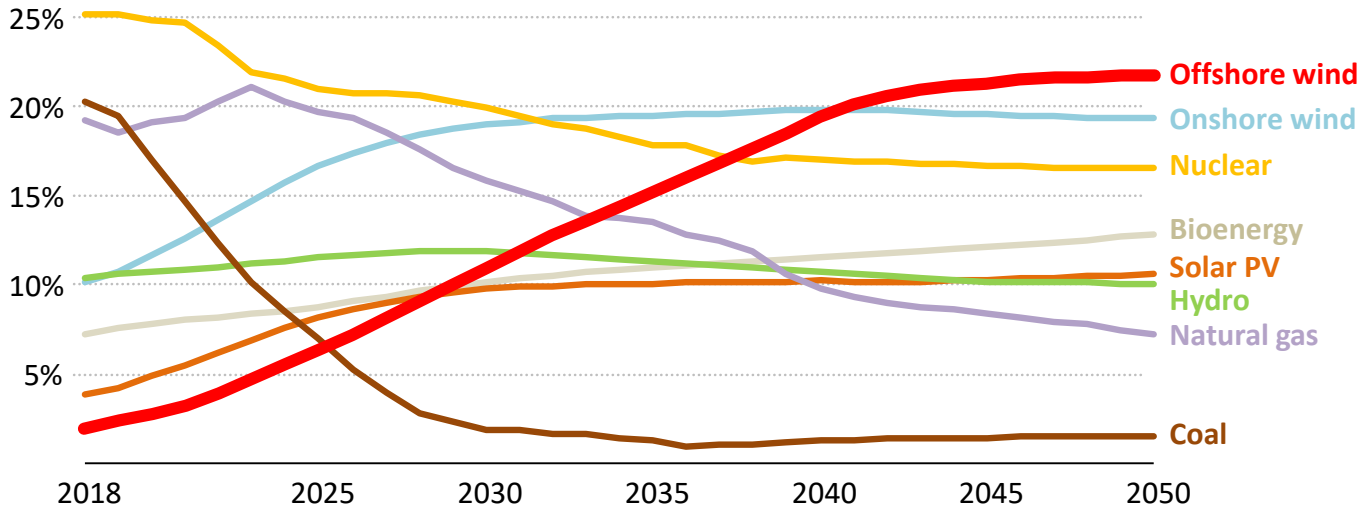
Peer-to-peer



Source: piclo.co.uk

A carbon neutral Europe puts offshore wind in front

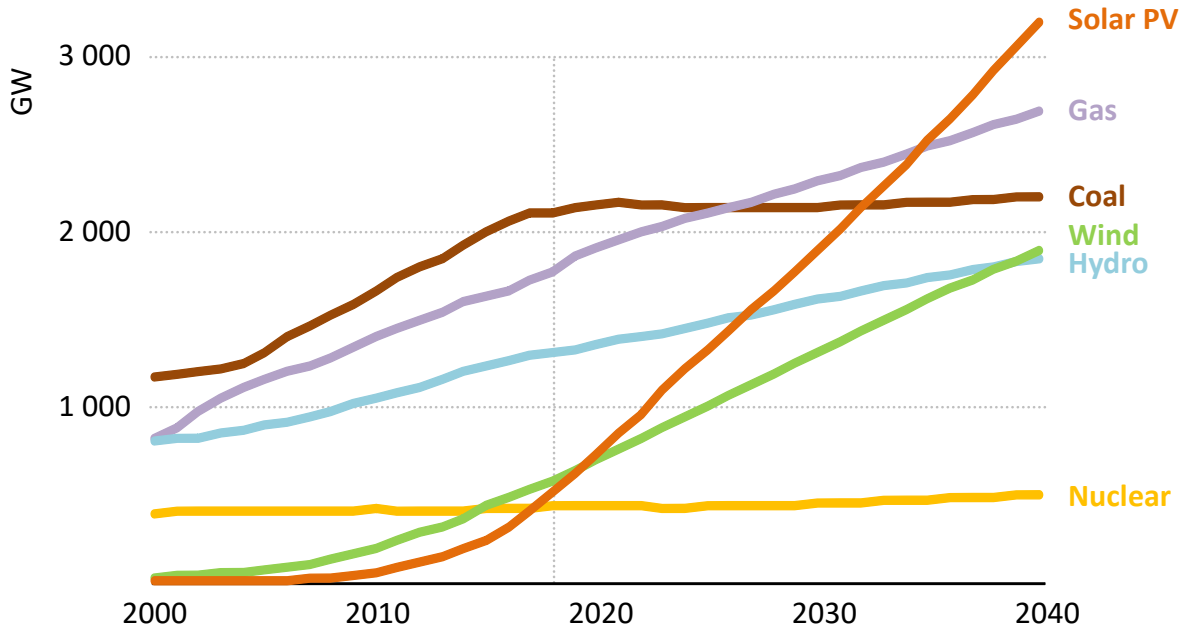
Shares of electricity generation by technology in the European Union, Sustainable Development Scenario



Offshore wind is set to become the largest source of electricity in the European Union by 2040, complementing other renewables towards a fully decarbonised power system

New solar PV projects are taking off

Global power capacity by source in the Stated Policies Scenario



The power mix is being re-shaped by the rise of renewables and natural gas. In 2040, renewables account for nearly half of total electricity generation.

8. CONCLUSIONS:

- **Markets are in a period of transition towards volatility;**

- **Nuclear: long lead time, uncertain costs → high promises, low fullfilments;**

- **Renewables: next very interesting phase: after PV-Grid parity!**

- **More details: Summer school**

Example: Costs of electricity generation from CCGT

6000 h/yr:

Low fuel & CO2-price:

C = 1.0 + 0.33 + 1.72 +0.17 = 3.22 cent/kWh

High fuel & CO2-price:

C = 1.0 + 0.33 + 4.31 +0.86 = 6.50 cent/kWh

1000 h/yr:

Low fuel & CO2-price:

C = 6.0 + 2.0 + 1.72 +0.17 = 9.89 cent/kWh

High fuel & CO2-price:

C = 6.0 + 2.0 + 4.31 +0.86 = 13.17 cent/kWh