



ENERGY MARKET DEVELOPMENTS IN THE CEE

CZECH REPUBLIC

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MARKET STATUS AND RECENT DEVELOPMENTS IN THE CZECH ENERGY MARKET

- **Continuing regional market integration**
 - Market coupling CZ/SK/HU since September 2012
 - CEE can join CWE/NWE in 2014

- **Czech market fully liberalized**
 - Full transposition of Third Package Directives
 - Developed retail market
 - Power Exchange Central Europe in Prague (PXE)

- **Wholesale prices distorted and depressed**
 - Negative influences of the RES deployment and EU-ETS collapse



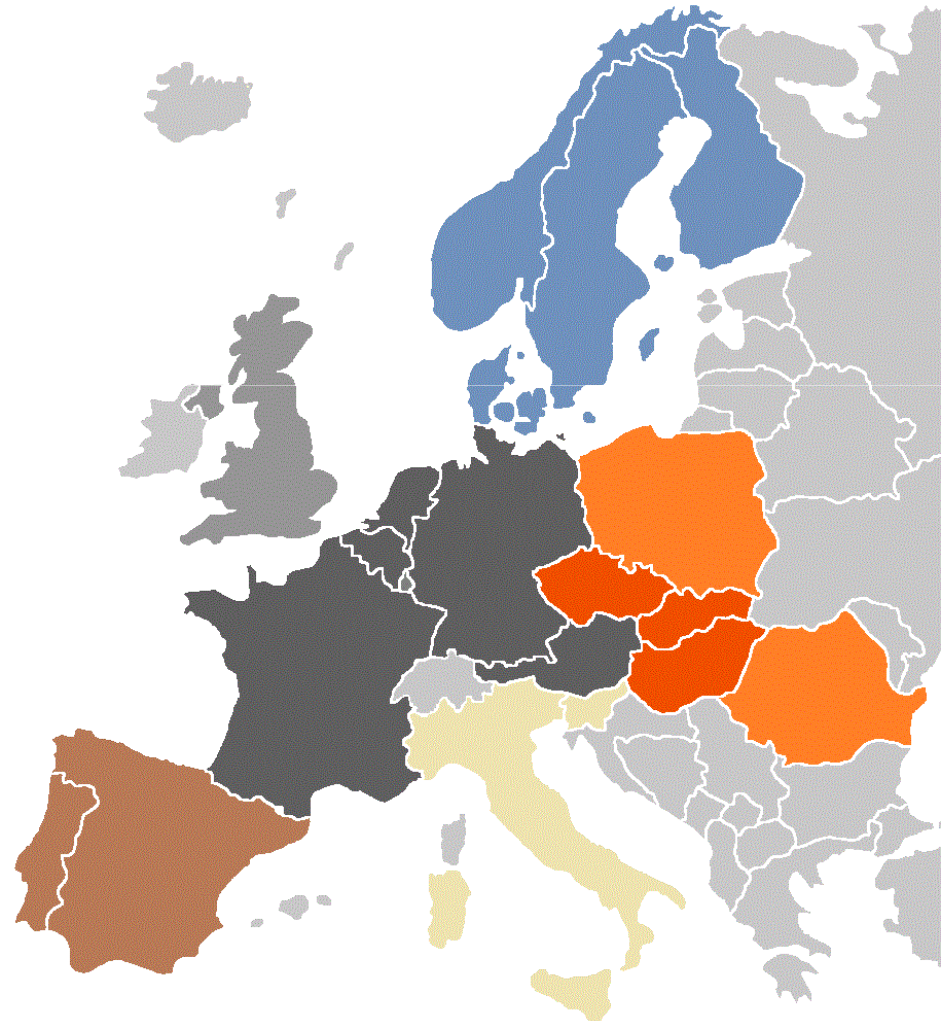
CEE CAN JOIN CWE/NWE MARKET COUPLING IN 2014 CONTRIBUTING TO THE ESTABLISHMENT OF A EUROPEAN INTERNAL ELECTRICITY MARKET IN 2015

- HU joined CZ/SK in Q3 2012
- CWE+Northern countries = NWE (late 2012)

 **CEE market coupling fully compatible with CWE/NWE**

 **CEE can join CWE/NWE 2014**

- RO/PL join in 2014/2015?
- European internal electricity market in 2015?

