ACCIONA comments on the European Commission Public Consultation on generation adequacy, capacity mechanisms and the internal market in electricity

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

Due to the current overcapacity, no additional generation capacity is needed. Market prices are not the only factor affecting investment decisions in power generation, the additional sources of revenue besides energy have to be considered.

A detailed pan-European firm capacity forecast, as the one issued by ENTSO-E, has to be done for each year in the near future, in order to deploy in advance the necessary measures to ensure the coverage of the electrical demand in the medium and long term, sending the proper investment signals.

For this firm capacity forecast, energy efficiency measures and demand side participation have to be taken into account, so it could reduce significantly the need for building new generation facilities. On the other hand, withdrawal of conventional plants has also to be considered.

(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?

We consider that support for specific energy sources is the tool deployed to meet the EU energy targets, and it should not be linked to a lack of generation adequacy. ENTSO-E report concludes that generation adequacy is expected to be kept during the period 2012-2020, even after the expected shut down of German nuclear power plants. If additional generation capacity is needed after the year 2020, capacity mechanisms or any other measure could be developed, independently of this support mechanisms created to meet EU energy targets.

Regarding capacity markets, we consider that well defined support services markets could be more effective to ensure the investment and development of sufficient flexible capacity. Capacity Remuneration Mechanisms may also disincentive investments in infrastructure and demand-side management.

(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?

The establishment of effective cross-border day ahead, intraday and balancing markets will optimize the use of current and future resources (generation and demand) and it will reduce the need for building new generation facilities, thereby contributing to ensuring security of supply. But to ensure effectiveness of these markets, reinforcing

of Transport Grid infrastructures, development of pan-European corridors and increasing cross-border transmission capacity have to be previously accomplished.

It will also be necessary to create new market rules and network codes to allow more active role of Renewable Energy generators in these services, which would additionally contribute to security of supply.

(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?

Internal market has to be designed to provide adequate incentives to stimulate the proper quantity or mix of generating capacity consistent with mandatory reliability criteria. Wholesale markets for energy and operating reserves should be able to provide net revenues to contribute to the capital cost of generation facilities, while avoiding any excessive prices caused by the dominant market position of certain players. If this was not possible, capacity mechanisms or support services markets could be developed.

Member States must be compelled to properly transpose the 2nd and 3rd EU Liberalisation Packages.

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

Member States could ensure the effectiveness of the internal market in delivering generation adequacy by fostering the deployment of interconnection capacity, the design of new rules that allow Renewable Energy generators to provide support services, and the implementation of energy efficiency solutions and demand side participation. If these steps are not sufficient, Member States could implement capacity mechanisms, while always in a compatible way with the European Energy Market.

Member States have to ensure that their national capacity mechanisms, if any, do not distort the market functioning and are properly designed to be easily integrated into a pan-European capacity mechanism or the scheme finally chosen.

(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?

Public Authorities could reflect the preferences of consumers in relation to security of supply by combining the wholesale prices for energy during scarcity conditions and the capacity payments. If consumers prefer a lower but satisfactory quality of supply at a lower price, even assuming that occasional disconnections may occur, Authorities should set a cap wholesale price and reject or reduce capacity payments.

(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

We consider that ENTSO-E generation adequacy outlook, treating the data provided by the different TSOs in an inclusive manner, is the best way to assess generation adequacy within the internal market, except for the possible improvements described in next question.

(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?

We consider that ENTSO-E generation adequacy outlook can be improved including the following points:

1.- Requesting all TSOs to provide completed data regarding national generation adequacy.

2.- Deepen the analysis of flexibility of the system, through a regional and European assessment, bearing in mind the significant benefits provided by future pan-European balancing services. Spare capacity should be fine-tuned for each region, given their particular conditions, not setting 5% of Net Generation Capacity as default.

3.- Deepen the analysis of simultaneous interconnection transmission capacity within ENTSO-E electrical system, preventing too conservative assumptions on generation adequacy by individual Member States.

4.- Taking into account energy efficiency measures and demand side participation regarding generation adequacy, so it reduces the need for building new generation capacity.

5.- Improving the assessment of wind generation contribution to generation adequacy. Aggregation of control zones across larger geographical areas enables the smoothing-out of wind generation variability. This, combined with integrated intraday and balancing markets within the EU Target Model, will increase wind generation firmness and its contribution to system adequacy.

Many TSOs count RES (wind and solar above all) in the category of non-usable capacity for adequacy calculations. This is not the case, although its contribution to the guaranteed capacity at peak load is lower than that of other technologies, there is a certain amount of firm wind capacity that has to be used for capacity planning.

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

We consider the Directive to be adequate, including all appropriate guidelines, except for the absence of a mandatory standardized assessment of the contribution of the different generation technologies to generation adequacy, at national and European level. This point could be included in Article 5 of the Directive.

(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?

Yes, it would be included in the above-mentioned mandatory assessment.

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

Yes, harmonized generation adequacy standards across the EU are vital to the proper functioning of the internal market, focusing effort on the infrastructure and the generation needed at European level, and avoiding distortions due to incompatible national schemes. Diverging preferences regarding security of supply have to be brought together into an accepted standard.

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

Yes, capacity mechanisms should be the last resort, because they have to be very carefully designed to avoid giving rise to significant distortions and difficulties on the internal market functioning.

Decision to implement Capacity Remuneration Mechanisms must be preceded by assessment of the physical needs of the system (long term adequacy, flexibility, voltage control, transient stability, reactive power, etc.).

Well defined support services markets could be more effective than capacity mechanisms to ensure the investment and development of sufficient flexible capacity.

(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?

Market functioning would be insufficient to ensure sufficient and flexible resources when wholesale and balancing services markets do not provide enough revenues to foster the investment in the generation capacity needed to meet demand.

(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?

It would be a transient mechanism for preventing old plants to be retired, but it could easily result in high emissions, discouraging development of more efficient technologies, such as storage and demand side response, and reinforcement of the position of incumbents.

(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?

As last resort, if support services markets prove to be insufficient, an EU-wide capacity market where the required **firm capacity quantity** is centrally fixed and procured by means of capacity auctions, if well designed, could ensure flexibility and compatibility with the competition and the functioning of the internal market. Firm capacity quantity has to be determined after an appropriate generation adequacy assessment.

The mechanism also has to allow demand response and energy efficiency solutions to bid into capacity markets on an equal basis to generation.

Any capacity mechanisms implemented at national level would be reversible only with great difficulty.

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

An EU-wide capacity market where the required **firm capacity quantity** is centrally fixed and procured by means of capacity auctions, allowing demand response and energy efficiency solutions to bid into capacity markets on an equal basis to generation

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

Well defined balancing services markets could encourage the needed flexibility, without having to resort to capacity mechanisms.

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

As ENTSO-E report concludes that generation adequacy is expected to be kept during the period 2012-2020, we consider that work on a capacity mechanism is not necessary yet.

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

Yes, European Commission should develop these criteria before national capacity mechanisms that are currently being implemented or planned could hamper the functioning of the internal market.

(20)Do you consider the detailed criteria set out above to be appropriate?

a. Should any criteria be added to this list?

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

We consider the criteria to be appropriate if as last resort it is finally decided to implement a capacity mechanism. European Commission has to place greater emphasis on mechanism not being confined to any particular technology, taking into account the actual and potential contribution of each technology to generation adequacy (for example, Renewable Energy technologies contribution has been repeatedly underestimated by assuming their performance remains as precarious as in their early stages). Mechanism also has to allow demand response and energy efficiency solutions to bid into capacity markets on an equal basis to generation.