



GME'S NEWSLETTER – New issue now on line

The new issue of the Newsletter of Gestore dei Mercati Energetici (GME) is now downloadable from www.mercatoelettrico.org.

The newsletter opens with a contribution by Claudia Checchi and Ana Georgieva from REF about the role of coal in the European power market. The analysis conducted by the two experts from the research company shows that many countries of the old continent are increasingly relying on this source thanks, among others, to higher guaranteed profit margins than in the past. However, in the opinion of Checchi and Georgieva, those who think that the context is favourable to new investments in this sector are wrong, because *a number of critical issues make this scenario poorly likely*. The reasoning of the two experts revolves around the environmental legislation contained in three European Directives currently in force: IPPC (Integrated Pollution Prevention and Control), LCP (Large Combustion Plants) and IED (Industrial Emissions Directive). *The Directive that mostly influences current generation decisions - explain the experts in their analysis - is the LCP one, under which the generation of many plants has been subjected to quotas. This fact has practically contributed to concentrating generation in this period of relatively low prices of or higher margins on coal. As regards, instead, new entrants, the Long-Term Marginal Cost (LTMC - estimating the average long-term revenue that guarantees the minimum return on the investment) of coal-fired generation has so far been more advantageous than the one of combined-cycle generation, even if the latter has a definitely lower capital cost. However, here too - stress the experts from REF - the risks are that the environmental upgrades associated with the implementation of the IED may involve higher than expected capital costs and that the prices of CO₂ and raw materials may increase. Add to this the evolution of renewables. Coal-fired plants are base-load plants, i.e. suitable for constant operation over time: if the penetration of renewables were to grow further, grant Checchi and Georgieva, gas-fired combined-cycle generation would remain the*



most suitable technology to be used. Consequently, the lucky cyclical trend of coal in the past few months is not a marginal phenomenon – emphasise the two analysts from REF – and reflects the difficulty of implementing focused energy policies; owing to the rising globalisation and pace of change of markets, these policies tend to be already outdated when they are put on paper. Coal remains the generating technology with the most competitive costs, inferring that the operation of existing plants will be maximised in the coming years, even to the expense of the more modern and less polluting gas-fired plants. Nonetheless – conclude Checchi and Georgieva – the analysis of ongoing dynamics at European level raises a number of doubts about the additional potential of this technology and the capability of investors of betting on it in such an uncertain setting.

The new issue comes with the usual technical commentaries about European and national power exchanges and environmental markets, with the section devoted to the analysis of Italian gas market trends and with the one giving insights into the trends of the main European commodity markets.

As usual, GME's new publication also reports the **summary data of the electricity market for the month of October.**

Gestore dei Mercati Energetici S.p.A.
Relazioni Istituzionali e Comunicazione
Tel. +39 06 8012 4549
Fax. +39 06 8012 4519
relazioni.istituzionali@mercatoelettrico.org
www.mercatoelettrico.org