



## **Response by Energia to European Commission Consultation**

***Generation Adequacy, Capacity Mechanisms and the  
Internal Market in Electricity***

**7 February 2013**

## **1. Introduction**

Energia welcomes this opportunity to respond to the European Commission consultation on Generation Adequacy, Capacity Mechanisms and the Internal Market in Electricity. Energia, a member of the Viridian Group, is the largest independent energy supply company on the island of Ireland. Energia's commitment to this market and to sustainable energy is evidenced by its considerable investment in both thermal and renewable generation assets on the island of Ireland<sup>1</sup>.

Energia is an active member of the Electricity Association of Ireland (EAI) and fully endorses its response to this consultation (copy submitted alongside this response). In this brief submission we discuss our endorsement of the EAI response and provide some additional comments to supplement this.

## **2. Endorsement and discussion of the EAI response**

Informed by the experience of participating in the Single Electricity Market (SEM) on the island of Ireland and of trading power across the interconnectors between SEM and BETTA, Energia strongly shares the views and concerns expressed by EAI. Energia would also stress that EAI is a consensus organisation whose membership comprises the vast majority of electricity producers and suppliers on the island of Ireland. Thus the strength and veracity of the EAI response is a true and unanimous reflection of its members' views. Energia does not endorse the Euroelectric response which does not reflect the unanimous views of its constituent members.

Energia's endorsement of EAI's response is full and unreserved but we would particularly draw your attention to the following key points:

- The SEM represents a region lacking geographic features for major energy storage and with currently limited interconnection (characterised by two long distance sub-sea DC interconnectors with reliability constraints) to a large market. It also has the highest level of penetration of variable renewable generation within a regional system and the highest wind energy targets in the EU. The current market design features, incorporating a capacity remuneration mechanism as a central element, have ensured security of supply to date. More critical in the future will be the technical flexibility features of back-up generation plant as variable generation levels increase further. This challenge will need to be addressed separately.
- Given the features of the SEM market and the characteristics of its current design, it is crucial to retain provision for CRMs, not least from a security of supply and regulatory stability perspective.
- We would strongly challenge the argument contained in the reference to the SEM in Section 4.3 of the consultation paper that the capacity mechanism, which is a

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<sup>1</sup> See <http://www.energia.ie/> for more details about Energia.

central feature of the market design, has created difficulties in cross border trade with GB.

- We would strongly challenge the inference that capacity should not be considered an integral part of electricity market design and the corollary that capacity mechanisms are tools to address temporary market failure.
- Capacity mechanisms are a legitimate feature of market design and are especially valuable when accommodating large scale penetration of non-synchronous renewable generation. We consider that it is possible to allow Member States to define national solutions to the generation adequacy issue without distorting trade.
- Coupling should be based on the energy-price only where both markets have a capacity mechanism. The fact that different markets/Member States may determine capacity differently should not be considered a distortion of trade. Coupling based on the energy price only completely removes any scope for distortion. At the same time energy-only markets without capacity mechanisms (whereby scarcity is implicitly included in the energy price i.e. a long run price) can couple with markets that have capacity mechanisms (whereby scarcity is explicitly valued through the capacity price) provided the price offered at the border is the energy plus capacity price.
- The 2-year extension provided to Ireland and Northern Ireland in relation to market integration was predicated on **aligning** the Single Electricity Market for integration – not changing or mandating its design.
- The effective operation of energy markets is subject to other policy imperatives, including a binding requirement to provide some 35% of energy from renewable generation in the EU electricity system by 2020. Market design must take account of these imperatives.
- Supports for variable renewable capacity, including those aimed at achieving binding targets are consistent with wider EU policy.

### **3. Additional Energia comments**

Energia is opposed to direct and indirect fossil-fuel subsidies and supports such as the priority dispatch of peat-fired generation in Ireland. The current treatment of peat in Ireland is distortionary, costly to both customers and society, and contradictory in relation to national and EU energy policy. These points are explained and substantiated further in a recent submission to the Commission for Energy Regulation (copy submitted alongside this response). The status quo is clearly undesirable and should be addressed as a priority.