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# Response to the European Commission Consultation Paper 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?**

Yes, we do. The current structure and level of power prices on the central-western European wholesale market are not able to deliver investment signals or to earn a sufficient margin to cover the costs for gas fired and pumped storage plants.

As a result of the rising installed capacity of intermittent renewables, electricity generation is becoming increasingly volatile. To achieve the EU objectives in the field of energy policy (deliver sustainable and secure energy / a competitive internal market for energy) it is essential to ensure the availability of flexible and reliable generation capacity.

Stable and predictable political and regulatory conditions are essential for ensuring the required availability of existing installations and also new investments.

**(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, we do.

The huge support of technologies with low operating costs leads to a distortion of the concept for the price finding mechanism at the Europan market for electricity. Wether optimised resource allocation nor any dispatch decision can be caused by longer periods with price signals close to zero.

Additional lackings regarding the harmonisation of network fees for generators (e.g. in Germany and Austria) are barriers with impact to hinder required investments.

(**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, we basically do consider that work on the establishment of cross-border day ahead, intraday and balancing markets will contribute to security of supply.

But it is essential to keep in mind, that balancing services are required and designed to ensure the operational security of the system. Available energies behind the contracted capacities for balancing purposes are sometimes (and in some regions) limited. The capacities should be available to react to unforeseen failures and after the occurance of such an incident. The Balancing services are not designed to be available also for issues of long term 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?**

Taxes, fees and charges for generators must be harmonised to re-establish the level playing field in the internal energy market.

Harmonised European rules are required for the

- Removal of all national market barriers and price caps on electricity prices
- Establishment of cross-border-markets for ancillary services
- 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.

A consolidation process respecting on the one hand national generation structures and on the other hand physical cross-boarder capacities has to be established to optimize the national contribution to security of supply within the internal energy market. Thus, national trends to exclusively focus on “local” energy autonomy shall be critically monitored by considering generation adequacy and optimise resource allocation in huger regions.

(**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 an indispensable element to improve Europe’s competitive position. Whereas public authorities may determine the degree of security of electricity supply they intend to perform to different consumers. Inclusion of large consumers to the market mechanism can contribute as well to market functioning by reaction and delivery of price signals as also to security of supply by lowering demand when it is required to do so.

(**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**

According to an ongoing integration of markets by increased availability of transmission capacity also the assessments should develop from national focuses stepwise to regional and European perspectives.

**(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?**

Please see answer to question (7).

**(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?**

No.

**(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?**

Yes, at least general principles should be harmonised.

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

Yes, we do. But barriers to ensure market functioning (price caps, not-harmonised regulatory conditions...) should be removed in any case.

**(13) Under what circumstances would you consider market functioning to be insufficient:**

Political interventions have significantly contributed to today's aberrations of existing energy markets (e.g. regulated end-user prices, restrictions on plant operations, price caps). Only if authorities refrain from intervening in the market and accept price signals such as price spikes and volatility will deliver necessary price signals for flexibility.

**a. to ensure that new flexible resources are delivered?**
Additional incentives for new flexible sources could weaken the business case for existing flexible power plants which already suffer from the strongly reduced price peaks as a result of increased volatile generation capacity. Mechanisms should be designed in a market oriented manner and should not distinguish between new and old resources. Revenues should not only enable new investments but also the feasible operation of existing flexible resources.

**b. to ensure sufficient capacity is available to meet demand on the system at times of highest system stress?**
Under current circumstances the danger of supra-regional blackouts is increasing simultaneously with the installation of additional volatile generation capacity.

**(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?**

Yes, if the following requirements are met: Implementation at regional level, clear and transparent guidelines, limited duration (transitional period).

**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?**

- Implementation solely at national level may lead to distortions of competition and inefficient location of resources.
- Weakening of market signals if strike price is set too low and power plants being subject to a strategic reserve are not operated under strictly defined dispatching rules by the TSO; this may impede investments in reserve power.
- Increased over capacity due to risk averse planning.

(**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?**

We believe that capacity remuneration models shall be planned in respect of a limited (but also predictable for a certain time-span) duration and the least possible impact for the energy only market and to exclusively ensure generation adequacy and the security of supply. The model of a strategic reserve and/or bilateral agreements are preferable.

**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?**

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

During a CRM law in force, we expect stable political and regulatory frameworks. The duration of the application of the capacity mechanism should be predictable even if the design is made removable in order to return to a market functioning according the originally intended market-design.

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

see 15 a

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

Balancing markets are mainly tailored to provide flexible solutions in real-time or near real-time timeframes in order to support the stable (short term) operation of power systems. They typically cover the provision of online primary, secondary and tertiary power and energy reserves.. The services contracted in these markets must be provided from real-time to a few hours following real-time and are technically related with and dependent on the availability of specific technologies, on operational decisions and on market conditions.

CRMs have been designed to meet an entirely different problem which is to tackle concerns of security of supply reflected by the availability of sufficient generation to meet peak load demand and backup capacity for intermittent RES whilst ensuring an adequate security margin.

CRM, unlike balancing markets, are also more suited to promote technology non-discriminatory competitiveness in procuring the services which are required to maintain adequate security margins, including from technologies such as Storage and Demand Side Management.

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

At least for a region with a common price zone harmonisation and market opening seems appropriate.

**(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, we do believe that criteria to assess the compatibility of capacity mechanism with the internal energy market should be developed.
It has to be considered if market design can continue according the original concept or if market design has developed already definitely and therefore also assessment rules have to be adapted.

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

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

The criteria list seems to be appropriate.

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

- A capacity mechanism should be open to all products and players in existing market regions.
- No restrictions for any particular generation technology, this means neutral regarding technologies and no differentiation between existing and new installations.