

*"European Commission Consultation Paper on
Generation Adequacy, Capacity Mechanism and the
Internal Market in Electricity"*

**MVM Hungarian Electricity Private Limited
Company and the MVM Group Response Paper**

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Antecedents

MVM Hungarian Electricity Private Limited Company and the MVM Group welcome the initiative of the European Commission for analysing the questions connected with the generation adequacy, capacity mechanism and the internal market in electricity.

MVM Hungarian Electricity Private Limited Company and the MVM Group consider the Consultation Paper¹ a useful and important means for becoming acquainted with the positions of several players of the electricity sector regarding the questions and problems outlined by the European Commission. MVM Hungarian Electricity Private Limited Company and the MVM Group think that the problems and the connecting questions are appropriate (timely), well-based and expedient which concern the essence of the problems. According to the opinion of the company group it is time to deal with these problems and questions and it hopes that the common efforts will result in solutions regarding these problems.

¹ European Commission Consultation Paper on generation adequacy, capacity mechanism and the internal market in electricity (11/15/2012)

Responses to the questions

INVESTING THE INTERNAL ENERGY MARKET

1. Do you consider that the current market prices prevent investments in needed generation capacity?

It is no question that there is not an unambiguous and direct link between the current level and volatility of the electricity market prices and the lack of investment in the field of the electricity sector. It is also known that the investment decisions are not based on current, short run market conditions. However the present electricity market situation influences the investment decisions. The medium term and the long term development estimations take the present situation as a starting point. In many cases is thought that the present conditions will be determining for longer period.

2. Do you consider that support (e.g. direct financial support, priority dispatch or special network fees) for specific energy sources (renewables, coal, nuclear) undermines investments needed to ensure generation adequacy? If yes how and to what extent?

According to the opinion of the MVM Hungarian Electricity Private Limited Company and the MVM Group the support schemes (in the first line in the field of the RES support schemes) result in distortion the market conditions and the effective functioning of the electricity market. Obviously there are huge differences among the support schemes and the member states' market situation so this statement cannot be generalized without reservations. It is well known, that the European electricity market has inhomogeneous RES support schemes.

3. Do you consider that work on the establishment of cross-border day ahead, intra- day and balancing markets will contribute to ensuring security of supply? Within what timeframe do you see this happening?

MVM Hungarian Electricity Private Limited Company and the MVM Group think that well-established and well-functioning cross border forward, day ahead, intraday and balancing market will result in enhancing the security of supply. However taking into account the investments (expansion of the interconnection capacities and improvement of the usage of existing transmission infrastructures) needed for the implementation of the above mentioned markets (including the balancing market) it takes more time than it is planned.

4. What additional steps, if any, should be taken at European level to ensure that internal market rules fully contribute to ensuring generation adequacy and security of supply?

Without entering into details the most important conditions of the implementation of the above mentioned markets are the following:

- 1.) Putting an end to the regulated end consumer prices;
- 2.) Expansion the cross border transmission capacity;
- 3.) Simplification of the procedures for permitting and financing the investments in the field of the expansion of transmission capacities;
- 4.) Putting an end of the preferred separated markets of the renewable generation.

5. What additional steps could Member States take to support the effectiveness of the internal market in delivering generation adequacy?

The expansion of the existing transmission network is an essential condition from the point of view of achieving this objective. Obviously there are huge differences in this regard among the several member states.

6. How should public authorities reflect the preferences of consumers in relation to security of supply? How can they reflect preferences for lower standards on the part of some consumers?

According to the opinion of the MVM group the consumers do not want electricity supply with lower standards than today. The new regulation, the integration of intermittent renewable generators and in the segment of householders the smart metering are forcing them to accept the lower level of the quality of electricity service (like the frequency movements, intolerances, etc.). The authorities should maintain or improve the current standards.

Assessing Generation adequacy

7. Do you consider that there is a need for review of how generation adequacy assessments are carried out in the internal market? In particular, is there a need for more in depth generation adequacy reviews at:

- a. National Level**
- b. Regional Level**
- c. European Level**

MVM Hungarian Electricity Private Limited Company and the MVM Group think the generation adequacy calculations have to take into account the cross border connections. According to this approach the generation adequacy is more regional than national.

- 8. Looking forward, is the generation adequacy outlook produced by ENTSO-E sufficiently detailed? In particular,**
- a. Is there a need for a regional or European assessment of the availability of flexible capacity?**
 - b. Are there other areas where this generation adequacy assessment should be made more detailed?**

The generation adequacy outlook produced by ENTSO-E is sufficiently detailed. However, the estimated generation developments listed in the outlook will be not constructed in the existing investment environment (sinking price levels, instable regulatory mechanisms, high financing risks, weak financing capability of electricity companies, etc.). The improvement of the investment climate has to be the first priority of the European energy policy.

