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Transparency Register identification number: 09571422185-81

Contribution of VERBUND AG to the consultation of the European Commission on generation adequacy, capacity mechanisms and the internal market in electricity

VERBUND welcomes the possibility to participate in the above mentioned consultation. Please find below our comments.

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

Yes

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?

Yes. The steadily increasing share of subsidized renewables shifts conventional thermal power plants more and more towards the right on der Merit Order. At the current level of power prices on the central European wholesale market gas fired and pumped storage power plants are not able to earn a sufficient margin to cover their fixed costs.

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

Yes, these measures would show quick results but would only be a small part of the solution.

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?

Set European-level rules, guidelines and standards for:

1. Better integration of renewables into the power market
2. Reform of the ETS (backloading is not enough, future supply of CO2-certificates has to be more flexible and take into consideration aspects like renewable growth, power demand and energy-efficiency etc.)
3. Removal of all national market barriers and price-caps

4. Encouragement of DSM (Demand Side Management)
5. Establishment of cross-border-markets for ancillary services
6. Extension of the high-voltage-grid

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

All Member States should open their national markets and avoid, respectively remove market distorting regulation and price caps.

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?

Security of supply is key for the European economy and of utmost interest for the consumers too. In the long run investments need full cost recovery otherwise there won't be any investment. Only a functioning market can provide fair energy prices that serve the investor and the consumer.

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

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?

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

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?

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?

Answer to questions 7-11: In principle those existing outlooks (above all at European level, e.g. ENTSO-E generation adequacy outlook) that take into account network restrictions as well as lead-times for the implementation of investments are sufficient for long-term forecasts. The main problem especially for an industry with long-term investment cycles and long lead-times for building power-plants and grids is the unpredictability of political decisions that can lead to sudden changes in the regulatory framework. Ongoing political interference and changes of the regulatory framework as well as uncoordinated national energy policies prevent the required investments in the European electricity market. Politics has to provide a stable and market based regulatory framework this is the best way for a fair and well-functioning energy market.

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

Yes, but only in this particular case and only temporary.

- 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?

It is necessary to implement a market based system that enables participants to earn sufficient returns on their investments (a particular issue for power plants with few utilization hours like flexible power stations and reserve power providers). Such a system must not have (direct and implicit) price caps or other directly distorting regulatory interferences and needs a certain degree of stability over time.

- 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?

No, but it can be a transitional measure till the mentioned structural market reforms show their effects.

- 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?**

Power plants being subject to a strategic reserve should only be operated under strictly defined dispatching rules by the TSO. Otherwise it could cause wrong investment signals as the instrument of a strategic reserve is an indirect market price cap and may therefore impede investments in reserve power.

- 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?**

Least distortionary is a strategic reserve because it is easy to implement and easy to phase out again - and the involved power plants have to be dispatched outside of the "normal" Energy market.

- 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?**

See 15 a

- c. Are there any models of capacity mechanism the introduction of which would be irreversible, or reversible only with great difficulty?**

All models except a strategic reserve.

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

Only the strategic reserve as a temporary measure.

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

In the markets for balancing power and ancillary services we do already have functioning bilateral capacity mechanisms.

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

Yes

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

Yes

- 20. Do you consider the detailed criteria set out above to be appropriate?**

- a. Should any criteria be added to this list?**

No

b. Which, if any, criteria should be given most weight?

- No distortion of the commercial behavior of generators in the day-ahead and intraday markets.
- No restrictions for any particular generation technology, i.e. being technology neutral and not differentiating between existing and new power stations.

Vienna, 17 January 2013