



Reference: 2013/VNMI - 004

Consultation of the European Commission on generation adequacy, capacity mechanisms and the internal market in electricity

About VNMI

The VNMI, founded December 7, 2000, is the association of Dutch producers of raw metals and metal alloys and semi-finished products thereof. VNMI unites most -if not all- companies engaged in the production and / or first processing of 'basic metals'. These are companies that free pure metals out of metallic ores, but also the secondary metal producers, who remelt collected recyclable materials for reuse and reprocessing, belong to this group. The last group of companies belonging to the VNMI are the companies engaged in the so-called 'first' use of these metals, such as producers of steel tubes, steel rolling mills, wire mills, non-ferrous smelters, extrusion plants and thermal galvanizers.

In the production of metals and processing of metals into semi-finished products, high technology is deployed. In addition, companies increasingly upgrade products, from semi-finished to high quality end products with high added value. This trend has already become visible quite some years ago and increasingly contributes to net profit for many companies. It requires great effort through research and product design to create new and high quality products, both for 'business to business' and for consumer markets.

The companies in the metallurgical industry in the Netherlands represent approximately 50,000 full-time jobs (direct / indirect) and EUR 6 billion of export value (NYFER 2012), almost all of which within the European Union.

Members of VNMI (www.vnmi.nl) include: Alcoa Nederland B.V., Alpha-Fry Technologies B.V., Aluminium Delfzijl B.V., Aurubis Netherlands B.V., Climax Molybdenum B.V., E-max Aluminium Remelt, FNsteel B.V., Hunter Douglas Europe B.V., KBM Master Alloys B.V., LDM B.V., Nedal Aluminium B.V., Nedstaal B.V., NedZink B.V., Nyrstar Budel B.V., Salzgitter Mannesmann Precisie B.V., Sapa Aluminium B.V., Sapa Profiles Drunen, Tata Steel IJmuiden B.V., Tata Steel Nederland Tubes B.V., Uzimet B.V., Welschen Metaal B.V., Wuppermann Staal Nederland.

General Remarks

For a specific answer to all 20 questions from the questionnaire, VNMI kindly refers to the IFIEC Europe response with which it agrees in full, although VNMI would like to make a few general remarks.

VNMI has observed that in some member states there is no investment in new non-renewable generation capacity. In some member states there is even not enough spinning reserve available because of mothballing or decommissioning. VNMI believes that this could lead to risk of blackouts in some Member States. According to VNMI the lack of investment in new capacity or the lack of "spinning" capacity is mainly caused by market distortions, regulatory and political uncertainty and the current state of the economy.

In some Member States the market is severely distorted by the way that renewable energy is treated. In a lot of member states renewable energy is heavily subsidized. This subsidized electricity is offered at zero cost on the market. As a result conventional (flexible) plants are pushed out of the merit order. Due to this subsidization the market is distorted and prices do not give the appropriate signals and prevent investment in needed (flexible) generation capacity.

The market is further distorted by the fact that intermittent renewable energy does not pay the cost they induce to the system. Intermittent renewable energy does for example not pay for its (total) imbalance costs. As a result renewable electricity finds its way to the market at a non-cost reflective level. Due to this market distortion the system does not provide correct market prices and therefore prevents investment in needed capacity. This leads to a system that is not cost-efficient and encourages free rider behaviour including an infringement with the 'causer pays' principle.

But there are also other important barriers to investment in needed capacity. The most important one is political and regulatory uncertainty. For example, decisions to phase out nuclear energy or not deciding on fuel mix policies deteriorate the investment climate. Changing the rules of permitting procedures or constantly changing levies and taxes create regulatory barriers and make uncertainty an obstacle to investment.

Current market developments lead to a further deterred investment climate. There is low demand for electricity due to the recession and capital is scarce. As a result utilities keep minimal capacity available to squeeze costs. Combined with relative high gas prices this leads to the fact that utilities do not invest in flexible capacity.

VNMI believes that the European Commission should focus on removing market distortions, and make sure that member states create a stable and predictable regulatory and political environment to restore the well-functioning of the market instead of mitigating the results.

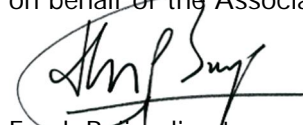
If, after the above mentioned measures, there really is a need for implementing capacity mechanisms because the market still does not provide enough capacity, these instruments have to meet certain requirements:

- Any instrument should provide maximum opportunities for demand side response
- Capacity needs must be met in an optimal way, taking into account the optimisation of grids (European and regional), back-up capacities and storage (including non-conventional like hydrogen or ammonia, with rather low transportation costs)
- European coordination and enlargement of cross-border grid capacities up to an economically efficient level can help to further reduce the need for (national) capacities. Grid capacities especially cross-border integration reduce the need for back-up capacity and storage.
- The necessary volume of needed capacity should be determined by the market
- Coordinating capacity mechanisms with RES-E support schemes can contribute to integrate renewables into the market.
- Distortions in the electricity market should be avoided at all time
- Security of supply should be ensured at the least possible costs, so as not to threaten international competitiveness of industrial energy consumers.

As a matter of course, VNMI is more than willing to deliver further input –through its own offices, the offices of its company members and/or through Eurometaux- to the above subjects and/or related matters, should the European Commission invite VNMI to do so.

Best regards,

on behalf of the Association of the Dutch Metallurgical Industry (VNMI),

A handwritten signature in black ink, which appears to read 'Frank Buljs', is written over a circular stamp. The stamp is partially visible and contains some text that is not legible.

Frank Buljs, director