

IAEE ENERGY FORUM

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Editor: David L. Williams

Published By:



PRESIDENT'S MESSAGE

Is energy the daily business of the economy?

Energy economists tend to look at the horizon and always look further beyond it.

There are good reasons for doing so: it is true that the lifespan of energy investments is very long, sometimes exceeding a century for some power lines or dams. Such a lifetime requires anticipation in the decision-making process and a need for robust modelling. As a result, energy economists are debating the different world views of energy for 2035-2050, giving the impression that they do not care about the short term.

By the way, what does the short term mean? The next decade? Next year? Next month? Next job?

In my role as President of IAEE, I have the opportunity to meet not only my fellow economists, but also decision-makers from the industrial sector or the Administration or government authorities.

Our discussions on how energy economists could contribute to economic development suggest that economists should report more on short-term changes than in 2035-2050. The horizon that matters for those actors is often different from the one favored by economists, which sometimes leads them to consider that economic research is blind to their specific challenges.

For instance, economic development is affected by international relations. Energy security, price volatility, uncertainties resulting from regulatory developments, can destroy the creative value of entrepreneurship in the short term. The necessary energy transitions implemented in different countries are often confusing for investors. More generally, an increasing number of factors that are inherently short-term affect their environment, and create a demand for economic expertise.

For sure, investors agree that the impacts of climate change will be felt in the very long term, and that, therefore, economists cannot stop looking at this horizon. However, the two perspectives are not necessarily contradictory. Providing investors and decision-makers the short-term analysis they are interested in is also a way of giving economic research more credibility in the eyes of those actors, by ensuring them that our reasoning is able to embrace the challenges they face. Moreover, linking more short-term issues with long-term matters would improve our global understanding of economic development, enabling our analysis to be more relevant even when looking at the long run.

We, energy economists, hear this future need from the global economic sector to enlighten the short term. I suggest that more research be directed towards short-term decision-making in order to maximize short- and long-term development and to advise decision-making in this regard.

The discussion is open.



Christophe Bonneroy

Careers, Energy Education and Scholarships Online Databases

IAEE is pleased to highlight our online careers database, with special focus on graduate positions. Please visit http://www.iaee.org/en/students/student_careers.asp for a listing of employment opportunities.

Employers are invited to use this database, at no cost, to advertise their graduate, senior graduate or seasoned professional positions to the IAEE membership and visitors to the IAEE website seeking employment assistance.

The IAEE is also pleased to highlight the Energy

Economics Education database available at <http://www.iaee.org/en/students/eee.aspx>. Members from academia are kindly invited to list, at no cost, graduate, postgraduate and research programs as well as their university and research centers in this online database. For students and interested individuals looking to enhance their knowledge within the field of energy and economics, this is a valuable database to reference.

Further, IAEE has also launched a Scholarship Database, open at no cost to different grants and scholarship providers in Energy Economics and related fields. This is available at <http://www.iaee.org/en/students/ListScholarships.aspx>

We look forward to your participation in these new initiatives.



IAEE MISSION STATEMENT

The International Association for Energy Economics is an independent, non-profit, global membership organisation for business, government, academic and other professionals concerned with energy and related issues in the international community. We advance the knowledge, understanding and application of economics across all aspects of energy and foster communication amongst energy concerned professionals.

WE FACILITATE:

- Worldwide information flow and exchange of ideas on energy issues
- High quality research
- Development and education of students and energy professionals

WE ACCOMPLISH THIS THROUGH:

- Providing leading edge publications and electronic media
- Organizing international and regional conferences
- Building networks of energy concerned professionals

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Editor's Notes

This issue focuses on electricity auctions, but before we begin that area, one of the senior members of IAEE provides some very sound advice as well as cautions in the pursuit of economic analysis in general and the oil market in particular.

Michael Lynch writes that economic analysis can be very useful in understanding oil market behavior, but historical knowledge and experience are also useful. For example, many superficial arguments, such as “the industry needs to run faster just to stay in place,” have been around for decades without having any practical impact. Additionally, all to many believe theories that are not only incorrect, but clearly refuted by historical data.

Lena Kitzing, Vasilios Anatalitis, Oscar Fitch-Roy, Corinna Klessmann, Jan Kreiß, Pablo del Río, Fabian Wigand, and Bridget Woodman describe key auction design characteristics, highlight best practices and pitfalls and report on surprising lessons learned from 20 in-depth case studies.

Ewa Lazarczyk and **Lisa Ryan** report that Ireland has recently changed its electricity market design and introduced capacity auctions. Although carefully planned, the move was not smooth as one of the crucial Dublin suppliers was unsuccessful in securing capacity payments. They highlight some challenges and lessons in the smooth transition to capacity auctions.

Jan Kreiss writes that In recent years auctions became the predominant instrument to promote renewable energies. More and more auctions are open to participants with different technologies, so called technology-neutral auctions. However, it remains unclear what technology-neutral means and how such an auction should be designed. He assesses the influencing factors for technology-neutral auctions.

Noah Dormady discusses how auction rules and mechanisms can influence the efficiency of auctions. He provides a summary of recently-published research on carbon auctions with a focus on California's consignment mechanism, noting that the consignment mechanism has been observed to distort auction efficiency

Philip Walsh writes that an emerging debate has appeared around whether a cap and trade program or a carbon tax contributes more to reducing GHG emissions and climate change. He examines the results of an abbreviated cap and trade program in Ontario, Canada and the vulnerability of carbon-revenue programs to the winds of political change.

Roland Magnusson, Kimmo Ollikka and Pekka Ripatti note that Finland implemented a technology neutral RES pay-as-bid auction at the end of 2018. Eligible technologies were wind power, biogas, combined heat and power from forest biomass, solar and wave, but only bids from wind power were submitted. The auction was, however, successful: the oversubscription rate was three and the volume weighted average of the accepted premiums was 2.52 EUR/MWh, which can be considered as a relatively low premium price.

Ewa Lazarczyk and **Chloé Le Coq** discuss how information disclosure rules differ across electricity auctions, even when markets are integrated as in the European Union. They argue that, in line with the IO literature, differences reflect the existing trade-off between the level of information aggregation and the delay with which the information is published.

Javier Bustos-Salvagno reports that Chile introduced electricity auctions for long-term contracts in 2005, with unsatisfactory results until 2014, when a regulatory change allowed more competition and new technologies could participate. Auctions are recognized as a successful tool for adequacy at competitive prices but new challenges in electricity markets have to be taken into consideration.

Andres Alonso notes that the application of a public policy coming from the Chilean mining industry will allow the regulated consumers in Chile to save more than twenty million dollars compared to the level of prices they had in 2013

