European Commission – Consultation Paper on generation adequacy, capacity mechanisms and internal market in electricity

The Confederation of UK Coal Producers (CoalPro) represents member companies who produce over 90% of UK coal output. Some 90% of production is sold to the electricity generation market and CoalPro is therefore pleased to be able to respond to this consultation.

CoalPro's responses to the individual questions in the consultation paper are set out below but are prefaced by some general remarks.

First, the paper appears to concentrate on the provision of new capacity and/or efficiency measures and demand side participation. It seems to ignore the opportunities for the retention of existing capacity that might otherwise close on the uprating of existing capacity to operate at higher efficiency. This omission is inappropriate as the retention and/or uprating of existing capacity is likely to provide the lowest cost route to ensuring sufficient capacity is available.

Second, the so-called 'missing money' problem is not just a function of low electricity prices or even low running hours. In the case of potential gas capacity, for example, it is also a function of high gas prices due to the oligopolistic nature of gas supply in Europe. In the UK currently, the fuel cost of generation from gas is more than double that from coal. However strong the case for a capacity mechanism, it should not be designed merely to accommodate oligopolistic profits.

Third, and with reference to section 3.1, whilst it is true that a Europe-wide assessment of wind generation may reduce the extent to which it is regarded as not contributing to generation adequacy, it remains the case that at peak winter demand periods in still, cold, anticyclonic conditions, generation from wind over very wide areas of Europe will still be minimal. Increasing wind generation capacity will not change this picture. Ten times zero is still zero!

Finally, CoalPro does not understand the concerns expressed in the paper about reinforcing the position of incumbents, the maintenance of existing market structures or undertakings or the deterrence of new entrants. It is the market that will decide. If incremental capacity is supplied at lowest cost by existing incumbents and existing plant, then there is no reason why they should not be the providers. If new entrants and new capacity represents the cheapest source of incremental capacity, then they should be the providers.

We now turn to the individual questions.

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

Yes, but market prices are influenced by other factors, in particular regulatory uncertainty and market foreclosure by subsidies for high cost capacity, e.g. renewables.

(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, in particular for renewables. CoalPro is not aware of any widespread support for coal.

(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?

Yes, but it will be many years before the contribution is adequate to ensure capacity is available everywhere at times of system stress. Mere assertion that such developments should take place will not suffice.

(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?

None. Market players and/or individual Member States acting together with others where appropriate are more likely to develop the appropriate measures. Additional steps at European level are likely to hinder rather than support such measures.

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

Member States should ensure that they proceed in tandem with each other in support measures for unreliable renewable or inflexible nuclear generation. It is in this area that European action, if any, should be concentrated.

(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?

This is a matter for Member States who can best judge the preferences of their own customers. Price is THE primary issue for customers and capacity mechanism measures should be focused on supplying incremental capacity (including the retention of existing capacity) at lowest cost. If some customers prefer lower standards, this should be reflected in interruptible contracts with suppliers.

(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

No. Techniques for assessing capacity are well-known and well-understood, including the potential of cross-border interconnectors.

(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?

In general terms, yes, given that the ENTSO-E methodology will be refined. There is no clear need for a wider assessment but more detail is required on the impact of progressively

higher renewable penetration and its consequences in terms of market foreclosure in relation to flexible plant.

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

Yes. It is the clear responsibility of Member States towards their own citizens to ensure capacity is adequate and the value of a conservative approach is not to be decried. If this results in higher costs, then that is the responsibility of the Member States.

(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.

(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?

No. It is perfectly legitimate for individual Member States to prefer higher, or lower standards.

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

No. The improvement of market functioning is unlikely on its own to solve potential capacity shortages and capacity mechanisms may, in any event, be required in advance of such steps.

(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?

Over the last two to three decades, albeit at different paces in different Member States, market functioning has developed to become adequate in both respects. Deficiencies may have been more technical in nature, but these too have been increasingly addressed. However, market functioning may not be adequate, and may not be capable of being made adequate, to address the problems, again in both respects, created by the increasing penetration of subsidised, high cost, unreliable generation. Hence the increasing need for capacity mechanisms. The need to ensure, in appropriate circumstances, the retention of existing capacity should be added.

(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?

(a) Yes. (b) If strategic reserves are properly designed, there should be no significant risk to effective competition and the functioning of the internal market.

(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?

(a) There is no single answer to this as circumstances vary. It may be that a combination of measures is the least distortionary and most compatible with effective competition and the functioning of the internal market. Careful design should be capable of minimising distortionary effects in most circumstances. Indeed the introduction of capacity mechanisms may serve to offset the distortionary effects of market foreclosure by highly subsidised, high cost generation.

(b) Initially, a fixed price capacity payment may be the most appropriate changing, over time, to a capacity market. In the latter cause, auctioning may also be an appropriate measure. Strategic reserves, at least in larger markets, would seem to be inadequate.

(c) No. There should be no risk of irreversibility with proper design. At the same time, it needs to be recognised that a degree of forward visibility is required if the necessary investment is to be forthcoming.

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

Fixed price models that do not discriminate between flexible generation technologies (or fuels) and which reward existing plant to the same extent as new plant.

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

CoalPro is not competent to address this question.

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

No. This may become conceivable many years hence but the variation in circumstances currently is such that the issues have to be addressed by Member States, not least because of the varying degrees of penetration of renewables.

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

No, for the same reasons as set out in the response to Question 18.

(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?

It would be inappropriate to specify that a mechanism should not act to deter new entry if it is clear that the retention of existing capacity represents the lowest cost and/or most flexible incremental capacity.