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Term transformation: A fundamental market failure in electricity markets and how to heal it

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Extended Abstract

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Abstract Summary

Electricity forward markets often lack liquidity beyond a few years. Consumers typically want short-term hedges, while generation assets require long-term revenue certainty. Governments usually address this mismatch with technology-specific support schemes, such as renewable subsidies or capacity markets. This paper proposes an alternative: the government buys long-term electricity forwards, for example 15 to 20 years, and resells them one to three years before delivery. This market-based approach can lower financing costs, support large-scale decarbonization without prescribing technologies, and preserve competitive retail markets.

Presenting Author Biography

Dr. Ingmar Schlecht is is an energy economist focusing, on electricity market design and power market modelling. He has advised clients in the industry and public sector and worked intensively with Germany's energy ministry on renewable auctions, redispatch markets and capacity remuneration mechanisms. As a PhD and postdoctoral researcher at University of Basel, he has developed the electricity market model Swissmod and coordinated system adequacy studies for the Swiss government.