PROMOTioN
PROGRESS ON MESHED HVDC OFFSHORE TRANSMISSION NETWORKS

Market design for offshore wind parks

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Introduction

- The offshore grid is different from a regular electricity market:
  - Flat supply function (~ 0 MC),
  - No demand.
- What should be the market design for an offshore wind energy grid?
  - Should the national markets be extended into the North Sea?
  - Should the North Sea Grid have its own pricing zone?
    - Or multiple zones?
    - LMP?

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Objectives

- Economic efficiency:
  - The wind parks should maximize their output whenever there is a price > MC of wind.
  - The produced electricity should be transported to the markets with the highest prices first.
  - The network capacity should be used to its maximum.
  - Offshore energy storage or power-to-gas should be incentivized efficiently.
- Transmission network recovery: not an objective of congestion management.
  - Is best done through fixed (stable) tariffs

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Assumptions

- We review two time slices (high and low wind) with no intertemporal dependencies.
- The variable operational costs of wind parks are assumed to be zero.
- The power flows through the offshore grid are controllable.
- There is no congestion within the connected national price zones.
- Congestion between price zones is handled through a form of auctioning.
- There is no exercise of market power.

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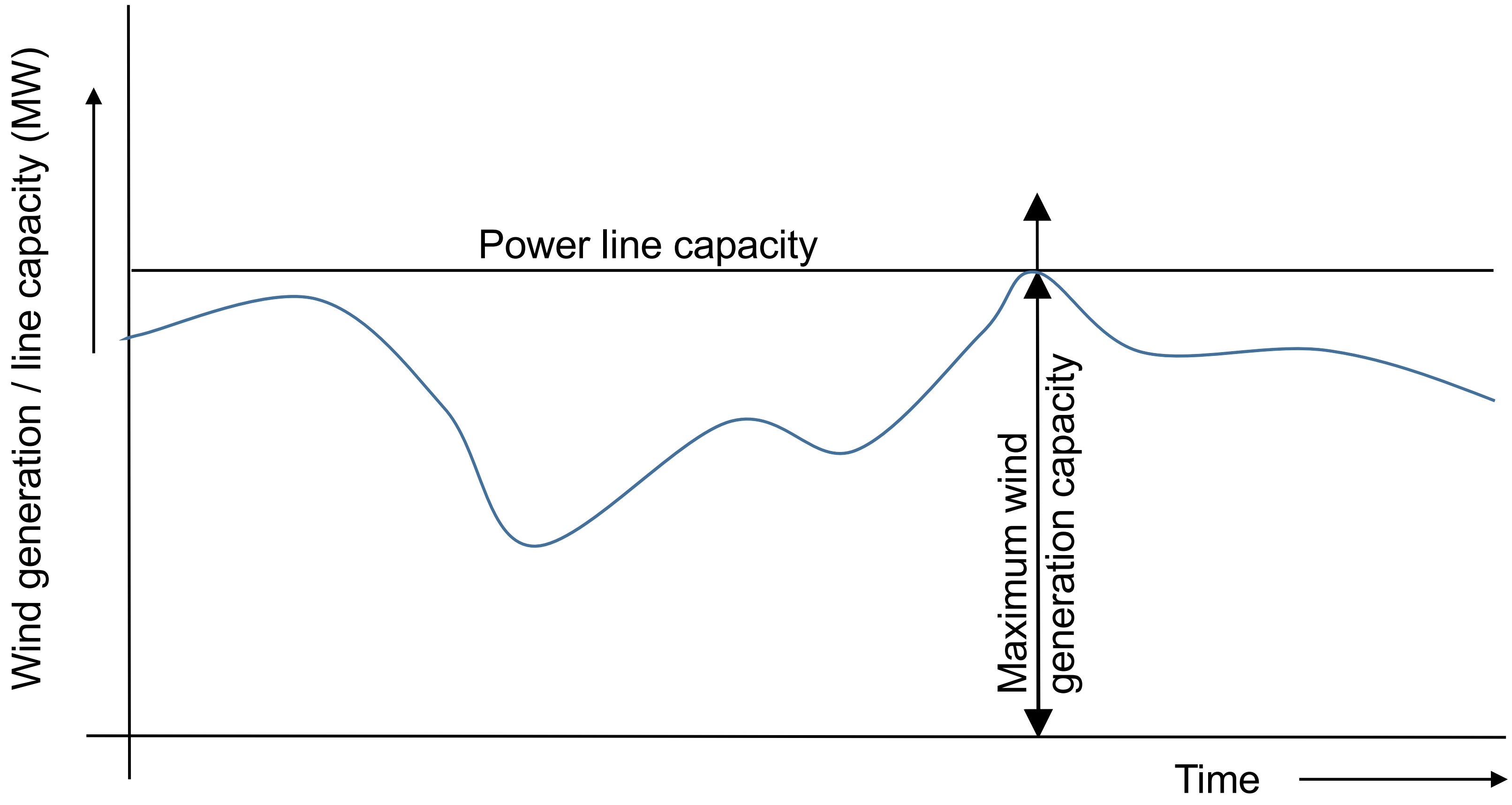

