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Response to the public consultation on Generation adequacy, capacity mechanisms and the internal market in electricity

Statnett welcomes the opportunity to respond to the public consultation on generation adequacy, capacity mechanisms and the internal market in electricity.

For the sake of clarity, we support the response submitted by ENTSO-E. In addition, we want to clarify some matters that are important for Statnett as owners and developers of interconnector projects. We will focus our answer to the design of efficient capacity mechanisms, if such mechanisms are introduced.

We emphasize that in this response we present no view on whether or not capacity mechanisms should be implemented to ensure security of supply in specific Member States of the EU.

If regulations or market mechanisms are implemented to mitigate risks for security of supply, they must be efficient in the short and in the long run, and therefore satisfy the following two requirements:

- Firstly, a capacity mechanism must not act as a barrier to competition or cross-border trade. The facilitation of trade between complementary power systems contributes not only to overall efficiency, but to generation adequacy. In particular, there is a strong contribution to generation adequacy from interconnectors between a hydro-based power system like the Nordic, and a thermal power system with an increasing share of renewable energy like the continental European.
- Secondly, a capacity mechanism should not discriminate against alternatives to investments in national generation capacity. If an interconnector and/or foreign generation capacity offers a competitive contribution to security of supply, it should be eligible for participation and remuneration in the capacity mechanisms. Unless an interconnector prospect is offered a share of this revenue stream of a capacity mechanism, there is a risk that the mechanism may undermine socioeconomically profitable investments.

It is the responsibility of the Member States to ensure a high level of security of supply, according to the directive 2005/89/EC. The distributed responsibility for security of supply poses a challenge to the efficiency of the IEM, especially in the long run. Possible consequences are efficiency losses due to overinvestment, and distributive impacts through free-riding, regulatory competition for investments, and higher prices for consumers. Therefore, in the design of regulations and market mechanisms, the Member States should also consider the efficiency of the IEM.

Concluding, we draw attention to the interest of the European consumer: The costs for capacity mechanisms, if introduced, will at the end be paid by the European consumers. Inefficient design of such mechanisms will increase costs of ensuring system adequacy. Therefore, it is in the interest of European consumers that capacity mechanisms are designed to maintain a balance between the incentives to invest in interconnectors and generation capacity, as well as demands side response and pumped storage.

Yours faithfully
Statnett SF



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