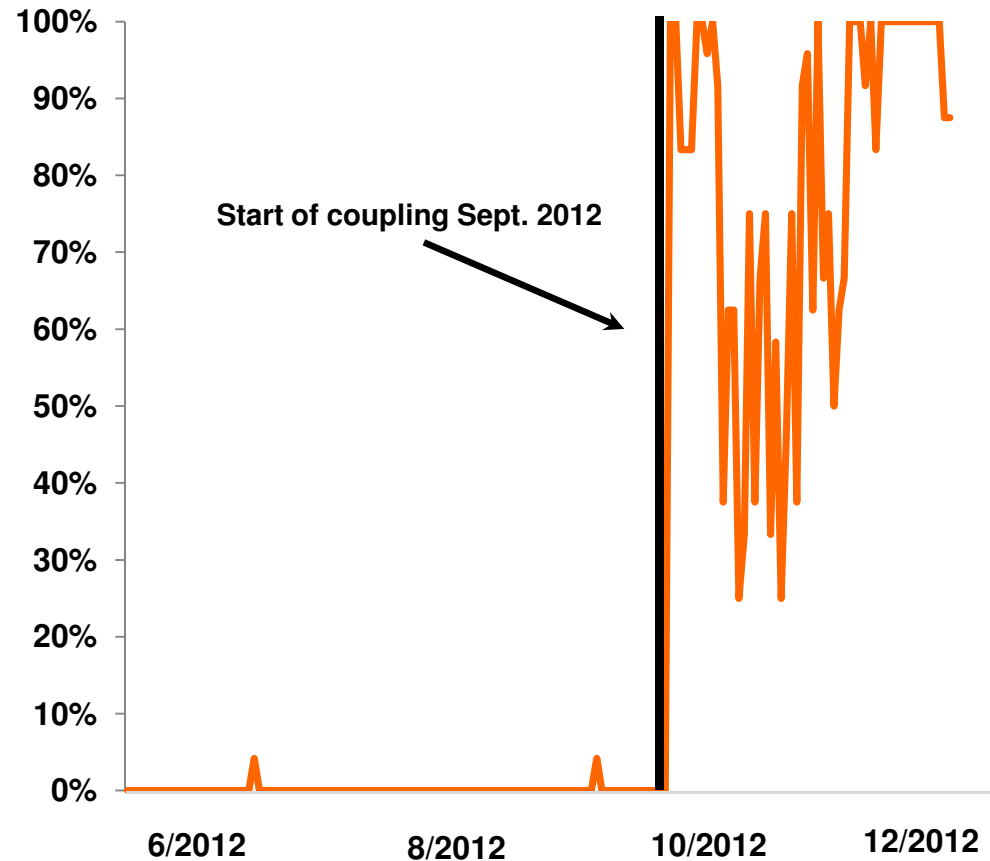




HIGHER INTEGRATION FOSTERED BY EUROPEAN-WIDE MARKET COUPLING PROVIDES MORE EFFICIENT AND COMPETITIVE POWER GENERATION AND TRANSPARENT ENVIRONMENT FOR INVESTORS

- Higher efficiency in the utilisation cross-border capacities resulting from implicit allocation system
- Optimal sharing of generation portfolios across borders permitted by the physical infrastructure
- Enhanced competition promoting the most efficient investment across countries

Percentage of hours with the same price in SK and HU





KEY CHALLENGES IN THE ENERGY SECTOR

- **Distortions caused by RES integration**
 - Subsidized sources distort pricing on the wholesale markets
 - Destabilization of national grids, back-up, re-dispatch
 - Physical/commercial cross-border bottlenecks due to loop flows
 - Increased needs for flexible generation