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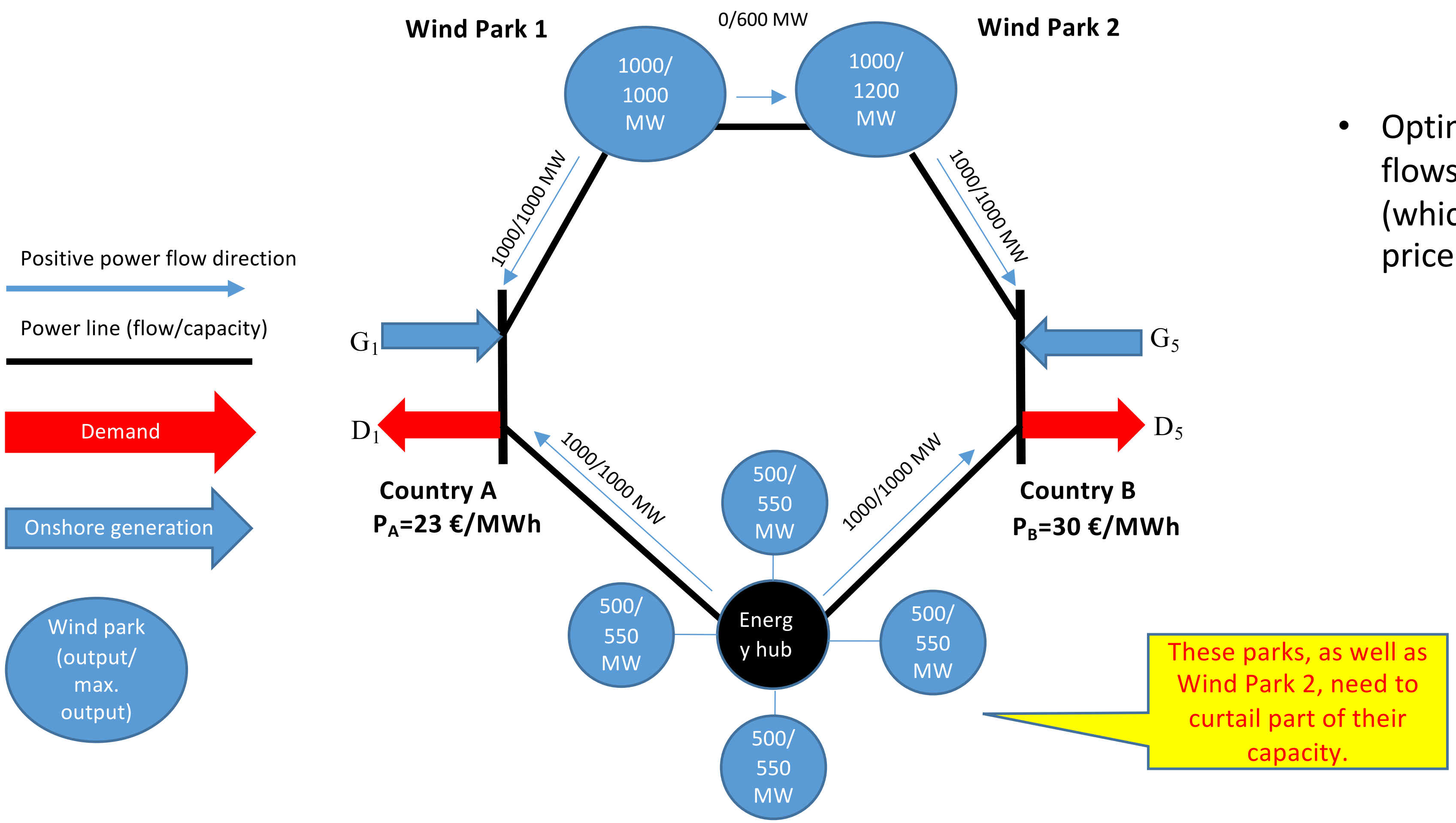
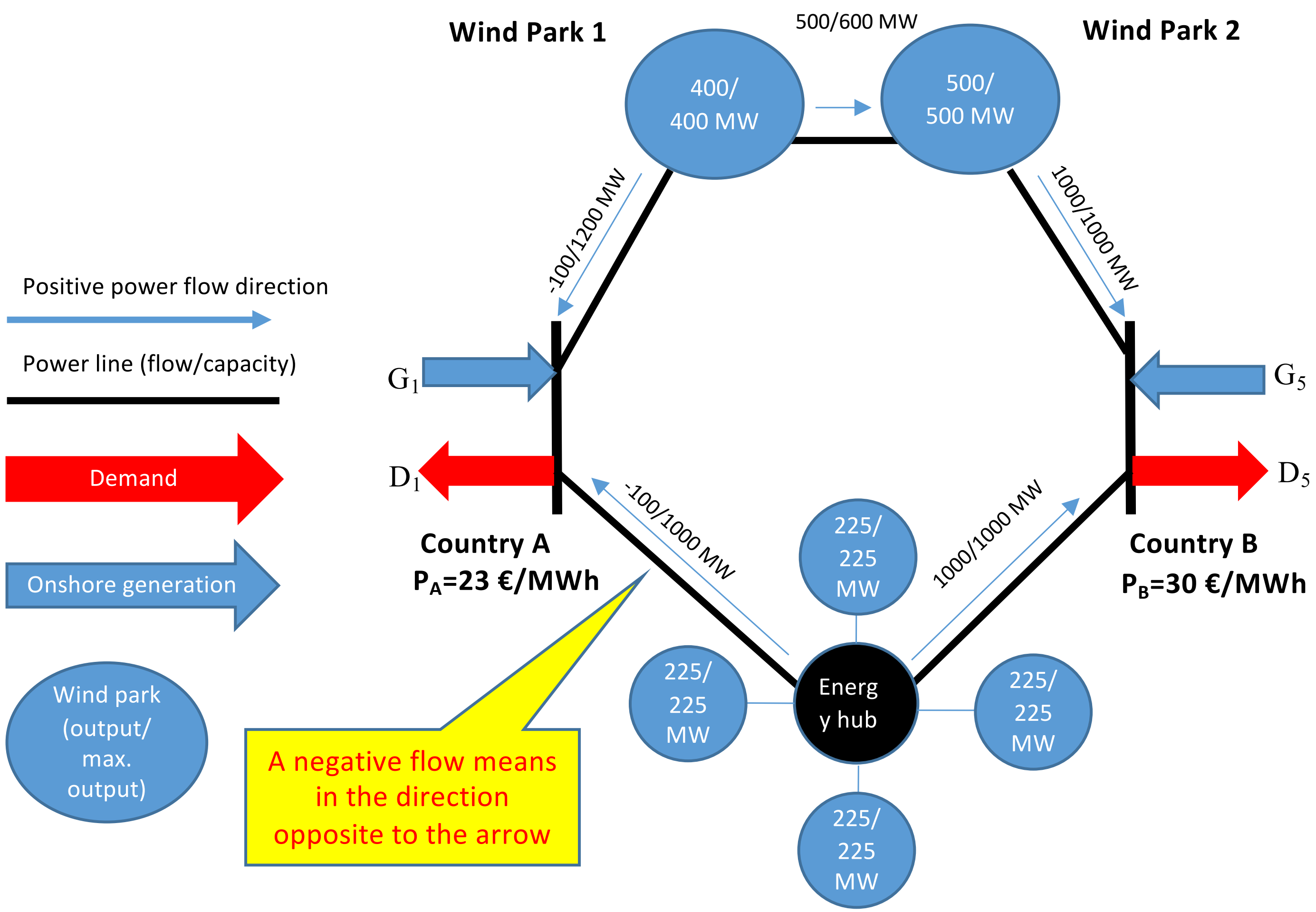
Example



