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European Commission
DG Energy - ENER.B.2
'Internal Market II: Wholesale markets; electricity & gas'
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YOUR REFERENCE

YOUR LETTER DATED

Consultation Response to European Commission's Consultation Paper on Generation Adequacy, Capacity Mechanism and the Internal Market in Electricity

Dear Sir or Madam,

TransnetBW welcomes the opportunity to comment on the European Commission's Consultation Paper on Generation Adequacy, Capacity Mechanism and the Internal Market in Electricity. As a member of the European Network of Transmission System Operators for Electricity (ENTSO-E) TransnetBW was involved in the development of ENTSO-E's consultation response and hence supports the contents of it. The German Electricity Market presently faces due to increasing RES generation, the nuclear phase out and the highly interconnected transmission systems located in the middle of Europe with high amounts of transit flows a special situation. In general, we would like to underline that the role of TSOs being responsible for security of the system should be kept in mind before developing any concept further. Generation Adequacy means not only, that installed generation capacities meet the load and vice versa but also that geographical (location of load and generation) and technical requirements (voltage control, balancing and the option for power plant redispatch in case of N-1 violation) are adequate to ensure a stable operation of the grid.

The current discussion is lacking common definitions for e.g. strategic reserve or capacity market option. Such definitions would be urgently needed in order to structure the debate and to avoid misunderstandings.

Concerning generation adequacy and the future market design, TSOs are likely to play an essential role. In general these tasks and duties are not economically attractive (non-profit-duties) and hence any approach must be based on a clear

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regulatory framework to avoid putting risks and burdens that cannot be recovered via tariffs on TSOs.

In addition the ENTSO-E response and the general remark above, we would like to address some further points at least concerning question No. 14.

(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?**

TransnetBW is not convinced that, as the question seems to presume, a transition from a fossil fuel based electricity system or a system after a nuclear phase out needs to be supported by a mechanism in any case. In some markets for example, high PX prices in times of low RES production contribute significantly to the economic efficiency of conventional power plants. Nevertheless, there are on-going discussions in Germany about the retirement of old plants which are considered to be uneconomical. From a TSO perspective it has to be assured in any case, that those power plants that are relevant for security of the system will not be decommissioned without consultation of the TSO. One - maybe the most important - reason for this phenomenon of economical inefficiency is the growing number of RES, which reduce the running time of conventional plants while they also decrease electricity prices. In Germany even in case of low RES production the PX prices are probably not high enough to contribute sufficiently to the economic efficiency of conventional power plants. This can be explained amongst others by the strongly interconnected grid, the RES production and the functioning internal energy market which all are generally positive facts.

However, in times of high demand and low RES production, these conventional plants may be needed to satisfy the demand. As well even in case of e.g. high Wind production in the northern part of Germany, some conventional power plants in the south are still needed to stabilise the grid or to react e.g. in case of N-1 violation (e.g. switch off cheaply producing brown coal power plants in the northern part of Germany and switch on expensive gas power plants somewhere in the South which might even be in Italy).

With regard to the German case, TransnetBW is convinced that:

1. No further power plants with relevance shall be shut down in the near future meaning this and next winter, as there is no alternative solution.
2. Strategic reserves might be qualified to address this above described issue for the midterm.

From a TSO perspective the main responsibility is to ensure the security of the system. In Germany, a TSO is not liable for security of supply. Hence, to avoid

load shedding the TSO must have physical access to some power plants to ensure security of the system. Having this in mind, any concept must ensure the physical availability of installed capacities (which is not the case in some discussed concepts).

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?

Regarding strategic reserves, there are quite different approaches under discussion today and attention should be paid to the details especially in matters of volume, procurement and activation. These are essential when assessing the effects that arise from implementation. The required volume needs to be defined after appropriate technical analysis and should be kept as small as possible. TransnetBW supports a market based and transparent procurement which allows to contract capacity in geographically predefined zones to address the physical needs of the system. The procurement could comprise for example a timeline of 1-3 years. The appraisal of the question whether old power plants and/or new plants will be treated differently in a tender is not the competency of the TSO. As long as some general requirements are considered (ramping, location e.g.) this is rather a political decision. The rules for activation should allow the request of the reserve to balance the system and to perform redispatch. With regard to system balance the TSO shall be empowered to activate the reserve after having used all balancing tools like in the German case tertiary control reserve, intraday procurement at the wholesale market and other system services. This ensures that these reserve capacities are only called in real emergency situations.

With regard to redispatch, the reserve capacities could be used for current or voltage conditioned redispatch. The former will be activated by the TSO at marginal costs and has no (or minor) influence on the market prices. The latter would also be called by the TSO at marginal cost. In case it is a single sided voltage conditioned redispatch the resulting long position would have to be sold on the market at any price. Hence, the market is affected at least to a small extent.

To sum up, the risks that strategic reserves pose to effective competition and the functioning of the internal energy market are highly dependent on the details of the implemented approach. In case that the tendering process does not only address capacities that are expected to be retired for economical reasons there is the risk of an increasing scarcity on the energy market. Anyway it seems difficult to incentivize new investment in generation facilities by tendering contracts with duration of for example 1-3 years and a tight activation scheme.

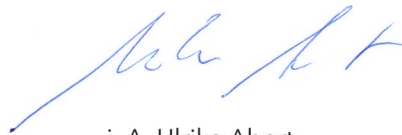
A strategic reserve approach can be implemented and adjusted any time and is reversible. While a strategic reserve seems to be an appropriate instrument to prevent the retirement of old plants, capacity payments or capacity markets might be needed to stimulate investments in new plants.

Anyway, for the current situation in Germany, strategic reserves seem to be the most adequate interim approach. Concerning a long term approach further assessment is necessary.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Peter Scheerer'.

i. V. Peter Scheerer

A handwritten signature in blue ink, appearing to read 'Ulrike Abert'.

i. A. Ulrike Abert