

ESPI report

Company: Photon Energy N.V.

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Market types: Warsaw Stock Exchange and Prague Stock Exchange regulated markets

Title: Lerta Succeeds in Polish Capacity Auction with 157 MW of DSR and Secures EUR 13.6 Million in Revenue

Detailed data:

The Management Board of Photon Energy N.V. (the “Company”) announces that its subsidiary Lerta JRM Sp. z o.o. (part of the Lerta Group) has succeeded in the Polish capacity auction for 2027 with 157 MW of Demand Side Response ('DSR'), securing PLN 63.8 million (EUR 13.6 million) in contracted revenues.

Introduction to DSR

Balancing the power grid has been rendered ever more challenging by the fundamental change in the energy mix, as mostly non-renewable baseload generation capacity is retired and the share of mostly intermittent renewable energy capacity is growing rapidly. Furthermore, the physical expansion of the power grid is not keeping pace with the demand for new renewable and flexible energy generation capacity. As a result, the only viable solution is a significantly more efficient utilisation of the power grid. This can only be achieved by converting as many currently inflexible and intermittent energy users as possible into 'flexumers'. Flexumers are energy users with a high level of control over their energy consumption, ideally possessing on-site energy generation and storage capacity and thus having significant flexibility in the timing of their power grid usage. As a result, flexumers can benefit from intra-day lows in energy prices as well as generate incremental revenues by providing support to the power grid.

Flexible peak generation capacity (mostly gas) is, in many markets, fully utilised and expensive. DSR, the reduction of electricity consumption on demand by the transmission system operator ('TSO'), is increasingly becoming a vital tool in keeping the power grid balanced. Lerta aggregates DSR capacity from a fast-growing number of flexumers and delivers it to TSOs. During a system stress event in the Polish power grid in the evening hours of 23 September 2022, the Polish TSO PSE S.A. ('PSE') called upon all contracted peak generation and DSR capacity to avoid a blackout following the temporary unavailability of 16 GW of coal generation capacity and low production volumes from wind power plants. As most DSR capacity in Poland outperformed their committed reduction volumes it is accurate to say that it played a vital role in keeping the lights on.

The PSE Auction for 2027

PSE procures peak generation and DSR capacity through two auctions for future years. The main auction is held approximately four years prior to the specified year, with an additional auction held in March of the preceding year. On 15 December, PSE conducted its main auction for the year 2027 in which Lerta participated with 157 MW in DSR capacity. Reflecting tight supply, the auction cleared in the first round, and based on preliminary results Lerta managed to secure an average price of PLN

406,350 (EUR 86,827) per MW/year, locking in contracted revenues of PLN 63.8 million (EUR 13.6 million) for the year 2027.

Polish DSR Strategy and Plans

For 2023, Lerta has committed 134 MW of DSR capacity to PSE, representing contracted revenues of PLN 36 million (EUR 7.7 million) next year, and is preparing to enter the additional auction for 2024, to be held in March 2023, with at least 300 MW of DSR capacity. Lerta aims to grow its Polish DSR portfolio by a minimum of 100 MW per year until 2030, thus reconfirming its previous goal of 500 MW of DSR capacity for 2026 and adding a new strategic goal of 900 MW of DSR capacity by 2030. On this basis, the 157 MW of DSR contracted in the recent auction represent around 26% of Lerta's target volume of 600 MW in 2027, which is in line with Lerta's strategy of contracting around a quarter of its capacity in the main auctions and the remainder in the additional auctions.

Lerta's growth strategy in the Polish capacity market is built on several pillars, including:

- a highly professional sales team able to win both large industrial energy users as well as SMEs to monetise their flexibility via DSR
- the expansion of DSR participants, as for 2025 flexible capacity in Germany, the Czech Republic, Slovakia, Lithuania and Sweden will be permitted to participate in providing DSR services to PSE; Lerta is gearing up to tap this new market potential
- a strong focus on integrating energy storage assets (both Photon Energy- and third-party owned) into the capacity offer in the upcoming auctions.

Photon Energy Group Perspective

Lerta's success in the Polish capacity auction for 2027 is an important milestone towards becoming the market-leading DSR provider in Poland with a target of 600 MW by 2027 and 900 MW by 2030. The PSE auctions are for the readiness to provide DSR services on-demand in case of grid stress events, which to-date have occurred rarely. The flexibility embedded in Lerta's DSR capacity portfolio remains available for other purposes, such as optimising its electricity-trading balancing circle, lowering the energy costs of its electricity customers and providing ancillary services to the power grid most of the time, all of which can generate additional revenues and cost savings. Hence, revenues contracted in the DSR auctions represent a baseline to which material additional revenues will be added.

With the demand for DSR services growing across the other markets where the Group is present, as well as other markets such as Italy, Spain and Ireland introducing DSR services procurement mechanisms, Lerta has a rapidly expanding addressable global market. The recently introduced Wholesale Demand Response service in Australia which enables the electricity market operator to avoid extremely high wholesale electricity prices, despite a different remuneration scheme, shares a lot of similarities with the Polish Capacity Market. As such, a roll-out in Australia remains one of the Group's top priorities for 2023. Photon Energy is also in the process of obtaining an electricity trading license in Australia, which will create additional opportunities for revenue creation by utilising Lerta's VPP platform and integrated services.

Legal basis: Art. 17.1 MAR.

Attachment: none.

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