- Optimal flows: maximize flows to Country B (which has the higher price).

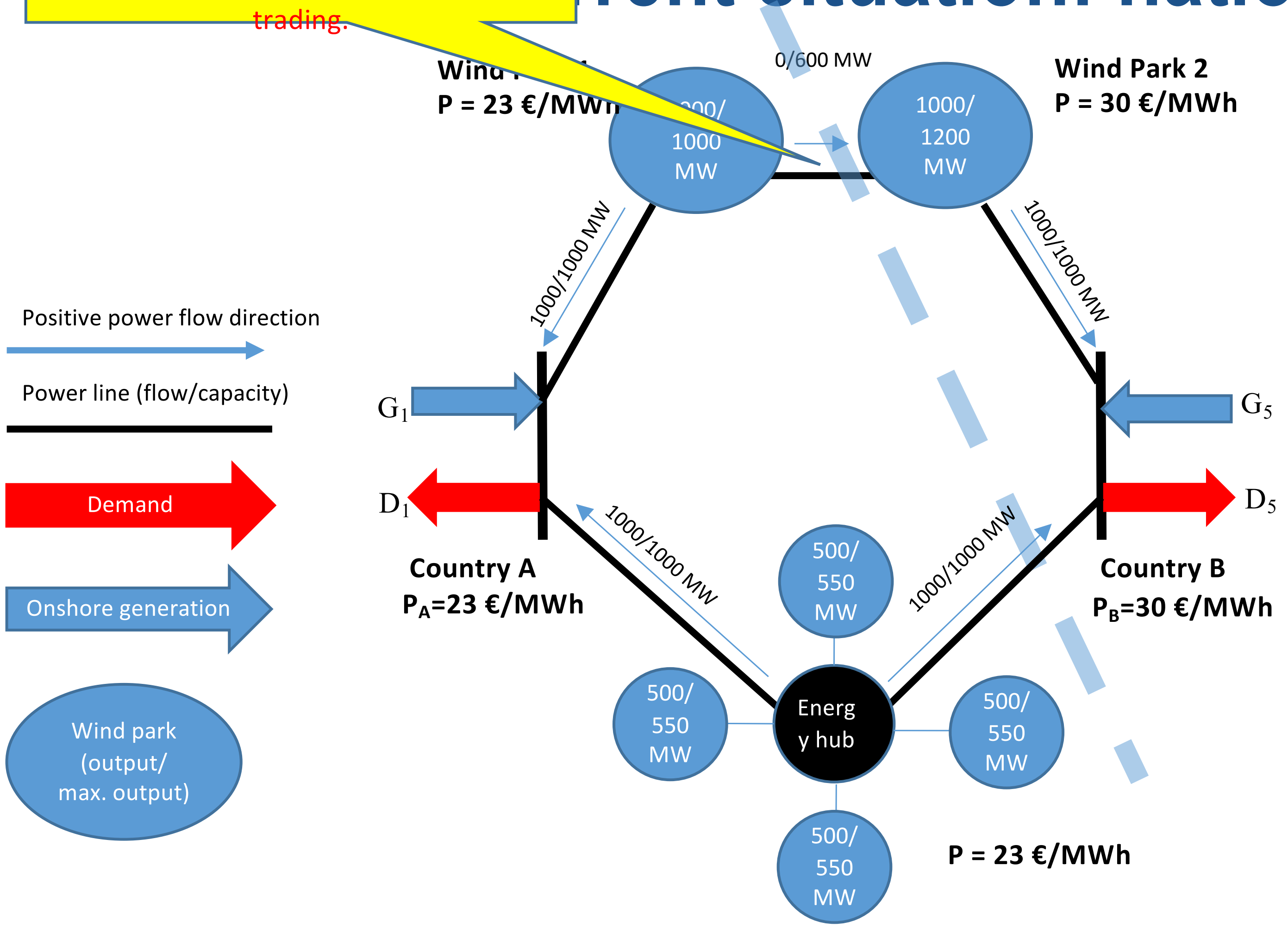
Less wind



- The lines to Country B are always congested in our example due to its higher price.
- (We assume Country A can export more power than the 1500 MW import capacity of B.)

Due to congestion of the line from Wind Park 2 to Country B, this line is not used in a scenario with optimal economic dispatch. Maximizing cross-border dispatch is only possible with counter trading.