- 9. Do you consider the Electricity Security of Supply Directive to be adequate? If it should be revised, on which points?**

MVM Hungarian Electricity Private Limited Company and the MVM Group consider the Electricity Security of the Supply Directive to be adequate.

- 10. Would you support the introduction of mandatory risk assessments or generation adequacy plans at national and regional level similar to those required under the Gas Security of Supply Regulation?**

MVM Hungarian Electricity Private Limited Company and the MVM Group would not support introducing a mandatory risk assessments or generation adequacy plans at national and regional level similar to those under the Gas Security of Supply Regulation.

11. Should generation adequacy standards be harmonised across the EU? What should be that standard or how could it be developed taking into account potentially diverging preference regarding security of supply?

According to the view of MVM Hungarian Electricity Private Limited Company and the MVM Group building up an internal market for electricity requires the development of harmonised generation adequacy standards. It cannot be allowed differences among the member states regarding the generation adequacy standards. It is an important prerequisite of functioning the internal electricity market.

MECHANISM TO ADDRESS GENERATION ADEQUACY CONCERNS

12. Do you consider that capacity mechanisms should be introduced only if and when steps to improve market functioning are clearly insufficient?

MVM Hungarian Electricity Private Limited Company and the MVM Group are of the opinion that capacity remuneration mechanism should be introduced when generation adequacy is endangered by putting down capacities because of financial problems or by reduced capacity investments.

13. Under what circumstances would you consider market functioning to be insufficient:

- a. to ensure that new flexible resources are delivered?**
- b. to ensure sufficient capacity is available to meet demand on the system at times of highest system stress?**

MVM Hungarian Electricity Private Limited Company and the MVM Group consider this question partly a technical question partly a price question. There are different methods to assess the capacity balance.

The first symptom of the insufficiency is the frequent cancellation of well prepared projects and the missing project development activity. In our information there were a lot of project cancellations in the region in the near past and we do not hear about any new flexible or peak generator project. So, in our opinion the existing market is insufficient to stimulate the possible investors to deliver the necessary projects.

14. In relation to strategic reserves:

- a. Do you consider that the introduction of a strategic reserve can support the transition from a fossil fuel based electricity system or during a nuclear phase out?**
- b. What risks, if any, to effective competition and the functioning of the internal market do you consider being associated with the introduction of strategic reserves?**

The essence of the problem is the strike price level, namely the activation rule for the strategic reserves. Appropriate determination of the strike price of the strategic reserves is a question of high importance.

15. In relation to capacity markets and/or payments:

- a. Which models of capacity market and /or payments do you consider to be most and least distortionary and most compatible with the effective competition and the functioning of the internal market, and why?**
- b. Which models of capacity market and /or payments do you consider to be most compatible with ensuring flexibility in a low carbon electricity system?**
- c. Are there any models of capacity mechanism the introduction of which would be irreversible, or reversible only with great difficulty?**

According to the opinion of MVM Hungarian Electricity Private Limited Company and the MVM Group a universally adequate capacity market and / or payment cannot be (should not be(?)) determined. There are known more models, and every model was developed for solution of special technical, economic, political and regulatory problems. MVM Hungarian Electricity Private Limited Company and the MVM Group are investigating several models to find the appropriate one under Hungarian circumstances.

16. Which models of capacity mechanisms do you consider to have the least impact on costs for final consumers?

MVM Hungarian Electricity Private Limited Company and the MVM Group are investigating several models from this point of view. So far there is not a clear picture regarding this question.

17. To what extent do you consider capacity mechanisms could build on balancing market regimes to encourage flexibility in all its forms?

18. Should the Commission set out to provide the blueprint for an EU-wide capacity mechanism?

It is practically an insoluble task to ascertain a one-fits-all capacity mechanism for the member states.

Framework for Assessing Capacity Mechanisms

19. Do you consider that the European Commission should develop detailed criteria to assess the compatibility of capacity mechanisms with the internal energy market?

MVM Hungarian Electricity Private Limited Company and the MVM Group are of the opinion that the European Commission should not develop detailed criteria to assess the compatibility of capacity mechanism with the internal energy market. Development general criteria would be much more appropriate.

20. Do you consider that the European Commission should develop detailed criteria to assess the compatibility of capacity mechanisms with the internal energy market?

The tendering for new capacity is regulated in the article 8 of the electricity directive, but the possible guaranteed conditions for the bidders (duration, pricing of the off take, etc.) are not harmonised. It would be useful the development of a general criteria package for the internal energy market compatible elements of the off take contracts.