

Legislation muddies plans for 1.8GW of German reserves

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The fate of PQ Energy's German reserve power plant projects is uncertain as it is not clear how recently passed reserve capacity legislation will be interpreted, the company said.

The legislation says the country's four transmission system operators (TSOs) are responsible for establishing up to 2GW of new plants as additional network reserve capacity, needed from the winter season 2020-21.

"At this point in time, it is unclear to what degree TSOs will delegate the planning, constructing and operation of such reserve plants," Dominique Candrian, CEO and partner of power plant developer PQ Energy said.

The company has been developing gas-fired plant projects in southern Germany specifically to become reserve capacity. The Griesheim project is for up to 600MW of capacity and Gundelfingen for up to 1.2GW. PQ Energy has given up developing the 1GW Schweinfurt project.

According to the draft reserve capacity legislation the government approved in November 2015, the new plants would have been developed and operated by independent companies, who would have competed for 15-year capacity payments. The parliament changed the draft by giving the responsibility for the upcoming plants to the TSOs instead, which would be more in line with EU state aid guidelines.

The German power wholesale market has already traded as far forward as 2021 this year, and regularly trades forward for 2020 delivery. ICIS assessed Year 2020 on Wednesday at a rough €2.00/MWh premium to both 2018 and 2019, reflecting the market's perception of increased supply risk for the end of the decade which is when the 2GW of new reserve capacity should be available. The last time Year 2021 traded, on 10 June, it was roughly flat to 2020.

Grid challenge

The network stability reserve is typically filled with existing plants in southern Germany that have applied to shut down, but have been barred from doing so by the regulator.

It needs a boost from new plants due to increasing generation disparity between northern and southern Germany, caused by wind power expansion, nuclear phase-out and insufficient transmission capacity.

The TSO TenneT said recently the risk of delays in realising big transmission projects had increased and a substantial rise of grid stabilisation costs is expected.

Grid stability measures ballooned last year, according to a report Germany's regulator Bundesnetzagentur published on Tuesday.

TSO requests for conventional power plants to adjust their generation totalled 16TWh. Obligatory renewable plant shut-downs, called feed-in management, totalled 4.7TWh. The volume of both measures tripled compared to 2014.

The need for reserve plants amounted to 548GWh over the 39 days they were in use.

Discussions ahead

Besides the network stability reserve in southern Germany, the country will have a capacity reserve to ensure security of supply. This is because supply could be threatened at times of low wind and solar power in the future, when conventional capacity on the market is expected to be lower.

Future capacity reserve tenders would not be an option for PQ Energy's projects. Gas-fired generation is struggling to make a profit on the German market due to low wholesale power prices, so it would be too risky to construct large gas plants without them having already secured capacity payments.

"We have developed these reserve power plants to a stage where it is a good moment to take a break and analyse the situation," Candrian said. "What is clear by now is that the profile of the projects we have developed is needed in the future. We will enter into discussions with different stakeholders about how these projects can contribute." laura.raus@icis.com