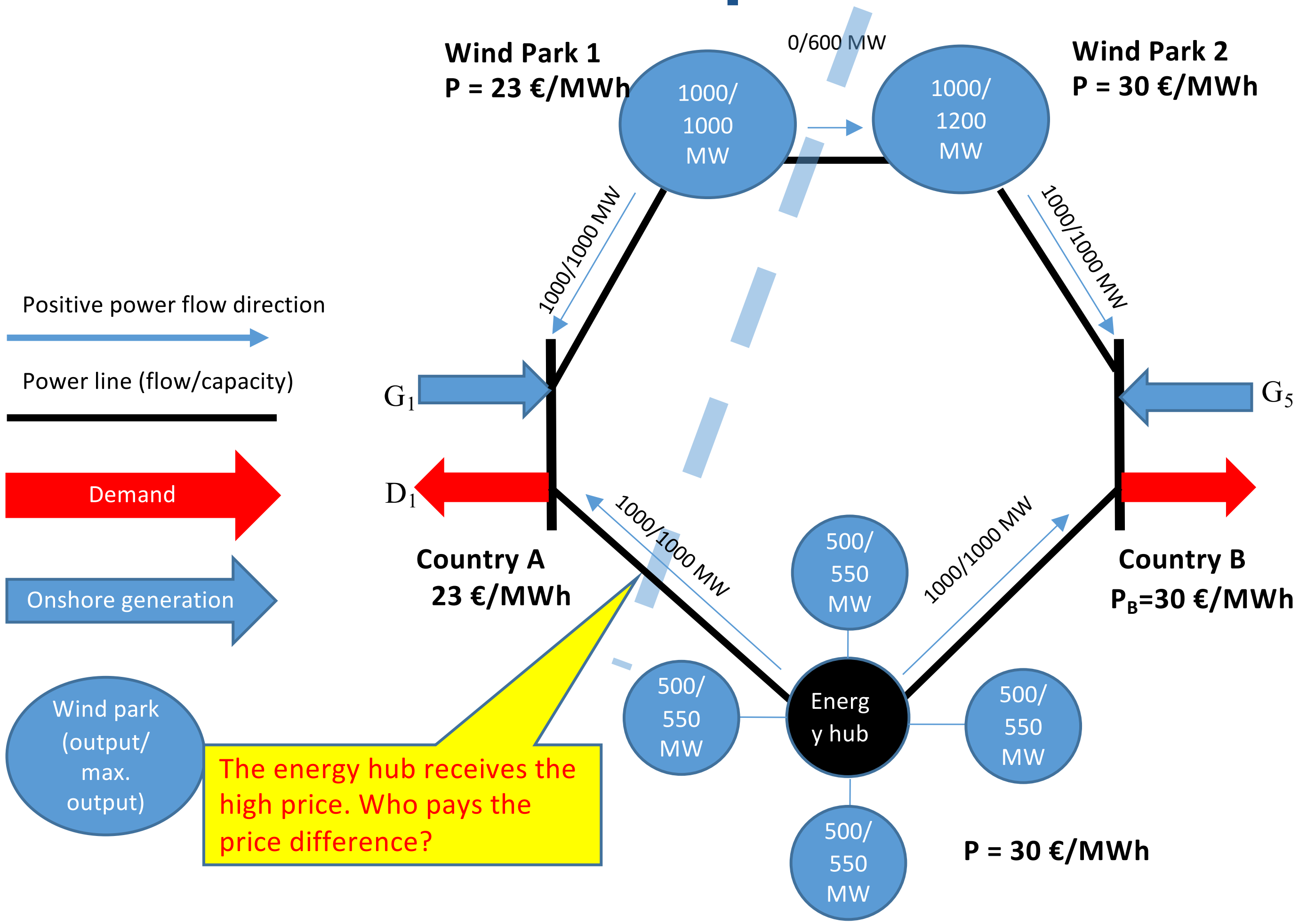
rrent situation: national price zones



- Price in EEZ = onshore price *(extension of the onshore bidding zone to the national EEZ)*
- The northern cross-border line (Wind Park 1-2) is not used. This may conflict with EU cross-border regulations.

- Country A could be allowed to export 600 MW to B if the TSOs would counter trade the same volume.

National price zones – different scenario



- This energy hub exports from the high price zone to the low price zone.
- Alternative: to curtail hub generation by 1000 MW.
- To maximize the availability of cross-border capacity from A to B, the TSOs would need to counter trade 2000 MW along the South network, in addition to 600 MW on the North interconnector.

Problems with national price zones

- Efficient dispatch may require moving electricity from a high-priced zone to a low-priced zone.
- Economically efficient dispatch decisions may not correspond with EU regulations that require the cross-border capacity between the countries to be maximized.
  - This may lead to:
    - costly requirements for counter trading,
    - unnecessary curtailment, or
    - or uneconomically large network investments.