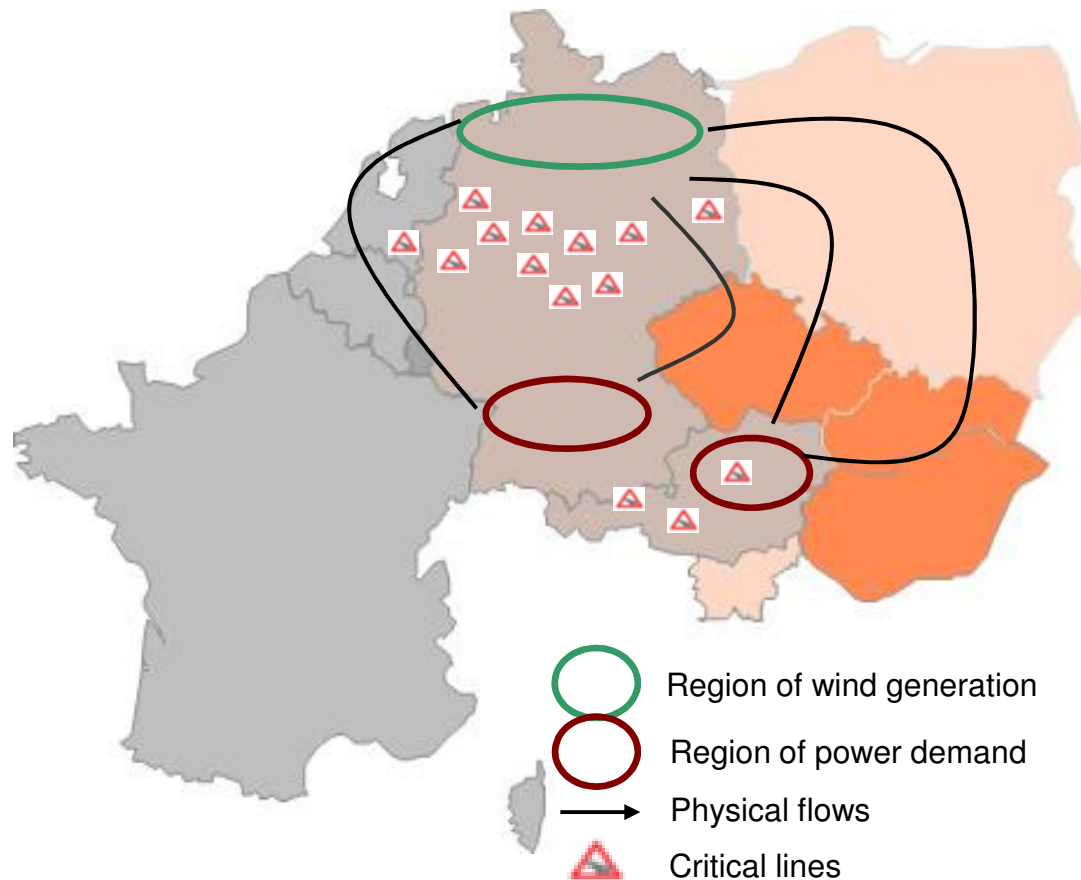
- **Challenging environment for necessary generation investments**
 - Wholesale prices depressed
 - CO2 scheme collapsing
 - CEE demand growing, generation capacity replacements needed due aging portfolio and environmental constraints (IED)



