

The Energy Partnership

THE EUROPEAN COALITION FOR RENEWABLE ENERGY AND GAS

Generation adequacy, capacity mechanisms and the internal market in electricity: The Energy Partnership's response to the consultation

1. Introduction

The Energy Partnership is a unique alliance of companies¹ from the energy sector that seeks to promote greater political and public understanding of the merits of a capability-based energy market and systems approach, focused upon **the integration of renewables and gas**.

Our response to this consultation is driven by our belief that the energy market needs to encourage the **right investments for Europe's low-carbon energy future**. Europe's energy policy requires the **integration** of renewable technologies whilst maintaining **system reliability**.

In all pathways presented in the European Commission's 2050 Energy Roadmap, **renewable energy generation grows** substantially, whilst the flexibility of **gas is critical to this transformation** of the energy system and to maintain security of supply. However, we do not yet have the **market design** and **integrated policy approach to energy** needed to drive the investment which will deliver this transition, in particular the role for thermal plants providing system capability and back-up capacity. In many countries, it is much premature though in our view to call for capacity payments to tackle this challenge.

If at some point capacity mechanisms are deemed necessary, we would like to stress that any form of market intervention should address the challenge of ensuring **flexibility** within the system rewarding capability rather than just capacity - and be in support of the overall goals for European energy policy: **security of supply, combating climate change, and affordability**.

2. Our concerns about capacity mechanisms

In general, a well-functioning internal market for energy is crucial to ensure security of supply. With that in mind, work on the European level should be focused on two areas: coordinated action and ensuring sufficient infrastructure. If implemented appropriately and wholeheartedly by Member States, this in our view would mitigate if not rule out the need for capacity payments.

¹ Partners are Dong Energy, First Solar, GE and Shell. The European Climate Foundation has provided a fact-base for the coalition's considerations and may contribute to future research.

In addition, The Energy Partnership is not convinced of the need for capacity mechanisms, for the following reasons:

- Capacity mechanisms risk **creating conflict with other energy market measures**.
- National capacity mechanisms risk **undermining the drive towards harmonized European energy market** rules.
- There is a danger that the use of such mechanisms would **reward** the position of **market incumbents**, rather than further opening the internal energy market.
- There is a risk of adding cost to consumers.

Therefore before contemplating capacity mechanisms we first need to do everything possible to **make the existing market work and if capacity mechanisms are deemed necessary, they should be carefully designed in order to minimize the above mentioned risks**.

However, if existing market set-up is not delivering flexibility and security of supply, or when it is significantly distorted, then *the need for capacity market mechanisms could be considered as a last resort – but they must then be designed in line with overall energy goals*.

Notwithstanding our concerns, capacity mechanisms already exist, and the Commission needs to acknowledge this reality and create a response to the situation.

3. The minimum criteria for capacity mechanisms

Where capacity mechanisms are introduced, we would propose that the following minimum conditions for their use should be respected:

- Any capacity mechanisms should be designed in a way that takes *all* of the EU's energy goals into account – **security of supply, combating climate change, and affordability** – not simply rewarding existing capacity in order to preserve security of supply.
- Any such measures would need to be **time-bound** to avoid becoming permanent features of the market or locking-in additional costs.
- Measures should be coordinated at regional and ideally **European** level to avoid distorting effects on cross border trade and competitiveness.
- Capacity mechanisms would need to be **transparent and take into consideration a range of criteria going beyond volume generated**, including ramp rates, start times, minimum stable generation, efficiency, emissions.

4. Our policy recommendations

- The European Commission should continue to push for investments in new energy infrastructure.

- Policy-makers should take action to **realize the internal energy market**, and to **generate confidence in the ETS**.
- The European Commission should undertake an **Impact Assessment** on the interaction of capacity mechanisms with other energy policies.
- The European Commission should create a **policy toolkit** for Member States, which identifies the respective impacts of policy options upon the internal energy market and how to minimize distorting effects on trade from national measures, and helps Member States to understand how they can meet their national energy needs without having a negative impact upon European energy strategy.