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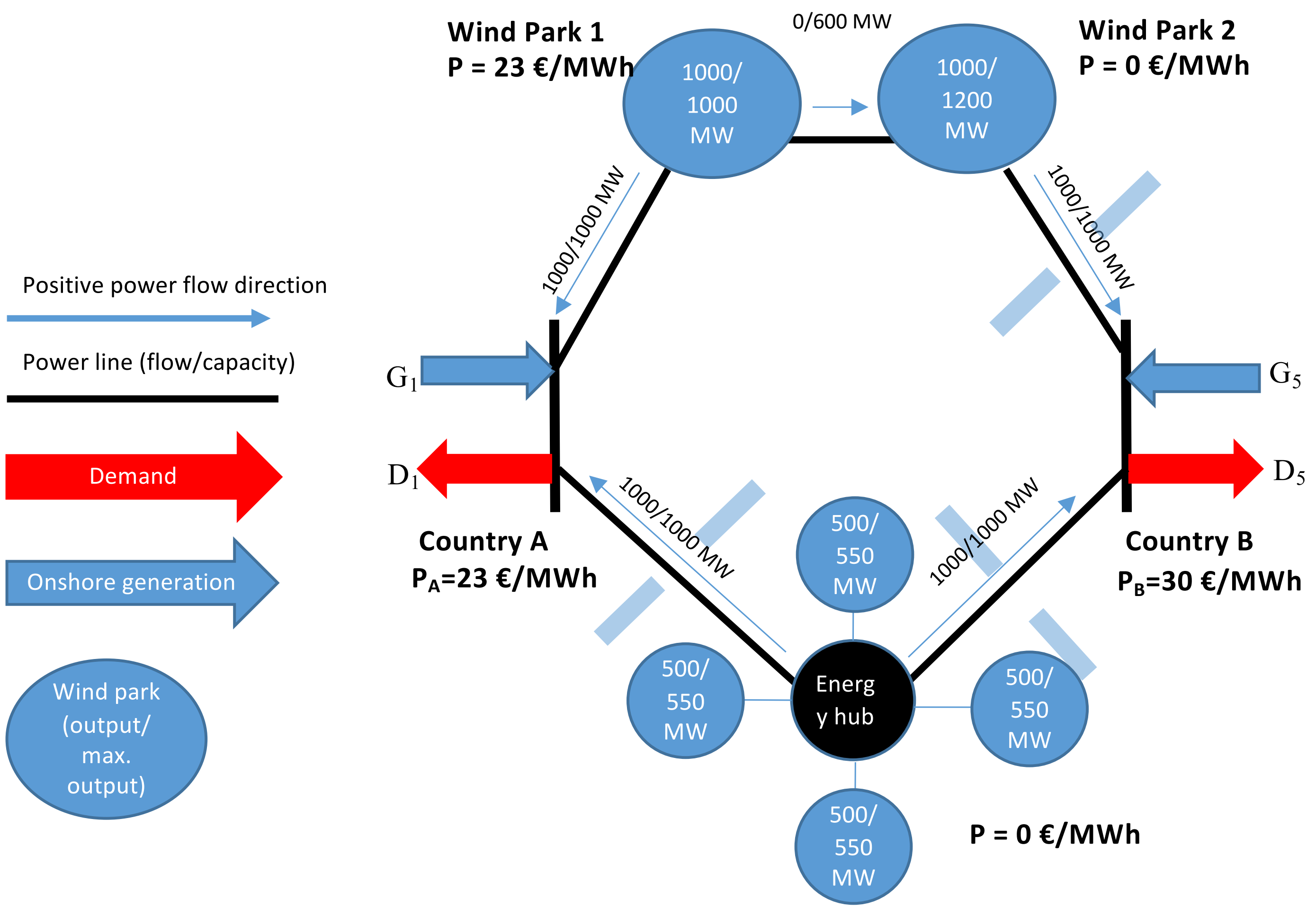
Small price zones, high Wind