THE LACK OF GRID INVESTMENTS HAS PUSHED GERMANY TO USE THE NEIGHBOURING GRIDS FOR BALANCING RES GENERATION

RES INTEGRATION

Physical Flows of Wind Power in Central Europe

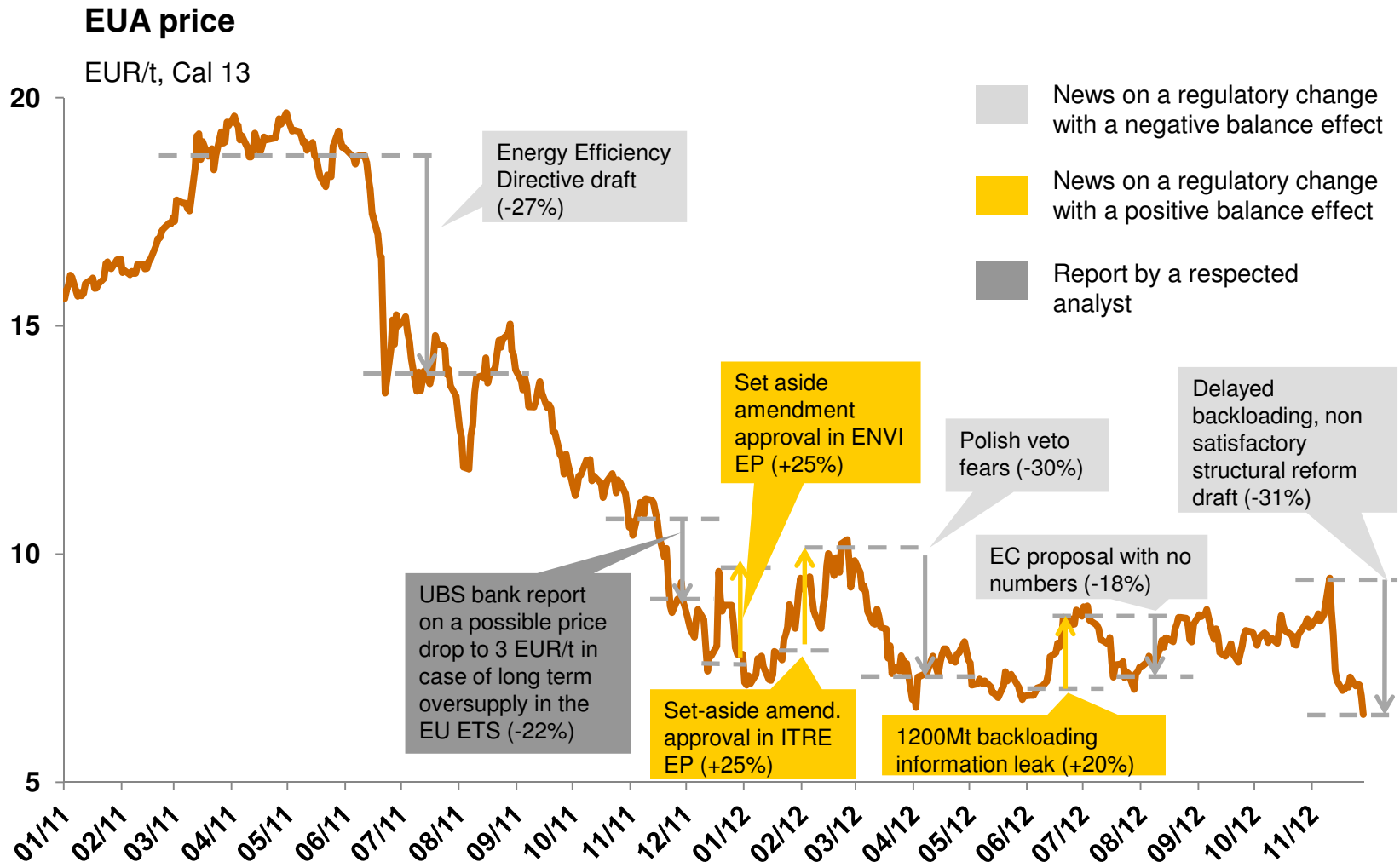


- RES electricity from the Northern Germany flows to the demand centers in the South which, together with large volatility of RES generation, creates pressure on the transmission grid
- Management of flows has become increasingly difficult after the first phase-out wave of nuclear units
- TSOs in CEE are forced to reduce the cross-border capacities due to limited capacity of critical lines in Germany and Austria