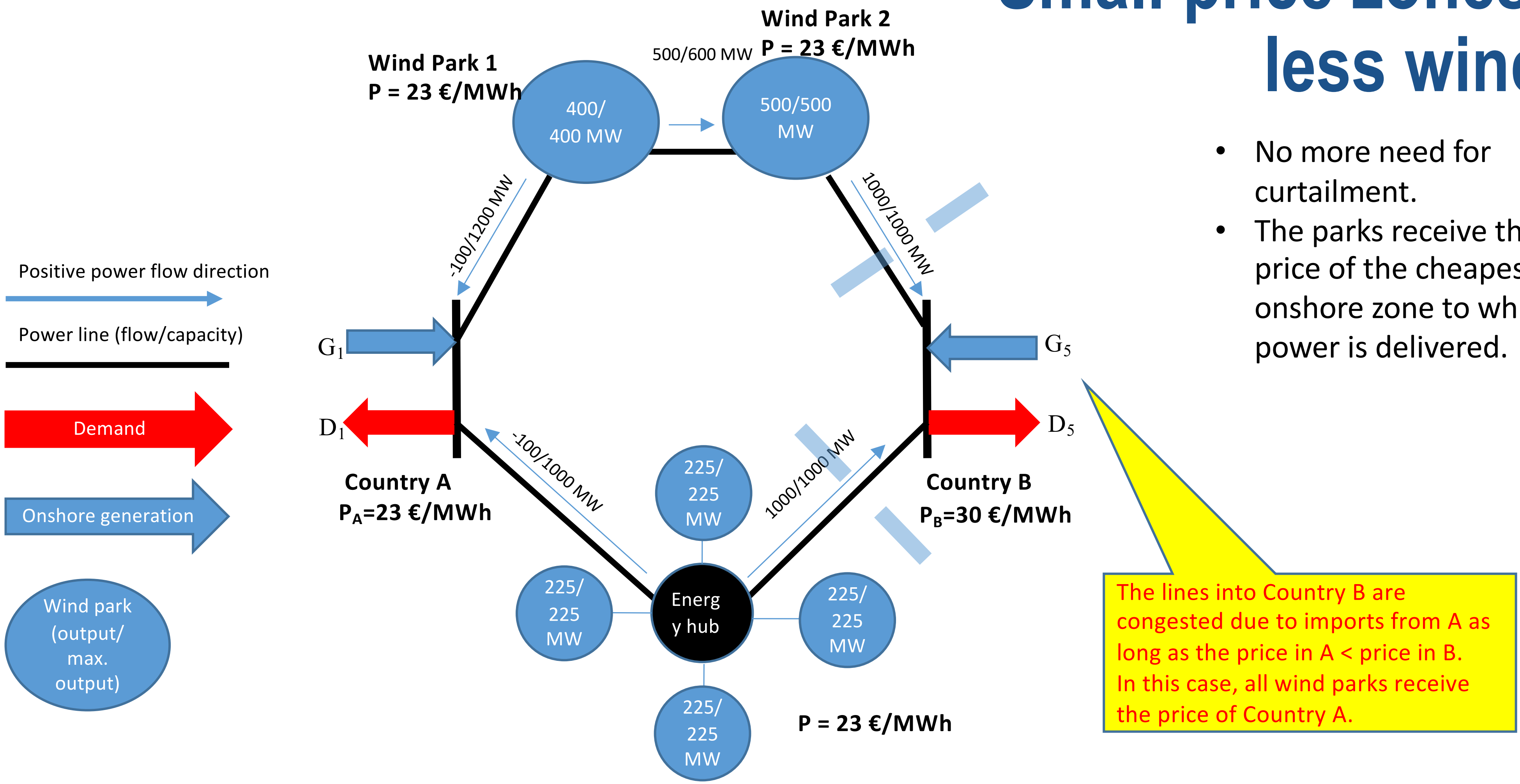


- Price in offshore zone = marginal value of power.
- Zones are defined by network congestion

- Efficient incentives for power-to-X
- But low wind park revenues in case of congestion

Small price zones, less wind

- No more need for curtailment.
- The parks receive the price of the cheapest onshore zone to which power is delivered.



Small price zones: analysis

- Parks receive their marginal market value
- In an efficient design with some overplanting, this may lead to low prices in high wind scenarios.
- Price zone definition corresponds to physical reality

- Advantages:
  - Efficient dispatch, also of storage and power-to-X
  - No flows from high to low price zones
  - If the price zones' boundaries count as borders, no problems maximizing cross-border capacity.

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Options for shifting congestion rent to wind parks

- Why?
  - Congestion rents are not needed for network cost recovery
  - Congestion rents reduce the revenues of wind parks, therefore increase the need for financial support.
- Financial transmission rights
  - Classic solution
  - But EU prohibits network operators from returning congestion rent to wind parks
- Put options
  - An option gives the right to sell power at the price of an onshore price zone.
  - The options are issued to wind parks as part of the financial support for which they tender.
  - Options are exercised automatically as part of zonal market clearing.
  - The volume of put options corresponds to the physically available transmission capacity.

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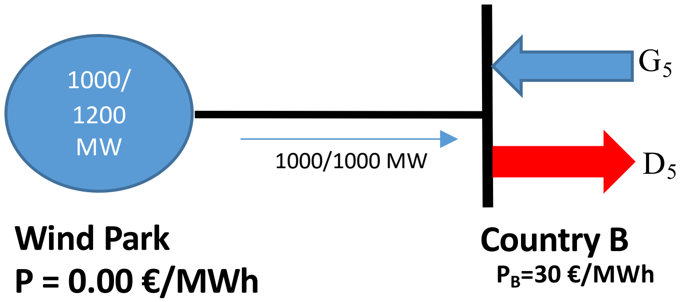
Put options: simple example



- Due to overplanting, 200 MW wind needs to be curtailed.
- The marginal value of wind generation is 0, so the price is 0 €/MWh.

- Solution: provide the park with a put option for the onshore price for a volume of 1000 MW.
  - It may sell up to 1000 MW at the price of Country B.
  - This is equivalent to a Financial Transmission Right for the wind park & Country B
- The park operator may choose how much generation capacity to build.
- There is no need to compensate the park for curtailment: generation in excess of 1000 MW has no value.

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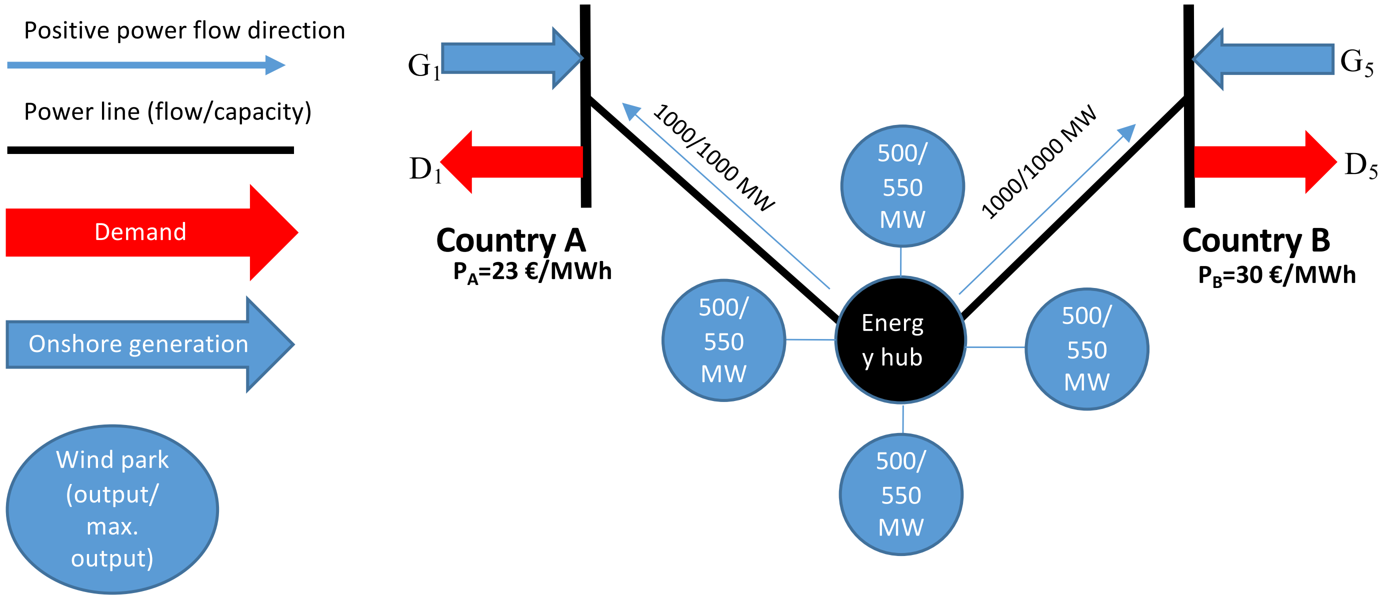
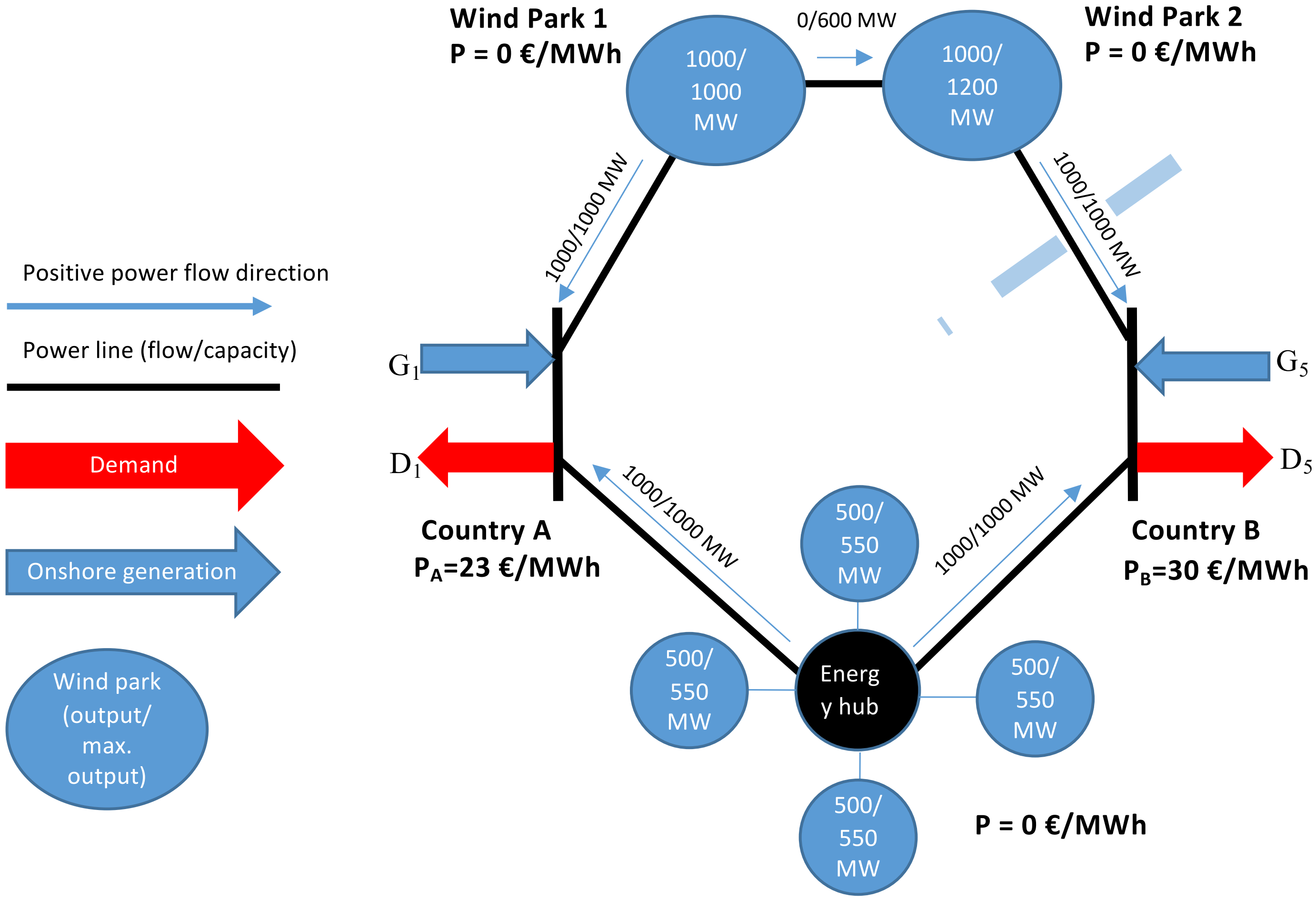
Put options for wind parks connected to a hub



- Each park operator has 250 MW of put options for the price in A and 250 MW for the price in B.
- The remaining 50 MW needs to be curtailed. The hub price is 0 €/MWh: no need for compensation.
- If there is less wind, the park operator prefers to use its put options for B (the highest price).