THE EU-ETS MARKET IS UNDER PRESSURE DUE TO LACK OF CLARITY ON THE REGULATORY REFORM

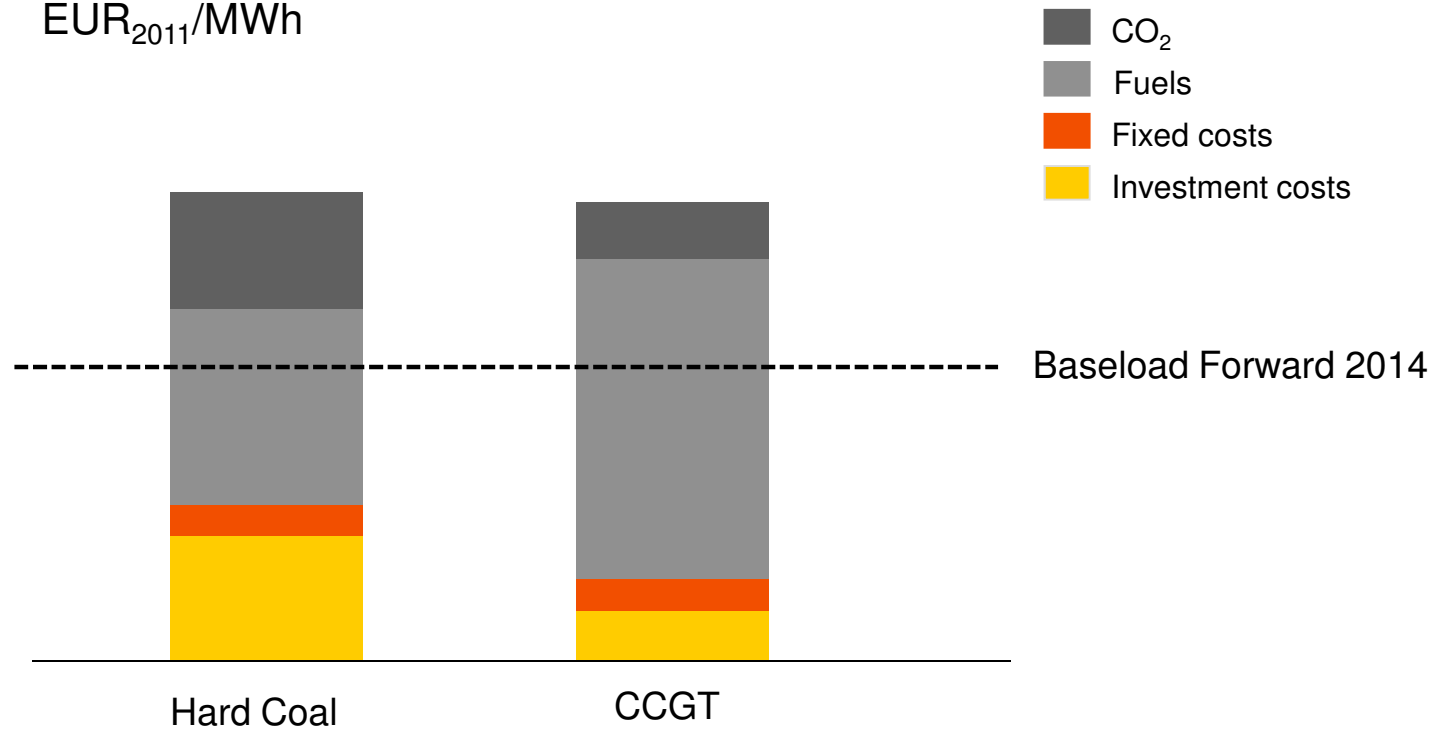
EU-ETS





CURRENT ELECTRICITY PRICES DO NOT SUPPORT INVESTMENT INTO NEW CONVENTIONAL SOURCES

Full costs of new power plant
EUR₂₀₁₁/MWh



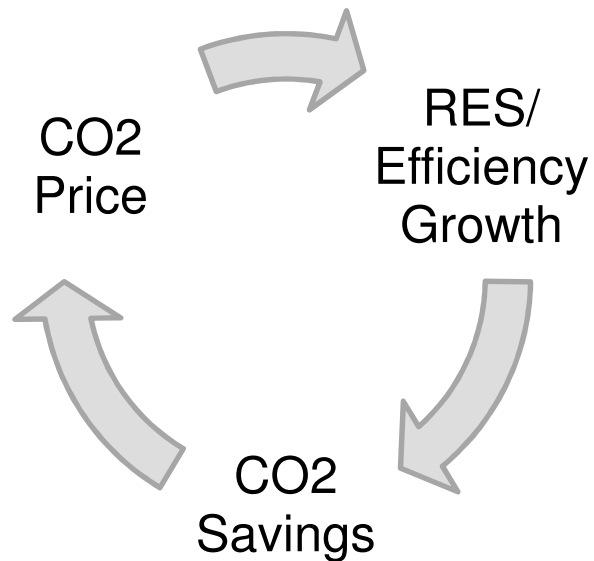


RECOMMENDATIONS

- **Restore single energy market as a clear EU priority**
 - Re-unify, strengthen and stabilize the role of the energy markets
 - Foster and maintain long-term CO₂ market credibility through permanent set-asides and aiming on lowering carbon intensity in the long-term
 - Set up a unified and efficient RES support system (market-driven green certificates and driven by CO₂ in the long term)
 - Further integrate markets via market coupling
 - If required, set up a single and controlled reserve support scheme for new investments (only till EU-ETS is reformed and RES integrated)



CARBON MARKET SHOULD RESTORE ITS PREVIOUSLY PROJECTED LEADING ROLE IN THE ENERGY SECTOR TRANSFORMATION



- Low carbon price does not stimulate emission savings
- Negative price feedback between CO2 price and RES production will ensure a long term organic growth of renewable energy sources
- This system would bring predictability and long term stability needed for long-term investment