Small price zones + put options

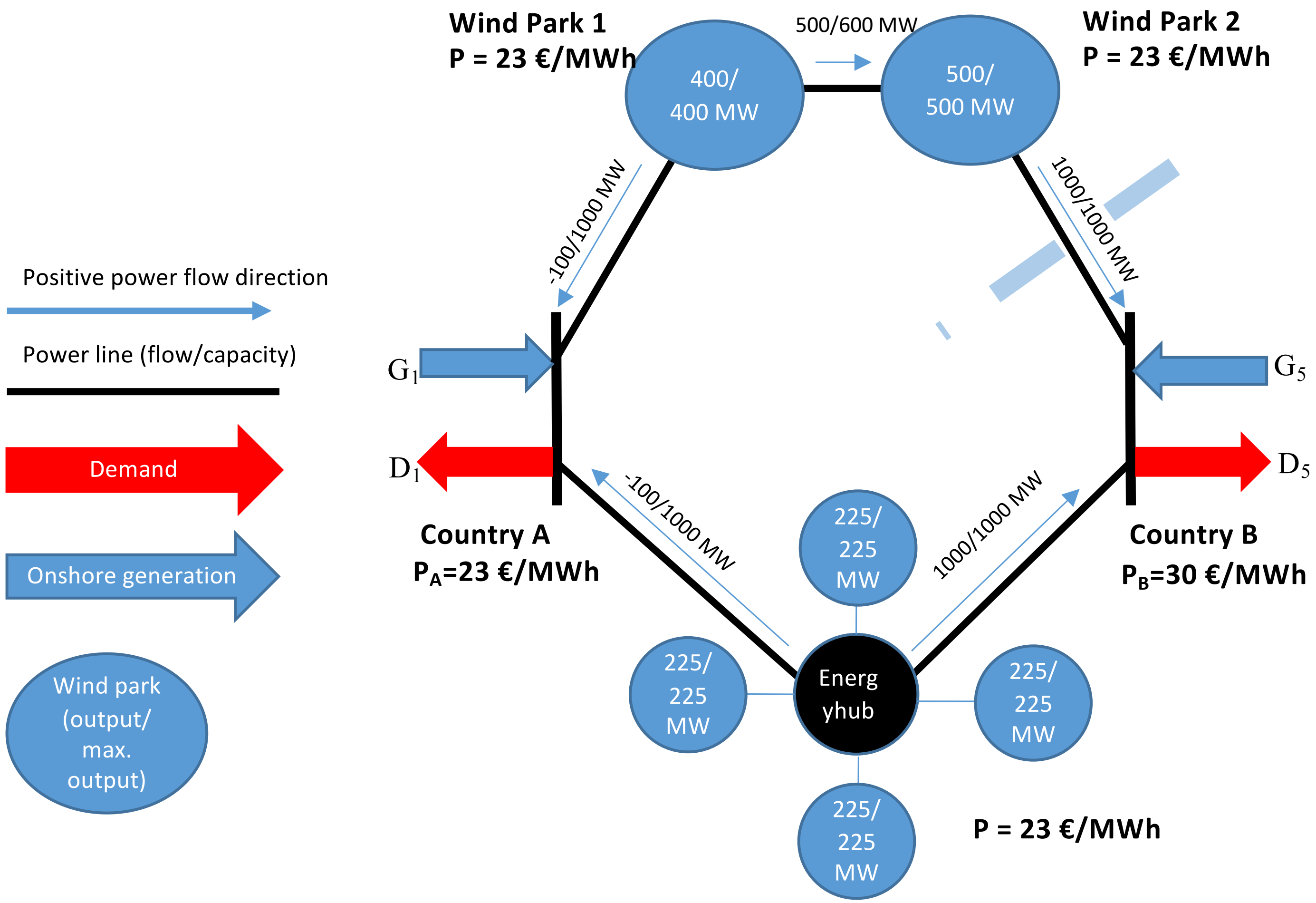


- Park 1: Put option for P_A
- Receives 1000 MW x 23 €/MWh = 23 000 €/h

- Park 2: Put option for P_B
- Receives 1000 MW x 30 €/MWh = 30 000 €/h
- 200 MW is curtailed.

- Energy hub parks:
- 250 MW put option for P_B and 250 MW put option for P_A
- Each park receives 250 MW x 30 €/MWh + 250 MW x 23 €/MWh
- 50 MW is curtailed.

Small price zones + put options, less wind



- Park 1: Contract with A
- Receives 400 MW x 23 €/MWh.

- Park 2: Contract with B
- Receives 500 MW x 30 €/MWh.

- Energy hub parks receive 225 MW x 30 €/MWh from their put options.
- (If they generated >250 MW, the additional power would receive P_A.)

Assessment – market designs

- Wind park revenues + congestion rent = constant
- Higher wind park revenues limit the need for financial support, reduces the need to ‘pump money around’
- National price zones:
  - Create counter-intuitive flows;
  - Don’t provide efficient incentives for storage and power-to-gas.
- Single offshore zone also has the latter objection, plus low revenues.
- Zonal pricing approach most efficient
  - Zero prices when wind needs to be curtailed: bad for wind parks, good for power-to-X.

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Assessment – congestion price risk

- If overplanting is allowed, the small zones model may lead to very low prices during periods of over production.
- Solution 1: no overplanting. Consequence: higher average cost of wind energy due to under utilized network.
- Solution 2: limit the sum of the capacities of the connection cables of the parks to the meshed offshore grid capacity. Park operators need to self-curtail if they overplant. More efficient than solution 1, but not optimal.
- Solution 3: provide put options to the wind parks, include the payments in the market settlement.
  - Then the wind park price risk is the same as in the national price zone model
    - Except for 'overplanted' capacity, which may need to be curtailed during high wind.
  - Economically efficient incentives, both for over planting and operations
- Solution 4: provide financial transmission rights to the wind parks
  - Same economic effects as the put options, but the TSO collects congestion rent and pays it in return for the FTRs.

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Proposal: zonal pricing + put options

- Provide wind parks with put options for the price in country *x* for contract volume *y* (MW). The TSO determines *y* as the guaranteed feasible transport capacity between the wind park and country *x.*
- The put options are allocated at the time of tendering for the park, so the project developers can price them into their bids.
- A wind park that is connected to multiple countries can have put options with all connected countries.
  - The simple structure of a meshed offshore grid and the ability to control flows make this solution much simpler than in the onshore AC grid.

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Conclusions

- Zonal pricing provides optimal incentives for efficient dispatch
  - Also in the presence of (hydrogen) storage or other types of consumption offshore.
- Zonal pricing avoids the need for counter trading.
- Put options stabilize generator revenues.
  - They reduce congestion rents from the meshed offshore grid.
- In this market design:
  - The wind park operator can choose to what extent he overplants
  - There is an optimal incentive for curtailment, without a need to compensate the owners (because they could choose the degree of over capacity of their parks).

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